Reserve Bank of Australia

Annual Report 2021

RESERVE BANK OF AUSTRALIA

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The Reserve Bank welcomes comments on this report. Feedback and enquiries about any aspect of this report may be directed to:

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27 September 2021

The Hon Josh Frydenberg MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

RESERVE BANK OF AUSTRALIA ANNUAL REPORT 2021

In accordance with section 46 of the *Public Governance, Performance and Accountability Act 2013*, I am pleased to submit the Reserve Bank's Annual Report for 2021 for presentation to the Parliament.

Yours sincerely

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Governor's Foreword

The past year has again been shaped by the pandemic. For much of the year, the economy experienced a stronger and quicker recovery than had been expected, with the unemployment rate declining to below pre-pandemic levels. But in June, the recovery was interrupted by the spread of the highly infectious Delta strain of COVID-19. While the outlook remains uncertain, the vaccination rollout offers a pathway to the resumption of the economic expansion.

The Reserve Bank has worked closely with the government and Australia's financial regulators to support the Australian economy during the pandemic. For its part, the Bank implemented a comprehensive package of monetary policy measures to ensure that funding costs remain low and that credit remains available. The cash rate has been reduced to its lowest level on record, and in November 2020 the Bank announced a purchase program for bonds issued by the Australian Government and the states and territories. These actions have been accompanied by a target on the yield for the April 2024 Australian Government bond and a Term Funding Facility for the banking system. Together, these measures have helped support households and businesses through a difficult period.

Inflation has been below target for a number of years and the unemployment rate is still too high. The Reserve Bank Board remains committed to achieving the inflation target and doing what it can to return Australia to full employment. It will maintain expansionary monetary policy in pursuit of these important goals.

The Reserve Bank is the banker to the Australian Government and has worked closely with Services Australia to process the government's pandemic-related support payments. Many of these payments have been made using Australia's real-time fast payment system, which allows money to be paid into bank accounts 24 hours a day, seven days a week. The Bank has been a long-time proponent of a fast payments system in Australia and it is pleasing to see this system being used to provide timely assistance to people in need.

More generally, the Bank is devoting additional resources to payments-related issues. The payments landscape is changing rapidly with the advent of new technologies and business models. There is also increased focus globally on the need to lower the cost of cross-border payments. The Bank is working closely with industry participants and other central banks on these issues. We are also continuing to support the shift to electronic payments, including by working with industry participants to ensure that the electronic system is secure and reliable, and that it meets the needs of its users.

In October 2020, the new $100 banknote was issued. This brought to a completion the multi-year program to issue an updated series of Australian banknotes. This updated series incorporates new features to assist people with impaired vision and world-leading technologies to keep our banknotes safe and secure. At the same time, the new banknotes retain the look and feel that Australians have come to know.

The Reserve Bank staff have worked tirelessly in the public interest over the past year, while also adjusting to new ways of working. At times, more than 90 per cent of the staff have been working from home, and most meetings, including Board meetings, have been held by videoconference or in hybrid format. As an organisation, we are devoting additional resources to cyber security to help keep our IT systems safe and secure. We are also investing in our data management capabilities so that we can better harness the power of data.

We remain committed to being open and transparent and to explaining our decisions. This is more important than ever in difficult times and when unprecedented policy measures are required. The Bank staff have continued to deliver public talks, often online, and I have held media conferences to explain our decisions and answer questions. This year we also published our first podcast, on the topic of monetary policy during COVID-19. We are also continuing to invest in public education resources for students and teachers of economics.

It is a privilege to be the Governor of the Reserve Bank of Australia and to be part of a team that is so dedicated to doing its best to serve the community. The past year has been challenging, but the Bank's staff have been more than up to the task. The Reserve Bank Board joins me in thanking all the staff for their dedication and their efforts to serve the public interest.

Philip Lowe

Philip Lowe
Governor

10 September 2021

PART 1

About the Reserve Bank

Our Role

The Reserve Bank is Australia's central bank, as established under legislation. The Bank has five broad responsibilities:

- determine and implement monetary policy in pursuit of price stability and full employment
- foster the stability of the financial system
- support a secure, stable and efficient payments system
- deliver efficient and effective banking services to the Australian Government
- provide secure and reliable Australian banknotes.

The Bank's mission is to promote the economic welfare of the Australian people through our monetary and financial policies and operations. Our vision is to be a world-leading central bank that is trusted for our analysis, service delivery and policies. As part of our strategic plan, the Bank has six focus areas, which are outlined further in the Bank's Corporate Plan for 2021/22 to 2024/25.[1] The most important of these is for the Bank to continue to support the Australian economy in the wake of the COVID-19 pandemic. The other focus areas strengthen the capability of the Bank to deliver on its mission and key objectives successfully. The pursuit of our mission is also supported by our core values of promoting the public interest, integrity, excellence, intelligent inquiry and respect.

Price stability and full employment

The Bank's responsibility for monetary policy is set out in section 10(2) of the *Reserve Bank Act 1959*, which 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.

Policies in pursuit of these objectives have found practical expression in a flexible, medium-term inflation target, which has formed the basis of Australia's monetary policy framework since the early 1990s. The policy objective is for consumer price inflation to average between 2 and 3 per cent over time. By achieving this objective, the Reserve Bank can help promote sustainable economic growth and employment.

The seventh *Statement on the Conduct of Monetary Policy,* agreed by the Treasurer and the Governor on 19 September 2016, records the common understanding of the government and the Reserve Bank on key aspects of the monetary policy framework.

1 See RBA (2021), 'Corporate Plan 2021/22'. Available at <https://www.rba.gov.au/about-rba/corporate-plan.html>.

The Reserve Bank conducts operations in domestic and international financial markets and undertakes analysis in support of its monetary policy objectives. The Bank conducts domestic market operations in support of the cash rate target, ensuring that there is sufficient liquidity in the domestic money market on a daily basis. Since March 2020, the Bank has also purchased government bonds in the secondary market in support of the Australian government bond yield target and the government bond purchase program, which were introduced as part of the Bank's comprehensive package of policy measures to support the Australian economy following the outbreak of COVID-19. As part of this package, the Bank also made available a term funding facility for the banking system.

The Bank also operates in the foreign exchange market to meet the foreign exchange needs of its clients (the largest of which is the Australian Government) and to assist with liquidity management in domestic markets. It holds and manages Australia's foreign currency reserves, and has the capacity to intervene in the foreign exchange market to address any apparent dysfunction in that market or significant misalignment in the value of the currency, consistent with the objectives of monetary policy.

Reserve Bank of Australia Strategic Plan

August 2021

Mission

To promote the economic welfare of the Australian people through our monetary and financial policies and operations

Key Objectives

- Price stability and full employment
- The stability of the financial system
- A secure, stable and efficient payments system
- The delivery of efficient and effective banking services to the Australian Government
- The provision of secure and reliable banknotes

Vision

To be a world-leading central bank that is trusted for our analysis, service delivery and policies

Strategic Focus Areas

- Support the Australian economy in the wake of COVID-19
- Support the evolution of payments
- Attract and maintain a high-quality and innovative workforce
- Strengthen the resilience of technology services
- Harness the power of data
- Ensure we communicate effectively in a changing world

Values

Promoting the public interest, integrity, excellence, intelligent inquiry and respect

The stability of the financial system

The Reserve Bank works with other regulatory agencies in Australia to foster overall financial stability, which is an important underpinning of a stable macroeconomic environment.

The Governor chairs the Council of Financial Regulators (CFR), a non-statutory coordinating body for Australia's main financial regulatory agencies, whose role is to promote the stability of the Australian financial system and support effective and efficient regulation by the financial regulatory agencies. Its members – the Reserve Bank, the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission and the Australian Treasury – seek to identify issues that could affect financial stability, coordinate preparation for and responses to episodes of financial instability, and discuss financial regulation more generally.

Australia's financial stability policy framework includes mandates for financial stability for both APRA and the Reserve Bank. APRA is responsible for the prudential supervision of financial institutions, and has a broad mandate to promote financial system stability. The Bank is responsible for promoting overall financial system stability. In the event of a financial system disturbance, the Bank and relevant agencies work to mitigate the risk of systemic consequences. The Bank's responsibility to promote financial stability does not equate to a guarantee of solvency for financial institutions and the Bank does not see its balance sheet as being available to support insolvent institutions. Nevertheless, the Bank's central position in the financial system – and its position as the ultimate provider of liquidity to the system – gives it a key role in financial crisis management, in conjunction with the other members of the CFR.

A secure, stable and efficient payments system

The Reserve Bank has responsibility for ensuring the stability, efficiency and competitiveness of the payments system through the Payments System Board, which was established in 1998. The Bank's powers in relation to the payments system are set out in a number of statutes, including the *Reserve Bank Act 1959*, the *Payment Systems (Regulation) Act 1998* and the *Payment Systems and Netting Act 1998*. Under the *Corporations Act 2001*, the Bank, through the Payments System Board, has responsibility for determining financial stability standards for licensed clearing and settlement facilities and assessing facilities' compliance with those standards.

The Reserve Bank also has an operational role in the payments system, as owner and operator of Australia's high-value real-time gross settlement system – the Reserve Bank Information and Transfer System (RITS). The Fast Settlement Service of RITS settles obligations arising from individual payments exchanged on the New Payments Platform in real time on a 24/7 basis. A separate area of the Bank assesses RITS against international standards for such infrastructure on an annual basis.

The delivery of efficient and effective banking services to the Australian Government

Insofar as the Commonwealth of Australia requires it to do so, the Reserve Bank must act as banker for the Commonwealth. The Reserve Bank's banking services fall into two components: those services provided in its capacity as the central bank; and those transactional banking services it provides to Australian Government agencies. In common with many other central banks, the Bank also provides banking and custody services to a number of overseas central banks and official institutions. The banking services offered to the Australian Government and other central banks include payments and collections as well as general account maintenance and reporting.

The provision of secure and reliable banknotes

The Reserve Bank is responsible for the issue, reissue and cancellation of Australian banknotes. Its primary purpose in carrying out this role is to maintain the capacity of Australian banknotes to provide a safe, secure and reliable means of payment and store of value. The Bank works with its wholly owned subsidiary, Note Printing Australia Limited (NPA), to design and produce banknotes. NPA also produces banknotes for other countries and Australia's passports. The Bank distributes banknotes to financial institutions, monitors and maintains banknote quality in circulation and withdraws unfit banknotes from circulation. It also monitors and analyses counterfeiting trends and conducts research into banknote security technology.

Governance and Accountability

The Reserve Bank is an independent central bank, accountable to the Parliament of Australia. The Bank has two boards: the Reserve Bank Board, which has responsibility for monetary and banking policy; and the Payments System Board, which has responsibility for payments system policy.

Governance

The Reserve Bank is a body corporate distinct from the Commonwealth of Australia. This body corporate, established under the *Commonwealth Bank Act 1911* and continued in existence under the *Commonwealth Bank Act 1945*, was preserved and continued in existence with the name Reserve Bank of Australia under the *Reserve Bank Act 1959*. The Reserve Bank is a corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

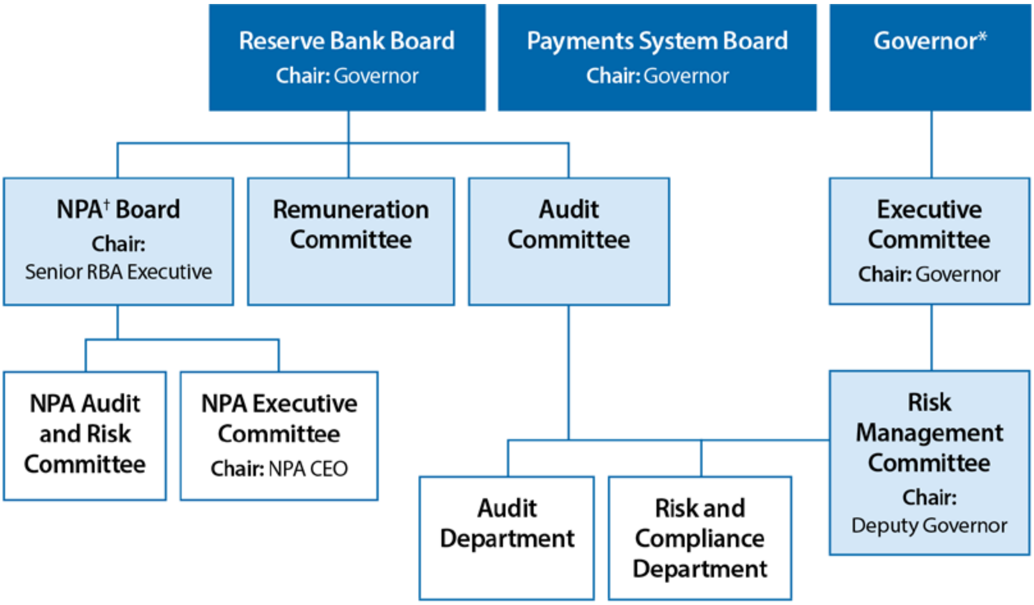
The Reserve Bank's two boards have operational independence under the Reserve Bank Act to determine the policies of the Bank, to achieve the objectives set out in the Act. In terms of monetary policy, the *Statement on the Conduct of Monetary Policy*, as updated from time to time, has recorded the common understanding of the Governor, as Chair of the Reserve Bank Board, and the Australian Government on key aspects of Australia's monetary and central banking policy framework since 1996.

Under the Reserve Bank Act, the Bank is managed by the Governor, who is also the Chair of the Reserve Bank Board and the Payments System Board. The Governor is also the 'accountable authority' under the PGPA Act. The Governor is assisted in fulfilling his responsibilities to manage the Bank by two key management committees: the Executive Committee; and the Risk Management Committee (see chapter on 'Management of the Reserve Bank').

Note Printing Australia Limited (NPA) is a wholly owned subsidiary of the Reserve Bank. NPA operates under a charter reviewed and approved annually by the Reserve Bank Board.

Reserve Bank of Australia Governance Structure

August 2021



† Note Printing Australia Limited

* Under section 12 of the *Reserve Bank Act 1959*, the Governor is responsible for managing the Bank and under section 7A of the Reserve Bank Act, the Governor is the accountable authority of the Bank for the purposes of the *Public Governance, Performance and Accountability Act 2013*.

Reserve Bank Board

The responsibilities of the Reserve Bank Board are set out in the Reserve Bank Act, which states that the Board has power to determine the policy of the Bank in relation to any matter, other than its payments system policy. It is the duty of the Board to ensure that the monetary and banking policy of the Bank is directed to the greatest advantage of the people of Australia.

The Reserve Bank Board comprises nine members: the Governor (Chair); the Deputy Governor (Deputy Chair); the Secretary to the Australian Treasury; and six other non-executive members appointed by the Treasurer. New appointments to the Board are made by the Treasurer from a register of candidates maintained by the Secretary to the Treasury and the Governor. Attendance by members at meetings of the Board during 2020/21 is shown in the table below, and members' qualifications and experience are provided in the chapter on the 'Reserve Bank Board'.

The Reserve Bank Board usually meets 11 times a year, on the first Tuesday of each month except in January. Five members form a quorum for a meeting of the Board. Consistent with the Reserve Bank Act, the Board makes decisions by a majority of the members present, with the Chair having a casting vote, if necessary.

Reserve Bank Board Meetings – 2020/21

Attendance by members

	No. of meetings attended	No. of meetings eligible to attend
Philip Lowe (Governor)	11	11
Guy Debelle (Deputy Governor)	11	11
Steven Kennedy (Secretary to the Treasury)	10[a]	11
Mark Barnaba	11	11
Wendy Craik	10	11
Ian Harper	11	11
Carolyn Hewson[b]	3	3
Allan Moss[c]	6	6
Carol Schwartz	11	11
Catherine Tanna[d]	8	8
Alison Watkins[e]	5	5

(a) Luke Yeaman (Deputy Secretary, Macroeconomic Group, Australian Treasury) attended the June 2021 meeting in place of Steven Kennedy, in terms of section 22 of the Reserve Bank Act

(b) Carolyn Hewson's term on the Board commenced on 30 March 2021

(c) Allan Moss' term on the Board ended on 1 December 2020

(d) Catherine Tanna's term on the Board ended on 29 March 2021

(e) Alison Watkins' term on the Board commenced on 17 December 2020

Prior to the COVID-19 pandemic, Reserve Bank Board meetings were usually held at the Reserve Bank's Head Office in Sydney. The Board also aims to meet in two other Australian cities each year. However, owing to the pandemic and domestic travel restrictions, most meetings in 2020/21 were held either via videoconference or via hybrid arrangements, with some members participating remotely, and interstate meetings were not able to be held.

The Reserve Bank Board has an Audit Committee and a Remuneration Committee, whose activities are described below.

Audit Committee

The Audit Committee is constituted as a subcommittee of the Reserve Bank Board. The Audit Committee assists the Governor (as the Reserve Bank's accountable authority) and the Reserve Bank Board to fulfil certain obligations under the Reserve Bank Act and the PGPA Act, namely:

- it assists the Governor and the Reserve Bank Board by reviewing the appropriateness of the Reserve Bank's financial reporting, including the financial statements in the annual report
- it assists the Governor by reviewing the appropriateness of the Bank's:
  - performance reporting, including the annual performance statement in the annual report
  - systems of risk oversight and management
  - systems of internal control.

The charter of the Audit Committee was most recently approved by the Reserve Bank Board in September 2021. The charter is published on the Bank's website.[1]

Membership of the Audit Committee comprises: two non-executive members of the Reserve Bank Board, one of whom chairs the committee; and two external members, typically former senior audit partners of major accounting firms with extensive experience in auditing in the finance sector. Attendance by members at meetings of the Audit Committee during 2020/21 is shown in the table below, and members' qualifications and experience are provided in the chapter on the 'Reserve Bank Board'.

Audit Committee Meetings – 2020/21

Attendance by members

	No. of meetings attended	No. of meetings eligible to attend
Mark Barnaba[(a)]	4	4
Sandra Birkensleigh	4	4
Rahoul Chowdry	4	4
Allan Moss[(a)(b)]	2	2
Alison Watkins[(a)(c)]	2	2

(a) Member of the Reserve Bank Board

(b) Allan Moss' term on the Committee ended on 1 December 2020

(c) Alison Watkins' term on the Committee commenced on 3 February 2021

Consistent with contemporary governance standards, none of the members of the Audit Committee is an employee or executive of the Reserve Bank. Representatives of the Bank's internal and external auditors participate in meetings as appropriate at the invitation of the Chair. The Deputy Governor attends meetings of the Committee on a regular basis as the chief representative of the Bank's management. Other regular attendees from the Bank's senior executive team are the Chief Financial Officer and the heads of the Audit and the Risk and Compliance departments; other Bank executives attend meetings of the Committee as required.

During 2020/21, the Audit Committee met on four occasions. At its August 2021 meeting, the Committee considered the draft consolidated financial statements for the Reserve Bank for the year ended 30 June 2021 and agreed that the statements be presented to the Governor and the Reserve Bank Board with its endorsement. The Committee meets at least annually with the external auditors without management present; in 2020/21, this occurred immediately prior to the August 2021 meeting.

1 See RBA, 'Reserve Bank Board Audit Committee Charter'.
Available at <https://www.rba.gov.au/about-rba/boards/rba-board-audit-committee-charter.html>.

Remuneration Committee

The Remuneration Committee of the Reserve Bank Board is established in terms of section 24A of the Reserve Bank Act to recommend to the Board 'terms and conditions relating to the remuneration and allowances' for the Governor and Deputy Governor. Membership of the Committee is drawn from the non-executive members of the Board and comprises Carol Schwartz (Chair), Wendy Craik and Ian Harper. During 2020/21, the Committee met on two occasions. Attendance by members at meetings of the Remuneration Committee during 2020/21 is shown in the table below.

Remuneration Committee Meetings – 2020/21

Attendance by members

	No. of meetings attended	No. of meetings eligible to attend
Catherine Tanna[a]	1	1
Carol Schwartz[b]	2	2
Wendy Craik[c]	1	1
Ian Harper	2	2

(a) Catherine Tanna's term on the Committee ended on 29 March 2021

(b) Carol Schwartz was appointed Chair on 7 April 2021

(c) Wendy Craik's term on the Committee commenced on 7 April 2021

The offices of Governor and Deputy Governor are Principal Executive Offices in terms of the *Remuneration Tribunal Act 1973*, which provides for the Remuneration Tribunal to determine the applicable remuneration reference rate for these offices. The Remuneration Committee reviews the terms and conditions (including remuneration) applying to the Governor and Deputy Governor annually and recommends any adjustments to the Reserve Bank Board for approval, providing that such terms and conditions are consistent with the framework for Principal Executive Offices determined by the Remuneration Tribunal. In accordance with section 21A of the Reserve Bank Act, neither the Governor nor the Deputy Governor takes part in decisions of the Reserve Bank Board relating to the determination or application of any terms or conditions on which either of them holds office.

The Remuneration Committee is also kept informed of the general remuneration arrangements for Reserve Bank staff. The Committee communicates with the Remuneration Tribunal as required.

Payments System Board

The responsibilities of the Payments System Board are set out in the Reserve Bank Act. In particular, the Act requires the Payments System Board to ensure, within the limits of its powers, that the Reserve Bank's payments system policy is directed to the greatest advantage of the people of Australia and that its related powers are exercised in such a way that, in the Board's opinion, will best contribute to:

(a) controlling risk in the financial system

(b) promoting the efficiency of the payments system

(c) promoting competition in the market for payment services, consistent with the overall stability of the financial system.

The Payments System Board also has responsibility to ensure that the powers and functions of the Bank under Part 7.3 of the *Corporations Act 2001* (dealing with licensing of clearing and settlement facilities) are exercised in a way that will best contribute to the overall stability of the financial system.

The Payments System Board issues a separate annual report, which, as required under the Reserve Bank Act:

- informs the Australian Government of the Bank's role and activities in relation to payments system policy
- covers certain matters relating to the standards that the Bank determines under section 827D of the Corporations Act and developments in the clearing and settlement industry that are relevant to Australia's financial stability.

The Payments System Board comprises: the Governor, who is the Chair; one representative of the Bank appointed by the Governor, who is the Deputy Chair; one representative of the Australian Prudential Regulation Authority (APRA) appointed by APRA; and up to five other members appointed by the Treasurer for terms of up to five years. Members of the Board during 2020/21 are shown below and details of the qualifications and experience of members are provided in the chapter on the 'Payments System Board'. Since its inception, the Board's practice has been to meet at least four times a year, with the option of meeting more often if needed. Four meetings were held in 2020/21 – two at the Bank's Head Office in Sydney, one of which was hybrid with a member participating remotely, and the other two were held via videoconference due to the COVID-19 pandemic and domestic travel restrictions. Five members form a quorum at a meeting of the Board or are required to pass a resolution without a meeting.

Payments System Board Meetings – 2020/21

Attendance by members

	No. of meetings attended	No. of meetings eligible to attend
Philip Lowe (Governor)	4	4
Michele Bullock (RBA)	4	4
Wayne Byres (APRA)	4	4
Gina Cass-Gottlieb	4	4
Deborah Ralston	4	4
Greg Storey	4	4
Catherine Walter	4	4
Brian Wilson[(a)]	1	1

(a) Brian Wilson's term on the Board ended on 14 November 2020

Conduct of board members

On appointment to the Reserve Bank Board or the Payments System Board, each member is required under the Reserve Bank Act to sign a declaration to maintain confidentiality in relation to the affairs of the relevant board and the Reserve Bank.

Members must comply with the statutory obligations for officials of the Reserve Bank, including the general duties for officials set out in the PGPA Act. Members' obligations under the PGPA Act include, but are not limited to, obligations to exercise their powers and discharge their duties with care and diligence, honestly, in good faith and for a proper purpose. Members must not use their position, or any information obtained by virtue of their position, to benefit themselves or any other person, or to cause detriment to the Reserve Bank or any other person.

In order for members of the Reserve Bank Board to discuss and decide monetary and financial stability policies, notwithstanding any material personal interest in the outcome, the Reserve Bank Act requires them to furnish a confidential disclosure of material personal interests to the Treasurer annually and, during the year, to notify any substantial change since their most recent annual disclosure.

Members of the Reserve Bank Board must declare to the other members of the Board any material personal interests they have in matters relating to the affairs of the Board other than monetary policy and financial stability. Members may give standing notice to other members outlining the nature and extent of a material personal interest in such matters.

Members of the Payments System Board must declare to the other members of the Board any material personal interest they have in a matter relating to the affairs of the Board. Members may give standing notice to other members outlining the nature and extent of a material personal interest.

Codes of conduct for members of the Reserve Bank Board and the Payments System Board supplement these statutory requirements and impose obligations on members that are designed to ensure the highest possible standards of ethical conduct. The codes of conduct, which are available on the Reserve Bank's website, provide general principles to guide the conduct of members in fulfilling their duties and responsibilities as board members and address a range of matters, including conflicts of interest. In the case of the Reserve Bank Board, the Code of Conduct covers restrictions on undertaking, or being involved in, financial transactions of certain types at certain times.[2]

Policy risk management framework and board reviews

Risks associated with the formulation of monetary policy and payments system policy are the direct responsibility of the Reserve Bank Board and the Payments System Board, respectively. The boards review these risks periodically as part of their decision-making processes. Operational risks are managed by executives in terms of the Reserve Bank's risk management framework, as discussed in the chapter on 'Risk Management'.

Towards the end of 2020, the Reserve Bank Board conducted its annual review of the key risks inherent in the formulation of monetary policy and the monetary policy risk register and control framework. The Board endorsed updates to the risk on unconventional monetary policy to reflect policy developments over the preceding year. At the same time, the Reserve Bank Board conducted its annual review of its own operation and processes, based on a survey of Board members.

2 See RBA, 'Code of Conduct for Reserve Bank Board Members'. Available at <https://www.rba.gov.au/about-rba/our-policies/code-conduct-rba-board-members.html>; RBA, 'Code of Conduct for Payments System Board Members'. Available at <https://www.rba.gov.au/about-rba/our-policies/code-conduct-psb-board-members.html>.

It concluded that Board processes were functioning effectively. Members discussed some further refinements that could be made to the balance between staff presentations and discussions by Board members, which were implemented from February 2021. The performance of the Board's Audit and Remuneration committees is assessed as part of the annual review of the effectiveness of the Board itself. The most recent review concluded that the committees and their processes were functioning effectively.

Towards the end of 2020, the Payments System Board also conducted its annual review of the key risks inherent in the consideration of payments policy and the payments policy risk register and control framework. No changes were made to the risk register, and the control framework was assessed to be operating effectively and managing risks adequately. At the same time, the Payments System Board conducted its annual review of its own operation and processes, based on a survey of Board members. It concluded that Board processes were functioning effectively. It was noted that the rate of change in digital technologies had added additional complexity to the matters discussed. Members requested more regular reports on matters discussed and decisions made by the executive-level Financial Market Infrastructure Review Committee. In response to the survey, staff implemented some additional changes to the written material prepared for Board meetings, including by making papers more concise.

Other policy matters

The Governor reports annually to the Reserve Bank Board on the process of review and implementation of the key Reserve Bank policies that are determined and managed by the Governor. This report includes information on compliance arrangements. An annual report covering matters relating to work health and safety in the Bank is also presented to the Reserve Bank Board. These reports for 2020/21 were provided to the Board at its August and September 2021 meetings.

Conflicts of interest and payments policy matters

The Reserve Bank has several distinct areas of responsibility in the Australian payments system: it owns, operates and participates in Australia's real-time gross settlement (RTGS) system, the Reserve Bank Information and Transfer System (RITS); it is a provider of transactional banking services to the Australian Government and its agencies; and it is the principal regulator of the payments system through the Payments System Board.

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

Accordingly, the Reserve Bank has policies in place for avoiding conflicts and dealing with them when they do occur. The Payments System Board has adopted a policy on the management of conflicts of interest, which is published on the Bank's website.[3] That policy is reviewed by the Payments System Board at least every two years and the most recent review occurred in May 2021. The policy focuses on interactions between the Bank's Payments Policy and Banking departments. Details of the steps taken to achieve compliance with the policy, including the minutes of informal meetings between departments, are audited regularly, with the results presented to the Payments System Board.

3 See RBA, 'Managing Potential Conflicts of Interest Arising from the Bank's Commercial Activities'. Available at <https://www.rba.gov.au/payments-and-infrastructure/payments-system-regulation/conflict-of-interest.html>.

In May 2019, the Board approved a change from annual to biennial audits. The most recent audit was conducted in March 2020 and reviewed by the Board in May 2020.

The conflicts of interest policy also includes governance arrangements relating to the Bank's ongoing engagement with NPP Australia Ltd (NPPA) – the Bank is one of the 13 original shareholders of NPPA. Consistent with the policy, the Bank and NPPA have in place a formal Memorandum of Understanding that sets out a framework for engagement and information sharing. That Memorandum of Understanding, originally signed in 2019, was updated in April 2021. In relation to the proposed merger of NPPA with two other domestic payment schemes, the Bank has conditionally agreed that it will redeem its shares in NPPA in the event of ACCC authorisation and completion of the merger, and will not become a shareholder in the holding company formed to hold the shares in NPPA and the other two companies. However, the Bank would continue to participate in the NPP as a full participant. The ACCC issued a determination granting authorisation for the proposed merger on 9 September.

In the case of the Bank's oversight of RITS, the Payments System Board has a governance role in managing conflicts of interest. In particular, while the internal Financial Market Infrastructure Review Committee has formal responsibility to review and approve assessments of other financial market infrastructures, the Board retains primary responsibility for approving the staff's periodic assessments of RITS.

Induction of board members

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

Remuneration and allowances

Remuneration and travel allowances for the non-executive members of the Reserve Bank Board and the Payments System Board are set by the Remuneration Tribunal. Remuneration of Reserve Bank Board members for their membership of the Audit Committee is determined by the Remuneration Tribunal. The Bank's longstanding practice has been to provide the same level of remuneration to members of the Audit Committee who are not also members of the Reserve Bank Board. Membership of the Remuneration Committee is not remunerated. The remuneration of each member of the Reserve Bank Board, the Payments System Board and the Audit Committee is provided in the chapter on 'Our People'.

Note Printing Australia Limited

Note Printing Australia Limited (NPA) is a wholly owned subsidiary of the Reserve Bank operating under a charter reviewed and approved annually by the Reserve Bank Board. NPA's prime function is the efficient and cost-effective production of high-quality and secure Australian banknotes, in accordance with specifications and requirements set by the Reserve Bank. NPA also produces banknotes for other issuing authorities, Australian passport booklets and other security products.

NPA is governed by a board of directors appointed by the Reserve Bank. As at the date of this report, the NPA Board comprised four Reserve Bank executives and an external director: Susan Woods (Assistant Governor, Corporate Services) as Chair; Greg Johnston (Head of Payments Settlements Department) as alternate Chair; Emma Costello (Chief Financial Officer); Keith Drayton (Head of Risk and Compliance Department); and Ross Pilling, who has held multiple management roles and directorships in the manufacturing sector. The NPA Board has an Audit and Risk Committee, whose membership comprises: Keith Drayton (Chair); Emma Costello; Greg Johnston; and an external member, Megan Haas, a former PricewaterhouseCoopers partner with a strong background in cyber security and risk assurance across a broad range of industries, including manufacturing.

More detail about the activities and operational structure of NPA is provided in the chapters on 'Banknotes' and 'Operational Structure'.

Indemnities for members of boards and staff

Members of the Reserve Bank Board and the Payments System Board are indemnified to the extent permitted by law against liabilities incurred by reason of their appointment to the relevant board or by virtue of holding and discharging such office. Members of the Audit Committee who are not members of the Reserve Bank Board are indemnified on substantially the same terms as the indemnities given to Reserve Bank Board members.

Certain other indemnities, all given prior to 1 July 2014, continue. These are:

- an indemnity to senior staff of the Bank in relation to liabilities they may have incurred in the conduct of their duties at the Bank (this indemnity covers liability in relation to events over a period ending on 31 March 2017)
- indemnities to current and former senior staff and former Reserve Bank Board members who, at the request of the Bank, formerly served on the board of NPA or the board of CCL Secure Pty Limited (formerly Innovia Security Pty Ltd and, prior to that, Securency International Pty Ltd).

Indemnities given prior to 1 July 2014 were in accordance with section 27M of the *Commonwealth Authorities and Companies Act 1997* (CAC Act), which specified when indemnity for liability and legal costs was not allowed. Indemnities given after 1 July 2014, when the CAC Act was repealed, have contained contractual restrictions reflecting the substance of the previous CAC Act restrictions. Section 22B in the *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule) imposes limits on the granting of indemnities by corporate Commonwealth entities in relation to liabilities incurred from 28 February 2020. Indemnities issued by the Reserve Bank to two new members of the Reserve Bank Board since that date were consistent with the indemnity template approved by the Reserve Bank Board in March 2017 as amended by the Governor under the authority of the Reserve Bank Board to ensure that the template reflects the terms of section 22B of the PGPA Rule. The changes to the indemnity template do not materially change the approach to the Bank's indemnification of members of the Reserve Bank Board, the Payments System Board and the Audit Committee.

The Bank's policy on Assistance to Staff for Legal Proceedings applies in relation to events on or after 1 April 2017. This policy applies to all staff, not only senior staff, and is closely based on the rules that apply to the provision of assistance to staff for legal proceedings in non-corporate Commonwealth entities set out in Appendix E to the *Legal Services Directions 2017*. This policy states that assistance will not be provided when section 22B of the PGPA Rule forbids it. No assistance has been provided under this policy since its introduction in 2017.

As the Reserve Bank does not take out directors' and officers' insurance in relation to members of its boards or other officers, no premiums were paid for any such insurance in 2020/21.

Accountability

The Reserve Bank Board has an obligation to inform the Australian Government of its monetary policy 'from time to time'. This obligation is discharged mainly by regular contact between the Governor and other senior executives and the Treasurer, who is the Bank's responsible Minister (the Hon Josh Frydenberg MP), usually by way of regular discussions. The Governor also meets regularly with the House of Representatives Standing Committee on Economics.

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 typically holds twice-yearly public hearings, at which the Bank presents its views on the economy and financial markets and other matters pertaining to the Bank's operations, and responds to questions from Committee members. For this purpose, in 2020/21 the Governor and senior Bank officers attended a hearing of the Committee on 14 August 2020 via videoconference, the Governor and Deputy Governor attended an additional hearing in Canberra on 2 December, and the Governor and senior Bank officials attended a hearing in Canberra on 5 February 2021. On 23 June 2021, the Committee's inquiry into the 2019 Annual Report was extended to cover the 2020 Annual Report. The Committee's report on the three hearings in 2020/21 had not been finalised by the date of this Annual Report.

In 2020/21, the Reserve Bank was requested to attend hearings of the Senate Economics Legislation Committee (Senate Estimates) to answer questions about monetary policy and other aspects of its central banking activities. For this purpose, the Deputy Governor and Assistant Governor (Financial System) attended a hearing of the Committee on 27 October 2020 by videoconference, and both officers attended hearings in Canberra on 24 March 2021 and 3 June 2021. Following each of these hearings, the Bank responded to a series of questions on notice and questions in writing from senators.

The Bank seeks to ensure a high degree of transparency about its goals, activities and the basis of its policy decisions. Transparency facilitates the Bank's accountability and increases the effectiveness of policy decisions by promoting a better understanding of those decisions in the community. The Bank communicates regularly through publications and speeches, and engages with the community through its regional and industry liaison program. For more details, see the chapter on 'Communication and Community Engagement'.

Under section 46 of the PGPA Act, the Governor is responsible for preparing this annual report and providing it to the Treasurer for presentation to the Parliament, following approval by the Reserve Bank Board of the Bank's annual financial statements. That approval was given by the Board at its meeting on 7 September 2021.

No report on the Reserve Bank was issued in 2020/21 by the Commonwealth Ombudsman, the Office of the Australian Information Commissioner or the Auditor-General, apart from those dealing with the audit of the Bank's annual financial statements (the Australian National Audit Office published its *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2020* on 17 December 2020 and its *Interim Report on Key Financial Controls of Major Entities* on 2 June 2021; the Reserve Bank was one of the entities covered in both of these reports).

Freedom of Information (FOI)

The Reserve Bank is an Australian Government agency subject to the *Freedom of Information Act 1982* (FOI Act). As required by Part II of the FOI Act, the Bank publishes information as part of the Information Publication Scheme (IPS). Details of the Bank's obligations under the FOI Act and the IPS can be found on the Bank's website.[4]

The Bank received 39 requests for access to documents under the FOI Act in 2020/21. Access was granted in full in relation to eight requests, in part in relation to 16 requests, and was denied in relation to four requests. No relevant documents were found in response to nine requests; one request was transferred to a responsible government agency and one request was withdrawn. No requests were outstanding at the end of the financial year. Information released in response to FOI access requests was published on the Reserve Bank's website, as required by the FOI Act; RSS feeds to these releases were also made available.

One application was received for the internal review of an FOI decision made by the Reserve Bank in 2020/21. In accordance with the FOI Act, a fresh decision was made, which affirmed the original decision.

The estimated amount of time staff spent dealing with all aspects of FOI requests in 2020/21 was around 600 hours, compared with around 540 hours in 2019/20. The total cost to the Reserve Bank of administering the FOI Act in 2020/21 is estimated to have been around $88,600. No processing charges were received in 2020/21.

Other reporting requirements under the PGPA Act

The statutory reporting obligations applying to the Reserve Bank, including those that are covered elsewhere in this report, are identified in the 'Statutory Reporting Requirements Index'.

Ministerial directions

The Reserve Bank received no directions from its responsible Minister (the Treasurer) or from any other Minister during 2020/21.

Government policy orders

No government policy orders under section 22 of the PGPA Act applied in relation to the Reserve Bank during 2020/21.

Compliance with finance law

No issues relating to non-compliance by the Reserve Bank with the finance law were reported to the Bank's responsible Minister (the Treasurer) under paragraph 19(1)(e) of the PGPA Act.

Transactions with related entities

In accordance with the PGPA Act, the Reserve Bank is required to disclose certain transactions with related entities. During 2020/21, the Reserve Bank donated $50,000 to the Financial Markets Foundation for Children, which is managed by a Board of Directors chaired by the Governor of the Reserve Bank. The Bank has made an annual donation of $50,000 to the Foundation since 2002/03; the decision to continue making this donation is subject to annual review by the Bank.

[4] See RBA, 'Freedom of Information (FOI)'. Available at <https://www.rba.gov.au/information/foi/index.html>.

Significant activities or changes affecting the Reserve Bank

There were no significant activities or changes that affected the operations or structure of the Reserve Bank in 2020/21.

Judicial decisions or decisions of administrative tribunals

There were no judicial decisions or decisions of administrative tribunals made during 2020/21 that have had, or may have, a significant effect on the operations of the Reserve Bank.

Reserve Bank Board

The Reserve Bank Board comprises nine members: the Governor; Deputy Governor; Secretary to the Australian Treasury (ex officio member); and six other non-executive members appointed by the Treasurer. Further to the legislative requirements, and in recognition of their responsibility to uphold the integrity of the Board and the Reserve Bank, members have adopted a Code of Conduct, which is published on the Bank's website.[1]

Information about members of the Reserve Bank Board Audit Committee is provided at the end of this chapter.

August 2021

Philip Lowe

BCom (Hons) (UNSW), PhD (MIT)

Governor and Chair
Governor since 18 September 2016
Present term ends 17 September 2023

Philip Lowe was Deputy Governor from February 2012 until his appointment as Governor took effect in September 2016. Prior to that, he held various senior positions at the Reserve Bank, including Deputy Governor, Assistant Governor (Economic) and Assistant Governor (Financial System), where he was responsible for overseeing economic and policy advice to the Governor and Reserve Bank Board. He spent two years at the Bank for International Settlements working on financial stability issues. Dr Lowe has authored numerous papers, including on the linkages between monetary policy and financial stability. He is a signatory to The Banking and Finance Oath.

Other roles
Chair – Payments System Board
Chair – Council of Financial Regulators
Chair – Bank for International Settlements Committee on the Global Financial System
Chair – Financial Markets Foundation for Children
Member – Financial Stability Board
Member – Trans-Tasman Council on Banking Supervision
Director – The Anika Foundation

1 Available at <https://www.rba.gov.au/about-rba/our-policies/code-conduct-rba-board-members.html>.

Guy Debelle

BEc (Hons) (Adelaide), PhD (MIT)

Deputy Governor and Deputy Chair
Deputy Governor since 18 September 2016
Present term ends 17 September 2026

Prior to his appointment as Deputy Governor, Guy Debelle was Assistant Governor (Financial Markets) from March 2007. In that role he had oversight of the Bank's operations in the domestic and global financial markets. He has also worked at the Australian Treasury, the International Monetary Fund and the Bank for International Settlements, and he was a Visiting Professor at the Massachusetts Institute of Technology in 2003. From May 2015 until May 2017, Dr Debelle was Chair of the Bank for International Settlements Foreign Exchange Working Group, which developed the Global Code of Conduct for the Foreign Exchange Market. Since June 2019, he has been Chair of the Global Foreign Exchange Committee. He is a signatory to The Banking and Finance Oath.

Other roles
Chair – Council of Financial Regulators Climate Change Working Group
Chair – Global Foreign Exchange Committee

Mark Barnaba AM

BCom (Hons) (Western Australia), MBA (Harvard)

Non-executive member
Member since 31 August 2017
Present term ends 30 August 2022

Mark Barnaba has extensive experience in finance and commerce, having spent most of his career with McKinsey & Company, both in Australia and overseas, with companies he founded and in several senior executive roles at Macquarie Group. At the time of his retirement from Macquarie Group at the end of August 2017, Mr Barnaba served as Chair and Global Head of Natural Resources for Macquarie Capital. He was co-founder (and previously Co-Executive Chair) of Azure Capital and previously served as the Chair of Western Power, the Black Swan State Theatre Company of WA, the West Coast Eagles Football Club and Alinta Infrastructure Holdings. In 2009, Mr Barnaba was the recipient of the Western Australian Citizen of the Year award in industry and commerce. In 2012, he was awarded an honorary Doctor of Commerce from the University of Western Australia.

Other roles
Deputy Chair – Fortescue Metals Group Ltd
Chair – Audit and Risk Management Committee, Fortescue Metals Group Ltd
Chair – GLX
Chair – Investment Committee, HBF Health Limited
Emeritus Board Member – The University of Western Australia Business School Board
Non-executive Director – The Centre for Independent Studies
Adjunct Professor – Investment Banking and Finance, University of Western Australia
Senior Fellow – EY Oceania
Senior Advisory Board Member – Appian Capital Advisory

Reserve Bank Board committee membership
Chair – Audit Committee

Wendy Craik AM

BSc (Hons) (ANU), PhD (Zoology) (British Columbia)

Non-executive member
Member since 7 May 2018
Present term ends 6 May 2023

Wendy Craik is an independent public policy advisor, including on issues related to natural resource management, and has over 25 years' experience in public policy. Senior positions she has held include Commissioner at the Productivity Commission (2009–14), Chief Executive of the Murray-Darling Basin Commission, President of the National Competition Council, Chair of the Australian Fisheries Management Authority, Executive Director of the National Farmers Federation (1995–2000) and Executive Officer of the Great Barrier Reef Marine Park Authority. She has also been a director on a number of boards in the Australian public sector. Dr Craik is a Fellow of the Australian Institute of Company Directors, the Australian Rural Leadership Foundation and the Academy of Technology, Science and Engineering. She was awarded a Centenary Medal in 2001.

Other roles
Chair – CSIRO Oceans and Atmosphere Advisory Board
Chair – ONE Basin CRC Bid
Chair – Steering Committee, National Red Imported Fire Ant Eradication Program – South East Queensland
Director – Australian Farm Institute
Member – Advisory Board, The Centre for Strategy and Governance
Member – Advisory Board, National Recovery and Resilience Agency
Member – Advisory Board, Public Leadership Research Group, Howard Library of the University of New South Wales
Member – Consultative Committee, Future Drought Fund

Reserve Bank Board committee membership
Member – Remuneration Committee

Ian Harper AO

BEc (Hons) (Queensland), MEc, PhD (ANU)

Non-executive member
Member since 31 July 2016
Present term ends 30 July 2026

Ian Harper has extensive experience in public policy development, academia and economic consulting. Professor Harper chaired the Competition Policy Review (Harper Review), served as a member of the Financial System Inquiry (Wallis Inquiry), and was the inaugural Chairman of the Australian Fair Pay Commission. He spent two decades as a Professor at the University of Melbourne – first as the NAB Professor of Monetary and Financial Economics (1988–92), then as the Ian Potter Professor of International Finance (1992–2002) and the Sidney Myer Professor of Commerce and Business Administration (2002–08) at the Melbourne Business School. Professor Harper spent eight years as an economic consultant – first as a director of Access Economics Pty Ltd (2008–11) and then as a partner of Deloitte Touche Tohmatsu (2011–16). In the 2020 Queen's Birthday Honours, Professor Harper was awarded an Officer of the Order of Australia for his distinguished service to education in the field of economics, and to public and monetary policy.

Other roles
Dean and Director – Melbourne Business School Limited
Chair – Stipends Committee, Anglican Diocese of Melbourne
Director – Harper Associates Australia
Director – Ridley College Limited
Director – Robert Menzies Institute

Reserve Bank Board committee membership
Member – Remuneration Committee

Carolyn Hewson AO

BEc (Hons) (Adelaide), MA (Econ) (Cantab)

Non-executive member
Member since 30 March 2021
Present term ends 29 March 2026

Carolyn Hewson is a former investment banker with over 35 years' experience in the finance sector. She was previously an executive director of Schroders Australia Limited and has extensive financial markets, risk management and investment management expertise. She served as a panel member on the Australian Government's Financial System Inquiry in 2013. Ms Hewson is also a former director of BHP Group, Stockland Group, BT Investment Management Limited, Westpac Banking Corporation, AGL Energy Limited, the Australian Gas Light Company, CSR Limited, AMP Limited, South Australian Water and the Economic Development Board of South Australia. In 2009, Ms Hewson was made an Officer in the Order of Australia for her services to the broader community and to business.

Other roles
Non-executive Director – CSL Limited
Non-executive Director – Infrastructure SA

Steven Kennedy PSM

BEc (Hons) (Sydney), MEc, PhD (ANU)

Ex officio member
Secretary to the Australian Treasury
Member since 2 September 2019

Steven Kennedy was appointed Secretary to the Australian Treasury with effect from 2 September 2019.

Prior to his current role, Dr Kennedy was Secretary of the Department of Infrastructure, Transport, Cities and Regional Development from September 2017 to August 2019. During his nearly 30 years in the public service, Dr Kennedy has held other senior positions, including: Deputy Secretary at the Department of the Prime Minister and Cabinet; Deputy Secretary at the Department of Industry, Innovation and Science; Deputy Secretary at the Department of the Environment; Deputy Secretary at the Department of Climate Change and Energy Efficiency; and the Head of Secretariat of the Garnaut Climate Change Review – Update 2011. Dr Kennedy was awarded a Public Service Medal in 2016 for outstanding public service in the area of climate change policy.

Other roles
Chair – Global Infrastructure Hub
Ex officio member – Board of Taxation
Ex officio member – Council of Financial Regulators
Member – Centre for Market Design Advisory Board
Member – Sir Roland Wilson Foundation
Member – Trans-Tasman Council on Banking Supervision
President and Chair – Institute of Public Administration Australia (IPAA) ACT

Carol Schwartz AO

BA, LLB, MBA (Monash)

Non-executive member
Member since 14 February 2017
Present term ends 13 February 2022

Carol Schwartz has extensive experience in business, property, the arts and community organisations. Past high-level leadership roles, including a portfolio of diverse board appointments, have spanned the business, government, arts, health and community sectors. Ms Schwartz received the Centenary Medal in 2001 in recognition of her outstanding service as a leading business executive and committee participant. In the 2019 Queen's Birthday Honours, she was awarded an Officer of the Order of Australia for her distinguished service to the community as a supporter of women in leadership roles, to social justice advocacy and to business. In 2019, she was awarded the Leading Philanthropist Award by Philanthropy Australia. Ms Schwartz is a Fellow of the Australian Institute of Company Directors.

Other roles
Founding Chair – Women's Leadership Institute Australia
Chair – Our Community
Director – Equity Trustees
Director – Trawalla Group

Reserve Bank Board committee membership
Chair – Remuneration Committee

Alison Watkins

BCom (Tasmania)

Non-executive member
Member since 17 December 2020
Present term ends 16 December 2025

Alison Watkins is an experienced chief executive officer and non-executive director. Ms Watkins has led two ASX-listed companies: Coca-Cola Amatil Limited and GrainCorp Limited. Previously, Ms Watkins led Berri Limited and the Regional Banking business at Australia and New Zealand Banking Group Limited. Ms Watkins spent 10 years at McKinsey & Company, where she became a partner before moving to ANZ as Group General Manager Strategy. Ms Watkins has been a non-executive director of Australia and New Zealand Banking Group Limited, Woolworths Limited and Just Group Limited. Ms Watkins is a Fellow of Chartered Accountants Australia and New Zealand, the Financial Services Institute of Australasia and the Australian Institute of Company Directors.

Other roles
Chancellor – University of Tasmania
Non-executive Director – Business Council of Australia
Non-executive Director – The Centre for Independent Studies
Non-executive Director – CSL Limited
Non-executive Director – Wesfarmers Limited

Reserve Bank Board committee membership
Member – Audit Committee

Retirements from the Board

Allan Moss retired from the Board on 1 December 2020.

Allan Moss AO

BA, LLB (Hons) (Sydney), MBA (Harvard)

Non-executive member
Member from 2 December 2015 to 1 December 2020

Allan Moss has extensive experience in financial markets. He held various positions at Macquarie Bank before becoming Managing Director and Chief Executive Officer of Macquarie Bank Limited and subsequently Macquarie Group Limited from 1993 to 2008. Prior to this, Mr Moss was a director of Hill Samuel Australia and led the team responsible for preparing the submission to the Australian Government to form Macquarie Bank in 1983.

Other roles
Principal – Allan Moss Investments Pty Ltd
Advisory Board member – Eight Investment Partners Pty Ltd

Reserve Bank Board committee membership
Member – Audit Committee

Resolution Passed by the Reserve Bank Board – 1 December 2020
On the occasion of his final meeting, members paid tribute to Allan Moss' period of public service on the Board since December 2015. On behalf of all members, the Governor expressed appreciation for Mr Moss' intellectual rigour and his incisive contribution to the Board's deliberations. He thanked Mr Moss for his constructive and probing style in contributing to the conduct of monetary policy, drawing on his extensive experience in the finance sector. The Governor also thanked Mr Moss for his membership of the Audit Committee over three years and for his strong support for the internal audit and risk functions of the Bank, and expressed his appreciation for Mr Moss' membership of the Remuneration Committee earlier in his term. Members thanked Mr Moss for his service to the Bank and the nation, and wished him well in the future.

Catherine Tanna retired from the Board on 29 March 2021.

Catherine Tanna

LLB (Queensland)

Non-executive member

Member from 30 March 2011 to 29 March 2021

Catherine Tanna has extensive experience in the resources sector with EnergyAustralia, BG Group, Royal Dutch Shell and BHP. She held senior executive roles with responsibility for liquefied natural gas, gas transmission and power-generation businesses across Africa, North Asia, Russia, North America, Latin America and Australia. From April 2012 to the end of June 2014, Ms Tanna was Chair of BG Australia. In 2018, she was awarded an honorary Doctor of Business from the University of Queensland. Ms Tanna is a member of Chief Executive Women.

Other roles

Managing Director – EnergyAustralia Holdings Limited (retired 30 June 2021)
Board Member – Business Council of Australia
Member – The B Team Australasia

Reserve Bank Board committee membership

Chair – Remuneration Committee

Resolution Passed by the Reserve Bank Board – 2 March 2021

On the occasion of her final meeting, members paid tribute to Catherine Tanna's period of public service on the Board over the preceding decade. On behalf of all members, the Governor expressed appreciation for Ms Tanna's contribution to the Board's deliberations, drawing on her extensive business experience and insights. He thanked Ms Tanna for her constructive approach in contributing to the conduct of monetary policy. The Governor applauded Ms Tanna's strong commitment to the role of the Bank and support for its culture, and thanked her for her contribution to the work of the Remuneration Committee, including as Chair since 2016. Members thanked Ms Tanna for her service to the Bank and the nation, and wished her well in the future.

In Memoriam

Vale Donald (Don) Neil Sanders AO CB

The Bank records, with deep regret, that Don Sanders AO CB, Deputy Governor and member of the Reserve Bank Board from 23 July 1975 to 10 March 1987, died on 25 November 2020.

Reserve Bank Board Audit Committee

Membership of the Audit Committee comprises two non-executive members of the Reserve Bank Board, one of whom chairs the committee, and two external members, typically former senior audit partners of major accounting firms with extensive experience in auditing in the finance sector.

Mark Barnaba AM

Chair
Member since 23 July 2018
Term ends 30 August 2022

See above for Mr Barnaba's professional details.

Sandra Birkensleigh

BCom (UNSW)

Member

Member since 9 September 2015

Term ends 8 September 2023

Sandra Birkensleigh has extensive experience in financial services, with a particular focus on risk management, compliance and corporate governance. Ms Birkensleigh's career includes 24 years at PricewaterhouseCoopers, where she was formerly a Global Lead for Governance Risk and Compliance, a National Lead Partner for Risk and Controls Solutions, and a Service Team Leader for Performance Improvement. Ms Birkensleigh holds several directorships and is chair of the audit committees for most of the organisations listed below. She is a qualified chartered accountant, a member of the Institute of Chartered Accountants in Australia and New Zealand and a member of the Australian Institute of Company Directors. In February 2020, Ms Birkensleigh was reappointed to the Audit Committee for a further three years.

Other roles

Chair and Non-Executive Director, Audit Committee Member and Remuneration Committee Member – Auswide Bank Limited

Non-Executive Director, Audit Committee Chair and Risk and Remuneration Committee Member – Horizon Oil Limited

Non-Executive Director, Audit Committee Chair, Risk Committee Member and People and Remuneration Committee Member – MLC (Insurance) Limited

Non-Executive Director, Audit Committee Chair, People and Remuneration Committee Member – National Disability Insurance Agency

Non-Executive Director, Risk Committee Chair and Strategy Committee Member – 7-Eleven Holdings Limited and its subsidiaries

Non-Executive Director, Audit Committee Chair – The Tasmanian Public Finance Corporation

Rahoul Chowdry

BCom (Hons) (Calcutta)

Member

Member since 14 February 2018

Term ends 13 February 2023

Rahoul Chowdry has extensive experience in the professional services industry, which enabled him to build a reputation as a leading adviser on governance, regulation and risk to major banks and other large financial institutions in Australia and Canada. Until the end of 2017, Mr Chowdry was the Global Banking and Capital Markets Assurance Leader at PricewaterhouseCoopers and a partner for almost 30 years in the firm's financial services practice. He is a qualified chartered accountant and a fellow of the Institute of Chartered Accountants in Australia and New Zealand, and the Institute of Chartered Accountants in England and Wales.

Other roles

Senior Advisor – MinterEllison

Member – Audit & Risk Committee, MinterEllison Board of Partners

Non-Executive Director – AMP Limited

Non-Executive Director – AMP Bank Limited

Chair – AMP Limited Risk Committee

Chair – AMP Bank Limited Risk Committee

Member – AMP Limited Audit Committee

Member – AMP Limited Nominations Committee

Member – AMP Limited Remuneration Committee

Member – AMP Bank Limited Audit Committee

Alison Watkins

Member

Member since 3 February 2021

Term ends 16 December 2025

See above for Ms Watkins' professional details.

Payments System Board

The Payments System Board comprises up to eight members: the Governor; Assistant Governor (Financial System); Chair of the Australian Prudential Regulation Authority (APRA); and up to five other non-executive members appointed by the Treasurer. Further to the legislative requirements, and in recognition of their responsibility to uphold the integrity of the Payments System Board and the Reserve Bank, members have adopted a Code of Conduct, which is published on the Bank's website.[1]

August 2021

Philip Lowe

BCom (Hons) (UNSW), PhD (MIT)

Governor and Chair

Governor since 18 September 2016
Present term ends 17 September 2023

Philip Lowe was Deputy Governor from February 2012 until his appointment as Governor took effect in September 2016. Prior to that, he held various senior positions at the Reserve Bank, including Deputy Governor, Assistant Governor (Economic) and Assistant Governor (Financial System), where he was responsible for overseeing economic and policy advice to the Governor and Reserve Bank Board. He spent two years at the Bank for International Settlements working on financial stability issues. Dr Lowe has authored numerous papers, including on the linkages between monetary policy and financial stability. He is a signatory to The Banking and Finance Oath.

Other roles

Chair – Reserve Bank Board
Chair – Council of Financial Regulators
Chair – Bank for International Settlements Committee on the Global Financial System
Chair – Financial Markets Foundation for Children
Member – Financial Stability Board
Member – Trans-Tasman Council on Banking Supervision
Director – The Anika Foundation

1 Available at <https://www.rba.gov.au/about-rba/our-policies/code-conduct-psb-board-members.html>.

Michele Bullock

BEc (Hons) (UNE), MSc (LSE)

Assistant Governor (Financial System) and Deputy Chair
Deputy Chair since 29 October 2016

Michele Bullock has held various senior positions at the Reserve Bank. Most recently, she held the position of Assistant Governor (Business Services). She has also been in the positions of Assistant Governor (Currency) and Head of Payments Policy Department. In her current position as Assistant Governor (Financial System), Ms Bullock is responsible for the Bank's work on financial stability and oversight of the payments system.

Other roles
Member – Basel Committee on Banking Supervision
Member – Council of Financial Regulators

Wayne Byres

BEc (Hons), MAppFin (Macquarie)

APRA-appointed member
Chair, Australian Prudential Regulation Authority
Member since 9 July 2014

Wayne Byres brings a wealth of experience and knowledge of prudential supervision and banking practices. He was appointed as a Member and Chair of APRA from 1 July 2014 for a five-year term, and subsequently reappointed on 1 July 2019 for a further five-year term. His early career was at the Reserve Bank, which he joined in 1984. He transferred to APRA on its establishment in 1998 and held a number of senior executive positions in the policy and supervisory divisions. In 2004, Mr Byres was appointed Executive General Manager, Diversified Institutions Division, with responsibility for the supervision of Australia's largest and most complex financial groups. He held this role until the end of 2011, when he was appointed as Secretary General of the Basel Committee on Banking Supervision, based at the Bank for International Settlements in Basel. Mr Byres is a Senior Fellow of the Financial Services Institute of Australia.

Other roles
Member – Basel Committee on Banking Supervision
Member – Bank for International Settlements Group of Governors and Heads of Supervision
Member – Council of Financial Regulators
Member – Trans-Tasman Council on Banking Supervision

Gina Cass-Gottlieb

BEc (Hons), LLB (Hons) (Sydney), LLM (Berkeley)

Non-executive member
Member from 15 July 2013 to 14 July 2018
Reappointed from 1 August 2018
Present term ends 31 July 2023

Gina Cass-Gottlieb has extensive expertise in competition law and economic regulatory advice and in the regulation of payments in Australia. Ms Cass-Gottlieb is a senior partner in Gilbert + Tobin's competition and regulation practice, advising and representing corporations, industry associations, government and non-government agencies. She has over 25 years' experience, including advising in relation to access arrangements in a range of sectors across the economy. Ms Cass-Gottlieb attended the University of California, Berkeley, as a Fulbright Scholar.

Other roles
Director – Sydney Children's Hospitals Foundation

Deborah Ralston

BEc, Dip Fin Mgt, MEc (UNE), PhD (Bond)

Non-executive member
Member since 15 December 2016
Present term ends 14 December 2021

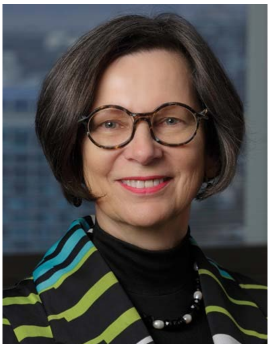
Deborah Ralston has more than 25 years of board level experience in education, banking, superannuation and fintech sectors. Dr Ralston has held senior leadership and research roles in Australian universities most recently as the Executive Director of the Centre for Financial Studies. Her expertise in public policy is reflected in appointments to the Federal Government's Retirement Income Review Panel, the Comprehensive Income Products for Retirement Framework Advisory Committee and as inaugural Chair of ASIC'S Digital Finance Advisory Board. She is currently a Professorial Fellow at Monash University Business School, with research interests in financial regulation and superannuation and is a Fellow of CPA Australia and the Australian Institute of Company Directors.

Other roles
Chair – Advisory Board, Household Capital
Director – SuperEd Pty Ltd
Director – Kaplan Business School and Kaplan Higher Education
Director – SMSF Association
Member – Advisory Board, Allianz Retire+
Member – Advisory Board, Connexus Institute

Greg Storey

Non-executive member
Member since 1 August 2018
Present term ends 31 July 2023

Greg Storey is an experienced cards and payments industry professional, with specialist knowledge in the evolution and operation of debit cards, credit cards and payments systems. He was Vice-President and Head of Visa Checkout, Asia Pacific from 2012 to 2016. Mr Storey had over 20 years' experience with Visa, spanning the roll out of numerous VisaNet-related solutions and services, product and strategy, micropayments solution (Payclick) and Visa Checkout (and V.me) products across the Asia Pacific region. Prior to his roles at Visa, Mr Storey worked at St George Bank in various cards and payments roles, as CIO of an independent payment solution provider, and established and oversaw merchant point of sale and ATM switching operations.



Catherine Walter AM

LLB (Hons), LLM, MBA (Melbourne)

Non-executive member
Member since 3 September 2007
Present term ends 2 September 2022

Catherine Walter brings substantial experience and expertise in financial services and corporate governance across many industry sectors, including banking, insurance, funds management, health services, medical research, education, telecommunications and resources. Ms Walter is a solicitor and company director, who practised banking and corporate law in major city law firms, culminating in a term as Managing Partner of Clayton Utz, Melbourne. She was a Commissioner of the City of Melbourne and for more than 20 years has been a non-executive director of a range of listed companies, government entities and not-for-profit organisations. Ms Walter is a Fellow of the Australian Institute of Company Directors.

Other roles
Chair – Creative Partnerships Australia
Chair – Financial Adviser Standards and Ethics Authority
Chair – Helen Macpherson Smith Trust
Chair – Melbourne Genomics Health Alliance
Director – Australian Foundation Investment Company
Director – Barristers' Chambers Limited

Retirement from the Board

Brian Wilson AO retired from the Board on 14 November 2020.

Brian Wilson AO

MCom (Hons) (Auckland)

Non-executive member
Member from 15 November 2010 to 14 November 2020

Brian Wilson has extensive financial services experience, including involvement with both the funds management and investment management sectors. He has specialised in corporate financial advice. Mr Wilson was a Managing Director of the global investment bank Lazard until 2009, after co-founding the firm in Australia in 2004, and was previously a Vice-Chairman of Citigroup Australia and its predecessor companies. He is the former Chair of Australia's Foreign Investment Review Board and a former Chancellor of the University of Technology Sydney. Mr Wilson was a member of the Commonwealth Government Review of Australia's Superannuation System, the ATO Superannuation Reform Steering Committee and the Specialist Reference Group on the Taxation of Multinational Enterprises in Australia. In May 2017, Mr Wilson was awarded a Doctor of the University, honoris causa (DUniv) by the University of Technology Sydney.

Other roles
Chair – UTS Foundation
Director – Bell Financial Group Ltd
Senior Advisor – The Carlyle Group

Resolution Passed by the Payments System Board – 21 August 2020
In view of the likelihood that this would be the final meeting for Brian Wilson, whose second term on the Board ended prior to the November meeting, the Governor paid tribute to Mr Wilson's very significant contribution to the work of the Board over the preceding 10 years. On behalf of all members, the Governor expressed great appreciation for Mr Wilson's professionalism and dedication, and for his active and probing role in contributing to the formulation of payments policy throughout his term on the Board, drawing on his extensive experience in the finance sector. The Governor acknowledged Mr Wilson's strong support for the work of the Bank in the payments area and also applauded Mr Wilson's constructive and collegial style, his clear policy insights and ability to summarise relevant issues succinctly. Members wished him well in the future.

Operational Structure

The Reserve Bank is managed by the Governor, Philip Lowe, and the Deputy Governor, Guy Debelle. It has five operational groups – Business Services Group, Corporate Services Group, Economic Group, Financial Markets Group and Financial System Group – and six supporting departments.

Business Services Group

Assistant Governor: Michelle McPhee

Business Services Group provides transactions-based services to the Reserve Bank's customers and other important stakeholders. In particular, it provides banking services and payments-related advice and assistance to the Australian Government and its agencies as well as to other central banks, and is responsible for the distribution of Australia's banknotes. It also provides payment settlement services to financial institutions. The group comprises three departments: Banking; Note Issue; and Payments Settlements.

Banking Department

Head (Acting): Stephanie Connors
Deputy Head: Peter Gallagher

Banking Department provides a range of banking services to Australian Government departments and agencies as well as a number of overseas central banks and official institutions. The services broadly comprise two activities – management of the government's core accounts and transactional banking. Sydney-based staff are responsible for the direction, administration and development of the department's work, while the day-to-day interaction with customers is largely managed by staff in the Canberra Branch.

Note Issue Department

Head: Melissa Hope
Deputy Head: James Holloway

The Reserve Bank is responsible for the issue, reissue and cancellation of Australian banknotes. Its primary purpose in carrying out this role is to maintain the capacity of Australian banknotes to provide a safe, secure and reliable means of payment and store of value. The Bank works with its wholly owned subsidiary, Note Printing Australia Limited, to design and produce banknotes. The Bank distributes banknotes to financial institutions, monitors and maintains banknote quality in circulation and withdraws unfit banknotes from circulation. It also monitors and analyses counterfeiting trends and conducts research into banknote security technology.

Payments Settlements Department

Head: Greg Johnston
Deputy Heads: David Emery, Sarah Harris

Payments Settlements Department is responsible for the settlement of high-value payments and interbank obligations arising from the conduct of Exchange Settlement Accounts and the Reserve Bank's own trading activities, as well as operation of the Reserve Bank Information and Transfer System (RITS), Australia's real-time gross settlement system (RTGS). RITS includes the Fast Settlements Service, which Payments Settlements Department operates on an RTGS basis 24 hours a day, 7 days a week for settlement of New Payments Platform transactions. Services are also provided for the clearing and settlement of low-value payments, such as those arising from cheque and direct entry transactions.

Corporate Services Group

Assistant Governor: Susan Woods

Corporate Services Group is responsible for the delivery of technology systems and infrastructure, facilities management services, procurement and data governance to support the day-to-day operations of the Bank. The group comprises Information Technology Department, Workplace Department and the Enterprise Data Office.

Information Technology Department

Chief Information Officer: Gayan Benedict
Deputy Heads: Julian Israel, Stephen Smith

Information Technology Department is responsible for developing and maintaining reliable, resilient and secure information technology to support the Reserve Bank's policy, operational and corporate functions. In fulfilling these responsibilities, the department delivers and maintains the Bank's technology systems and infrastructure, provides ongoing system quality assurance, and maintains the Bank's information security, including its cyber-security defensive controls. The department also supports technology planning for the Bank, which includes catering for emerging and future technology requirements.

Workplace Department

Head: Bruce Harries
Deputy Head: Ed Jacka

Workplace Department is responsible for management of the Reserve Bank's physical assets, the maintenance of its properties and building infrastructure, the delivery of workplace services, and the management and oversight of procurement activity, including strategic vendor management. Key activities include oversight of the provision of building services, asset infrastructure maintenance and upgrades, physical and protective security, and sustainability management and environmental risk management. These operations are undertaken for the effective operation of the Bank and the safety, security, amenity and wellbeing of staff.

Economic Group

Assistant Governor: Luci Ellis

Economic Group is responsible for analysis of economic trends, both domestic and overseas, forecasting and research relevant to the framing of policy in a number of areas of the Reserve Bank's responsibility. The Group comprises Economic Analysis Department and Economic Research Department.

Economic Analysis Department

Head: Bradley Jones
Deputy Heads: Lynne Cockerell, Merylin Coombs, Tom Rosewall

Economic Analysis Department monitors and forecasts trends in the domestic and international economies, and provides regular advice on these developments and monetary policy to the Governors and the Reserve Bank Board. The department also contributes to the work of various external bodies, maintains contacts with relevant external analysts, undertakes applied research and prepares reports for publication.

The Reserve Bank maintains four state offices to conduct economic liaison across Australia. Staff in these offices hold regular discussions with individual firms and organisations in both the private and public sectors, and assist with communication to the wider community.

The Bank also has an office in Beijing, which is responsible for monitoring Chinese economic and financial developments, as well as maintaining relationships with government and private sector entities in China.

Economic Research Department

Head: John Simon
Deputy Head: Adam Cagliarini

Economic Research Department undertakes longer-term research into issues relevant to the Reserve Bank's responsibilities, including research on the Australian economy, monetary policy, financial stability, the payments system and the operation of financial markets. Results of this research are published in the Research Discussion Paper series. The department organises a major annual conference and an annual research workshop. In addition, it organises a program of internal seminars, hosts a number of invited visitors each year and is responsible for administering a comprehensive library service for the Bank.

Financial Markets Group

Assistant Governor: Christopher Kent

Financial Markets Group is responsible for implementing the Reserve Bank's operations in domestic and foreign exchange markets, monitoring developments in financial markets and coordinating the Bank's relationships with international institutions. The group comprises Domestic Markets Department and International Department.

Domestic Markets Department

Head: Marion Kohler
Deputy Heads: Andrea Brischetto, Carl Schwartz

Domestic Markets Department is responsible for the Reserve Bank's operations in the domestic money and bond markets. The department analyses developments in domestic financial markets, including the cost and availability of finance through financial intermediaries and capital markets, and provides regular advice to the Governors and the Reserve Bank Board on these issues.

International Department

Head: Alexandra Heath
Deputy Heads: Matthew Boge, David Jacobs

International Department is responsible for the Reserve Bank's foreign exchange operations, the investment of international reserve holdings of gold and foreign exchange, and the provision of regular advice on developments in international financial markets to the Governors and the Reserve Bank Board. The department is also responsible for maintaining the Bank's relations with a number of major international financial and policymaking institutions.

Chief Representative in Europe: Darryl Ross
Chief Representative in New York: Michael Plumb

The Representative Offices in London and New York come under the umbrella of the Financial Markets Group. The European Representative Office in London maintains liaison with central banks and other institutions and authorities in Europe, including the Bank for International Settlements and the Organisation for Economic Co-operation and Development. The New York Representative Office performs similar functions in North America. Both of these offices monitor economic and financial developments in their respective local markets, and assist with the Reserve Bank's foreign exchange operations and investment of international reserves.

Financial System Group

Assistant Governor: Michele Bullock

Financial System Group supports the Reserve Bank's broad responsibilities for financial system stability and its role in payments system oversight and regulation. The group comprises Financial Stability Department and Payments Policy Department.

Financial Stability Department

Head: Jonathan Kearns
Deputy Heads: Natasha Cassidy, Darren Flood

Financial Stability Department analyses the implications for financial system stability of developments in the economy, financial markets and the financial sector more generally, including patterns of financial intermediation, financial products and risk management techniques. The department provides advice on these issues to the Governors and the Reserve Bank Board, and supports the Reserve Bank's representation on bodies such as the Council of Financial Regulators, the Financial Stability Board and the Basel Committee on Banking Supervision. It is responsible for producing the Bank's semi-annual *Financial Stability Review*.

Payments Policy Department

Head: Tony Richards
Deputy Heads: Ellis Connolly, Chris Thompson

Payments Policy Department is responsible for developing and implementing the Reserve Bank's payments system policy. It provides analysis and advice to the Payments System Board on improving the safety, efficiency and competitiveness of the payments system. The department is also responsible for oversight of Australia's high-value payments, clearing and settlement facilities, and represents the Bank on the Committee on Payments and Market Infrastructures of the Bank for International Settlements.

Audit Department

Head: Ross Tilly

Audit Department is responsible for conducting independent appraisals of the Reserve Bank's activities, functions and operations to ensure that an adequate framework of internal control has been established and is operating effectively. The Head of Audit Department reports to the Deputy Governor and the Reserve Bank Board Audit Committee.

Finance Department

Chief Financial Officer: Emma Costello
Financial Controller: Sam Tomaras

Finance Department is responsible for the Reserve Bank's financial statements and taxation reporting obligations, prepares the Bank's budget and provides a range of support services, including corporate payments, payroll and travel. The department also manages the Bank's Enterprise Portfolio Management Office.

Human Resources Department

Head: Michael Andersen

Human Resources Department provides a range of people-related services to support the Reserve Bank in maintaining a productive and engaged workforce. This includes attracting and retaining high-quality employees as well as implementing policies and programs that cover employment conditions, reward, development, diversity, and workplace health and safety.

Information Department

Head: Jacqui Dwyer

Information Department is responsible for the Reserve Bank's information management framework, information governance, records management system and its archives. The department facilitates public access to Bank records and archival material. It also manages the Reserve Bank of Australia Museum and a program of public education, with particular focus on supporting economics students and educators.

Risk and Compliance Department

Head: Keith Drayton

Risk and Compliance Department supports the consistent and effective application of the Reserve Bank's framework for managing risk, both at the enterprise level and for individual business units. It assists departments to identify, understand and manage their compliance obligations. It also monitors and reports on portfolio risks and compliance with respect to the Bank's operations in financial markets. The department is responsible for providing secretariat and coordination services and advice to the Risk Management Committee. The Head of Risk and Compliance Department reports to the Deputy Governor and the Reserve Bank Board Audit Committee.

Secretary's Department

Secretary: Anthony Dickman
Deputy Secretary: Penelope Smith
General Counsel: Catherine Parr
Deputy General Counsel: Peter Jones

Secretary's Department provides secretariat and coordination services and advice on governance matters for the Governors, the Reserve Bank Board and its Audit and Remuneration committees, the Payments System Board and the Executive Committee. It is responsible for the Reserve Bank's communication, including preparing and publishing Reserve Bank information, maintaining the Bank's websites and managing enquiries from the media and general public. In addition, the department provides legal services to the Bank through the General Counsel (who reports directly to the Deputy Governor), coordinates a range of contacts with government, parliament, other central banks and international organisations, and arranges programs for international visitors.

Wholly owned subsidiary: Note Printing Australia Limited (NPA)

NPA is a wholly owned subsidiary of the Reserve Bank. NPA operates under a charter reviewed and approved annually by the Reserve Bank Board. See chapter on 'Governance and Accountability' for further detail about the governance of NPA.

NPA's prime function is the efficient and cost-effective production of high-quality and secure Australian banknotes, in accordance with specifications and requirements set by the Reserve Bank. NPA also undertakes other activities, including developing and producing passports for the Department of Foreign Affairs and Trade, producing banknotes for other issuing authorities and producing other security products.

NPA's Executive Committee, comprising its Chief Executive Officer and the heads of NPA's 10 business areas, is responsible for the operational and administrative management of NPA. As at the end of June 2021, NPA employed 267 permanent staff.

The annual financial accounts of NPA are consolidated with those of the Reserve Bank.

Senior Executive Leadership

August 2021

Governor
Philip Lowe

Deputy Governor
Guy Debelle

Assistant Governor
Business Services
Michelle McPhee

Assistant Governor
Corporate Services
Susan Woods

Assistant Governor
Economic
Luci Ellis

Assistant Governor
Financial Markets
Christopher Kent

Assistant Governor
Financial System
Michele Bullock

Operational Structure

August 2021

- **Governor** – Philip Lowe
  - **Deputy Governor** – Guy Debelle
    - **Business Services Group** – **Assistant Governor** Michelle McPhee
      - **Banking Department** – **Head** Stephanie Connors (Acting); **DeputyHead** Peter Gallagher
      - **Note Issue Department** – **Head** Melissa Hope; **Deputy Head** James Holloway
      - **Payments Settlements Department** – **Head** Greg Johnston; **Deputy Head** David Emery, Sarah Harris
    - **Corporate Services Group** – **Assistant Governor** Susan Woods
      - **Workplace Department** – **Head** Bruce Harries; **Deputy Head** Ed Jacka
      - **Information Technology Department** – **Chief Information Officer** Gayan Benedict; **Deputy Head** Julian Israel, Stephen Smith
    - **Economic Group** – **Assistant Governor** Luci Ellis
      - **Economic Analysis Department** – **Head** Bradley Jones; **Deputy Head** Lynne Cockerell, Merylin Coombs, Tom Rosewall
      - **Economic Research Department** – **Head** John Simon; **Deputy Head** Adam Cagliarini
    - **Financial Markets Group** – **Assistant Governor** Christopher Kent
      - **Domestic Markets Department** – **Head** Marion Kohler; **Deputy Head** Andrea Brischetto, Carl Schwartz
      - **International Department** – **Head** Alexandra Heath; **Deputy Head** Matthew Boge, David Jacobs
      - **European and New York Offices** – **Chief Representative in London** Darryl Ross; **Chief Representative in New York** Michael Plumb
    - **Financial System Group** – **Assistant Governor** Michele Bullock
      - **Financial Stability Department** – **Head** Jonathan Kearns; **Deputy Head** Natasha Cassidy, Darren Flood
      - **Payments Policy Department** – **Head** Tony Richards; **Deputy Head** Ellis Connolly, Chris Thompson
    - **Audit Department** – **Head** Ross Tilly
    - **Finance Department** – **Chief Financial Officer** Emma Costello; **Financial Controller** Sam Tomaras
    - **Human Resources Department** – **Head** Michael Andersen
    - **Information Department** – **Head** Jacqui Dwyer
    - **Risk and Compliance Department** – **Head** Keith Drayton
    - **Secretary's Department** – **Secretary** Anthony Dickman; **Deputy Secretary** Penelope Smith; **General Counsel** Catherine Parr; **Deputy General Counsel** Peter Jones

PART 2

Performance

Annual Performance Statement

I, as the accountable authority of the Reserve Bank of Australia, present the annual performance statement of the Reserve Bank for the 2020/21 reporting period, prepared under paragraph 39(1)(a) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). In my opinion, this annual performance statement accurately presents the performance of the Reserve Bank in the reporting period and complies with subsection 39(2) of the PGPA Act.

Philip Lowe
Governor, Reserve Bank of Australia

10 September 2021

Introduction

This performance statement outlines the key objectives of the Reserve Bank as set out in the 2020/21 corporate plan and provides an assessment of the Bank's performance in achieving those objectives. Where necessary, additional context is provided, including an analysis of significant factors that have contributed to the outcomes.

Reserve Bank of Australia – Performance Summary 2020/21

Key objectives	Key activities	Performance measures and targets	Results
Price stability and full employment	Conduct monetary policy in a way that will best contribute to: · stability of the currency · maintenance of full employment · economic prosperity and welfare of the people of Australia.	Flexible medium-term inflation target to achieve consumer price inflation of between 2 and 3 per cent, on average, over time. Foster sustainable growth in the economy.	Consumer price inflation averaged around 1¾ per cent over five years prior to the COVID-19 pandemic. Movements in consumer prices over the past year have been dominated by the effect of responses to the pandemic. Headline inflation has been volatile, and was briefly negative in mid 2020 due to the effect of declining fuel prices and a number of government price freezes, rebates and subsidies. Headline inflation rose to 3¾ per cent over the year to June 2021 as these temporary policy measures were unwound and fuel prices returned to around pre-pandemic levels. GDP growth was strong over 2020/21. GDP increased to be above its pre-pandemic level by early 2021 as the economy rapidly recovered from the COVID-19 downturn. The unemployment rate was around 5 per cent in mid 2021 – similar to its pre-pandemic level and well below the peak of 7½ per cent in mid 2020. Growth in the economy had averaged 2½ per cent over the five years prior to the pandemic. See the Bank's quarterly *Statement on Monetary Policy* for details.
	Achieve cash rate consistent with the Board's objectives.	Keep the cash rate within the interest rate corridor around the cash rate target each business day.	The cash rate was within the interest rate corridor around the cash rate target each business day.
	Achieve three-year Australian Government bond yield target.	Three-year Australian Government bond yield consistent with the target at the close of each business day.	The three-year Australian Government bond yield has remained consistent with the target. See below and the Bank's quarterly *Statement on Monetary Policy*.
	Provide low-cost term funding to the banking system.	Provide the Reserve Bank's Term Funding Facility (TFF).	The Bank provided $188 billion in low-cost funding to the banking system through the TFF.
	Provide adequate liquidity to the financial system.	Use daily open market operations to ensure financial institutions have access to sufficient liquidity.	Since mid 2020 daily market operations have been significantly below pre-pandemic levels, reflecting the increase in banking system liquidity and substitution towards longer-term TFF funding.

Key objectives	Key activities	Performance measures and targets	Results
	Support the smooth functioning of government bond markets.	Purchase government securities if required to support the smooth functioning of government bond markets as reflected in various measures of liquidity, including bid-offer spreads.	The Bank purchased government securities as required to support the smooth function of government bond markets, including by bringing forward bond purchases under the bond purchase program in early March to assist with market functioning at that time.
	Manage reserves to portfolio benchmarks.	Manage reserves portfolio to within small deviations around benchmarks for interest rate and currency risk.	Deviations from the benchmarks were in line with pre-defined tolerances.
	Intervene in foreign exchange market as appropriate.	Publish data and explanations of any intervention.	No foreign exchange market intervention was conducted.
The stability of the financial system	Support overall financial stability.	A stable financial system that is able to support the economy.	The financial system and the household and business sectors have remained resilient, and are well placed for the recovery phase from the effects of the COVID-19 pandemic. Banks' healthy capital and liquidity positions following earlier reforms has allowed them to support the economy through the pandemic, including by offering loan repayment deferrals and, as demand for credit has picked up, new lending. The Bank's ongoing monetary policy measures (including the cash rate target and expansion and extension of the TFF) continued to support credit flows, as well as confidence in the wider financial system. Loan repayment deferrals and public support measures have proved effective in bridging the worst of the pandemic-related disruptions, with few signs of stress arising from the progressive withdrawal of many measures during the year. While accommodative financial conditions could present risks if they are accompanied by excessive risk-taking by lenders or borrowers, lending standards remain sound overall and CFR agencies are positioned to respond to a deterioration in the risk outlook.
		Work with the Council of Financial Regulators (CFR) agencies and international bodies to identify and appropriately address evolving systemic risks.	The CFR continued to closely monitor and assess the effects of the pandemic on the financial system and the broader economy, including the unwinding of support measures. The CFR issued statements that outlined its discussions and assessments, as well as areas of focus.

Key objectives	Key activities	Performance measures and targets	Results
		Assess and communicate risks to financial stability, including through the Bank's half-yearly *Financial Stability Review*.	The Bank continued to assess financial stability risks. The Bank is using existing and new datasets to identify and assess emerging risks in the banking, household and business sectors. The Bank communicates its assessments of these and other risks through the half-yearly *Financial Stability Review*, *Bulletin* articles and speeches. The Bank included, from October 2020, a new succinct presentation of the key risks identified in the *Financial Stability Review*.
A secure, stable and efficient payments system	Support competition and efficiency in the payments system and financial system stability.	Monitor the outcomes for consumers and businesses following past reviews of the regulatory framework for card payments. Undertake policy work focusing on the strategic priorities identified by the Payments System Board (including promoting competition and reliable, secure, efficient and low-cost electronic payment services, as well as keeping abreast of new technologies and platforms in payments) and on any issues of competition, efficiency or risk identified in liaison with stakeholders.	In 2020/21, the Bank focused on · the provision of least-cost routing functionality to merchants · understanding differences in payment costs across merchants and how to strengthen competition in acquiring services · policy issues associated with the rise of 'buy now, pay later' services and large technology companies in payments · work in support of the G20 roadmap on enhancing cross-border payments · research on the case for, and implications of, issuing central bank digital currencies (see also below).
		Recommence work on the comprehensive Review of Retail Payments Regulation, which was placed on hold in March 2020 due to the COVID-19 pandemic. Monitor and enforce compliance with the Bank's card payments regulations.	The Bank published a consultation paper with preliminary conclusions (and associated draft standards) from the Review of Retail Payments Regulation in May. The Payments System Board is expected to reach final conclusions on the Review in the second half of 2021.
		Undertake research and work with industry on policy issues relating to both legacy and emerging payment methods, including work to support the ongoing provision of cash services, work exploring the wind-down of the cheques system, and research on the possible issuance of central bank digital currency (CBDC).	In 2020/21, the Bank focused on: · analysing policy issues associated with the emergence of digital wallets and 'buy now, pay later' services · analysing trends in cash demand and changes in access to cash services and cash acceptance · overseeing industry efforts to wind-down the cheques system · research on the case for, and implications of, issuing CBDC (see also below).

Key objectives	Key activities	Performance measures and targets	Results
		Review elements of the regulatory framework for e-conveyancing platforms jointly with the CFR, the Australian Competition and Consumer Commission (ACCC) and the Australian Registrars' National Electronic Conveyancing Council, with the aim of identifying enhancements that would promote consumer protection, resilience and competition in the e-conveyancing market.	This Review was completed and recommendations were provided to a meeting of the CFR and ACCC in June.
		Work with the CFR to complete the review of the regulatory framework for stored-value facilities (SVFs) in Australia, including to progress any changes to the framework stemming from the CFR's report provided to the Australian Government in October 2019.	The government accepted the recommendations in the CFR's report and the Bank is now participating in a CFR working group led by the Treasury that is developing a reform package to implement the changes to the regulatory framework for SVFs.
		Work with industry to modernise payment messaging standards via participation in the ISO 20022 migration project.	The Bank has been participating in the industry-led migration project. The planning and design phase is completed, and the project has entered the build phase. Full migration of the Australian high-value payments system is expected by November 2024.
		Work with industry and the Australian Prudential Regulation Authority (APRA) to develop disclosure standards for operational performance.	Reporting and disclosure requirements for retail payments incidents have been developed and institutions are required to disclose the availability of retail payment services from November 2021.
		Work in the Bank's Innovation Lab (including with external partners) to conduct research on the case for, and implications of, CBDC.	A project to develop a proof-of-concept for a wholesale CBDC, in collaboration with a number of external partners, was completed. A public report is forthcoming.
	Oversee the stable provision of financial market infrastructure (FMI) services.	Assess Reserve Bank Information and Transfer System (RITS) and licensed clearing and settlement (CS) facilities against relevant standards. Establish recommendations and regulatory priorities as appropriate for each high-value payment system and CS facility based on these assessments.	The Bank completed and published assessments of RITS and all licensed CS facilities (other than for Chicago Mercantile Exchange Inc (CME)). The CME assessment has moved to a two-yearly cycle, with the Bank's next assessment expected to be published in 2022/23. Where necessary, the Bank has set regulatory priorities for facilities and monitored responses.
		Undertake reviews as appropriate to determine whether additional FMIs should be subject to supervision or oversight by the Bank.	The Bank determined that no payment systems other than RITS and CLS should also be subject to ongoing oversight by the Bank and provided advice to ASIC that several overseas central counterparties do not require an Australian CS facility licence.

Key objectives	Key activities	Performance measures and targets	Results
		Provide proposals for enhancements to the FMI regulatory regime, including crisis management powers, to the Australian Government.	The CFR provided recommendations to the government on reforms to the FMI regulatory regime, which the government accepted.
		Contribute to international policy work on central counterparty resilience and FMI crisis management.	Bank staff actively participated in international policy development and implementation on crisis management and the resilience of FMIs.
		Adapt domestic regulatory standards in response to international developments. Support international supervisory cooperation.	No change to domestic regulatory standards was required. However, the Bank revised the guidance on its supervisory approach to reduce the frequency of broad assessments of systemically important domestic CS facilities in order to conduct more special topic reviews.
	Ensure the operational reliability of RITS.	RITS availability at 99.95 per cent during core hours.	RITS availability was 99.96 per cent during core hours in 2020/21.
		RITS Fast Settlement Service (FSS) availability at 99.995 per cent on a 24/7 basis, with most transactions processed in less than one second.	FSS availability was 99.999 per cent on a 24/7 basis and the processing time for 95 per cent of FSS transactions was 56 milliseconds or less.
		Complete an upgrade of RITS hardware and network infrastructure by end of June 2021.	The multi-year refresh of core RITS network and application infrastructure was completed in 2020/21.
	Ensure the cyber security of RITS.	Ongoing investment and regular reviews and testing to support cyber resilience, including participation in a pilot 'red team' exercise for financial institutions sponsored by the CFR.	The Bank's ongoing program of cyber resilience work helped underpin the reliable operation of RITS in 2020/21. The Bank continued to comply with the requirements of ISO 27001 and SWIFT's mandatory Customer Security Program. The pilot threat intelligence exercise testing the cyber maturity and resilience of institutions is underway in collaboration with the CFR.
		Complete a review of RITS end-point security arrangements and update RITS member security requirements as required.	An external review of the Bank's end-point security standards for RITS members and feeder systems has been completed. A draft set of enhanced RITS member security requirements has been developed and will be released for RITS member comment in the September quarter of 2021.
The delivery of efficient and effective banking services to the Australian Government	Ensure central banking services remain fit for purpose.	Work with key stakeholders to maintain and improve, where possible, the central banking services provided to the Commonwealth.	The Bank continued to work with the Department of Finance and the Australian Office of Financial Management on its Commonwealth cash management initiatives. The term deposit facility was replaced with a cash management account, implemented in November 2020.

Key objectives	Key activities	Performance measures and targets	Results
	Satisfy financial performance benchmarks.	Minimum return on capital for transactional banking business equivalent to the yield on 10-year Australian Government Securities plus a margin for risk.	The Bank's banking services achieved the minimum required return in 2020/21.
	Progress on activities to deliver convenient, secure, reliable and cost-effective banking services to customers.	Provision of high-quality, cost-effective banking services to the Australian Government and other official agency customers and, in turn, the public, supported by: · continued development of banking services and systems, including New Payments Platform (NPP) capabilities · support agency customers as they migrate payments from legacy payment systems to new systems.	The Bank: · continued to work with the industry to develop new NPP capabilities, notably the Mandated Payment Service, and implemented Category Purpose Payments in December 2020 · assisted Services Australia to further leverage existing NPP and API capability for the timely processing and delivery of emergency welfare and disaster recovery payments · supported agency customers as they progressed through the development and implementation of new payment systems · on-boarded new service offerings.
The provision of secure and reliable banknotes	Ensure Australian banknotes provide a safe, secure and reliable means of payment and store of value, as follows:	Maintain or improve public perceptions of Australian banknotes, as measured in the Reserve Bank survey.	In the biannual survey on perceptions of Australian banknotes, 70 per cent of respondents perceived the Next Generation Banknote (NGB) series as sufficiently secure against counterfeiters, compared with 67 per cent in 2019. In addition, 77 per cent of respondents noted they liked the new banknotes, similar to the 2019 results. The counterfeiting rate was 10 counterfeits per million banknotes in circulation in 2020/21, which is lower than in recent history. It is also low by international standards.
	· meet banknote demand	Fulfil more than 95 per cent of banknote orders from commercial banks within three days of request.	One hundred per cent of orders were fulfilled on the day requested in 2020/21. In response to the increased lockdown restrictions in Victoria during the COVID-19 pandemic, the Bank made available its contingency distribution site in Sydney for a short period in late July and early August in order to meet public demand.
	· increase security of Australian banknotes	Complete NGB program with the issuance of a new $100 banknote with upgraded security features.	The new $100 banknote, released on 29 October 2020, was the final denomination to be upgraded as part of the NGB program.

Key objectives	Key activities	Performance measures and targets	Results
	· ensure high-quality banknotes.	Banknote production orders by the Bank to be met by Note Printing Australia Limited (NPA) within agreed quality parameters.	Sixty-six per cent of orders were met by NPA on time and to the required quality standard in 2020/21. The shortfall was due to an agreed deferral to assist NPA in meeting export orders, and minor delays in the production of banknotes due to the COVID-19 pandemic.
		Maintain quality of banknotes in circulation above the minimum quality standard agreed with industry.	The measurement of the quality of banknotes in circulation was interrupted by the COVID-19 pandemic. From the smaller sample of banknotes obtained, quality remains good.

Price stability and full employment

Purpose

It is the duty of the Reserve Bank Board to ensure that the monetary and banking policy of the Reserve Bank is directed to the greatest advantage of the people of Australia and that the powers of the Bank are exercised in a way that, in the Board's opinion, will best contribute to:

(a) the stability of the currency of Australia

(b) the maintenance of full employment in Australia

(c) the economic prosperity and welfare of the people of Australia.

In support of this, the *Statement on the Conduct of Monetary Policy* agreed by the Treasurer and the Governor confirms the Bank's continuing commitment to achieving consumer price inflation between 2 and 3 per cent, on average, over time, consistent with its duties under the *Reserve Bank Act 1959*. Achieving the inflation target preserves the value of money and facilitates strong and sustainable growth in the economy over the longer term. This assists businesses and households in making sound investment decisions, underpins the creation of jobs and protects the savings of Australians.

Sustaining high employment means not only do more people have jobs, but they also have greater opportunities in life. High rates of unemployment are costly for the economy and hurt our society.

The Bank's operations in domestic financial markets are conducted to implement the monetary policy decisions of the Reserve Bank Board and to ensure that there is sufficient liquidity in the domestic money market every day. These domestic market operations promote the objectives of monetary policy and the stable functioning of the financial system.

The Bank's foreign reserves are held to give the Bank the capacity to intervene in the foreign exchange market, consistent with the objectives of monetary policy. In particular, the foreign reserves enable the Bank to address any apparent dysfunction in the foreign exchange market and/or a significant misalignment in the exchange rate. Such interventions occur rarely.

Results

Assessing the conduct of monetary policy during 2020/21 involves judging whether the policy decisions taken by the Reserve Bank Board, based on the information available at the time, were consistent with achieving the Bank's objectives. The Bank has taken a number of complementary policy actions to support the Australian economy since the onset of the COVID-19 pandemic. The policy response has evolved over this period as information about the extent of the pandemic and its economic impact has unfolded. During 2020/21, the Bank lowered its policy interest rate to near zero, lowered the target for the three-year government bond yield (which was introduced in March 2020), enhanced its forward guidance, commenced a program of purchasing government bonds and provided long-term low-cost funding to the banking system.

Consumer price inflation has averaged around 2½ per cent over the inflation-targeting period. However, in the five years prior to the pandemic, consumer price inflation averaged around 1¾ per cent, which was below the Bank's 2 to 3 per cent target. Headline inflation briefly turned negative in the June quarter of 2020 owing to the effects of declining oil prices and government policy measures to reduce household expenses, such as the temporary introduction of free childcare. Headline inflation then increased to 3¾ per cent over the year to June 2021 as these temporary policy measures were unwound and fuel prices returned to around pre-pandemic levels. Looking through the volatility, measures of underlying inflation were around 1¾ per cent over the year to June 2021. At the time of the August *Statement on Monetary Policy*, headline inflation was forecast to ease to below 2 per cent in 2022 before picking up gradually to be a little above 2 per cent by the end of 2023.

GDP growth was strong over the year to the June quarter of 2021, with GDP returning to its pre-pandemic level by early 2021 as the economy rapidly recovered from the COVID-19 downturn. Employment also rebounded strongly over the past year. The unemployment rate declined to around 5 per cent by mid 2021, which was around its pre-pandemic level and well below the peak of 7½ per cent in mid 2020.

In mid March 2020, in response to the economic disruption caused by the spread of COVID-19, and with interest rates already at very low levels, the Bank announced a package of policy measures to help support the economy. It did this by further lowering funding costs across the economy, supporting the provision of credit (especially to small and medium-sized enterprises (SMEs)), ensuring that the financial system had sufficient liquidity and that key financial markets functioned smoothly. The measures were introduced as part of a substantial, coordinated and unprecedented policy response by governments and financial regulators. The Bank's policy response comprised the following elements:

- a reduction in the cash rate target to 0.25 per cent, or 25 basis points, having already reduced the cash rate to 0.50 per cent at the Board meeting on 3 March 2020
- a target for the yield on the three-year Australian Government bond of around 0.25 per cent, supported by Bank purchases of government bonds in the secondary market as required to achieve this target
- Bank purchases of Australian Government bonds and bonds of the state governments as required to address dislocations in these markets
- expanding the Bank's daily market operations in size and in maturity to ensure financial institutions had plentiful liquidity

- a Term Funding Facility (TFF) for the banking system, under which funds equivalent to 3 per cent of lending could be borrowed from the Bank for three years at 25 basis points (against eligible collateral). Banks could draw down on their allowances up until the end of September 2020. The TFF made additional funding available for banks that increased lending to businesses, to provide an incentive to support lending, particularly to SMEs
- modifying the interest rate corridor system so that balances held in Exchange Settlement Accounts (ESAs) at the Bank earned an interest rate of 10 basis points, instead of zero.

The Reserve Bank Board indicated that it did not plan to increase the cash rate target, or change the target on the three-year Australian Government bond yield, until the economy was making progress towards full employment and the Board was confident that inflation would be sustainably within the 2 to 3 per cent target band.

In September 2020, as the deadline for the drawdown of funding under the TFF approached, the Board decided to expand the TFF to provide additional low-cost funding equivalent to 2 per cent of lending in the banking system. It also decided to extend the drawdown period for this, as well as the additional funding linked to business lending, to June 2021.

In October 2020, the Board adjusted its forward guidance to focus on actual outcomes for inflation, rather than expected outcomes, in guiding its future policy decisions.

In November 2020, the Board decided on a further package of measures to support the economy, given the assessment that Australia was facing a prolonged period of high unemployment and inflation was unlikely to return sustainably to the target range of 2 to 3 per cent for at least three years. The measures comprised:

- a reduction in the cash rate target, the three-year yield target and the interest rate on new drawings under the TFF to 10 basis points, from the previous rate of 25 basis points
- a reduction in the interest rate on Exchange Settlement (ES) balances to zero, from the previous rate of 10 basis points
- the introduction of a program of government bond purchases, focusing on the five to 10-year segment of the yield curve. The Bank committed to purchasing $100 billion of government bonds over the following six months in the secondary market, purchasing bonds issued by the Australian Government (AGS) as well as by the Australian states and territories (semis).

Towards the end of 2020, the Reserve Bank Board reviewed the forecasts and monetary policy decisions it had taken over the previous year, including the reasons behind forecast errors. Economic growth had been well below what had been expected in the November 2019 forecasts, owing to the extraordinary economic contraction following the onset of the COVID-19 pandemic. While a global pandemic was a known risk, its timing could not be predicted.

In February 2021, to provide further support to the recovery in the Australian economy, the Board announced that it would purchase an additional $100 billion of government bonds, after the first program of $100 billion was completed in mid April.

The Bank's operations in domestic markets met their performance targets in 2020/21:

- the cash rate was within the interest rate corridor around the cash rate target each business day
- the three-year Australian Government bond yield was consistent with the target other than for brief periods[1]
- the Reserve Bank provided $188 billion in low-cost, three-year term funding to the banking system through the TFF before it closed to new drawdowns at the end of June 2021
- the Bank used daily market operations and maintained sufficient liquidity for financial institutions to access
- the Bank purchased government securities as required to support the smooth functioning of government bond markets.

These actions promoted the objectives of monetary policy and the stable functioning of the financial system by contributing to: very low funding costs; a banking system with high liquidity; very low bond yields; an Australian dollar exchange rate lower than would otherwise have been the case; and stronger household and business balance sheets. Conditions in the foreign exchange remained orderly and the Bank did not need to intervene.

In July 2021, with the economic recovery in Australia stronger than earlier expected and forecast to continue, the Board announced that it would:

- retain the April 2024 bond as the bond for the yield target and retain the target of 10 basis points
- continue to purchase government bonds after the completion of the current bond purchase program in early September, at the rate of $4 billion a week until at least mid November 2021
- maintain the cash rate target at 10 basis points and the interest rate on ES balances of zero per cent.

In September 2021, the Board announced that it would purchase bonds at the rate of $4 billion a week until at least February 2022. This decision was in response to the delay in the economic recovery and the increased uncertainty associated with the outbreak of the Delta variant. GDP was expected to decline materially in the September quarter of 2021 and the unemployment rate was expected to move higher in the period ahead. But this setback to the economic expansion was expected to be temporary, with the Delta outbreak expected to delay, but not derail, the recovery.

The Board remains committed to maintaining highly supportive monetary conditions to support a return to full employment in Australia and inflation consistent with the target. It will not increase the cash rate until actual inflation is sustainably within the 2 to 3 per cent target range.

The Governor's statement and the minutes following each monetary policy meeting of the Reserve Bank Board provide further details of the Board's assessment of economic developments, the outlook and monetary policy decisions. A brief summary of analysis by the Bank of these issues is provided below. Further details of this analysis are provided in the quarterly *Statement on Monetary Policy*, the Governor's regular appearances before the House of Representatives Standing Committee on Economics, and speeches by the Governor and other senior Bank officials.

[1] The three-year bond yield declined below the target rate of 25 basis points in the period between mid September and early November, with the yield reflecting market participants' expectations of a further easing in the target rate (which was announced after the November Board meeting). The three-year bond yield was below the target of 10 basis points for a brief period in mid June 2021, reflecting prevailing market pressures at the time.

Analysis

On average, consumer price inflation was below the Bank's target in the five years prior to the COVID-19 pandemic. Low inflation had also become the norm internationally during this period, with many advanced economies recording average inflation outcomes below 2 per cent. Several factors have contributed to low inflation in Australia and internationally. Many countries experienced a prolonged period of spare capacity in the labour market. In Australia, the unemployment rate was relatively low by historical standards, but the unemployment rate that would typically generate meaningful upward pressure on wages growth is likely to have been lower than it was in the past. Underemployment, measured as workers who are willing and able to work additional hours, may have also contributed to subdued upward pressure on wages growth in Australia over this time. Additionally, globalisation and advances in technology affected the level of prices in many countries for much of the past decade. This occurred through increased competition for a wide range of goods and services and reductions in the cost of production.

The COVID-19 pandemic dramatically shifted the economic landscape both in Australia and abroad. Measures implemented to contain the spread of the virus resulted in very large economic contractions in most economies over the first half 2020. The sharp contraction in activity came at a time when inflation pressures were already subdued. The outlook for the global economy deteriorated significantly and involved a high degree of uncertainty. The main source of uncertainty related to the evolution of the virus and potential medical advances.

A global recovery commenced in the second half of 2020 and continued in the first half of 2021. Progress with vaccinations, additional fiscal policy support in many economies and ongoing accommodative monetary policy supported the recovery. Even so, the outlook has remained highly uncertain and is expected to be uneven for some time. The economic recovery in many countries, including Australia, has been disrupted by a resurgence in COVID-19 cases, which has prompted renewed restrictions on activity in many countries with lower vaccine coverage. GDP remains well below its pre-pandemic trajectory in most economies. Consumer price inflation pressures have risen, partly reflecting pressures related to rapid economic reopening, bottlenecks in supply chains and other pandemic-related factors. Further out, inflation in advanced economies will hinge on how quickly the spare capacity in labour markets is absorbed.

The contraction in the Australian economy over the first half of 2020 was very large by historical standards, though not quite as large as initially feared. The trajectory of economic recovery in Australia remained highly uncertain throughout the second half of 2020, given the possibility of fresh outbreaks of the virus and uncertainty around the willingness of households to spend and firms to rehire workers. However, the recovery in the domestic economy was much stronger than the Bank had expected in mid 2020. Relatively favourable outcomes in containing the virus meant restrictions on activity were less disruptive than earlier feared. Another factor was the very significant fiscal policy support in Australia. The level of output rebounded to be above its pre-pandemic level by the March quarter of 2021, although this was still some way below the pre-pandemic trajectory for the economy.

The necessary containment measures that were introduced to limit the spread of the virus in Australia added to spare capacity in the labour market during 2020, as seen in the marked rise in unemployment and underemployment rates in the middle of the year. It was highly uncertain how quickly this spare capacity would decline. As with activity, the improvement in the labour market was much faster than expected, with the unemployment rate declining to its pre-pandemic rate of around 5 per cent in mid 2021.

Recent outbreaks of the Delta variant in parts of Australia, and the resulting lockdowns, have introduced a high degree of uncertainty to the outlook for the second half of 2021. Activity will contract in the September quarter and job losses are expected. Towards the end of this year, the economic recovery is expected to resume as restrictions ease, as it has from previous lockdowns. While the Delta variant is likely to require a more measured reopening of the economy in affected areas than in the past, the Australian economy entered this challenging period in a strong position and fiscal policy is directly supporting households and businesses in the affected areas.

Wages growth, which had been unusually slow prior to the pandemic, was still around record low levels in mid 2021 – in part as a result of some private sector employers introducing wage freezes or pay cuts in the initial phase of the pandemic, as well as public sector wages caps. Measures of underlying consumer price inflation have also remained subdued and, unlike measures of economic activity, wages and underlying inflation outcomes have been broadly as forecast over the course of 2020/21.

The Reserve Bank Board has remained flexible and has adjusted monetary policy settings on a number of occasions to support the economy through the pandemic and the recovery. Actions included: lowering the targets for the cash rate and the three-year government bond yield; lowering the cost of the TFF and increasing and extending the facility; and introducing a bond purchase program in November 2020 to lower bond yields (and risk-free rates) and the exchange rate relative to where they would otherwise have been in the absence of the program. These actions have supported the economic recovery. The policy measures are designed to assist the recovery transition into strong and durable economic growth, with low unemployment and faster growth in wages than observed in recent years. Over time, this will help achieve the inflation target.

The Bank has also remained flexible in the course of achieving its operational targets in the changing environment and has successfully implemented the policy measures as directed by the Board. This included responding on a number of occasions to market conditions to achieve the three-year yield target, through market actions or communication. As banking sector liquidity increased as a result of the bond purchases and the TFF, demand for liquidity through the Bank's regular market operations declined.

The stability of the financial system

Purpose

The Reserve Bank has a responsibility for fostering overall financial stability in Australia. Given the serious damage to employment and economic prosperity that can occur in times of financial instability, the Bank has long had an implied mandate to pursue financial stability. The Treasurer and the Governor recorded their common understanding of the Bank's longstanding responsibility for financial system stability as part of the *Statement on the Conduct of Monetary Policy*.

The Bank works with other regulatory bodies to foster financial stability. The Governor chairs the Council of Financial Regulators (CFR), which brings together the Reserve Bank, the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission (ASIC) and the Australian Treasury. The CFR is a non-statutory body whose role is to promote the stability of the Australian financial system and support effective and efficient regulation by the financial regulatory agencies. The CFR draws on the expertise of other non-member government agencies where appropriate, and meets jointly with the Australian Competition and Consumer Commission (ACCC), AUSTRAC and the Australian Taxation Office at least annually to discuss broader financial sector policy. The Bank's central position in the financial system, and its position as the ultimate provider of liquidity to the system, gives it a key role in financial crisis management, in conjunction with the other members of the CFR.

Results

Australia's financial system remained resilient in the face of the severe shock triggered by the COVID-19 pandemic and has continued to play an important role in supporting the broader economy. With financial markets more settled by the start of 2021, the focus was primarily on assessing the effects of the deep economic contraction on households and businesses, and in turn the interdependencies between those sectors and the financial system. The financial system had entered the pandemic in a strong position following a period of reform in response to the Global Financial Crisis (GFC). This strength, coupled with broad policy measures, including the Reserve Bank's policy actions, to assist the availability of low-cost funding, meant the financial system was well placed to support the household and business sectors through the disruptions caused by the pandemic. In particular, banks were able to offer loan repayment deferrals (which peaked at around 9 per cent of housing and small business loans) and to manage some deterioration in loan quality as deferrals expired and some government support measures were progressively unwound through the course of the year. In addition, the superannuation industry accommodated households' withdrawals of $36 billion of funds through the early access to superannuation scheme.

The combination of financial sector and public sector support, along with relative success in controlling the spread of the virus in Australia in 2020/21, meant that households and businesses had sound, and in many cases improved, financial positions in mid 2021 (prior to the delta outbreak). Household saving and the liquidity of businesses both increased. Business insolvencies were suppressed for a period of time by a moratorium, and changes to the insolvency regime made insolvency processes more efficient for smaller businesses, reducing the likely effect on creditors. Importantly, while banks' asset quality deteriorated a little, this was mild relative to earlier expectations, and banks had previously increased their provisions to absorb future defaults. In many cases, banks have been able to release some of those provisions.

The Reserve Bank's pursuit of financial stability over 2020/21 was again in close coordination with the other agencies on the CFR, which has provided a highly effective forum for discussing and assessing developments, potential risks and policy actions. The CFR increased the frequency of meetings during the early stages of the pandemic, given the rapid pace of developments and heightened need for policy coordination. The increased tempo extended into early 2020/21, but, with more settled conditions, meetings later reverted to their typical quarterly cycle. The Bank also worked jointly with APRA on banks' recovery and resolution planning, and as part of this, communicating the Bank's requirements for the potential provision of Exceptional Liquidity Assistance (ELA).

Strong focus areas for the CFR during the year involved assessing the effects of the unwinding of support measures on households and businesses, along with credit conditions for small businesses. More recently, the CFR has been closely monitoring developments in household borrowing, lending standards and the housing market, given the extended period of highly accommodative policy settings. While there have been some signs of increased risk-taking, lending standards overall have remained sound. Risks could also build if growth in household borrowing substantially outpaced growth in income. The CFR agencies discussed potential policy options to address these risks.

The CFR's quarterly media statements have become an important communication tool, with the CFR able to present its assessment of financial system developments and draw attention to areas where the financial sector can contribute to financial stability.

The Bank continued to contribute to financial stability through its own public communication, especially its *Financial Stability Review*. The Reviews issued in October 2020 and April 2021 presented to financial sector participants and the wider public the Bank's views about the ongoing effects of the pandemic on banks, households and businesses. The focus of the *Financial Stability Review* evolved with the health, economic and financial circumstances during the year. In the October 2020 Review, the Bank discussed the potential negative effects on the financial system if the pandemic induced a severe economic contraction. However, it also highlighted the fact that households and businesses had been cushioned by support measures and that Australian businesses generally had low levels of debt going into the crisis. Equally, banks had high capital levels, were profitable and most of their loans were well-secured. By the time of the April 2021 Review, it was clear that the economy had fared better than earlier expected. Risks to the financial system had diminished and, as a consequence, the sector was well placed to continue to support a recovery. Nonetheless, the Bank stressed that income levels had not recovered for some borrowers, which increased the likelihood that they would exhaust their financial buffers and ultimately default. A rise in global and domestic asset prices, underpinned by low interest rates, would be a risk to financial stability if accompanied by rapid growth in debt and weaker lending standards.

The Bank also drew attention to non-pandemic related risks affecting the financial system – in particular, climate change and cyber attacks. Climate change presents an ongoing challenge for the financial system, by exposing it to risks that will rise over time and, if not addressed, could become considerable. The Bank is working with APRA and other CFR agencies to better understand these risks, including by contributing to APRA's assessment of the vulnerability of Australia's five largest banks to the financial risks stemming from climate change. Regarding cyber attacks, there were increasing examples of operational disruptions in financial market infrastructures (FMIs) over the past financial year. These were areas of particular concern for the Bank given its supervisory and oversight responsibilities for FMIs (see 'A secure, stable and efficient payments system' below).

As economic and financial conditions improved in major economies (with reduced COVID-19 case numbers and vaccine rollouts), the G20, the Financial Stability Board (FSB) and other international regulatory bodies shifted their efforts from crisis response to supporting the recovery while adjusting policy settings. The Bank is a member of the G20, the FSB and several other international regulatory bodies, and during 2020/21 contributed to their pandemic-related work. The latter entailed several elements. One has been an assessment by the FSB of the major market turmoil at the beginning of the pandemic. Another was to assess whether to extend, amend and, eventually, end support measures (such as loan repayment deferrals and restrictions on bank dividend distributions), and how to do so without jeopardising the recovery or the supply of credit to the economy. More recently, the FSB has examined preliminary lessons from the pandemic, with an emphasis on identifying aspects of the G20's financial regulatory reforms following the GFC that may warrant further consideration at the international level. The Bank's involvement in these global bodies is often at the level of the Governor and other senior executives, with other Bank staff members participating in several other international working groups. For further information, see chapter on 'International Financial Cooperation'.

Analysis

The resilience of the financial system allowed it to support the economy during the pandemic. This resilience was supported by reforms following the GFC that required banks to hold more capital and liquid assets, which meant banks were easily able to meet the demand for credit during the pandemic. The improvement in lending standards in Australia for property from the mid 2010s helped to ensure borrowers were better placed to weather the economic shock over the previous year. Households and businesses were generally in a strong financial position at the onset of the pandemic, and this resilience has continued.

Unprecedented levels of support by the public and private sectors complemented this underlying resilience. Such support aided household and business balance sheets, and wider confidence in the community, thereby helping to maintain financial stability.

As direct powers over financial institutions rest with other agencies, the CFR is an important channel for meeting the Bank's financial stability mandate. Throughout 2020/21, the CFR helped members form more complete assessments of developments and policy issues and to coordinate policy responses.

The Bank's analytical contribution to the CFR, and in external communications such as the *Financial Stability Review*, is based on detailed research and analysis. The Bank strives to improve these continually, so as to better understand trends and, in particular, distributions within those aggregate trends. Ongoing access to APRA's supervisory data has been critical to monitoring and understanding the impact of the pandemic on Australian banks, and on their levels of capital, liquidity and non-performing loans. Through its close collaboration with APRA, the Bank was able to receive, process and analyse new APRA collections of banking data (the 'crisis collections') on loan repayment deferrals, provisions, liquidity and capital.

Another way the Bank assessed the financial health of banks during the year was through stress tests. The Bank's 'top-down' stress test model uses balance sheet data for selected banks (supplemented with other data such as the Bank's dataset of securitised mortgages). A key advantage of top-down stress testing models is that they can be used quickly and efficiently to consider banks' capital position under a range of scenarios, which has been especially useful given the rapidly changing conditions over the past year. The results of the Bank's stress tests were reported in the October 2020 *Financial Stability Review* and indicated that, even in a prolonged recession, banks' capital levels would remain above minimum requirements. The Bank also continued to develop its ability to stress test the household and business sectors, taking advantage of a growing body of microdata, with the results published in the *Financial Stability Review*. The Bank continues to improve its data sources and data management. Better data management is enabling greater automation, as well as new techniques in data visualisation and analysis.

A secure, stable and efficient payments system

Purpose

There are several distinct aspects to the Reserve Bank's role in the payments system, including those of policymaker, overseer and supervisor, and owner and operator of key national payments infrastructure.

In relation to the Bank's policymaking role, it is the duty of the Payments System Board to ensure that the Reserve Bank's payments system policy is directed to the greatest advantage of the people of Australia, and to ensure that the powers of the Bank under the *Payment Systems (Regulation) Act 1998* and the *Payment Systems and Netting Act 1998* are exercised in a way that, in the Board's opinion, will best contribute to:

(a) controlling risk in the financial system

(b) promoting the efficiency of the payments system

(c) promoting competition in the market for payment services, consistent with the overall stability of the financial system.

In addition, it is the Payments System Board's duty to ensure that the powers and functions of the Reserve Bank under Part 7.3 of the *Corporations Act 2001* are exercised in a way that, in the Board's opinion, will best contribute to the overall stability of the financial system. These powers and functions relate to the supervision of central counterparties and securities settlement facilities, which are key components of the infrastructure that supports financial markets. The Bank's payments policy area also acts as overseer of Australia's high-value payment system, the Reserve Bank Information and Transfer System (RITS).

The Bank's operational role in the payments system is effected through its ownership and management of RITS (including the Fast Settlement Service (FSS)), which is used by banks and other approved institutions to settle their payment obligations efficiently on a real-time, gross settlement basis. This ensures that there is no build-up of settlement obligations associated with high-value transactions and thereby promotes the stability of Australia's financial system.

Results

The Reserve Bank has continued to monitor the effects of its policy and regulatory settings on competition and efficiency in the payments system. In 2020/21, the Bank continued work on its comprehensive Review of Retail Payments Regulation, which started in late 2019. A consultation paper with preliminary conclusions (and associated draft standards) was published in May 2021 and, after incorporating feedback from the consultation, the Bank is expecting to complete the Review in the second half of 2021.

As part of the Review, the Bank has proposed a number of policy measures aimed at keeping downward pressure on merchant payment costs and promoting competition between card schemes. The Bank is continuing to encourage the provision of least-cost routing (LCR) functionality, whereby merchants can choose to route transactions on dual-network debit cards to the lowest cost-processing network. While all of the major acquirers are now offering some form of LCR functionality, the Bank is proposing that all entities that provide card acceptance services to merchants offer and promote LCR in the card-present (in-person) environment. In addition, the Bank has proposed a set of principles aimed at encouraging the development of LCR functionality in the online environment, which has become feasible now that eftpos' online transaction capability has been developed. To support the viability of LCR, the Bank has also proposed a policy framework to encourage the continued issuance of dual-network debit cards, including an expectation that the major banks (at least) will continue to issue them.

As part of the Review, the Bank has also reviewed its card payments interchange fee and surcharging framework, which helps keep merchant payment costs down. The Bank has proposed some minor changes to the interchange requirements, which will have the effect of lowering the effective interchange rate for lower-value debit transactions. The Bank has also been pursuing a number of measures aimed at improving the transparency of payment costs to merchants and strengthening competition in the provision of acquiring services to smaller merchants.

Besides developments in the card payments market, the Bank has also been examining the introduction of new electronic payment services in the Australian market and any policy issues they raise. A particular focus during 2020/21 has been on the emergence of 'buy now, pay later' services and digital wallets, where the Bank has been considering a number of competition and efficiency issues. The Bank has been continuing to closely monitor changes in the use of cash as a payment mechanism and the availability of cash withdrawal and deposit services. This work is focused on ensuring that Australians who wish to continue using cash are able to access it easily.

The Bank has continued to pursue a research agenda focused on exploring the case for, and implications of, issuing a central bank digital currency (CBDC). In 2020/21, the Bank completed a project in collaboration with a number of external partners to develop a proof-of-concept for a wholesale CBDC; a report on the project is forthcoming.

In May 2021, the Australian Government announced that it would introduce reforms to the regulation of FMIs. The aim of the reforms is to ensure that the Australian financial system is supported by resilient, efficient and stable FMIs. The reforms include enhancements to the licensing regimes for clearing and settlement (CS) facilities and stronger supervision and enforcement powers for ASIC and the Reserve Bank. The reforms also include crisis management powers over Australian CS facilities. The CFR commenced a consultation on the proposed reforms in November 2019 and provided advice to the government in July 2020 recommending a package of reforms, which was accepted.

The Bank published annual assessments of each of the licensed CS facilities (with the exception of the Chicago Mercantile Exchange Inc (CME)) as part of its ongoing oversight of these facilities. Assessments were published for the ASX CS facilities in October 2020 and for LCH Limited's SwapClear service in December 2020. In these assessments, the Bank judged that the entities had conducted their affairs in a way that causes or promotes overall stability in the Australian financial system, and had made progress against regulatory priorities set by the Bank. The Bank also set out a series of regulatory priorities for each of the facilities for the subsequent year. The CME assessment has moved to a two-yearly cycle, taking into account the entity's profile in Australia, with the Bank's next assessment expected to be published in 2022/23. In June 2021, the Bank published its annual assessment of RITS against the Principles for Financial Market Infrastructures, concluding that RITS observed all relevant principles other than the principles on participant-default rules and procedures and on operational risk, which were assessed to be broadly observed by RITS.

In support of the Bank's oversight approach and its policy framework, Bank staff also participated in international policy development on crisis management and resilience of FMIs and monitoring the implementation of international standards. No change was required to domestic regulatory standards in 2020/21 as a result of international developments. However, in February 2021, the Bank revised its guidance on its supervisory approach for systemically important domestic CS facilities. The Bank's approach will be to undertake a few deep-dive reviews on specific issues each year as part of its assessment of these facilities against the Financial Stability Standards and to conduct a joint assessment with ASIC against the Principles for Financial Market Infrastructures every five years.

As the owner and operator of RITS, the Bank seeks to ensure that this system operates with extremely high levels of reliability and security, while also adapting to the needs of a 24/7 payments world. For RITS, the system availability target is 99.95 per cent during core system hours; for FSS, the system availability target is 99.995 per cent on a 24/7 basis. In 2020/21, both systems achieved their targets, with RITS and FSS availability at 99.96 and 99.999 per cent respectively. FSS met its target to complete settlement of most transactions in less than one second, with 95 per cent of FSS transactions processed in 56 milliseconds or less.

A multi-year refresh of core network and application infrastructure of RITS and related systems was completed in 2020/21, ensuring that RITS continues to meet the needs of the payments industry. These upgrades aim to enhance the security, resiliency and functionality of RITS – for example, by enabling higher throughputs and site failover mechanisms in the event operations at an active site are disrupted. Other continual improvement programs involve upgrades aimed at meeting member requirements, streamlining billing procedures, managing potential cyber risks and improving software patch management.

In line with promoting the efficiency of the payments system, the Bank continues to be actively involved in the industry-led migration to the ISO 20022 standard as both an operator and participant of related payments infrastructure. With the project moving to the build phase in the second quarter 2021, the Bank remains on schedule and continues to liaise with the payments industry in relation to message formats and internal system builds. The migration project is governed by an industry steering committee comprising senior industry representatives, including one from the Bank. In the spirit of harmonised messaging standards, the Bank is also in the early stages of migrating legacy messages used by some batch administrators as well as the RITS Automated Information Facility (AIF) to the ISO 20022 standard. The AIF is a proprietary tool enabling RITS members to automate ESA credit and liquidity management in RITS within their own systems and to receive overnight account statements. To minimise the disruption of migration to members, the new message standards will be introduced in phases, including an industry-agreed coexistence phase.

The Bank is committed to ensuring that RITS is well protected from cyber attacks and has an ongoing program of work to maintain high levels of cyber resilience. In July 2020, the Bank's payment settlement systems were recertified under the ISO 27001 standard for Information Security Management and, in December 2020, the Bank completed its independently assessed compliance attestation to the SWIFT Customer Security Controls Framework, with full compliance to all mandatory controls. An independent risk assessment of the Bank's end-point security standards for RITS members and feeder systems was completed in December 2020. The current RITS member security requirements are in the process of being updated in line with the review's recommendations. During 2020/21, the Bank also participated in various working groups promoting industry coordination in managing cyber risks and related contingency measures.

The Bank continued to focus on working with industry participants to achieve outcomes that are in the public interest, with regulatory activity contemplated only when an appropriate industry response was not forthcoming. The Bank conducted its annual assessment under the Australian Government's Regulator Performance Framework, which was published in February 2021.[2]

Developments in the Australian payments system and the Bank's recent policy activities are discussed further in the *Payments System Board Annual Report 2021*.

Analysis

The Reserve Bank's work in the payments area in 2020/21 occurred in an environment that was continuing to change rapidly. There has been a continued shift in consumer payments away from the use of cash and cheques and towards cards and other electronic means of payment, which has accelerated in response to the COVID-19 pandemic. There has been rapid technological change and innovation, with new payment products and services being adopted, and the entry of new players into the payments system. These changes can improve the convenience and security of payments to end users, but can bring particular risks and competitive issues into sharper focus.

New technologies also have the potential to transform payment services and the operations of FMIs. The long-term decline in the use of cash for transactions has highlighted the importance of maintaining secure, resilient and competitive electronic payment services. The security environment for payments and FMIs has been evolving, with the growing digitisation of payments raising various types of fraud, scams and cyber risks that need to be managed in order to support confidence in the community. Bank staff liaise actively with the private sector to better understand trends in these areas and their implications, and have participated in a range of domestic and international working groups with other regulators.

The introduction of contingency measures at the onset of the COVID-19 pandemic ensured there was minimal disruption to the settlement services provided through RITS and related systems. These measures included work-from-home arrangements for the majority of staff, changes to staff resourcing, and critical personnel operating at physically isolated sites. The Bank also engaged external members and operators to understand whether they were well prepared to manage the pandemic situation and ensure the smooth settlement of payment obligations. As a result of the measures taken by both the Bank and RITS members, operational risk throughout the pandemic period appears to have been well managed, thereby supporting Australia's financial system in a period of considerable uncertainty.

[2] See RBA (2021), '2019-2020 Assessment under the Regulator Performance Framework', February. Available at <https://www.rba.gov.au/payments-and-infrastructure/regulator-performance-framework/pdf/2019-20-assessment-under-the-regulator-performance-framework.pdf>.

The delivery of efficient and effective banking services to the Australian Government

Purpose

Insofar as the Commonwealth of Australia requires it to do so, the Reserve Bank must act as banker for the Commonwealth. The Reserve Bank's banking services fall into two categories: those services provided in its capacity as the central bank; and those transactional banking services it provides to Australian Government agencies. In common with many other central banks, the Bank also provides banking and custody services to a number of overseas central banks and official institutions. The banking services offered to the Australian Government and other central banks include payments and collections, as well as general account maintenance and reporting services.

Results

In providing banking services to Australian Government agencies, the Reserve Bank must cost and price these services separately from its other activities. In addition, the return on providing these services must achieve a minimum rate of return on capital over the medium term. At present, this measure is equivalent to the 10-year yield on Australian Government Securities plus a margin for risk, and is the Bank's principal measure of financial performance for the transactional banking business. In 2020/21, the Bank met its target rate of return. Pro forma accounts for the transactional banking business can be viewed in the chapter on 'Banking and Payment Services'.

As the provider of the Commonwealth's Official Public Account, the Bank works closely with both the Department of Finance and the Australian Office of Financial Management (AOFM) to ensure the services associated with management of this account remain fit for purpose. Work between the Bank and the Department of Finance to modernise Commonwealth cash management continued in 2020/21, with new AOFM cash management arrangements commencing in November 2020. Under the new arrangements, the AOFM has transitioned from the use of a term deposit facility to a cash management account. This change will provide the government with greater flexibly and operational efficiency in the management of funds.

During 2020/21, the Bank's upgraded banking systems and New Payments Platform (NPP) capabilities facilitated the processing of a larger-than-usual volume of payments. This included a number of emergency flood relief payments and COVID-19 stimulus payments on top of normal business activities. In particular, a significant volume of emergency flood relief payments were made on weekends using NPP, where previously payments had primarily been made during business hours, Monday to Friday. In addition, the Bank has continued to participate in the ongoing industry work to further develop NPP services, particularly a new payment mandate service, known as PayTo.

Analysis

The COVID-19 pandemic required the Bank to shift its service delivery focus from a number of ongoing payment initiatives towards the urgent processing and delivery of support and stimulus payments to the Australian public. This comprised a range of stimulus payments to businesses and consumers affected by the pandemic and included a record number of Australian Government payments distributed in a single day in July 2020. This was achieved during a period of changed working conditions, with the majority of the Bank's staff working remotely at the time.

As a consequence of the focus on stimulus delivery and the other related effects of the pandemic, there were some minor delays in progress with new payment initiatives during the first half of the reporting period. However, work on these initiatives, including new customer use cases for NPP, recommenced through the second half of the period.

During 2020/21, the Reserve Bank continued to ensure it remained in a position to respond appropriately to the Australian Government's needs with convenient, secure, reliable and cost-effective central banking and transactional banking services.

The provision of secure and reliable banknotes

Purpose

The Reserve Bank is responsible for the issue, reissue and cancellation of Australian banknotes. Its primary purpose in carrying out this role is to maintain the capacity of Australian banknotes to provide a safe, secure and reliable means of payment and store of value. The Bank works with its wholly owned subsidiary, Note Printing Australia Limited (NPA), to design and produce banknotes. NPA also produces banknotes for other countries and Australia's passports. The Bank distributes banknotes to financial institutions, monitors and maintains banknote quality in circulation and withdraws unfit banknotes from circulation. It also monitors and analyses trends in cash usage and counterfeiting, and conducts research into banknote security technology.

Results

The Reserve Bank aims to fulfil 95 per cent of banknote orders received from the major commercial banks within three days of the request; during 2020/21, 100 per cent of orders were fulfilled on the day requested. The Bank activated its contingency arrangements for three weeks in July/August 2020 with the short-term use of the Sydney site for banknote distribution. This opening was in response to heightened demand for banknotes in the face of domestic transport restrictions associated with the COVID-19 pandemic, and the Bank's intent to ensure there was adequate supply of banknotes across the country and to support the private sector in moving cash to locations where it was needed.

The Bank's key initiative to enhance banknote security has been the release of the new banknote series with upgraded security features. Work on the Next Generation Banknote (NGB) program concluded in 2020/21, with the new $100 banknote entering circulation on 29 October 2020.

The Bank continued to monitor Australian banknote counterfeiting rates, which remained low by international standards. The estimated counterfeiting rate was 10 counterfeits per million banknotes in circulation in 2020/21, down from a peak of around 30 counterfeits per million banknotes in 2014/15. The Bank also continued to monitor international developments in counterfeiting, including through engagement with other central banks and international organisations.

In October 2020, the Bank conducted a survey on perceptions, usage and behaviour related to Australia's banknotes. The results show that public perceptions of Australian banknotes have remained favourable, with 70 per cent of respondents perceiving the NGB series to be sufficiently secure against counterfeiters, up from 67 per cent in 2019. In addition, 77 per cent of respondents noted that they liked the new banknotes, largely unchanged from the 2019 results.

Measurement of the quality of banknotes in circulation was interrupted by the COVID-19 pandemic. The Bank was unable to collect banknote samples from around the country between February 2020 and January 2021. However, banknote samples collected since then suggest the quality of Australian banknotes remains high.

NPA met 66 per cent of the Bank's orders for new series banknotes to the required quality standard and as per the initial annual delivery schedule. The shortfall of 34 per cent was the result of a deferral, as agreed by the Bank, to assist NPA in meeting new export orders, as well as minor production delays owing to the pandemic. These banknotes will be delivered as part of the 2021/22 order. This shortfall in the banknote order did not compromise the Bank's ability to meet public demand or jeopardise its target contingency stock of banknotes.

Analysis

While the proportion of payments made using banknotes is declining relative to electronic payments, the value of banknotes on issue increased notably over 2020/21. This increase was driven in part by ongoing demand for high-denomination banknotes associated with the COVID-19 pandemic, which is likely to reflect the importance of cash as a store of value in times of uncertainty and dislocation. The Reserve Bank has continued to meet demand for banknotes by ensuring orders are fulfilled, including by temporarily making available its contingency distribution site in Sydney in late July and early August 2020. The release of the new series of banknotes with upgraded security features has supported public confidence in banknotes. Australia's level of counterfeiting remains low by international standards.

Operations in Financial Markets

The Reserve Bank operates in domestic and international financial markets to achieve its policy objectives. These operations include implementing the monetary policy decisions of the Reserve Bank Board, facilitating the smooth functioning of the payments system, managing the nation's foreign exchange reserve assets and providing banking services to clients (mainly the Australian Government, as well as foreign central banks).

During 2020/21, the Reserve Bank Board announced further policy measures, building on the comprehensive package of policy measures that had been introduced in early 2020 to support the Australian economy following the outbreak of COVID-19.

In September 2020, an expansion was announced to the Term Funding Facility (TFF), which had been introduced as part of the initial package of policy measures in March 2020. The expansion involved a new 'supplementary' funding allowance under the TFF of $57 billion and an extension to the date for last drawdowns to 30 June 2021. The TFF provides funding to banks on a collateralised basis at a low interest rate for a term of three years, with additional funding available to banks that increase their lending to businesses. It is aimed at lowering the cost and supporting the availability of finance, and providing an incentive for banks to increase lending to businesses, particularly small and medium-sized businesses (SMEs).

In November 2020, a further package of policy measures was implemented, comprising:

- a reduction in the cash rate target to 0.1 per cent, from 0.25 per cent previously; this followed a cumulative reduction in the cash rate target of 50 basis points in March 2020
- a reduction in the interest paid on Exchange Settlement (ES) balances at the Reserve Bank to zero, from 0.1 per cent previously
- a reduction in the target for the three-year Australian Government bond yield to around 0.1 per cent, with purchases of government bonds outright in secondary markets to continue to be made as required to help achieve the target; the yield target had previously been 0.25 per cent since its introduction as part of the initial package of policy measures in March 2020. The three-year yield target works to anchor the Australian risk-free yield curve at the target maturity and reinforce the Reserve Bank Board's forward guidance regarding the cash rate
- a reduction in the interest rate on new drawings under the TFF to 0.1 per cent, from 0.25 per cent previously
- the introduction of a government bond purchase program, comprising purchases over six months of $100 billion of longer-dated Australian Government Securities (AGS) and securities issued by the state and territory borrowing authorities (semis), focused on maturities between five and 10 years. This program was aimed at lowering longer-term government bond yields and thereby interest rates more generally (through the risk-free rates embedded in government bond yields), and contributing to a lower exchange rate than otherwise.

Subsequently, in February 2021, the Board announced that a further $100 billion of government bonds would be purchased, following completion of the first $100 billion of purchases, to be completed by September 2021.

The package of policy measures was designed to further lower the structure of interest rates in Australia and thereby support the economy by lowering borrowing costs, continuing to encourage an ample supply of credit to the economy and delivering a lower exchange rate than otherwise.

The policy measures have been working broadly as expected. They have helped to further ease financial market conditions and support the economic recovery following the disruptions associated with the pandemic. The measures have reduced banks' funding costs to historic lows and supported a reduction in housing and business interest rates, which have also reached historic lows.

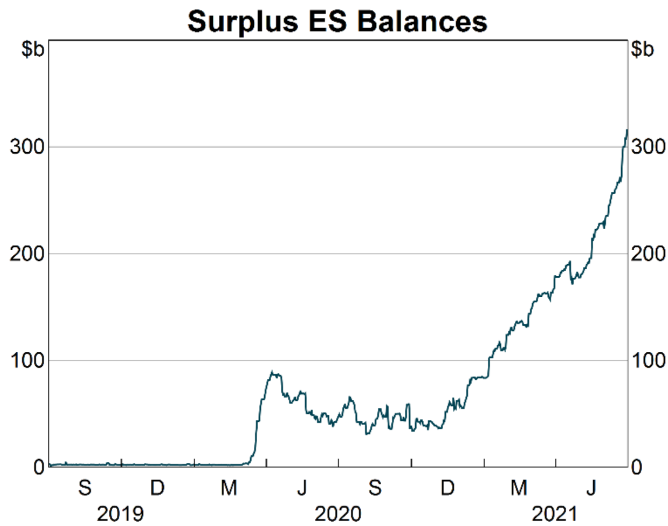
Monetary policy implementation

Prior to 19 March 2020, the Reserve Bank Board's sole operational target for monetary policy was the cash rate – the rate at which banks borrow and lend to each other on an overnight, unsecured basis. The package of policy measures announced by the Board in response to the economic and financial disruption caused by the COVID-19 pandemic introduced a number of additional operational targets, as described above. However, the cash rate target remains a key element of the monetary policy framework. The package of policy measures has substantially increased the amount of liquidity in the banking system, with the result that the cash rate has traded below the cash rate target and activity in the cash market has been subdued. This was as expected and is discussed further below.

The funds traded in the cash market are the balances held by financial institutions in their Exchange Settlement Accounts (ESAs) at the Reserve Bank. These accounts are held by around 100 financial institutions and are used to settle payment obligations between these institutions. The aggregate level of ES balances changes as a result of payments made or received by customers of the Bank (principally the Australian Government) and ESA holders, and as a result of transactions undertaken by the Bank on its own behalf. These include undertaking repurchase agreements (repos) collateralised with eligible securities, buying or selling government securities on an outright basis, or using foreign exchange (FX) swaps involving Australian dollars.

A portion of ES balances arise from 'open repos' – these are repos contracted without a maturity date with the Reserve Bank by financial institutions to meet their liquidity needs outside of normal banking hours. These balances are held to facilitate the effective operation of the payments system, and have no implications for the implementation of monetary policy.[1] At the end of June 2021, these balances were $27 billion. The remainder of ES balances, referred to as surplus ES balances, rose from $46 billion at the end of June 2020 to $317 billion at the end of June 2021. This increase was driven by banks' drawings on the TFF (via repos), and by outright government bond purchases by the Reserve Bank under the bond purchase program, discussed further below.

1 Given institutions are required to contract open repos to support the smooth functioning of the payments system, pricing is set so that there is no net interest cost to holding an open repo position. From November 2020, open repos have been priced at, and the associated funds remunerated at, the interest rate paid on surplus ES balances. Prior to this, since the introduction of open repos in 2013, the relevant price/remuneration rate had been the cash rate target. This change was made for technical reasons, with the principle of remunerating open repos and the resulting ES balances at the same rate unchanged.



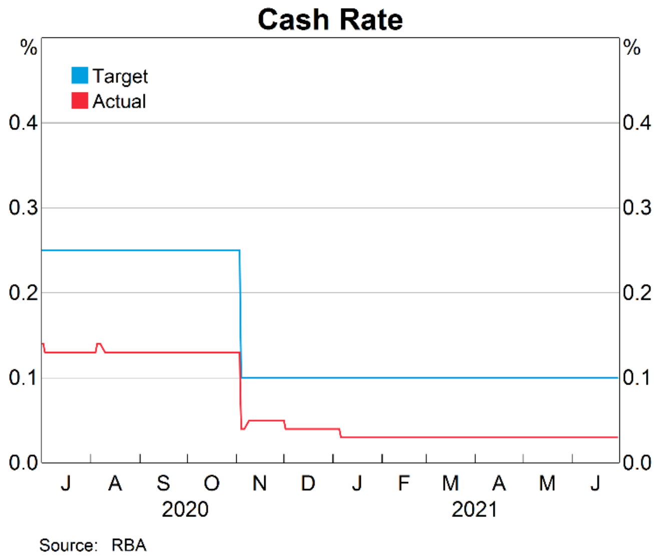
Open market operations

The Reserve Bank undertakes transactions in domestic financial markets to implement the policy decisions of the Reserve Bank Board and facilitate the smooth functioning of the payments system. Historically, this has principally involved the Reserve Bank transacting in domestic financial markets in its open market operations (OMO) to keep the cash rate consistent with the cash rate target set by the Reserve Bank Board. A key class of transaction that the Bank has historically used to achieve this has been repos contracted as part of its regular morning OMO. On occasion, further rounds of market operations were also conducted in the late afternoon if required to ensure the amount of surplus ES balances was consistent with the cash rate trading at target. Repos involve the purchase of high-quality collateral securities where the Bank acquires the securities for a period of time in return for providing cash (i.e. funds deposited into an ESA). As a result, there is very little risk of the Bank suffering financial loss. The securities accepted by the Bank include securities issued by the Australian Government (AGS), the Australian states and territories (semis), and certain approved international sovereign and supranational issuers. Securities issued by banks, asset-backed securities and corporate bonds that meet certain criteria are also eligible for repo in the Reserve Bank's OMO. FX swaps are another type of transaction that the Bank has used to manage system liquidity; swapping Australian dollars for foreign currencies increases the supply of ES balances in the same way as a repo transaction.[2]

In 2020/21, the large increase in surplus ES balances discussed above has meant that the cash rate has traded close to the rate paid on surplus ES balances, rather than at the cash rate target. This was expected and the Reserve Bank has ceased targeting a level of surplus ES balances consistent with the cash rate trading at the target. As a result, FX swaps and afternoon rounds of market operations were not needed for domestic liquidity management purposes in 2020/21. The Reserve Bank has continued to conduct regular morning OMO, but no longer uses these operations to fine-tune financial system liquidity; rather, the Reserve Bank has been providing liquidity through OMO to

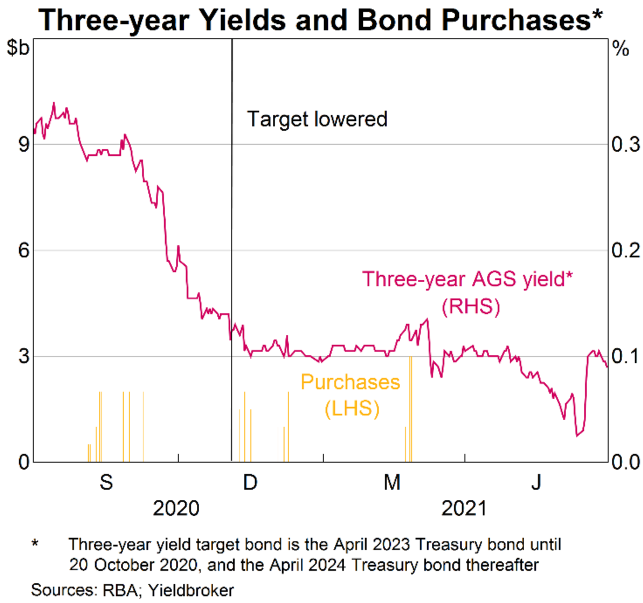
[2] While the use of FX swaps can increase the Reserve Bank's holdings of foreign exchange, it has no effect on net foreign reserves, as the increased holdings of foreign exchange are matched with a commitment to sell foreign exchange at a predetermined price and date. For the same reason, the use of swaps has no effect on the exchange rate.

eligible counterparties at a fixed rate aligned to the cash rate target. Demand for funds at the Bank's regular morning OMO has declined as ES balances have increased, with outstanding OMO repos falling from $97 billon on 30 June 2020 to $7 billion on 30 June 2021. The average term of these transactions was 61 days in 2020/21, down from the average of around 75 days in the early part of the pandemic, but still above the average of around 40 days in the preceding five years.



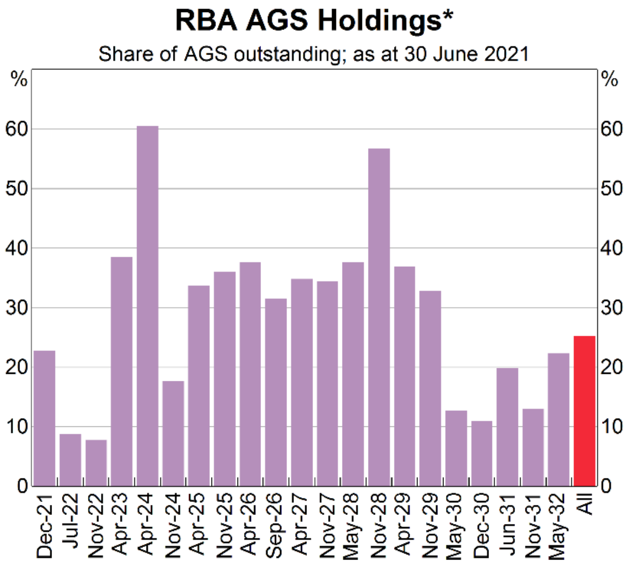
As noted above, in March 2020 the Reserve Bank Board announced a target for the three-year Australian Government bond yield of around 0.25 per cent, which was subsequently lowered to around 0.10 per cent in November 2020. The three-year target bond was the Australian Government bond with maturity closest to three years. The three-year Australian Government bond yield was consistent with the target over 2020/21. The Bank on occasion purchased three-year government bonds to support the target, but only intermittently. The purchases during 2020/21 totalled $28 billion. The Bank also temporarily increased the fee that it charges counterparties to borrow the three-year target bond, in order to discourage speculation against the target. In particular, the fee was raised from 0.25 per cent to 1 per cent in March 2021 in response to a rise in the three-year Australian Government bond yield away from the target. While there had been a general increase in government bond yields, short-selling of the three-year bond by some market participants who thought the Bank might not maintain the yield target also contributed to the rise in the three-year yield around that time. Governor Lowe reinforced the Board's commitment to the yield target in a speech in March 2021, which also contributed to the subsequent fall in yield.[3] The Bank subsequently reduced the stock-lending fee for the three-year bond back to 0.25 per cent in May 2021.

[3] See Lowe P (2021), 'The Recovery, Investment and Monetary Policy', Speech at AFR Business Summit, 10 March. Available at <https://www.rba.gov.au/speeches/2021/sp-gov-2021-03-10.html>.



The Reserve Bank commenced purchases under the bond purchase program on 5 November 2020. Purchases were conducted at a pace of $5 billion per week; although public holidays and a break over the 2020/21 Christmas and New Year period resulted in fewer purchases in some weeks. On one occasion in March 2021, the Bank brought forward $2 billion of purchases to assist with bond market functioning, which had become strained following a sharp increase in yields over February 2021. On another occasion in June 2021, an auction was cancelled due to widespread IT issues among the Bank's counterparties in the bond auction. Purchases were conducted via competitive auction, with the Bank purchasing $2 billion of AGS on each of Mondays and Thursdays, and $1 billion of semis on Wednesdays. Purchases were of bonds of around five to 10 years' residual maturity. The Bank purchased a total of $154 billion of government bonds under the bond purchase program during 2020/21, split 80/20 between AGS and semis. The distribution of semis purchased across states and territories was broadly in line with the distribution of debt outstanding.[4]

[4] For details of bonds purchased under the program, see RBA (2021), 'Statistical Table A3'. Available at <https://www.rba.gov.au/statistics/tables>.



* Excludes holdings under repo; excludes linkers
Sources: AOFM; RBA

The Reserve Bank continues to operate a Securities Lending Facility on behalf of the Australian Office of Financial Management (AOFM). The securities available through the facility comprise all Treasury Bonds and Treasury Indexed Bonds currently on issue. The Bank lends these securities under intraday or open repos to eligible domestic market counterparties. The Bank is also prepared to lend securities from its outright portfolio under repo in response to enquiries from eligible counterparties, and will consider proposals to sell government bonds that it owns outright against an offsetting (duration-neutral) purchase of government bonds; the Bank lent $28 billion of bonds from its outright portfolio over 2020/21, a substantial increase on the $3 billion lent during 2019/20.[5]

Term Funding Facility

Banks had access to three-year funding through the Reserve Bank's TFF throughout 2020/21. The facility closed to new drawdowns on 30 June 2021, but will continue to provide low-cost funding to banks for up to three years ending June 2024.

As outlined above, during 2020/21 the Board enhanced the support available to banks through the TFF from October 2020 by introducing a 'supplementary' funding allowance, fixed at 2 per cent of a bank's overall credit and extending the date for last drawdowns to 30 June 2021. In November 2020, the rate on TFF drawings was reduced to 0.10 per cent, in line with the reduction in the cash-rate target at that time.

In combination with the Bank's other policy measures, the TFF contributed to lower funding costs for banks and lower lending rates. The price of the TFF was well below banks' marginal cost of funding around that same maturity throughout 2020/21. For example, the estimated cost of sourcing three-year unsecured funding in domestic wholesale debt markets for the major banks was around 0.6 per cent at the end of June 2021, and somewhat higher for the other banks.

[5] For details of the Reserve Bank's securities lending repurchase transactions and switch transactions, see RBA (2021), 'Statistical Table A3.2'. Available at <https://www.rba.gov.au/statistics/tables>.

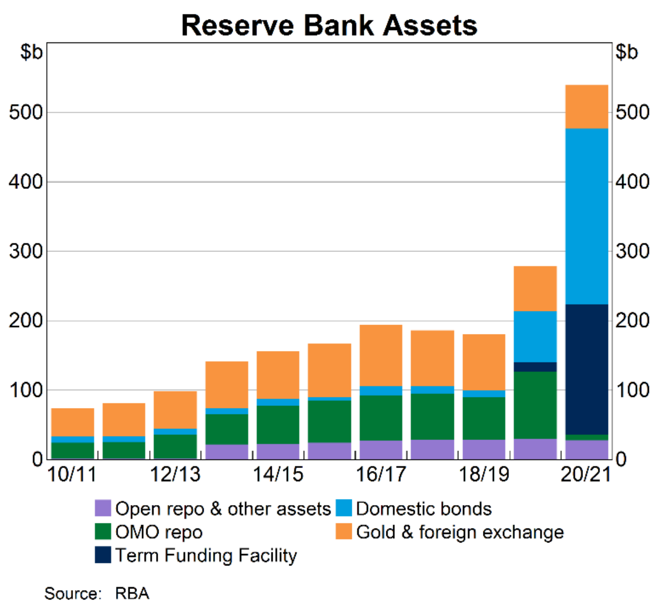
In addition to reducing banks' funding costs, the TFF encouraged banks to support businesses during a difficult period by providing a bank access to additional low-cost funding if it expanded its lending to businesses, particularly to SMEs. In addition to a bank's 'initial' allowance under the TFF (set at 3 per cent of a bank's overall credit), a bank's 'additional' allowance increased by $1 for every extra dollar it lent to large businesses and by $5 for every extra dollar it lent to SMEs. The bulk of additional allowances available in June 2021 were due to increases in SME lending by some banks.

Given the growth in the additional allowances for a range of banks, the total funding available under the TFF to banks was $213 billion, comprised of: initial allowances (which closed in September 2020) totalling $84 billion; supplementary allowances totalling $57 billion; and additional allowances totalling $72 billion.

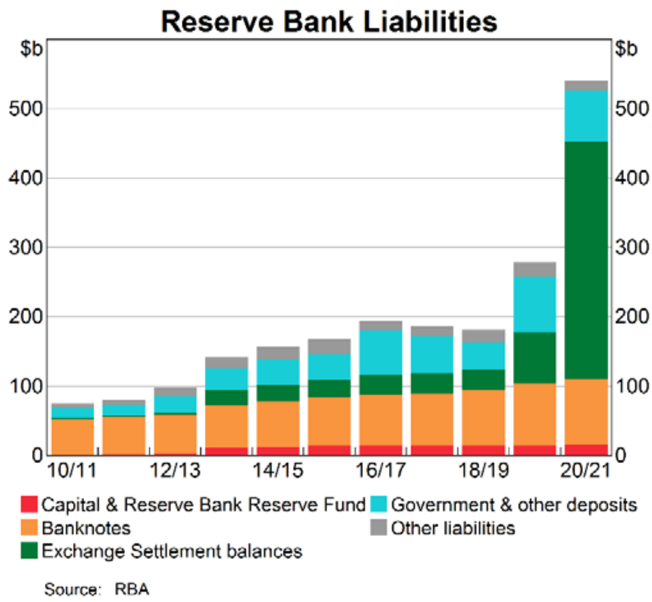
By the close of the TFF drawdown period on 30 June 2021, 92 banks – around two-thirds of those eligible – had accessed $188 billion of funding through the TFF, representing total take up of 88 per cent of the value available.[6] Drawdowns from the TFF were concentrated close to the end of the drawdown periods, reflecting banks' strong funding positions prior to the pandemic and the large amount of liquidity available through other sources.

Balance sheet

The Reserve Bank's balance sheet has almost tripled in size since the onset of COVID-19 as a result of the policy measures adopted by the Bank to support the Australian economy. Over the 2020/21 financial year, the balance sheet increased by $279 billion to $540 billion. Growth in assets reflected an increase in the Bank's government bond holdings, purchased in support of the three-year yield target and under the bond purchase program, and an increase in the TFF. This was partly offset by a decline in funds lent via OMO, as discussed above. The corresponding growth in liabilities was primarily due to a large increase in ES balances, which resulted from the Reserve Bank's policy measures. Government deposits remained at a high level by historical standards.



6 See RBA (2021), 'Box C', *Statement on Monetary Policy*, August.



RBA Balance Sheet

$ billion, 30 June

	2020	2021
Assets	**279**	**540**
Foreign	65	63
Domestic	214	477
Outright bond holdings	73	253
OMO repo	97	7
Term Funding Facility	14	188
Open repo & others	30	29
Liabilities	**279**	**540**
Deposits	154	416
ES balances	73	342
Government & other	80	74
Banknotes	90	95
Other	21	15
Capital and Reserve Bank Reserve Fund	14	14

Source: RBA

Standing facilities

Separate from its OMO, the Reserve Bank also provides certain standing facilities, where eligible counterparties transact with the Bank on pre-arranged terms. These facilities are primarily to support the smooth functioning of the payments system, with liquidity made available via repos. The most frequently used standing facilities are those for the provision of intraday liquidity to ESA holders. The Bank can also extend overnight funding via repo where an ESA holder faces a shortage in ES balances that cannot be borrowed from another financial institution; such funding is extended at an interest rate of 25 basis points above the cash rate target. During 2020/21, these arrangements were used on two occasions, one of which was for testing purposes.

Open repos are provided under the Reserve Bank's standing facilities for ESA holders, and in 2020/21 remained mandatory for ESA holders that have to settle payment obligations outside normal business hours, such as 'direct-entry' payments and transactions through the New Payments Platform (see chapter on 'Banking and Payment Services'). At the end of June 2021, 15 financial institutions had open repo positions with the Bank, valued at around $27 billion. To collateralise these open repos, the Bank permits the use of certain related-party assets issued by bankruptcy remote vehicles, such as self-securitised residential mortgage-backed securities (RMBS).

Committed Liquidity Facility

Banks subject to the Liquidity Coverage Ratio (LCR) under Basel III prudential standards are required to hold sufficient high-quality liquid assets (HQLA) (which, in the Australian context, consist of AGS, semis and ES balances) to meet outflows during a period of stress of 30 days. Historically, the relatively low levels of government debt outstanding in Australia have limited the amount of HQLA securities that banks could reasonably hold. To address this, since 2015 the Reserve Bank has provided some institutions with a contractual commitment to provide repo funding – the Committed Liquidity Facility (CLF) – subject to certain conditions. These conditions include a fee that financial institutions pay on the committed amount. In addition, any bank seeking to use the CLF must have positive net worth. The full terms and conditions of the facility are available on the Bank's website.[7]

The Reserve Bank administers the CLF, while the Australian Prudential Regulation Authority (APRA) determines which banks have access and the amount available (in aggregate and to each bank). Fifteen banks had access to the CLF from July 2020 to December 2020; 14 banks had access to the CLF from January 2021 to June 2021. The available CLF amounts for each of these banks is counted towards their LCR requirements. The aggregate size of the CLF is the difference between APRA's assessment of banks' overall LCR requirements and the Bank's assessment of the amount of HQLA securities that could reasonably be held by the banking system, without unduly affecting market functioning. APRA also incorporates its projections of banks' holdings of banknotes and ES balances.

[7] See RBA (2019), 'Committed Liquidity Facility – Terms and Conditions'. Available at <https://www.rba.gov.au/mkt-operations/resources/tech-notes/pdf/clf-terms-and-conditions.pdf>; RBA (2019), 'CLF Operational Notes'. Available at <https://www.rba.gov.au/mkt-operations/resources/tech-notes/clf-operational-notes.html>.

In determining the amount of HQLA securities that LCR banks can reasonably be expected to hold, the Reserve Bank takes into account factors such as the total stock of HQLA securities, holdings of other market participants and the effect of LCR banks' holdings on the liquidity of HQLA securities in secondary markets. Over recent years, the stock of HQLA securities has risen and they have become more readily available in bond and repo markets. In 2020, the stock of AGS and semis outstanding increased substantially as the federal, state and territory governments issued bonds to finance the fiscal response to the COVID-19 pandemic. Given this, the Reserve Bank assessed that the LCR banks could increase their holdings of AGS and semis from 26 per cent to 27 per cent of the stock outstanding by the end of 2020 and to 30 per cent of the stock in 2021.

Reflecting the increased availability of HQLA, as well as improvements in funding and liquidity conditions for banks, the total size of the CLF had declined to $139 billion by June 2021, down from $226 billion in July 2020.[8]

The CLF fee is set so that the banks face similar financial incentives to meet their liquidity requirements through the CLF or by holding HQLA. From 2015 to 2019, the Reserve Bank charged a fee of 15 basis points per annum on the commitment to each bank. Following a review in 2019, the CLF fee has been increased gradually, to 17 basis points on 1 January 2020 and to 20 basis points on 1 January 2021.[9]

Eligible securities

The Bank accepts a range of eligible Australian dollar collateral for its daily market operations, including:

- securities issued by the Australian Government and the states and territories
- securities issued by authorised deposit-taking institutions and non-bank corporations with an investment-grade credit rating
- asset-backed and other securities with an average credit rating of AAA (for long-term securities) and A-1 (for short-term paper).[10]

To protect against a decline in the value of the collateral securities should the Bank's counterparty not meet its repurchase obligations, the Bank requires the value of the securities to exceed the cash lent by a specific margin. These margins, which are listed on the Bank's website, are considerably higher for securities that are not issued by governments.[11]

Participants in the Reserve Bank's market operations tend to be the fixed-income trading desks of banks and securities firms, as well as bank treasuries. Reflecting this, over half of the securities held by the Bank (excluding those under open repo and the TFF) are government-related obligations.

8 See RBA, 'Committed Liquidity Facility'. Available at <https://www.rba.gov.au/mkt-operations/committed-liquidity-facility.html>; Brischetto A and L Jurkovic (2021), 'The Committed Liquidity Facility', RBA *Bulletin*, June. APRA had also allowed banks to use undrawn allowances for the Reserve Bank's TFF towards meeting their LCR while these allowances were still available to be drawn. The drawdown window for the TFF closed on 30 June 2021.

9 For an explanation of the adjustments made to the CLF, see Kent C (2019), 'The Committed Liquidity Facility', Speech at Bloomberg, Sydney, 23 July. Available at <https://www.rba.gov.au/speeches/2019/sp-ag-2019-07-23.html>; Bergmann M, E Connolly and J Muscatello (2019), 'The Committed Liquidity Facility', RBA Bulletin, September.

10 The Bank broadened the range of eligible collateral for its daily market operations to include Australian dollar securities issued by non-bank corporations with an investment grade credit rating in May 2020. See RBA (2020), 'Eligible Securities'. Available at <https://www.rba.gov.au/mkt-operations/resources/tech-notes/eligible-securities.html>. A total of 187 such securities have been approved as eligible, but their use as collateral is limited.

11 See RBA (2020), 'Margin Ratios'. Available at <https://www.rba.gov.au/mkt-operations/resources/tech-notes/margin-ratios.html>.

Domestic securities purchased by the Reserve Bank are held in an account that the Bank maintains in Austraclear – the central securities depository operated by the Australian Securities Exchange (ASX). Securities transactions conducted between the Bank and its counterparties are settled in the Austraclear system, mostly on a bilateral basis. The Bank also settles repo transactions contracted in its OMO within ASX Collateral, a collateral management service. During 2020/21, almost 50 per cent of the value of securities the Bank purchased under repo in OMO was settled within ASX Collateral, up from around 40 per cent in 2019/20. The use of this system reduces the manual processing that would otherwise be required to manage this collateral, including marking it to market and maintaining margins.

Asset-backed securities form a significant share of the securities that the Reserve Bank purchases under open repo and under the TFF. Around 90 per cent of the outstanding value of open repos is backed by self-securitised RMBS; the figure is similar for the TFF. (Self-securitised RMBS are not eligible as collateral for daily OMO repos.) Self-securitised RMBS do not have directly observable market prices. As a result, the Bank uses an internal valuation model for self-securitised RMBS based on observed market prices of similarly structured RMBS; this internal model has been reviewed externally.

Asset-backed securities – particularly self-securitised RMBS – are also the major asset held as collateral by banks for the CLF (see above). Given the importance of asset-backed securities to the Reserve Bank's operations, the Bank has mandatory reporting requirements for securitisations to remain eligible for repo. In 2020/21, the Bank received around 4,500 data submissions monthly on around 350 asset-backed securities from issuers or their appointed information providers. For eligible RMBS, this covers around 2 million underlying individual housing loans with a combined balance of around $620 billion, which is around one-third of the total value of housing loans in Australia. The required data include key information on the structure of the RMBS, the relationships among counterparties within the RMBS structure, and anonymised information on each of the residential mortgage loans and the underlying collateral backing the RMBS structures.

Australian Dollar Securities Held under Repurchase Agreements[a]

30 June

	2018		2019		2020		2021	
	$ billion	per cent of total	$ billion	per cent of total	$ billion	per cent of total	$ billion	per cent of total
AGS	49.9	48	36.5	37	47.4	31	5.6	2
Semis	8.7	8	12.7	13	25.2	16	8.1	3
Supranational	3.6	3	2.8	3	3.4	2	0.7	0
ADI issued	8.1	8	12.9	13	27.8	18	11.2	4
Corporate issued	0.0	0	0.0	0	0.3	0	0.5	0
Asset-backed securities	32.7	32	33.5	34	50.0	32	260.2	91
– of which for open repo	32.3	31	32.4	33	32.4	21	31.5	11
– of which for TFF	0.0	0	0.0	0	14.7	9	227.8	80
– of which for OMO	0.4	1	1.1	1	2.9	2	0.9	0
Other	0.6	1	0.4	0	1.1	1	0.2	0
Total	103.7	100	98.8	100	155.2	100	286.3	100
– of which for open repo	34.2	33	34.5	35	35.3	23	34.3	12
– of which for TFF	0.0	0	0.0	0	17.7	11	244.6	85
– of which for OMO	69.5	67	64.3	65	102.2	66	7.4	3

(a) Market value of securities before the application of margins; includes securities held under triparty repurchase agreements

Source: RBA

Reflecting the Reserve Bank's interest in promoting transparency for investors in asset-backed securities, issuers are also required to make securitisation information available to investors and other permitted users. The data provided to these users are broadly similar to the data provided to the Bank; however, issuers may redact particular fields where the information poses a potential risk to privacy obligations and provide aggregated data instead. The mandatory reporting requirements allow the Bank (and other investors in RMBS) to analyse in detail the underlying risks in asset-backed securities and to price and manage risk for such securities accurately.

The cash rate

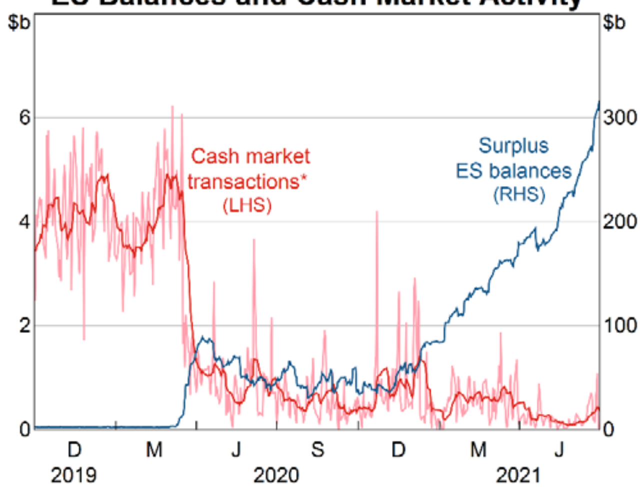
The Reserve Bank is the administrator of the cash rate, which is a significant financial benchmark referenced in overnight indexed swaps and the ASX's 30-day interbank cash rate futures contracts, as well as in securities and transactions requiring a (near) risk-free reference rate (RFR). The cash rate is also known as AONIA (AUD Overnight Index Average). As the RFR for the Australian dollar, it forms the basis of the fallback to the bank bill swap rate (calculated as AONIA plus a spread) under International

Swaps and Derivatives Association (ISDA) definitions published in 2020.[12] These definitions were developed in the context of global benchmark reforms, which have included identifying alternatives to credit-based rates for use in securities and transactions.[13] The Bank publishes the *Cash Rate Procedures Manual*, which sets out the Bank's arrangements for administering the cash rate and the procedures for handling errors and complaints.[14]

Activity in the cash market fell over 2020/21 as ES balances increased, and on around 60 per cent of days activity was below the thresholds required to calculate a reliable cash rate based on market transactions. In accordance with the published fallback procedures, the published cash rate on these days was the last cash rate published based on sufficient transactions (148 occasions), or another rate that reflected the interest rate relevant to unsecured overnight funds for cash market participants as determined by the cash rate administrator, in its expert judgement and based on market conditions (two occasions).

The cash rate was below the cash rate target over 2020/21, at around 13 to 14 basis points until November 2020 compared with a target of 25 basis points, and then around 3 basis points following a reduction in the cash rate target to 10 basis points at the November Reserve Bank Board meeting.[15] The cash rate trading below the target, and close to the ES remuneration rate, was an expected consequence of elevated ES balances. This is consistent with the experience of other central banks that have pursued programs that significantly increased cash reserves in the banking system.

ES Balances and Cash Market Activity



* 10-business-day moving average; pink line shows actual transaction volumes

Source: RBA

[12] See ISDA (2020), 'Amendments to the 2006 ISDA Definitions to Include New IBOR Fallbacks', 23 October. Available at <http://assets.isda.org/media/3062e7b4/23aa1658-pdf>.

[13] See chapter on 'International Financial Cooperation' for details of the Financial Stability Board's work on reforming interest rate benchmarks globally.

[14] See RBA (2020), 'Cash Rate Procedures Manual'. Available at <https://www.rba.gov.au/mkt-operations/resources/cash-rate-methodology/cash-rate-procedures-manual.html>.

[15] For many years in Australia there had been a market convention for overnight cash market transactions to be conducted at the target cash rate. However, given the very high level of ES balances, with most banks' balances well above holdings sufficient for usual payment activities, this convention changed and market participants instead began to trade below the cash rate target when lending cash overnight.

Foreign exchange operations

The Reserve Bank transacts in the FX market on almost every business day. The majority of these transactions are associated with providing foreign exchange services to the Bank's clients, the most significant of which is the Australian Government.

The Reserve Bank typically purchases the necessary foreign currency in the spot market. During 2020/21, the Bank bought $13 billion in the spot market to facilitate its customer business. However, the Bank retains the option – especially during periods of market stress – to use its existing stock of foreign currency reserves to fund its customer business, subsequently replenishing those reserves when market conditions have stabilised. Using foreign currency reserves in this manner has not been considered necessary since 2008, at which time global financial market functioning was significantly impaired. Similarly, the Bank has not intervened in the FX market since 2008. During 2020/21, the Bank's assessment was that trading conditions in the market were sufficiently orderly that it was not necessary to support liquidity in the market through its own transactions. The Bank nevertheless retains the discretion to intervene in the FX market to address any dysfunction and/or a significant misalignment in the value of the Australian dollar. At the time each Annual Report is published, intervention data for the year under review are published on the Bank's website.[16]

The Reserve Bank also transacts in the FX market when managing its foreign currency reserves. As discussed below, the relative weightings of foreign currencies in the Bank's portfolio are tightly managed against a benchmark. To maintain the portfolio at these benchmark weights, or to accommodate discrete changes in the weights, the Bank transacts in spot FX markets. The final settlement of these rebalancing flows may be deferred for a short period of time through the use of FX swaps, whereby one currency is exchanged for another with a commitment to unwind the exchange at a subsequent date at an agreed (forward) rate. Swaps can also be an efficient way to manage the shorter-term investments within the reserves portfolio. During 2020/21, the Bank generally maintained around $18 billion in swaps for these purposes.

For many years, the Reserve Bank has also made use of short-term FX swaps in its domestic market operations. These swaps between Australian dollars and foreign currencies do not affect the exchange rate, but alter the supply of ES balances in the same way as the Bank's repo transactions. The change in the nature of the Bank's domestic market operations after March 2020 means that the Bank did not use swaps for this purpose during 2020/21.

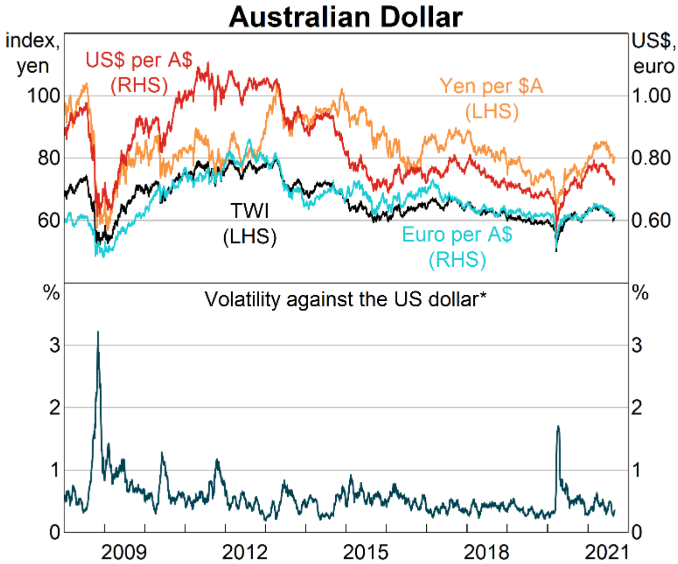
The Bank also executes long-term FX swaps against Australian dollars for terms of up to five years. As discussed below, these longer-term transactions are used to obtain foreign currency to meet Australia's commitments as a member of the International Monetary Fund (IMF) (e.g. providing foreign currency to the IMF to support its lending activities).[17] As with short-term swaps, these long-term swaps do not affect the exchange rate. The Bank had US$3.4 billion in long-term swaps outstanding at the end of June 2021.

The Bank's forward foreign exchange positions with each of its counterparties are marked to market daily and collateral is held against net exposures. The terms under which collateral is exchanged are defined in two-way credit support annexes to the ISDA Master Agreements that the Bank has executed with each of its counterparties (see chapter on 'Risk Management').

[16] See RBA (2021), 'Statistical Table A5'. Available at <https://www.rba.gov.au/statistics/tables>.

[17] See Kent C (2021), 'FX Markets Around the Turn of the Year', Speech at Australian Corporate Treasury Association FX Roundtable, Webinar, 17 February. Available at <https://www.rba.gov.au/speeches/2021/sp-ag-2021-02-17.html>.

The Reserve Bank's activities in the FX market are conducted in a manner consistent with the principles of the FX Global Code. A 'Statement of Commitment to the FX Global Code' has been signed on behalf of the Bank.[18] Further, the Bank transacts in the FX market only with counterparties that have also signalled their adherence to the Code by signing such statements.



* Daily absolute percentage change, 22-day rolling average

Sources: RBA; Refinitiv

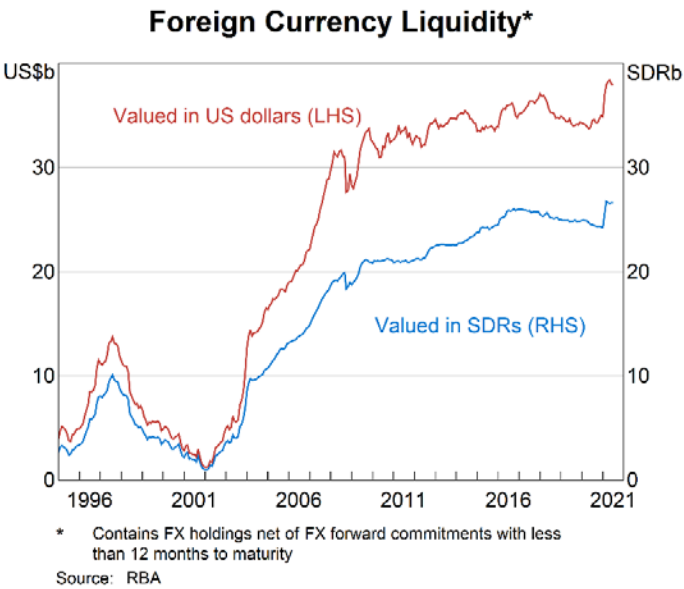
Reserves management

Australia's official reserve assets include foreign currency assets, gold, Special Drawing Rights (SDRs, an international reserve asset created by the IMF) and Australia's reserve position in the IMF. At 30 June 2021, these assets totalled $64.7 billion, with all components of official reserve assets owned and managed by the Reserve Bank, with the exception of Australia's reserve position in the IMF, which is an asset of the Australian Government.

Official reserve assets are held by the Reserve Bank to facilitate various policy operations, including in the FX market (described above) and to assist the Australian Government in meeting its commitments to the IMF. The Bank's capacity to undertake such operations is best measured by its foreign currency assets net of any short-term forward commitments (such as an obligation to deliver foreign currency on the maturity of a swap against Australian dollars). As at 30 June 2021, these assets – referred to by the IMF as 'foreign currency liquidity' – were SDR26.6 billion or US$38.0 billion. In US dollar terms, foreign currency liquidity increased by US$4.1 billion from 30 June 2020, reflecting purchases of foreign currency under long-term swaps and gains from appreciation of other reserve currencies against the US dollar. The amount held represents the level assessed as necessary to meet policy requirements.

[18] See RBA (2017), 'Statement of Commitment to the FX Global Code', 7 November. Available at <https://www.rba.gov.au/mkt-operations/pdf/statement-of-commitment-to-fx-global-code.pdf>.

To ensure a strong balance sheet, the Reserve Bank holds capital against certain risks arising from its reserve assets (see chapter on 'Earnings, Distribution and Capital'). These assets can expose the Bank to market, liquidity and credit risk, which the Bank seeks to mitigate where possible, such as by holding a diversified portfolio and investing only in assets of high credit quality and appropriate liquidity (see chapter on 'Risk Management').



Foreign Assets

30 June 2021

	A$ million
Official reserve assets	
Foreign currency	50,284
Gold	5,568
SDRs	5,459
Reserve position in the IMF	3,423
Other foreign currency assets	18
Net forward foreign currency commitments: Short-term	
Foreign currency	206
Gold loans and swaps	453
Net forward foreign currency commitments: Long-term	–4,374
Memo item:	
Foreign Currency Liquidity (FX)[(a)]	*50,508*

(a) Foreign currency liquidity (FX) includes foreign currency holdings and other foreign currency assets, net of short-term foreign currency forward commitments (commitments with less than 12 months to maturity)

Source: RBA

Net of forward commitments against the Australian dollar, the composition of the Reserve Bank's foreign currency reserve holdings is managed against an internally constructed benchmark that reflects the Bank's need to maintain effective intervention capacity. Subject to this constraint, and the Bank's overall risk tolerance, the benchmark is assessed to be the combination of foreign currencies and foreign currency assets that maximises the Bank's expected returns over the long run.

The structure of the benchmark is reviewed periodically and in response to significant changes in market conditions. The existing structure of the benchmark portfolio has been assessed as remaining suitable for the Reserve Bank's needs. Within the portfolio, the largest allocation is to the US dollar (55 per cent), reflecting the significant liquidity in US dollar currency and asset markets.

Given the extraordinarily low level of global interest rates, duration targets have remained short for most of the foreign currency portfolios because this reduces the risk of capital losses in the event yields in these currencies increase in the future.

Investments in the benchmark currencies are limited to deposits at official institutions (such as central banks) and debt instruments issued (or guaranteed) by sovereign entities, central banks and supranational agencies. Debt instruments issued by quasi-sovereign entities can also be accepted as collateral under reverse repos.

Sovereign credit exposures are currently limited to the United States, Germany, France, the Netherlands, Canada, Japan, China, the United Kingdom and South Korea.

Benchmark Foreign Currency Portfolio

30 June 2021

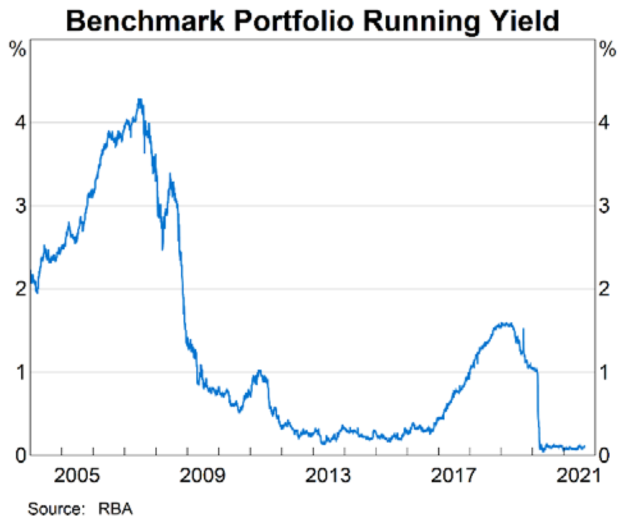
	US dollar	Euro	Japanese yen	Canadian dollar	Chinese renminbi	UK pound sterling	South Korean won
Currency allocation (per cent of total)	55	20	5	5	5	5	5
Duration (months)	6	6	<3	6	18	3	18

Source: RBA

As has been the case for some years, when the cost of hedging currency risk is taken into account, yields on short-dated Japanese and South Korean investments have generally exceeded those available in the other currencies in the Reserve Bank's portfolio. Reflecting this, the Bank has swapped other currencies in its foreign exchange reserves portfolio against the Japanese yen and South Korean won to enhance returns. As a consequence, while the Bank's exposure to changes in the value of the yen and won remains small (the allocation to each of these currencies was $2.2 billion), an additional $21.8 billion of yen and $2.2 billion of won was held at the end of June 2021 as a result of swaps against other foreign currencies in the portfolio.

A small component of the Reserve Bank's foreign currency risk is managed outside the benchmark framework. The Bank invests in a number of Asian debt markets through participation in the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Asian Bond Fund Initiative. This initiative was established following the Asian currency crisis in the late 1990s to assist in the development of bond markets in the region. At the end of June 2021, the total allocation of the Bank's reserves to these funds was $720 million. In SDR terms, there was a return of 0.4 per cent on these investments over the year to June 2021, as gains from Asian currency appreciation were partly offset by capital losses on Asian government bonds as yields rose.

Measured in SDRs, the overall return on the Reserve Bank's foreign currency assets over 2020/21 was -0.7 per cent. This was lower than returns observed in recent years, reflecting exchange rate movements and capital losses as yields rose on longer-term securities. The average running yield on the benchmark portfolio remained at 0.1 per cent over 2020/21. Yields remained negative and relatively stable for the euro portfolio.



The Reserve Bank's holdings of SDRs at 30 June 2021 amounted to $5.5 billion – $0.9 billion lower than the previous year – reflecting provision of SDRs to the IMF's Poverty Reduction and Growth Trust, as well as appreciation of the Australian dollar against the SDR. Under voluntary arrangements with the IMF, the Bank is willing to transact in SDRs upon request from other countries or prescribed holders. In these transactions, the Bank will generally either buy or sell SDRs in exchange for foreign currencies (such as euros or US dollars). While such transactions do not alter the level of Australia's reserve assets (only the respective proportions held in SDRs and foreign currency), the Bank will typically replenish foreign currency sold in exchange for SDRs by purchasing foreign currency in long-term swaps against Australian dollars.

Australia's reserve position in the IMF comprises that part of Australia's quota in the IMF that is paid in foreign currency as well as other credit that Australia has extended to the IMF in support of its lending programs. At the end of June 2021, Australia's reserve position in the IMF was $3.4 billion – $0.3 billion larger than a year earlier – because the provision of more foreign currency to the IMF was partly offset by valuation effects from an appreciation of the Australian dollar. As noted above, Australia's reserve position in the IMF is not held on the Bank's balance sheet. However, the Bank will sell to (or purchase from) the Australian Treasury the foreign currency the Treasury needs to complete its transactions with the IMF. As with SDR transactions, the Bank will typically replenish the foreign currency sold to the Treasury by purchasing foreign currency in long-term swaps against Australian dollars.

Foreign Currency Assets[(a)]

A$ million, 30 June 2021

Currency	Securities held outright	Securities lent under repurchase agreements	Deposits at official institutions[(b)]	Total (gross)	Forward FX commitment[(c)]			Total (net)
					Against A$	Against other currencies	Other	
US dollar	10,629	–	736	11,364	–4,602	18,000	281	25,043
Euro	2,912	–	1,171	4,083	–13	4,895	–	8,965
Japanese yen	11,110	–	12,811	23,921	–	–21,762	–	2,159
Canadian dollar	1,142	–	4	1,146	–	1,208	–	2,354
Chinese renminbi	1,810	–	540	2,350	–	–	–	2,350
UK pound sterling	2,347	–	11	2,358	–7	1	–	2,352
South Korean won	4,387	–	6	4,392	–	–	–	2,198
Total	34,336	–	15,278	49,615	–4,622	147	281	45,421

(a) Excludes gold, SDRs, the reserve position in the IMF, investments in the Asian Bond Fund, balances with overseas banks, futures margins and non-reserve currency holdings

(b) Includes deposits at foreign central banks and the Bank for International Settlements

(c) In accordance with IMF guidelines, 'forward commitments' reflect notional values of unsettled spot and forward transactions, converted to Australian dollars at the prevailing forward exchange rate. Other forward commitments largely reflect cash lent under repurchase agreements. This excludes forward commitments for non-reserve currencies and gold on loan

Source: RBA

Gold holdings (including gold on loan) at the end of June 2021 were around 80 tonnes, unchanged since 1997. Gold prices declined by 8.6 per cent in Australian dollar terms over 2020/21, decreasing the value of the Reserve Bank's holdings of gold by around A$0.6 billion to A$6.1 billion. The Bank also seeks to earn income on its holdings by lending gold. Any gold lending by the Reserve Bank has the benefit of a government guarantee on the borrower's payment obligations to the Bank or is structured as a gold swap, such that the loan is fully collateralised by cash (either foreign currency or Australian dollars). Returns from these activities totalled $1.3 million in 2020/21, slightly lower than the previous financial year. The lower returns were due to both a small decline in lending rates and decreased activity. As at 30 June 2021, the Reserve Bank had outstanding gold loans amounting to 6 tonnes, a decrease from 24 tonnes at the end of the previous financial year (of which 11 tonnes had been delivered into swaps). Gold that has not been lent is held by the Reserve Bank in an allocated account at the Bank of England and comprises bars that meet the London Bullion Market Association's 'Good Delivery' standards. The Bank's activities in the gold market are conducted in a manner consistent with the principles of the Global Precious Metals Code, and a 'Statement of Commitment to the Global Precious Metals Code' has been signed on behalf of the Bank.[19]

Bilateral currency swaps

In July 2021, the Reserve Bank renewed its bilateral local currency swap agreement with the People's Bank of China. The agreement allows for the exchange of local currencies between the two central banks of up to A$41 billion or CNY 200 billion. This agreement is for a further five years and can be extended by mutual consent. The Reserve Bank has similar agreements with the Bank of Japan, Bank of Korea and Bank Indonesia. The purpose of these agreements is to allow each central bank to support trade settlement in local currencies, particularly in times of market stress, or to support financial stability.

The Reserve Bank has a temporary swap line with the US Federal Reserve, which was established in March 2020 when the COVID-19 outbreak led to US dollar funding pressures within global financial markets.[20] The Federal Reserve established temporary arrangements with eight other central banks at the same time, in addition to the standing US dollar swap lines it maintains with five major central banks. The Reserve Bank's US$60 billion swap line allows it to exchange Australian dollars for US dollars. The US dollars can be made available to Australian market participants through repos against Australian dollar-denominated securities. There was no usage of this swap line during 2020/21. The agreement with the Federal Reserve is due to expire in December 2021.

RBA Bilateral Local Currency Swap Agreements

September 2021

	Expiry	**Size** (A$ billion)
People's Bank of China	July 2026	41
Bank of Japan	March 2022	20
Bank Korea	February 2023	12
Bank of Indonesia	December 2021	10
Federal Reserve	December 2021	80

Source: RBA

[19] See RBA (2019), 'Statement of Commitment to the Global Precious Metals Code', 27 September. Available at <https://www.rba.gov.au/mkt-operations/pdf/statement-of-commitment-to-the-global-precious-metals-code-february-2019.pdf>.

[20] A prior swap agreement with the Federal Reserve expired in 2010.

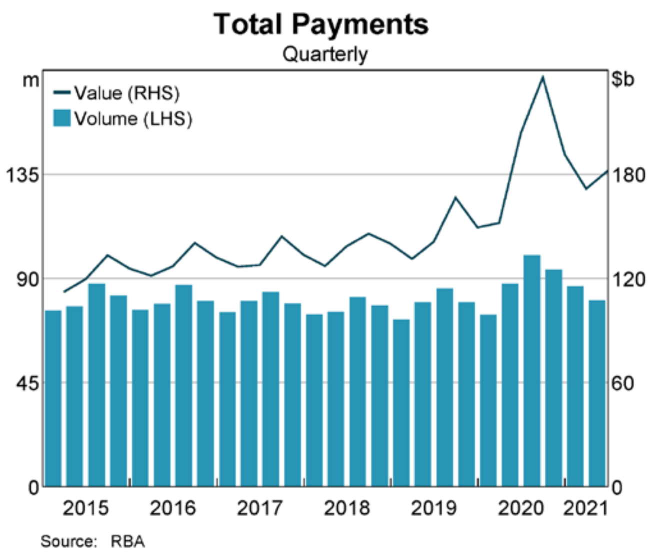
Banking and Payment Services

The Reserve Bank provides banking and payment services to meet the needs of the Australian Government and to support an efficient and stable Australian financial system. These services supported the government's measures to support Australian households and businesses during the COVID-19 pandemic by ensuring financial assistance payments were processed quickly and reliably. In addition to operating Australia's real-time gross settlement (RTGS) system, the Bank operates national infrastructure to support the settlement of real-time payments by households and businesses on a 24/7 basis. These services provide the Australian Government with access to 24/7 payment capabilities, and are consistent with the Bank's strategic goal of providing innovative, high-quality banking and payment services to the Australian Government, its agencies and, in turn, the Australian public.

Transactional banking services

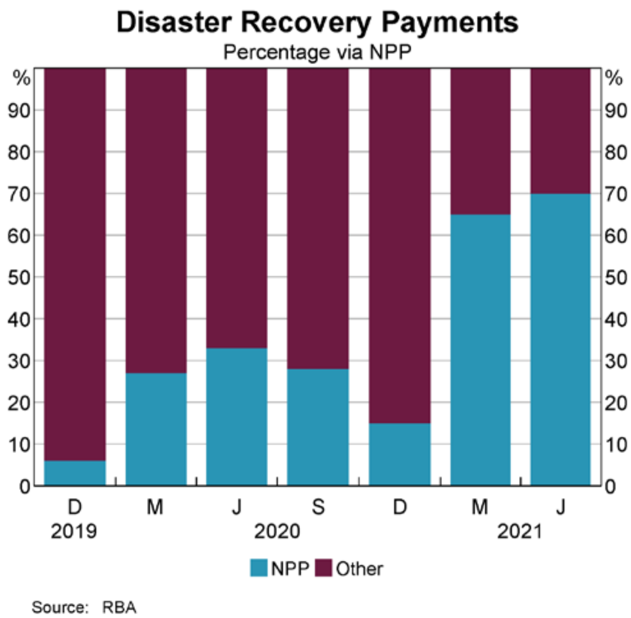
The Reserve Bank aims to deliver secure, reliable, cost-effective banking and payment services to the Australian Government and its agencies. These services enable the government, through its agencies, to make payments and collect revenue. The provision of transactional banking services for the government is consistent with the Reserve Bank's responsibilities under the *Reserve Bank Act 1959*, which requires the Bank, insofar as the government requires, to act as the Commonwealth's banker and financial agent.

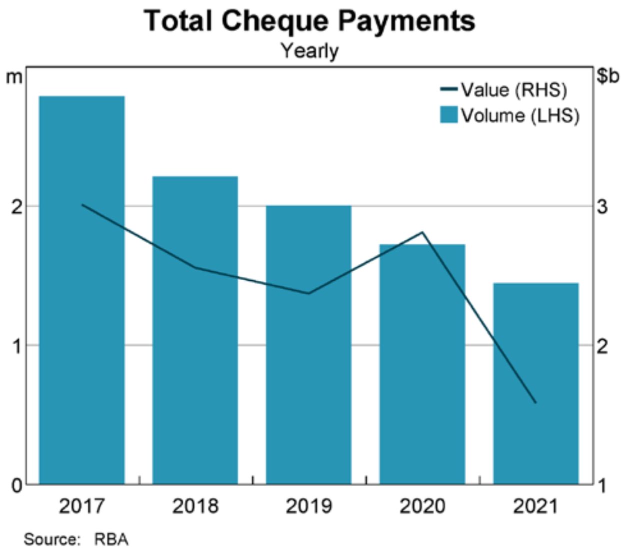
The Bank currently provides transactional banking services to more than 90 Australian Government agencies. This supports the many Australians who depend on the reliable delivery of these services. While the Bank provides a broad range of payment and collection services, the bulk of the Australian Government's payments are made via local low-value direct entry systems both domestically and overseas. The majority of these payments are welfare and pension payments made on behalf of Services Australia. The Australian Government also makes payments using a number of other methods, including the New Payments Platform (NPP), RTGS, cheque, BPAY and prepaid cards.



In 2020/21, the Reserve Bank distributed historically high volumes of payments, comprised of around 359.7 million domestic and 1.1 million international payments, totalling $765.7 billion and $15.2 billion, respectively. A significant proportion of these payments related to the timely and efficient delivery of government support payments to households and businesses affected by the COVID-19 pandemic. The Bank disbursed close to 20 million transactions on behalf of Services Australia for Economic Support Payments and the Australian Taxation Office (ATO) for JobKeeper payments during the pandemic.

The nature of transactional banking services offered by the Reserve Bank is continually evolving with changes in payments technology and business processes. The Bank works with industry to deliver solutions to its government customers as this occurs. Bank staff contribute to industry initiatives, representing the interests of the government as a significant user of payment services. The Bank supports its government agency customers to adapt to new technologies and processes so they can offer convenient, reliable and cost-effective payment options that continue to meet the needs of their customers. The Bank is also working closely with Services Australia to harness the technological advantages of the NPP. This capability was used to deliver around 70 per cent of the Australian Government Disaster Recovery Payments in near real-time, including more than 259,000 transactions following the floods in New South Wales. This was more than five times the volume processed following the Australian bushfires in the summer of 2019/20. Approximately 15 per cent of the Disaster Recovery Payments were able to be made outside of normal business hours (either after-hours or on weekends), allowing affected households to receive payments when needed, irrespective of the time or day. Conversely, and in line with broader industry trends, the government's cheque payment volumes continue to decline, falling by a further 16 per cent in 2020/21.





In addition to processing government payments, the Reserve Bank provides Australian Government agencies such as the ATO with access to a number of services through which they can collect monies owed from both domestic and international payers. These services include direct entry, RTGS, BPAY, cheque, eftpos, cash, NPP and card-based services via phone and internet. In addition, the Bank worked with the ATO and international money remitters to introduce improvements in the collection of monies from overseas.

The COVID-19 pandemic saw an overall reduction in government collections over the second half of 2020 as economic activity was significantly affected by virus containment measures and some government agencies slowed or ceased active debt recovery activities. Resumption of these activities combined with the economic recovery resulted in a rebound of collections that exceeded pre-COVID-19 levels in the last few months of 2020/21. Overall, the Bank processed 40.4 million collections-related transactions for the Australian Government in 2020/21, amounting to $658.1 billion.

Pro forma business accounts

The Reserve Bank's transactional banking services are subject to the Australian Government's competitive neutrality guidelines. The Bank delivers its services in competition with commercial financial institutions – in many instances, bidding for business at tenders. The Bank must cost and price the services separately from its other activities and meet a prescribed minimum rate of return. For 2020/21, the Bank achieved its competitive neutrality target rate of return.

The following sets of pro forma business accounts for 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.

After-tax earnings from the Reserve Bank's transactional banking services were $3.6 million in 2020/21, $1.1 million lower than in the previous year.

Transactional Banking
$ million

	2020/21	2019/20
Revenue		
– Service fees	95.0	114.4
– Other revenue	0.5	2.9
Total	95.5	117.3
Expenditure		
– Direct costs	90.7	110.7
– Indirect costs	0.0	0.0
Total	90.7	110.7
Net profit/(loss)	4.8	6.6
Net profit/(loss) after taxes[a]	3.6	4.7
Assets[b]		
– Domestic markets investments	4,205.1	2,674.0
– Other assets	25.2	26.9
Total	4,230.3	2,700.9
Liabilities[b]		
– Capital & reserves	25.0	25.0
– Deposits	4,188.3	2,663.5
– Other liabilities	17.0	12.4
Total	4,230.3	2,700.9

(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

Source: RBA

Central banking services

As part of the central banking services the Reserve Bank provides to the Australian Government, the Bank manages the overnight consolidation of Australian Government agency account balances. The consolidation of balances requires the movement of agency account balances, held with commercial financial institutions and with the Reserve Bank, into the Official Public Account (OPA). Daily payment instructions from the Department of Finance are processed to move funds from the OPA to agency bank accounts to meet their payment obligations. Work by the Bank, the Department of Finance and the Australian Office of Financial Management (AOFM) to modernise the Australian Government's cash management activities was concluded in 2020/21. This work resulted in a move away from term deposits and the introduction of a new cash management account, thereby creating operational efficiencies at the Bank and the AOFM.

While the Reserve Bank manages the consolidation of the government's accounts, the AOFM has responsibility for ensuring that there are sufficient cash balances to meet the government's day-to-day spending commitments and for investing excess funds in approved investments. In November 2020, the AOFM's use of term deposits at the Bank was replaced with a cash management account. The Bank provides a very limited short-term overdraft facility to cater for occasions when there is unexpected demand for government cash balances. This overdraft facility is used infrequently and was not used during the reporting period.

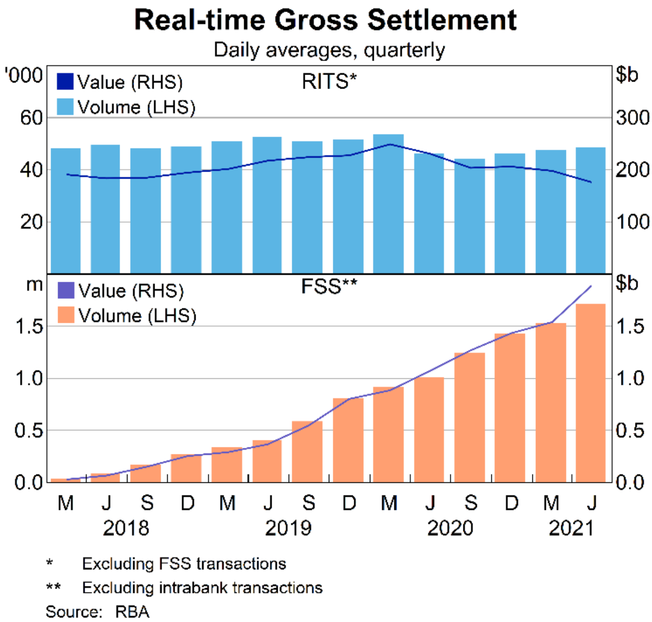
The Reserve Bank also provides banking services to overseas central banks and registry services to supranational organisations issuing Australian dollar-denominated securities. Eight organisations currently use registry services, with this number having been relatively steady over recent years.

Settlement services

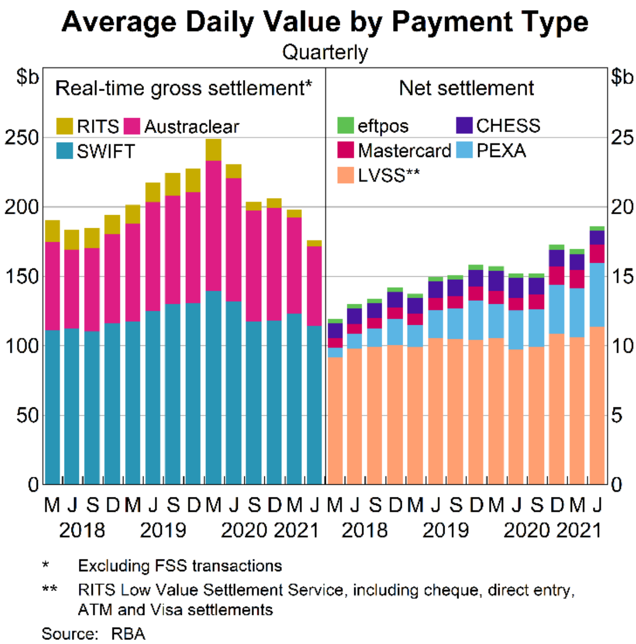
The Reserve Bank of Australia owns, operates and maintains Australia's interbank settlement system, the Reserve Bank Information and Transfer System (RITS). This system is critical for the settlement of interbank obligations arising from the wide range of non-cash payments made in the Australian economy, including card-related transactions, direct entry ('pay anyone') payments, cheques and high-value payments. These obligations are finally and irrevocably settled in RITS through the simultaneous crediting and debiting of Exchange Settlement Accounts (ESAs), which are at-call accounts held at the Reserve Bank on behalf of RITS member institutions. As a result of the Bank's policy response to the COVID-19 pandemic, the supply of Exchange Settlement balances has increased significantly, ensuring the Australian financial system has sufficient liquidity to support economic activity.

Since 1998, high-value 'wholesale' transactions have been settled individually in RITS on a real-time basis through the process of 'real-time gross settlement' (RTGS). These transactions include: large customer, corporate and institutional payments; wholesale debt and money market transactions; and the Australian dollar leg of foreign exchange transactions. In 2020/21, RITS settled an average of 46,600 of these transactions each business day, worth $196 billion, which amounts to RITS turning over the equivalent of Australia's annual GDP every 10 business days. Compared with the previous financial year, this marked a decrease of 8 per cent and 16 per cent in settlement volumes and values respectively. This can largely be explained by the impact of the pandemic on economic and financial market activity, and the unprecedented levels of system liquidity that have depressed interbank lending activity (see chapter on 'Operations in Financial Markets').

Another service of RITS is the Fast Settlement Service (FSS), which enables the real-time gross settlement of transactions initiated through the NPP. Since its public launch in 2018, the NPP has greatly expanded the availability of fast and low-cost payments to Australian consumers, businesses and government agencies. Payments can be made in real-time, 24 hours a day, each day of the year, using unique identifiers (PayIDs) such as phone numbers and emails in addition to traditional bank account numbers. As of June 2021, NPP functionality is available for around four in five Australian bank accounts, with more than 7.7 million PayIDs registered. While RITS provides members with various transaction and liquidity management tools to ensure the efficient settlement of wholesale transactions, the FSS adopts a more streamlined approach to transaction management, which prioritises the high throughput of generally low-value transactions. FSS growth remained on-trend throughout 2020/21, and average daily volumes reached 1.8 million, worth $2.1 billion in June. This growth can largely be attributed to the ongoing migration of account-to-account (pay-anyone) payments from the direct entry system. Real-time settlement in the FSS means that NPP payments can be made with immediate funds availability to the recipient, which has been beneficial for a range of time-critical payments during the COVID-19 pandemic (such as for emergency payments, as noted above under 'Transactional banking services').



While the introduction of NPP and FSS has greatly expanded the availability of real-time payments, the majority of low-value payments are still settled in RITS on a deferred net basis. The RITS Low Value Settlement Service (LVSS) collates interbank obligations. These obligations arise from direct entry payments, cheques, some debit and credit cards, BPAY and ATMs for net settlement at predetermined times throughout the day. In 2020/21, LVSS net settlements totalled around $10.7 billion each day. Another $6.3 billion was settled each day through externally administered batches, whereby an approved entity nets electronic transactions originating from an upstream business operator and submits them to RITS for simultaneous settlement in a 'batch'. This includes obligations arising from eftpos and Mastercard payments, equities transactions processed by the ASX Clearing House Electronic Sub-register System (CHESS), and electronic property transactions processed by Property Exchange Australia (PEXA) and Sympli Australia. Most batches are settled in RITS once per day, with the exception of property batches which are settled throughout each business day. This enables the near real-time settlement of individual property transactions with electronic title lodgement occurring simultaneously at the relevant land titles office. Property settlements in RITS continued to grow through 2020/21, which, along with direct entry payments, contributed to strong growth in the average daily value of net settlements since the December quarter 2020.



Given its critical role in Australia's financial infrastructure, the Reserve Bank continually works to ensure that RITS remains secure and resilient, with particular attention focused on the risk of cyber-attack. The Bank is nearing completion of a third-site data bunker, which aims to minimise the risk of data loss or corruption in the event of a major disruption to the Bank's core systems, including its critical settlement systems. During 2020/21, the Bank participated in industry working groups concerned with preventing payments fraud, uplifting cyber event coordination, and enhancing the security of external connections to RITS and relevant feeder systems. In collaboration with other members of the Council of Financial Regulators, the Bank commenced a pilot threat intelligence exercise. The purpose of the exercise is to identify systemic risks to the integrity and stability of Australia's financial markets.

The COVID-19 pandemic introduced operational risk challenges for RITS members as changes were made to work arrangements and project timetables. Bank monitoring of RITS member incidents indicates that members have avoided significant operational disruption during the pandemic period, although incident numbers and their duration have remained at historically high pre-pandemic levels. The pandemic also had implications for the Reserve Bank's management of operational risks. At the onset of the pandemic, the Bank introduced additional measures to ensure reliable settlement services, including work-from-home arrangements for the majority of staff and liaison with key RITS feeder systems and members. The Bank was able to return to flexible office-based arrangements for most operational staff in early 2021, although work-from-home arrangements for all but a minimum of critical staff were reintroduced in the middle of the year owing to the re-imposition of restrictions on movement in response to heightened pandemic concerns. In 2020/21, RITS and FSS availability was around 99.96 per cent and 99.999 per cent, meeting the targets of 99.95 per cent and 99.995 per cent, respectively.

The Reserve Bank conducts annual assessments of RITS against the Principles for Financial Market Infrastructures (PFMIs), which are international standards set by the Committee on Payments and Market Infrastructures and the Technical Committee of the International Organization of Securities Commissions. The most recent assessment, completed in May 2021, concluded that RITS 'observed' all relevant principles except for operational risk and participant-default risk, which were both 'broadly observed'. To return operational risk to 'observed', the Bank is improving the oversight of maintenance performed by external contractors, and has made a range of improvements to its operational activities through the Bank's Technology Stability Improvement Program. This program, which finished in mid 2021, enhanced the Bank's operational practices through additional resourcing and training, procedural improvements, and better management of patching computer systems. While operational procedures for managing a RITS member default are in place, the Bank will also formally document the relevant decision-making and crisis-management arrangements.

The Reserve Bank is also committed to ensuring RITS continues to meet the functional needs of the payments industry. A multi-year refresh of core network and application infrastructure supporting RITS and related systems was completed during 2020/21, delivering benefits such as increased system resilience and processing throughput. Of particular significance is ongoing work to support the industry-wide migration of AusPayNet's High Value Clearing System to ISO 20022 – a modern and open messaging standard that encourages payments innovation through richer data and better interoperability. For the Bank, this project involves both an upgrade to its back office payments processing systems and also migrating messages currently used by RITS onto the ISO 20022 message standard. The Bank remains on schedule and continues to work closely with the payments industry on message formats and build requirements.

In line with the Financial Stability Board's updated cross-border payments roadmap, the Reserve Bank is participating in various working groups discussing the linkage of domestic fast payment systems. This international initiative aims to address the cost, speed, transparency and access issues that characterise existing cross-border payment arrangements. The potential synergies of an agreed ISO 20022 messaging format in this context are also being considered.

The Bank continues to play a role in promoting competition and innovation in payments systems, including by enabling broad-based access to settlements infrastructure like RITS. Following amendments to the *Banking Act 1959* in 2018, there has been an increase in non-traditional, non-authorised deposit-taking institutions, such as fintechs, seeking to operate ESAs, including money remitters, card acquirers and third-party payment providers.

As of 30 June 2021, there were 167 RITS members, of which 102 held ESAs and a further 65 held RITS membership solely for the purpose of participating in the Bank's domestic market operations. Of the 102 ESA holders, and in addition to the Bank itself, 94 were authorised deposit-taking institutions (ADIs) with the remainder consisting of central counterparties, securities settlement facilities and non-ADI payment service providers. During 2020/21, five 'batch administrators' submitted external batches to RITS for settlement and 13 RITS ESA members directly settled NPP transactions through the FSS.

The Reserve Bank offers correspondent banking services to other central banks and official institutions overseas to allow for settlement of certain Australian dollar payments and provides safe custody services to these overseas agencies. The face value of securities held in custody by the Bank in this capacity was around $89 billion at the end of June 2021. The Bank also provides settlement services for banknote lodgements and withdrawals by commercial banks.

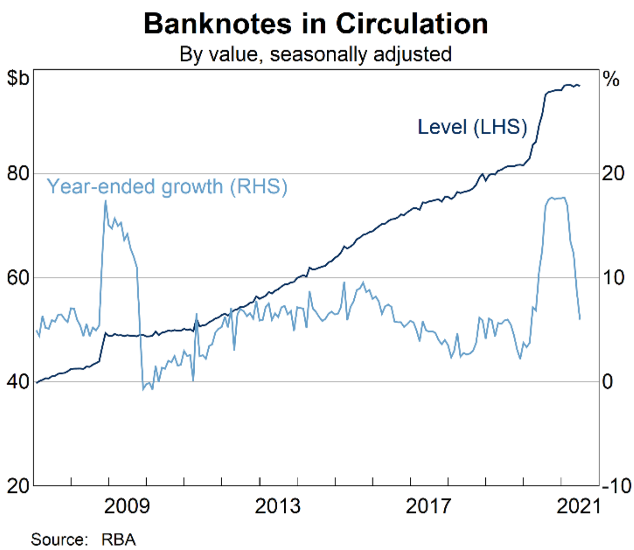
Banknotes

The Reserve Bank is responsible for producing and issuing Australia's banknotes. In this role, the Bank ensures that banknotes in circulation are of high quality and that the threat of counterfeiting is low. In late 2020, the Bank concluded the decade-long Next Generation Banknote (NGB) program with the release of the new $100 banknote. This program involved the design and development of a new banknote series to make Australia's banknotes more secure from counterfeiting. The new banknote series has been well received by the public and counterfeiting rates have remained low.

The COVID-19 pandemic continued to affect banknote demand throughout 2020/21. The demand for $50 and $100 banknotes remained strong in the second half of 2020, but abated over the first half of 2021. The demand for lower-value banknotes remained subdued, consistent with the ongoing decline in the use of cash as a means of payment. The continued decline in cash use for transactions has implications for the economics of banknote distribution and, as a result, the Bank will be commencing a consultation on banknote distribution arrangements in the second half of 2021.

Circulation

The strong growth in banknote demand experienced at the onset of the COVID-19 pandemic continued into the first half of 2020/21, with growth in banknotes in circulation peaking at 17.8 per cent over the 12 months to January 2021 before declining later in the year. Commercial banks purchased $9.7 billion in banknotes from the Reserve Bank during 2020/21, with more than half of these purchases occurring in July and August 2020. The value of banknotes in circulation subsequently declined by 3.1 per cent over the six months to June 2021 as commercial banks returned more (typically unfit) banknotes to the Reserve Bank than they purchased. This decline was more protracted than the usual seasonal pattern, with the value of banknotes in circulation having grown at a below-trend rate. Overall, the value of circulating banknotes increased by 6 per cent over 2020/21, which is close to the average of the past decade. At the end of June 2021, there were 1.9 billion banknotes in circulation, worth $95.5 billion. As a per cent of nominal GDP, the value of currency in circulation reached a historical high of 4.8 per cent during the year.



The growth in banknotes in circulation over 2020/21 was driven by demand for $50 and $100 banknotes. The strong demand for high-denomination banknotes suggests an increased desire in the community to hold banknotes as a precaution or store of wealth during the pandemic.[1] Subdued issuance of low-value banknotes since July 2020 can be explained by the decline in the use of cash as a means of payment. These shifts are an acceleration of trends in banknote demand that have been occurring for many years, which look set to continue. In a survey conducted by the Reserve Bank in October 2020, 44 per cent of individuals reported they had used cash less since the start of the pandemic; of those, 63 per cent felt this change in their payment behaviour would continue in the future.

Banknotes in Circulation

Annualised growth, by value

	$5	$10	$20	$50	$100	Total
FY2020/21	–1.0	–0.6	–1.4	5.9	7.2	6.0
10-year average[(a)]	4.9	3.9	3.2	5.6	6.7	5.9

(a) 10 years up to and including February 2020

Sources: RBA

The Bank also surveyed retail businesses about their acceptance of cash. In September 2020, 96 per cent of merchants accepted cash, a small decline since the previous survey in February 2020. While cash acceptance remains high, the Bank will continue to monitor this through its involvement on the Australian Payments Council.

The Bank also monitors how accessible cash is for the community as measured by distance to an ATM or bank branch. Access has been broadly unchanged since 2017 and generally remains good, with around 95 per cent of people living within about 5 kilometres of a cash access point.[2] However, there is limited access to cash in some regional and remote parts of Australia. People in these areas must travel longer distances to access cash, and the available access points do not always have nearby alternatives.

Despite the strong growth in banknotes in circulation, the continued decline in cash use for transactions is putting pressure on the economics of the cash system. Banks have rationalised their ATM and bank branch networks and have sold some of their ATMs to third parties. With these pressures having been exacerbated by the impact of the COVID-19 pandemic, the Reserve Bank will be consulting with industry on banknote distribution arrangements in the second half of 2021.

1 See Guttmann R, C Pavlik, B Ung and G Wang (2021), 'Cash Demand During COVID-19', RBA *Bulletin*, March.

2 See Caddy J and Z Zhang (2021), 'How Far Do Australians Need to Travel to Access Cash?', RBA *Bulletin*, June.

Next Generation Banknote program

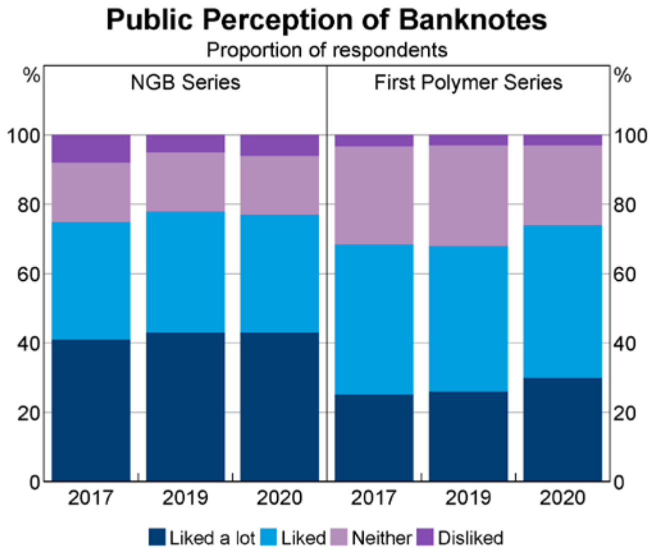
To ensure that Australian banknotes remain secure against counterfeiting, the Reserve Bank has issued an upgraded series of banknotes in recent years.[3] The new $5 banknote was released in 2016, the new $10 in 2017, the new $50 in 2018, and the new $20 in 2019. The new $100 banknote, the final denomination to be upgraded as part of the Reserve Bank's decade-long Next Generation Banknote (NGB) program, entered general circulation in October 2020.

The new $100 banknote continues to feature portraits of Dame Nellie Melba and Sir John Monash. Melba was an internationally renowned soprano who performed in Australia, Europe and the United States and taught at the Melba Memorial Conservatorium of Music, now the Melba Opera Trust. Monash was an engineer, soldier and civic leader recognised for his influence in the building-construction industry and service as a commander in the First World War. On the new $100 banknote, a number of dynamic security elements are integrated with the top-to-bottom window, including a reversing '100' in the Shrine of Remembrance, which Monash was instrumental in building. There is also a three-dimensional fan with colourful lines, representing Melba's career as a performer.

The NGB program was a complex, long-running and ultimately successful program. It delivered an upgraded polymer banknote series that retains many of the key design elements of the first polymer banknote series – including the colour, size and people portrayed – but also has a range of innovative new security features. As a result, the upgraded banknote series is significantly more secure from counterfeiting than the first polymer banknote series. It also has a new feature to assist people with vision impairment – a series of raised bumps – which has improved the accessibility of Australia's banknotes.

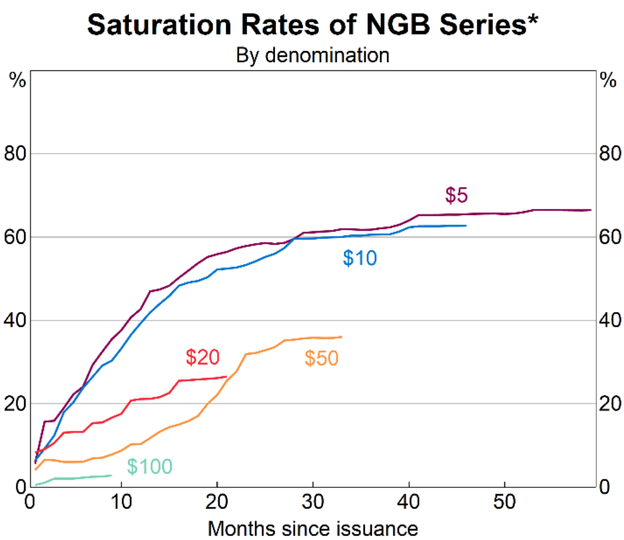
Research conducted for the Reserve Bank indicates that the NGB series has been well received by the Australian public. The 2020 Reserve Bank Online Banknote Survey found that a majority of people have now used a new banknote and around three-quarters indicated they liked them. Features that respondents particularly liked included their durability, their 'Australian look' and the fact that the banknotes are waterproof. Respondents also liked the inclusion of clear windows and the tactile feature on the banknotes. In contrast, some participants expressed concern about the slipperiness of the banknotes and that they are made of plastic.

[3] For additional information on the NGB program, see Hickie K, K Miegel, M Tsikrikas (2021), 'Review of the NGB Upgrade Program', RBA *Bulletin*, June.



Source: RBA

As at the end of June 2021, new series banknotes made up two-thirds of all outstanding $5 and $10 notes, over a third of $50 notes and a quarter of $20 notes (the 'saturation' rate). However, in samples of notes in day-to-day use (active circulation), the proportion of new series $5 and $10 notes were much higher at more than 95 per cent. This high rate, coupled with little change over the last year, suggests that saturation of the smallest denomination banknotes has reached a limit. As such, there will be some older series banknotes that are unlikely to be returned to the Reserve Bank in the near term, if at all, as they are stored, lost or held abroad. The new $100 note, which was released in October 2020, made up just 2.8 per cent of all $100 notes in circulation and is not expected to increase quickly, given the high volume of the denomination that entered circulation during the early part of the pandemic together with it mainly being used as a store of value rather than circulating more actively.



* Saturation rate – proportion of second polymer series banknotes to total banknotes in circulation

Source: RBA

Distribution and storage

The Reserve Bank operates as a wholesaler of banknotes, issuing banknotes to commercial banks, which, in turn, have arrangements in place to distribute banknotes around the country to meet the demands of their customers. As the Bank had drawn down the stock of previously issued banknotes during the COVID-19 pandemic, almost all of the issuance by the Reserve Bank in 2020/21 were new banknotes; less than 1 per cent of the $9.7 billion issued to commercial banks in 2020/21 were banknotes that had previously been in circulation but had since returned to the Bank and were deemed fit for reissue. As noted above, the bulk of this distribution activity occurred in the first half of the 2020/21 financial year.

The Reserve Bank's purpose-built National Banknote Site (NBS) at Craigieburn, Victoria is the primary centre for the Bank's processing, distribution and storage of banknotes. The distribution site in Sydney was closed for business-as-usual distribution activities in late 2019, although it retains a holding of banknotes for contingency purposes. The contingency arrangements at the Sydney site were activated for three weeks in late July and early August 2020 (as well as in March 2020) in response to heightened demand for banknotes in the face of domestic transport restrictions associated with the pandemic. Once concerns about transport eased, the Sydney site returned to being a contingency-only site for the remainder of 2020/21.

The Reserve Bank aims to maintain a high quality of banknotes in circulation as high-quality banknotes are more readily handled by machines and make it more difficult for counterfeits to be passed. Accordingly, the Bank has arrangements that encourage the commercial banks and the cash-in-transit companies to sort the banknotes they handle to agreed quality standards. Based on this sorting, banknotes that remain fit for circulation are redistributed, while those that are deemed unfit are returned to the Reserve Bank. These unfit banknotes are assessed to confirm their authenticity and quality and are then destroyed. In 2020/21, the Bank received $3.9 billion worth of banknotes deemed unfit for recirculation.

The Reserve Bank also removes banknotes from circulation through its Damaged Banknotes Facility. The facility is offered to members of the public who unwittingly have come into possession of damaged banknotes or whose banknotes are accidentally damaged. Claims that meet the requirements set out in the Bank's Damaged Banknotes Policy are paid based on their assessed value.

Throughout 2020/21, the Damaged Banknotes Facility continued to operate to ensure that reimbursement of claims to members of the public could occur. Physical distancing and reduced staffing associated with the COVID-19 lockdown in Victoria (where damaged banknotes are assessed) meant that processing of claims was slower than usual. However, with easing of restrictions in late 2020, much of the backlog of claims has now been cleared. In 2020/21, the Bank processed around 11,600 claims and made $5 million in payments. Of these, 20 claims worth around $234,000 were received from members of the public whose banknotes were damaged during the Australian 2019/20 bushfires. To date, the Bank has paid a total of $426,000 for 54 claims relating to these bushfires.

Photographs of banknotes damaged in Australia's 2019/20 bushfires. The extent of damage to the banknotes varied, depending on how the banknotes were stored at the time of the bushfires.

Counterfeiting rates

The level of counterfeiting in Australia remains low by international standards. In 2020/21, around 18,000 counterfeits, with a nominal value of $1.4 million, were detected in circulation. This corresponds to a counterfeiting rate of around 10 counterfeits detected per million genuine banknotes in circulation. Although the total number of counterfeits and the counterfeiting rate have decreased, counterfeiting of the $100 denomination remained elevated in 2020/21 compared to previous years. Counterfeiters continue to target first polymer series banknotes; there has been very little counterfeiting of the new NGB banknotes to date.

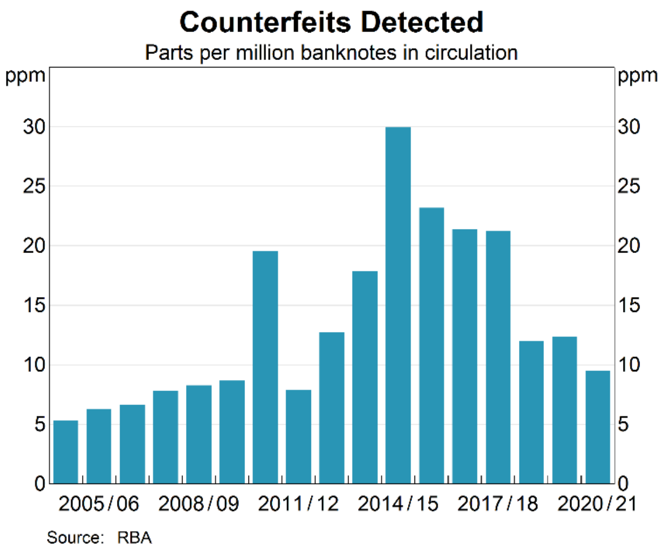
Counterfeit Banknotes in Australia[(a)]

2020/21

	$5	$10	$20	$50	$100	Total
Number	3	25	242	7,261	10,572	18,103
Nominal value ($)	15	250	4,840	363,050	1,057,200	1,425,355
Counterfeiting rate (counterfeits per million banknotes in circulation)	0.01	0.2	1.3	7.7	24.7	9.5

(a) Figures are preliminary and subject to upward revision because of lags in counterfeit submissions to the RBA

Source: RBA



Law-enforcement efforts to investigate and prosecute counterfeiting operations play a significant role in managing the threat of counterfeiting.[4] The Reserve Bank supports court proceedings around Australia through the provision of information about counterfeit currency and expert witness statements. In 2020/21, the Bank completed 187 statements relating to 2,728 counterfeits. In addition, the Bank is aware of 21 court proceedings that occurred during the year relating to the possession, passing and making of counterfeit currency.

At times, police operations are able to prevent counterfeit banknotes from entering into general circulation. In 2020/21, police seizures of counterfeits accounted for 18 per cent of all counterfeits detected, double the long-run average and driven primarily by an increase in higher volume seizures during the year. In 2020/21, a case that began in 2019 and was led by the Australian Federal Police also concluded and can now be reported. The case involved the seizure of more than 382,000 counterfeit banknotes, with a face value of $30 million, and represents the largest seizure of Australian counterfeit currency to date. The banknotes were being imported into Australia for use in Chinese New Year festivities; however, their resemblance to genuine banknotes means they are deemed counterfeit under the *Crimes (Currency) Act 1981*. The banknotes are of very poor quality, but have previously been accepted as genuine banknotes, and so preventing such a large quantity of counterfeit banknotes entering Australia is of particular significance.

4 For additional information on a counterfeiting incident resolved through the actions of law enforcement agencies and the RBA, see Miegel K and K Symeonakis (2020), 'A Counterfeit Story: Operation Gridline', RBA *Bulletin*, December.

Banknote research and development

The Reserve Bank maintains an active banknote research and development program to develop cost-effective counterfeit-resistant security features and detection technologies for Australian banknotes. The primary purpose of this program is to ensure that Australia's banknotes remain durable and secure against counterfeiting and are easy to authenticate for a wide variety of users. This is achieved in part through collaboration with domestic and international experts from various external organisations, including universities, public and private companies, research institutes and other central banks. Fundamental to this program is a continuing assessment of the vulnerability of banknotes to different forms of counterfeiting, the mechanisms by which banknotes wear in circulation, production capability, and how the public and banknote-processing machines use and authenticate banknotes. This work has been complemented by the design and manufacture of new instrumentation for quality assurance and the development of testing methodologies for the assessment of banknotes. Over 2020/21, there was also a strong focus on product and process improvements on the new banknote series.

Governor Philip Lowe holding a new $100 banknote with third-grade student Leo, October 2020

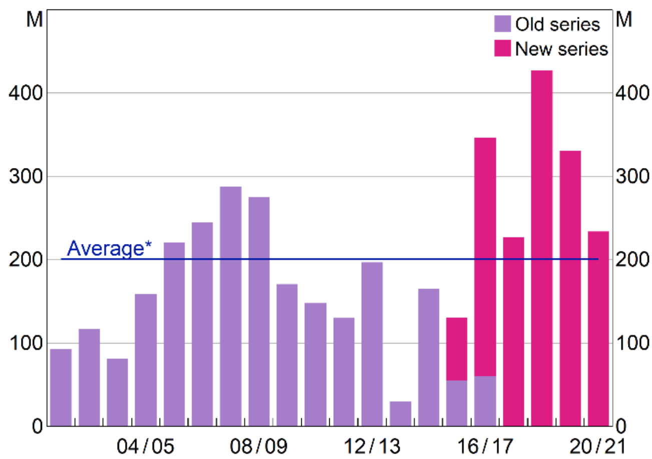
Note Printing Australia Limited (NPA)

NPA is a wholly owned subsidiary of the Reserve Bank that produces banknotes and passports for Australia. It also prints banknotes and other security products for other countries. In 2020/2021, NPA delivered 234 million Australian banknotes to the Bank, comprising 21 million new series $5 banknotes, 90 million new series $20 banknotes, 61 million new series $50 banknotes, and 62 million new series $100 banknotes. In comparison, in 2019/20, 331 million Australian banknotes were delivered to the Bank by NPA. For more details about NPA, see the chapters on 'Governance and Accountability' and 'Operational Structure'.

The total amount paid by the Reserve Bank to NPA in 2020/21 for the supply of banknotes and related services was $74 million, compared with $90 million in the previous year.

In addition, NPA produced 1.13 million P Series passports for Australia's Department of Foreign Affairs and Trade in 2020/21. NPA also delivered 227 million banknotes under contract to Malaysia, Papua New Guinea, Singapore and Vanuatu, dealing directly with the respective central banks in those countries.

Banknote Purchases



* Average banknote purchases over displayed time period

Source: RBA

International Financial Cooperation

The Reserve Bank participates in international efforts to address the challenges facing the global economy and financial system, and improve the international financial architecture. It does so through its membership of global and regional forums and its close bilateral relationships with other central banks.

Group of Twenty (G20)

Purpose

The G20 is a forum for international cooperation on economic, financial and other policy issues among the 20 largest global economies, including Australia, as well as the International Monetary Fund (IMF) and other international organisations. The G20 was chaired by Saudi Arabia from December 2019 to November 2020, and has been chaired by Italy since December 2020.

Reserve Bank involvement

The Reserve Bank is represented at high-level meetings of the G20 by the Governor and Assistant Governor (Economic), while other senior staff participate in select G20 working groups and contribute to the G20's work on financial sector issues.

The G20 has served as a key forum for members to cooperate in their responses to the COVID-19 pandemic, discuss key risks to the economic outlook and share experiences on economic and financial policy measures. An action plan to support the global recovery through the pandemic was agreed in April 2020 and updated in 2021 to reflect the ongoing impact of the pandemic and the evolving economic outlook. The G20 has also made material progress on developing a common framework to facilitate the restructuring of unsustainable debts owed by low-income countries to official foreign creditors. In April 2021, the G20 agreed to re-establish the Sustainable Finance Working Group, which aims to help mobilise finance to support the goals of the Paris Agreement on climate change. All G20 meetings were conducted via videoconference facilities during 2020/21.

In addition to the meetings of finance ministers and central bank governors and their deputies, Reserve Bank staff participated in three G20 working groups:

- The Framework Working Group has been identifying and monitoring risks to the economic outlook, including the impacts of climate change, as well as considering macroeconomic policy settings.[1] This group also made progress towards exploring policies that productively and inclusively encourage digitalisation in the economy.
- The Working Group on International Financial Architecture has focused on facilitating a temporary suspension of debt repayments by low-income countries to official creditors in the wake of the pandemic. Given the ongoing challenges faced by these countries, the group also worked on a common framework to guide the restructuring of official sector debt for countries facing debt distress. It has also monitored volatility in capital flows in emerging market economies and how countries have responded.

[1] The Framework Working Group helps to implement the G20's 'Framework for Strong, Sustainable and Balanced Growth'.

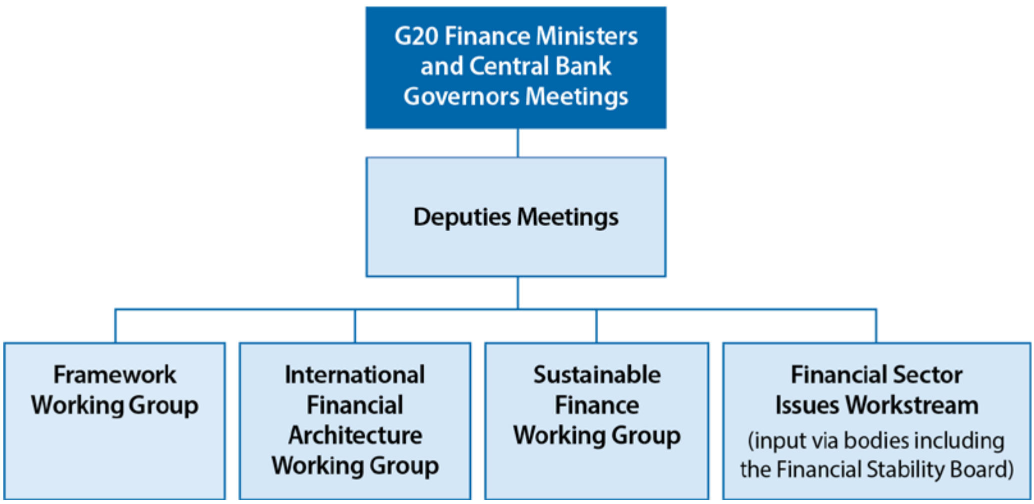
- The Sustainable Finance Study Group was re-established in 2021 and upgraded to a working group with a mandate that includes identifying barriers to sustainable finance. A key deliverable of the group is a multi-year Roadmap for Sustainable Finance – work on the Roadmap in 2021 will focus on climate change. In addition, in 2021 the group will produce reports on the following three focus areas: improving corporate sustainability reporting and disclosure; improving compatibility of approaches to identify, verify and align investments to sustainability goals; and enhancing the role of international financial institutions in supporting Paris climate commitments. In future years, the group will report on progress against the Roadmap, and expand it to cover topics beyond climate change such as broader environmental, social and governance (ESG) issues.

Governor Philip Lowe (second row from the top, second from left) with participants at the G20 Finance Ministers and Central Bank Governors Meeting, April 2021. Source: G20 Italia

Financial sector issues – in particular, implications of the pandemic – continued to be an important part of the G20's agenda over the past year. Early in the pandemic, the G20's emphasis was on using the flexibility already allowed for in existing regulatory standards to support the financial system, and on assessing vulnerabilities (such as the solvency of non-financial corporations) arising from the pandemic and related restrictions on economic activities. More recently, there has been a shift towards supporting the economic recovery, including by ensuring the flow of finance to the real economy. Accordingly, the G20 cautioned that measures supporting the recovery should not be withdrawn prematurely. The G20 continues to take stock of the lessons learned during the pandemic, including identifying areas where further progress could be made to improve the resilience of the financial system.

Due to the economic recovery, the Financial Stability Board (FSB) and other global bodies have been able to resume work that had been suspended as part of the international re-prioritisation of work in light of the COVID-19 pandemic. In particular, joint work between the FSB and global standard-setting bodies has resumed on a range of issues including non-bank financial intermediation (NBFI), climate-related work and cross-border payments. As discussed below, the Reserve Bank is involved in some of these workstreams. The Bank works with other domestic agencies with responsibilities for financial stability and regulation through the Council of Financial Regulators (CFR). The CFR also provides a forum for agencies to coordinate their work within international groups, according to their mandates.

Reserve Bank Involvement in the G20



Financial Stability Board (FSB)

Purpose

The FSB promotes international financial stability by coordinating national financial sector authorities and international standard-setting bodies as they work towards developing strong regulatory, supervisory and other financial sector policies. It also plays a central role in assessing new and evolving global trends and risks.

FSB members include representatives from 24 economies, as well as the main international financial institutions – including the Bank for International Settlements (BIS) and the IMF – and standard-setting bodies such as the Basel Committee on Banking Supervision (BCBS).

Reserve Bank involvement

The decision-making body of the FSB is the Plenary. The Governor is a member of the Plenary, as well as the Steering Committee and the Standing Committee on Assessment of Vulnerabilities.

Senior Bank staff, mainly from Financial Stability and Payments Policy departments, participate in meetings of various FSB groups, including:

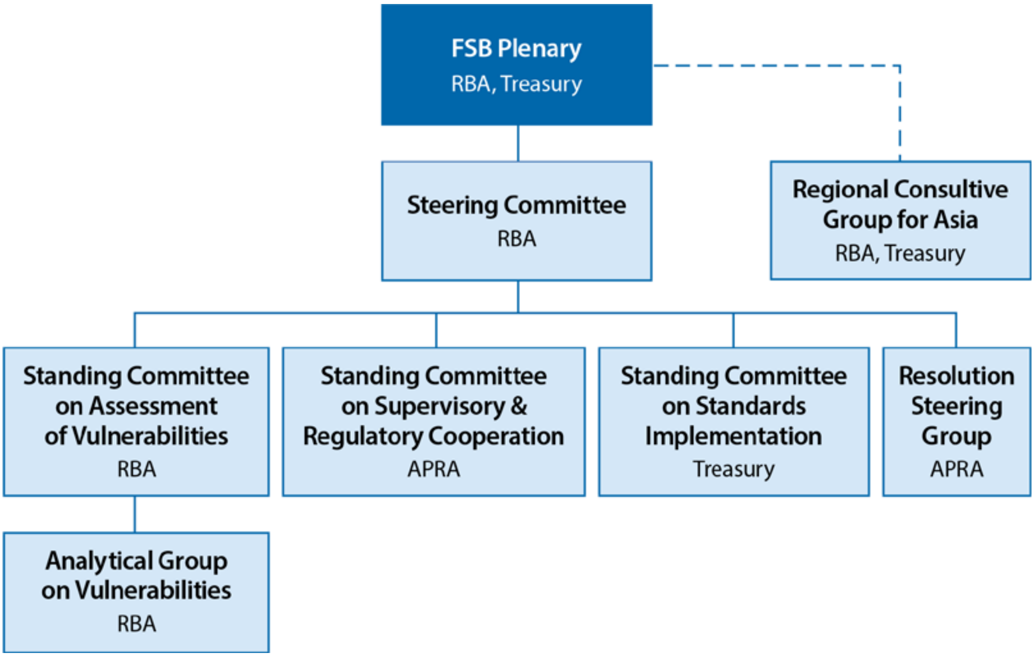
- the Analytical Group on Vulnerabilities, which supports the work of the Standing Committee on Assessment of Vulnerabilities
- the Financial Innovation Network
- the Official Sector Steering Group
- the Working Group on Regulatory Issues of Stablecoins.

A key role of the FSB is monitoring financial system trends and developments, to identify, assess and address new and emerging risks to global financial stability. The FSB also has an important coordination role, which was evident in its response to the COVID-19 pandemic via the sharing of information on policy responses and assessing their effectiveness. In April 2021, the FSB published a report setting out the relevant considerations, and trade-offs, when unwinding support measures. The report highlighted the benefits of a flexible 'state-contingent' approach when considering whether to extend, amend or end regulatory support measures, and to do so in a gradual and targeted way to minimise long-term financial stability risks. In July 2021, the FSB presented an interim report to the G20 on the initial lessons learnt from the pandemic for financial stability. It found that the global financial system has thus far weathered the pandemic thanks to greater resilience, supported by the G20 reforms following the Global Financial Crisis (GFC), and the swift and determined international policy response. Authorities broadly used the flexibility within agreed international standards to support financing to the real economy.

Assessing vulnerabilities arising from the pandemic is part of the broader vulnerabilities work conducted by the FSB, which is a core part of its mandate. During the year, a working group under the FSB's Standing Committee on Assessment of Vulnerabilities resumed its development of a comprehensive surveillance framework for assessing global financial system vulnerabilities. The Bank's Assistant Governor (Financial System) chaired one of the group's workstreams, which developed a survey allowing respondents to detail their top domestic, global and emerging vulnerabilities. This survey forms part of the new surveillance framework.

Another key focus of the FSB's vulnerabilities work over the year has been the NBFI sector, and developing reforms to enhance its resilience. Given the turmoil experienced by money market and other funds during the peak of the pandemic, the FSB's initial focus is on these areas. The Bank contributes to this work through its ongoing membership of the FSB's Non-bank Monitoring Experts Group, which conducts an annual global monitoring exercise to assess NBFI trends and analyse potential risks.

Australian Involvement in Key FSB Committees



As health and economic outcomes improved throughout 2020/21, the FSB was able to progress further its non-pandemic-related work in several other areas, including previously agreed priorities on the G20 financial regulatory agenda. This work is being conducted through a number of groups, including some in which the Bank participates, such as:

- The Financial Innovation Network, which undertakes analysis of the financial stability implications of financial innovation, including through financial technology ('FinTech'). Recent focus areas have included: the provision of financial services by 'BigTech' firms in emerging market and developing economies; the use of regulatory and supervisory technology ('RegTech' and 'SupTech') by financial institutions and regulators; and ongoing monitoring of crypto-asset developments.
- The Working Group on Regulatory Issues of Stablecoins, which has been examining evolving approaches to the regulation, supervision and oversight of global stablecoin arrangements.
- The Cross-border Crisis Management Group for Financial Market Infrastructures (a sub-group of the Resolution Steering Group), which has been working on resolution arrangements for central counterparties (CCPs). This has included issuing guidance in November 2020 on financial resources to support CCP resolution and the treatment of equity in resolution, and conducting the first resolvability assessment process for systemically important CCPs. The group also held a series of workshops for bank and CCP supervisory and resolution authorities to discuss the potential financial stability impact from the use of recovery and resolution tools, led jointly with

the BCBS, the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO).

- The Official Sector Steering Group, which is progressing reforms of interest rate benchmarks, including coordinating the transition away from the London Inter-Bank Offered Rates (LIBOR) towards alternative interest rate benchmarks by the end of 2021, when most LIBOR tenors will cease. A key focus of this group is to ensure financial markets and institutions are well prepared for a smooth transition away from LIBOR by the end of 2021, with no new use of LIBOR in contracts beyond this date.
- The working group evaluating the '-big-to-fail' (TBTF) reforms. As part of a program of assessing the effectiveness of post-global financial crisis (GFC) reforms, this group examined the extent to which the TBTF reforms have reduced the systemic and moral hazard risks associated with global and domestic systemically important banks, as well as their broader effects on the financial system. In its final report released in March 2021, it found that the TBTF reforms have made banks more resilient and amenable to resolution, and that reforms have produced net benefits for society.
- The working group looking at US-dollar funding and emerging market economy (EME) vulnerabilities. This group is examining the interaction of US-dollar funding pressures and fund outflows in EMEs, as input into enhanced risk monitoring and discussions on policies to address systemic risks in NBFI. The FSB will update the G20 in October on work in this area as part of a progress report on its overall NBFI work program.

The FSB is also progressing international policy work to enhance cross-border payments that had been a priority of Saudi Arabia (which held the 2020 G20 Presidency). In October 2020, the G20 endorsed a 'Roadmap' developed by the FSB, in coordination with the CPMI and other international bodies, to make cross-border payments cheaper, faster, more transparent and more inclusive. The Roadmap sets out an ambitious five-year program of goals, milestones and responsibilities to address various inter-related frictions in wholesale and retail cross-border payment arrangements. The first major action on the Roadmap was the May 2021 release of a consultation on the FSB's proposed global targets for cost, speed, transparency and access. The targets are intended to act as a foundation for the subsequent work within the Roadmap. The G20 has asked the FSB to monitor progress on the Roadmap work and report annually (with the first progress report due in October 2021). Bank staff were involved in the development of the Roadmap, and are participating in a number of international working groups that deal with aspects of the Roadmap work, including an FSB working group assessing the issue of 'know-your-customer' (KYC) and identity information sharing (see below under 'CPMI').

The FSB is also engaged in other work priorities, including cyber security and addressing the effects of climate change on the financial sector. As noted above, the FSB has ongoing work to evaluate the effectiveness of the G20's financial sector reforms following the GFC, as well as monitoring the implementation of those and other financial sector regulatory changes. More generally, and as its response to the GFC and the pandemic demonstrated, the FSB would again play a central coordinating role for the G20 in the face of any emerging risks and issues affecting the global financial system in the period ahead.

Bank for International Settlements (BIS)

Purpose

The BIS and its associated committees play an important role in supporting collaboration among central banks and other financial regulatory bodies. They do so by bringing together officials to exchange information and views about the global economy, vulnerabilities in the global financial system and other issues affecting the operations of central banks.

Reserve Bank involvement

The Reserve Bank is one of 63 central banks and monetary authorities holding shares in the BIS. The Governor or Deputy Governor participates in the bimonthly meetings of governors and in meetings of the Asian Consultative Council. The Governor chairs the Committee on the Global Financial System (CGFS), and the Assistant Governor (Financial Markets) is a member of the Markets Committee and the CGFS.

The CGFS seeks to identify potential sources of stress in the global financial system and promotes the development of well-functioning and stable financial markets. The Markets Committee considers how economic and other developments, including regulatory reform and technological change, may affect financial markets, particularly central bank operations.

These committees have been monitoring the challenges for financial systems and markets from the COVID-19 pandemic, and provide an important means for central banks to share perspectives on the evolving economic recovery and their policy responses. Areas of focus have included: monitoring global financial vulnerabilities, including the risks around so-called 'cliff edges' that could arise when support programs come to an end; market functioning during the crisis, including in international US dollar funding markets, and associated policy responses; the risks posed by volatile capital flows, especially in light of the more protracted health and economic recovery in many EMEs; the development of markets for bail-in-able debt; and ESG considerations in central bank operations.

These committees also carried out work on a number of longer-term topics through the year, many of which took on additional relevance in light of the pandemic. During 2020/21, Reserve Bank staff participated in a number of committee sub-groups, including:

- a CGFS working group on debt and financial stability, examining drivers of aggregate debt and its main trends, the relationship between household and corporate debt and financial stability, and how policymakers can manage risks to financial stability
- a Markets Committee working group on market functioning, looking at the tools available to central banks to respond to market dysfunction in core local currency markets, the efficacy of those tools in different scenarios and market structures, and their potential benefits and costs
- a Markets Committee study group looking at the rising use of foreign exchange execution algorithms and market functioning, with the final report published in October 2020
- an Asian Consultative Council study group on Asia-Pacific foreign exchange markets looking at ways to strengthen market monitoring, develop deep and efficient foreign exchange markets, and encourage widespread use of foreign exchange hedging.

The BIS Innovation Hub launched the BIS Innovation Network in January 2021, and established working groups to support the Innovation Hub's priorities. The Reserve Bank chairs the working group exploring the application of emerging supervisory and regulatory technologies to common challenges facing member central banks.

Basel Committee on Banking Supervision (BCBS)

Purpose

The BCBS is hosted by the BIS and is the primary international standard-setting body for the banking sector. It provides a forum for regular cooperation on banking supervisory matters among its 28 member jurisdictions. It seeks to enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide.

Reserve Bank involvement

The Governor is a member of the Group of Governors and Heads of Supervision (GHOS), which is the oversight body for the BCBS. The Assistant Governor (Financial System) is a member of the BCBS.

As the main global standard-setter for the banking sector, the COVID-19 pandemic's risks to the banking system and related vulnerabilities were again key focus areas of the BCBS over the past year. Given early concerns that a severe pandemic and extreme containment measures could affect bank resilience, the BCBS responded quickly to help coordinate prudent and measured adjustments to banking standards in order to support banks through the crisis (such as deferrals in the implementation schedule for key BCBS reforms). More broadly, post-GFC reforms had enhanced bank resiliency over the past decade, with banks having ample capital and liquidity heading into the pandemic. Further, the BCBS reiterated that banks could make use of capital and liquidity buffers if needed so as to absorb financial shocks and to support the real economy by continued lending.

While health and economic outcomes have improved, the BCBS continues to monitor developments relating to the pandemic and its risks for the banking sector, especially given an uneven economic recovery and an uncertain global economic environment. In particular, the GHOS tasked the BCBS with continuing to pursue a coordinated approach on appropriate prudential responses to the crisis, so as to preserve a level playing field and avoid regulatory fragmentation. The Bank, along with the Australian Prudential Regulation Authority (APRA), was involved in these and broader discussions at BCBS meetings over the year.

In addition to focusing on the pandemic, the BCBS resumed or initiated work in other areas during 2020/21. This included releasing two sets of principles that strengthen the operational resilience of banks. This was particularly timely given the pandemic tested banks' operational resilience via increased remote working arrangements and their reliance on technology and third-party suppliers. As with other bodies, the BCBS continues to evaluate its post-GFC reforms, to assess their effectiveness and determine if there are gaps or unintended consequences. A current evaluation is assessing the impact of Basel III standards during the pandemic. Over the year, the GHOS endorsed the BCBS's 2021–22 workplan, as well as the recommendations arising from a strategic review by the BCBS, to focus on new and emerging topics, including structural trends in the banking sector, digitalisation of finance and climate-related financial risk.

The Bank had been a member of the BCBS's Macroprudential Supervision Group (MPG) for several years. This group monitored system-wide risks arising from the banking sector and, among other areas, worked on the design and implementation of the global systemically important bank and counter-cyclical capital buffer regimes. However, following the BCBS's recent strategic review, several new working groups were established. The MPG's role was merged into one of the new bodies and the Reserve Bank is currently reviewing its membership across the new working groups.

Committee on Payments and Market Infrastructures (CPMI)

Purpose

The CPMI is hosted by the BIS. It serves as a forum for central banks to monitor and analyse developments in payment, clearing and settlement infrastructures, and sets standards for these sectors. The CPMI has 28 member institutions.

Joint working groups of the CPMI and IOSCO bring together members of these two bodies to coordinate policy work on the regulation and oversight of financial market infrastructures (FMIs).

Reserve Bank involvement

Staff members from Payments Policy Department are members of the CPMI, the CPMI-IOSCO Steering Group, the CPMI-IOSCO Implementation Monitoring Standing Group and the CPMI-IOSCO Policy Standing Group. The Head of Payments Policy Department was the Chair of the CPMI's RTGS (Real-time Gross Settlement) Working Group, which included a staff member from Payments Settlements Department as a participant.

Staff members from the Payments Policy and Payments Settlements departments are participating in a number of CPMI workstreams contributing to the G20 Roadmap to enhance cross-border payments, including groups looking at improving cross-border payment providers' access to payment systems, harmonising cross-border payment message formats and data protocols, and exploring issues involved in possible new infrastructure for cross-border payments (such as global stablecoins and central bank digital currencies).

The CPMI published a number of reports during the year to which Payments Policy Department staff contributed, including a report in July 2021 on the issues associated with the possible use of central bank digital currencies for cross-border payments. Staff members also contributed to a CPMI-IOSCO implementation monitoring report.

Cooperative oversight arrangements

Purpose

The Reserve Bank participates in several multilateral and bilateral arrangements to support its oversight of foreign-headquartered FMIs that play an important role in the Australian financial system.

Reserve Bank involvement

Staff from Payments Policy Department participated in:

- an arrangement led by the Federal Reserve Bank of New York to oversee CLS Bank International, which provides a settlement service for foreign exchange transactions
- a global oversight college and a crisis management group for LCH Limited, both chaired by the Bank of England
- an information-sharing arrangement with the US Commodity Futures Trading Commission, in relation to CME Inc
- the Society for Worldwide Interbank Financial Telecommunication (SWIFT) Oversight Forum, chaired by the National Bank of Belgium (NBB)
- the Multilateral Oversight Group for Euroclear Bank, chaired by the NBB
- discussions hosted by the Swiss Financial Market Supervisory Authority on a payment system licence application by the Swiss-based Diem Association in respect of the proposed Diem (formerly Libra) stablecoin payment system (the application has since been withdrawn following a strategic shift in the Diem project to the United States).

International Monetary Fund (IMF)

Purpose

The IMF oversees the stability of the international monetary system via:

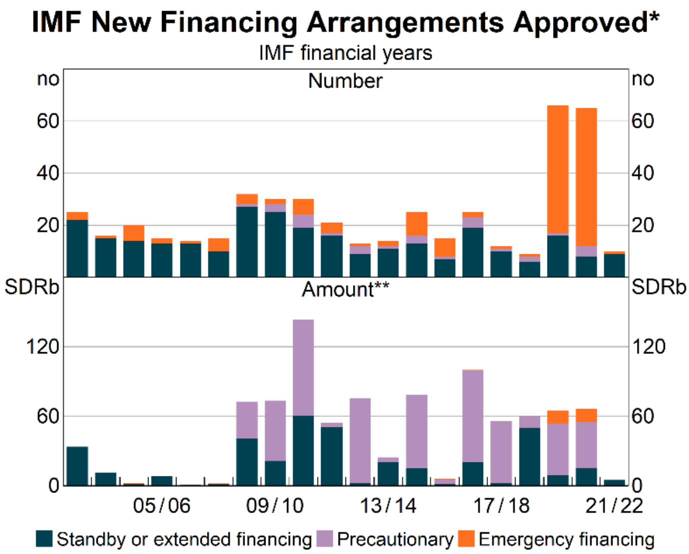
- bilateral and multilateral surveillance, which involves monitoring, analysing and providing advice on the economic and financial policies of its 190 members and the linkages between them; Article IV consultations, which are a key means to do this, are conducted for Australia every year
- the provision of financial assistance to member countries experiencing actual or potential balance of payments problems.

Reserve Bank involvement

Australia holds a 1.38 per cent quota share in the IMF and is part of the Asia and the Pacific Constituency, which is represented by one of the IMF's 24 Executive Directors. Australia also contributes to the IMF's supplementary borrowed resources, including the Poverty Reduction and Growth Trust (PRGT). The Reserve Bank supports the Constituency Office at the IMF by seconding an advisor with expertise in economic and financial sector matters; the Bank also works with the Australian Treasury to provide support to the Constituency Office on matters discussed by the IMF's Executive Board.

The IMF has continued to provide financial assistance to member countries to support their COVID-19 pandemic response. IMF lending at the beginning of the pandemic was largely in the form of emergency financing arrangements that were quickly disbursed and do not have conditionality attached once the funds have been lent. Since then, IMF lending has transitioned to longer-term, reform-based programs and precautionary facilities that can be called upon when needed. In the 12 months to June 2021, 11 new non-emergency facilities were approved, with a total value of SDR12.8 billion. IMF total credit outstanding increased by around 12 per cent over 2020/21. The Australian Government also made a commitment to lend SDR500 million to the IMF's PRGT, which provides concessional financial support to eligible countries. This loan has begun to be drawn down.

In August 2021, the IMF made a general SDR allocation worth around US$650 billion to support the global recovery from the crisis by addressing the long-term global need for reserve assets. A general allocation of SDRs is distributed across IMF member countries in proportion to their quota share in the IMF. Australia received SDR6.3 billion (US$8.9 billion at the date of the general allocation). Member countries can exchange their SDRs for 'hard currency' such as US dollars. This 'hard currency' can then be used for reasons such as meeting balance of payments needs or financing health-related expenditures. The Bank helps to facilitate this via Australia's voluntary trading arrangement with the IMF (see chapter on 'Operations in Financial Markets'). The IMF has also been exploring a number of options for members with strong external positions to channel SDRs to help support the financing needs of developing or emerging economies.



* IMF financial year runs from May to April; the observation for 2021/22 is for May to August 2021

** Augmentations included at time of original financing arrangement approval

Sources: IMF; RBA

The Fund periodically undertakes Financial Sector Assessment Program (FSAP) reviews of its members' financial systems and regulatory frameworks. The Fund last undertook an FSAP review of Australia in 2018. The Reserve Bank and other CFR agencies have continued to implement recommendations arising from this review. The recommendations of direct relevance to the Bank relate to the regulation of FMIs, including recommendations to implement a resolution regime for FMIs and to strengthen supervisory and enforcement powers for clearing and settlement facilities. As joint regulators for clearing and settlement facilities, the Bank and the Australian Securities and Investments Commission worked together to provide policy proposals to the Australian Government in July 2020. The Government announced in May 2021 that it would introduce reforms to strengthen FMI supervision and provide crisis management powers over domestic clearing and settlement facilities.

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

Purpose

EMEAP brings together central banks from 11 economies in the east Asia-Pacific region – Australia, China, Hong Kong SAR, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore and Thailand – to discuss issues relevant to monetary policy, financial markets, financial stability and payments systems in the region.

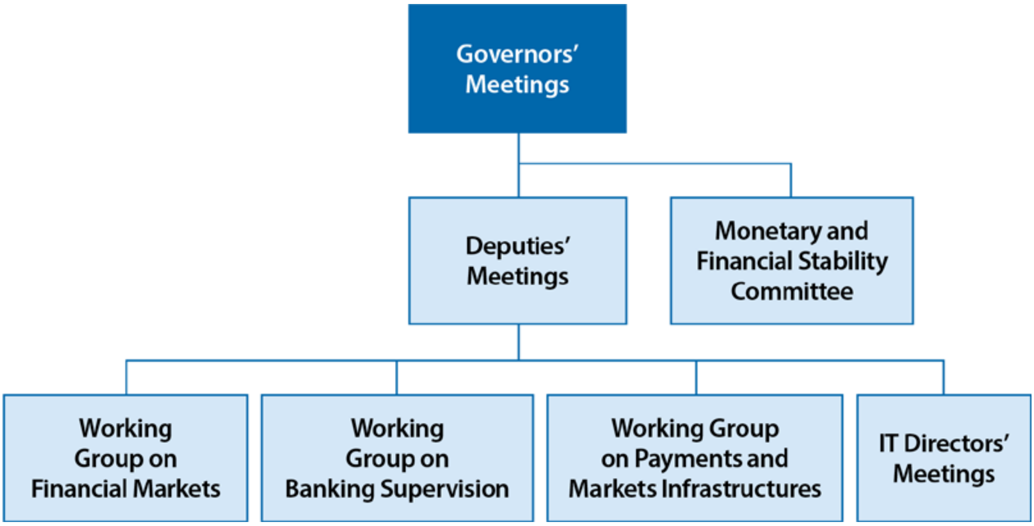
Reserve Bank involvement

The Reserve Bank participates in EMEAP, including at the Governor and Deputy Governor levels. In July and August 2021, the Bank chaired the EMEAP Governors' meeting and the EMEAP Governors' and Heads of Supervision meeting. In addition, the Deputy Governor is the Chair of the EMEAP Monetary and Financial Stability Committee. Staff also participate in the EMEAP Working Groups on Financial Markets, Banking Supervision, and Payments and Market Infrastructures, and in meetings of Information Technology Directors. These groups maintain close relationships with international institutions, such as the IMF and the BIS, through regular dialogue on topical issues.

The EMEAP Monetary and Financial Stability Committee has provided an important forum to discuss economic and financial market developments arising from the COVID-19 pandemic, and the associated policy challenges for EMEAP members. The Committee also shared views on potential emerging risks, including those relating to the banking sector, asset prices and capital flows. In addition, several sessions were held on topics of strategic importance to the members, including central bank use of big data, cross-border payments and sustainable finance. The Committee met via videoconference four times in 2020/21.

The Working Group on Financial Markets focuses on the analysis and development of foreign exchange, money and bond markets in the region. Every second meeting of this group is held in conjunction with the BIS Financial Markets Forum. During the year, the group continued its work on developing local currency bond markets, through the Asian Bond Fund Initiative (see chapter on 'Operations in Financial Markets' for details of the Bank's investments in the Asian Bond Fund). Areas of focus in 2020/21 also included the green bond market in Asia, financial benchmark reform and bond market functioning following the onset of COVID-19.

Reserve Bank Involvement in EMEAP



The Working Group on Banking Supervision (which also includes representatives of EMEAP members' prudential regulators, including APRA) meets to discuss banking supervision issues that are of interest in the region. It also discusses wider regional financial sector issues and conducts joint work on relevant topics. A key topic in its meetings over 2020/21 has been the sharing of information on financial system and regulatory developments in light of the pandemic, including discussing the factors that would drive an unwinding of policies introduced as a result of COVID-19. There were several other topics discussed over the year, including workstreams on sustainable finance and climate stress testing, emergency liquidity assistance, banks' liquidity, lending to small and medium-sized enterprises, and macroprudential analysis.

The EMEAP Working Group on Payments and Market Infrastructures is a forum for sharing information and experiences relating to the development, oversight and regulation of retail payment systems and FMIs. During 2020/21, discussions in the group focused on a number of issues, including: the impact of COVID-19 on the operation of payment systems and FMIs; initiatives to enhance the speed, cost and transparency of cross-border payments; evolving views and research on central bank digital currencies; the modernisation of real-time gross settlement systems; and approaches to the oversight of FMIs. During the past year, the group also completed a review of developments in cross-border retail payments in EMEAP jurisdictions, which highlighted some of the innovations as well as ongoing challenges in the provision of such services.

The Information Technology Directors' Meeting provides a forum for discussions on developments in information technology and its implications for central banks. Topics discussed during 2020/21 included the COVID-19 technology response and remote working approaches, cybersecurity and digital operating models.

Network for Greening the Financial System (NGFS)

Purpose

The NGFS is a group of central banks and supervisors whose purpose is to share best practices, contribute to the development of climate and environment-related risk management in the financial sector, and mobilise mainstream finance to support the transition towards a sustainable economy. As at the end of June 2021, the Network had grown to 95 central banks and supervisors around the world.

Reserve Bank involvement

The Reserve Bank joined the NGFS in July 2018. The Deputy Governor represents the Bank on the NGFS Plenary, supported by other senior staff. Over 2020/21, the Bank actively participated in a number of workstreams, which have published reports throughout the year. The RBA has also joined an NGFS taskforce to undertake work on climate-related legal risks facing central banks and supervisors.

The NGFS released an updated set of reference scenarios to support the work of central banks and supervisors in assessing the magnitude and direction of climate-related risks in their own jurisdictions. These scenarios are being used as the starting point for APRA's climate vulnerability exercise that seeks to gain a better understanding of the climate risks of Australia's five largest banks. The NGFS has also produced a series of reports in 2020/21, including: an overview of how financial institutions analyse environmental risks and the barriers to wider adoption of this type of analysis by the financial services industry; a progress report on the implementation of sustainable and responsible investment practices in central banks' portfolio investments; a survey on monetary policy operations and climate change, setting out key lessons for further analysis; a review of options for adapting central bank operations to support climate mitigation efforts; a report on sustainable finance market developments; and a progress report on bridging data gaps.

Global Foreign Exchange Committee (GFXC)

Purpose

The GFXC is a forum that brings together central banks and private sector participants in the wholesale foreign exchange market. The GFXC aims to promote a robust and liquid market. One means by which it does this is through the maintenance of the FX Global Code as a set of principles of good practice for market participants.

Reserve Bank involvement

The Deputy Governor has served as Chair of the GFXC since June 2019. The Reserve Bank sponsors the Australian Foreign Exchange Committee (AFXC), one of the 20 regional committees that comprise the membership of the GFXC. The Assistant Governor (Financial Markets) is Chair of the AFXC and the Bank's representative on the GFXC.

During the past year, the GFXC concluded its review of the FX Global Code, revising around one-fifth of the Code's principles of good practice. Changes were made to strengthen the Code's guidance on disclosures, algorithmic trading and transaction cost analysis, anonymous trading, and settlement risk. To facilitate greater transparency around market practices, the GFXC also developed and published templates for disclosures and for the provision of information on execution algorithms and transaction cost data. Additionally, the GFXC published guidance papers on the practices of 'pre-hedging' and 'last look'.

Organisation for Economic Co-operation and Development (OECD)

Purpose

The OECD comprises the governments of 38 countries and provides a forum in which governments can work together to share experiences and seek solutions to common problems, including economic and financial ones.

Reserve Bank involvement

On behalf of the Australian Treasury, the Reserve Bank's Chief Representative in Europe participates in the OECD's Committee on Financial Markets and the Advisory Task Force on the OECD Codes of Liberalisation.

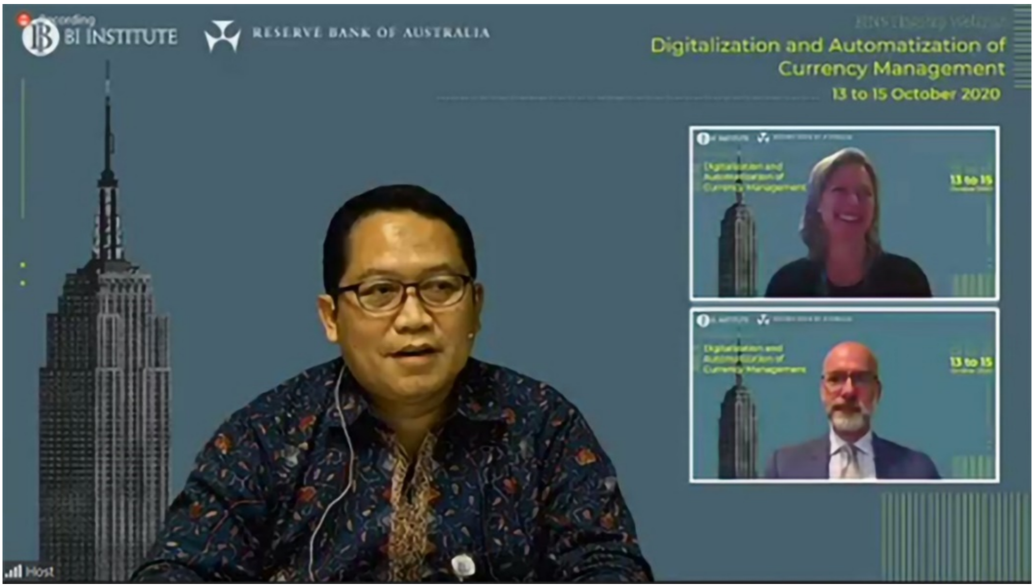
The OECD Committee on Financial Markets examines a range of financial market issues and aims to promote efficient, open, stable and sound financial systems. Focus areas for the committee in 2020/21 were COVID-19 finance support programs, ESG investment, climate transition risks and real estate financing. The Committee had regular discussions with private sector experts during the year on these topics. The Committee also continued to review and contribute to the OECD's work on blockchain, asset tokenisation, digitalisation and financial literacy.

The OECD's Codes of Liberalisation promote the freedom of cross-border capital movements and financial services. All OECD members adhere to the Codes. The Advisory Task Force meets periodically to address questions and discuss policy issues related to the Codes, and examines specific measures by individual adherents with relevance to their obligations under the Codes.

Technical cooperation and bilateral relations

Australia Indonesia Partnership for Economic Development (Prospera)

The Bank participates in the Australian Government's 'Prospera' program, which is aimed at institutional capacity-building in Indonesia. Under the Prospera Program, the Reserve Bank engages with Bank Indonesia on a broad range of activities undertaken by central banks. In 2020/21, Reserve Bank staff met virtually with Bank Indonesia staff to provide support for the development of a fast payments system, and discuss issues relating to the digitalisation and automation of cash management.



RBA participants (inset) presenting 'Digitalization and Automatization of Currency Management' seminar to Bank Indonesia colleagues, October 2020. Source: Bank Indonesia Institute

Engagement in the South Pacific

The Reserve Bank fosters close ties with South Pacific countries through participation in high-level meetings, staff exchanges and the provision of technical assistance across a wide range of central banking issues.

In November 2020, the Reserve Bank attended the annual meeting of the South Pacific Central Bank Governors via videoconference. The Governors discussed recent economic and financial developments and work under way to jointly develop a regional KYC facility to support the provision of remittances services to the South Pacific. With the Reserve Bank of New Zealand, the Bank is co-chairing the steering committee for the KYC project. Work on this project has been progressing steadily, and the central bank working group is planning to present a business case to Governors in late 2021.

The Bank also provides financial support for an officer of the Bank of Papua New Guinea to undertake postgraduate studies in economics, finance or computing at an Australian university. This support is provided via the Reserve Bank of Australia Graduate Scholarship, which was first awarded in 1992. The most recent scholar completed studies at the University of Queensland in July 2020 and has since returned to Papua New Guinea. The continuing COVID-19 pandemic has delayed selection of the next scholar and no studies are being undertaken at present. When circumstances permit, selection of the next scholar will take place and the scholarship arrangements will resume.

International visitors and secondments

The continuing COVID-19 pandemic and the ongoing closure of Australia's borders meant that the Bank has received no international visitors since March 2020. In 2020/21, the Bank hosted secondees from the Bank of England and the Reserve Bank of New Zealand. Reserve Bank staff were seconded to other central banks and international organisations, including the Bank of England and the IMF. These arrangements facilitate a valuable exchange of skills and expertise between the Bank and the broader global economic and financial policymaking community.

Communication and Community Engagement

The Reserve Bank is committed to its communication being open, transparent and accountable. The Bank's staff across Australia work to understand community priorities and concerns and, in turn, explain the Bank's policies and decisions. The Bank engages with the community in a range of ways, including via a longstanding regional and industry liaison program and a public education program. It consults with businesses, consumer groups and payments industry participants on issues in payments policy. The Bank communicates its policy decisions, and the context in which these are made, through speeches and publications. The Bank participates in parliamentary hearings and responds to public enquiries. It supports academic research, publishes a broad range of statistics and operates a museum where visitors can discover the history of Australia's banknotes and economic development.

Publications and speeches

The Reserve Bank's communication about its policy decisions, analysis and operations is primarily through publications and speeches. Announcements about monetary policy decisions are made shortly after each Reserve Bank Board meeting and minutes are released two weeks later. A media release is published following each Payments System Board meeting, outlining issues discussed at the meeting and foreshadowing any forthcoming documents to be released by the Bank.

Public appearances provide an opportunity to communicate the Reserve Bank's analysis of economic and financial developments and how they have influenced monetary policy decisions, as well as to respond to questions in a public forum. Following the November 2020 Reserve Bank Board meeting, the Governor addressed and took questions from the media and financial market participants to explain a package of further significant measures to support the Australian economy in its recovery from the COVID-19 pandemic. These measures included the introduction of the government bond purchase program and a reduction in key policy interest rates (see chapter on 'Operations in Financial Markets'). A media and markets briefing was also provided in July 2021, when the Reserve Bank Board decided to continue purchasing government bonds after the completion of the previous purchase program in early September 2021 at a reduced rate of $4 billion of bonds a week and to retain the April 2024 bond as the bond for the yield target. As is the case for all of the Governor and Deputy Governor's speeches, audio of each address was broadcast live, including the question and answer sessions with participants, and transcripts were published to the Bank's website. For the July 2021 briefing, a video of the event was also published.

During 2020/21, the Governor, Deputy Governor and other senior staff gave 32 other public speeches on various topics. Given the pandemic, 25 of these were delivered 'virtually'. Senior staff also participated in public panel discussions and parliamentary hearings. The pandemic limited the opportunity for public appearances to be scheduled in regional centres in 2020/21; nevertheless, the Governor was able to address the Australian Farm Institute Conference in Toowoomba in June 2021. There were speeches on the changing economic outlook and innovation and regulation in the Australian payments system, as well as speeches by senior staff on changes in payments, digital transformation and the impact of the virus on the economy and financial system. These speeches, the associated question and answer sessions and the panel discussions were published on the Bank's website in audio, text and, in July 2021, video formats to facilitate transparency and accessibility.

The Reserve Bank also explains its analysis through a number of regular publications:

- the quarterly *Statement on Monetary Policy* provides information about the Reserve Bank's assessment of current economic and financial conditions, along with the outlook for economic activity and inflation in Australia
- the *Financial Stability Review*, published semi-annually, provides a detailed assessment of the condition of Australia's financial system and potential risks to financial stability
- the quarterly *Bulletin* contains analysis of a broad range of economic and financial issues, as well as aspects of the Bank's operations; during 2020/21, 44 articles were published in the *Bulletin*.

The Reserve Bank publishes information in both electronic and hard-copy formats, with most people accessing the information online. Followers of the Bank's social media accounts on Twitter, LinkedIn, Facebook and Instagram have grown to over 158,000, while the number of subscribers to the conventional email alert service is around 12,400. Visitors to the Bank's website also made use of the RSS feeds, which provide alerts about data updates, media releases, speeches, research papers and other publications, including those related to Freedom of Information requests.

The Reserve Bank's website has continued to evolve with new and refreshed content. In 2020/21, the Bank continued to provide digital material to support students and teachers of economics. It also facilitated greater access to archival material with new online exhibitions on the Museum website and the launch of the Unreserved platform. More information on these activities is provided below. The Bank also introduced the *Financial Stability Review* 'At a Glance' and launched a podcast in May to aid accessibility of content for a broader audience. The Banknotes microsite is used to communicate information about the new banknote series issued by the Bank. This microsite has continued to evolve with the final denomination in the series – the new $100 banknote – entering general circulation in 2020/21.

Regional and industry liaison

Staff in the Reserve Bank's regional and industry liaison team – which operates from four State Offices around Australia (Adelaide, Brisbane, Melbourne and Perth) and the Bank's Head Office in Sydney – work together to conduct the Bank's liaison program. Staff in the liaison program meet regularly with businesses from all sectors of the economy, associations, governments and community organisations from across the country, including in regional areas. In 2020/21, just over 900 liaison meetings were conducted. While liaison staff have been limited in their ability to visit contacts over the past year, engagement has continued via telephone and videoconference meetings.

Timely information provided by liaison contacts helps the Bank to monitor trends in the Australian economy and assess the effect of unusual events, such as the COVID-19 pandemic. This information complements data from official sources, allowing the Bank to better understand the issues affecting businesses and the economy in general. The timeliness of information gathered from the Bank's liaison program has been particularly valuable during the COVID-19 pandemic, enabling the Bank to quickly assess the impact of containment measures and other disruptions to the Australian economy prior to it being captured in official data sources. The liaison program has also provided valuable information about the impact of the pandemic on businesses and households and their responses, the pace and nature of the economic recovery, and the effectiveness of monetary and fiscal support measures. Summary messages from liaison about the impact of the pandemic are regularly shared with the Reserve Bank Board, senior management and other government agencies.

Broad messages from liaison inform the Reserve Bank Board's policy decision-making and are communicated to the public through the Bank's regular statements and reports, as well as speeches by senior staff. Liaison information is also regularly drawn upon in the Reserve Bank *Bulletin* and the *Statement on Monetary Policy*; in 2020/21, topics covered included supply chain disruptions during COVID-19, the east coast gas market and the impact of the pandemic on Australia's education and tourism exports.

Following the introduction of COVID-19 containment measures in March 2020, all liaison meetings were conducted via telephone or videoconference for the remainder of 2020. This shift allowed the liaison team to conduct a significantly higher-than-usual number of meetings during the early phase of the pandemic and into the second half of 2020. With economic conditions evolving rapidly, more frequent meetings with liaison contacts ensured that the Reserve Bank Board was kept informed of developments. Since early 2021, most offices transitioned towards a mix of in-person and virtual liaison meetings where circumstances permitted.

Staff from the State Offices have an important role in the Bank's communication with members of the public, as they are well positioned to hold discussions with a broad cross-section of the community. In 2020/21, State Office staff gave around 10 presentations to members of the community, including at schools, business roundtables and regional chambers of commerce. In addition, Bank employees presented summaries of the *Statement on Monetary Policy* and the *Financial Stability Review* during the year to around 250 participants in the liaison program. These presentations were all conducted virtually, enabling contacts from both city and regional areas to attend.

As noted in the chapter on 'Governance and Accountability', the Reserve Bank Board would usually meet in state capitals other than Sydney on a regular basis, and a dinner would be held with members of the local community, including representatives and leaders from politics, business, the public sector, and educational and community organisations. However, in 2020/21 no community dinners were held owing to the containment measures and domestic travel restrictions associated with COVID-19.

The Reserve Bank also convened its annual Small Business Finance Advisory Panel in July 2021 in virtual form given the public health situation. The Panel, which was established in 1993, discusses 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 provides a valuable source of information on financial and economic conditions faced by small businesses. An article drawing on the Panel's discussions in 2020 and other sources of information on small business finance appeared in the September 2020 *Bulletin*,[1] and the latest panel discussion and sources of information is covered in the September 2021 *Bulletin*.[2]

1 See Lewis M and Q Liu (2020), 'The COVID-19 Outbreak and Access to Small Business Finance', RBA *Bulletin*, September.

2 See Black S, K Lane and L Nunn (2021), 'Small Business Finance and COVID-19 Outbreaks', RBA *Bulletin*, September.

Acting Senior Representative Rachael McCririck and Senior Liaison Officer Lyn Grivell visiting liaison contacts in the Barossa Valley region, May 2021

Senior Representative Paul Gardiner and Economist Stephanie Parsons meeting contacts at Alliance Aviation Services in Brisbane, March 2021

Consultations and public enquiries

The Reserve Bank maintains engagement with a wide variety of groups to inform its policy and operational activities. Senior Bank staff meet regularly with representatives of various domestic and international official agencies, business groups and financial market participants to discuss economic, financial and industry developments.

In May, the Bank published a consultation paper on the preliminary conclusions of the Payments System Board on the comprehensive Review of Retail Payments Regulation, which began in late 2019. The paper also sought stakeholder views on draft regulatory standards that would implement the preliminary conclusions of the Review. The Review is expected to be completed in the coming months.

In June 2021, the Council of Financial Regulators (CFR) – comprised of the Reserve Bank, the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission and the Australian Treasury – published its advice to the Australian Government to enhance the regulation of financial market infrastructures, including crisis management powers over clearing and settlement facilities. In proposing these reforms, the CFR took into account the responses it received to a consultation commenced in 2019. In May 2021, the government announced that it will introduce the reforms recommended by the CFR.

The Reserve Bank held two meetings of its Payments Consultation Group in 2020/21. The Group, which was established in 2014, is a structured mechanism for representatives of various users of the payments system (consumers, merchants, other businesses and government agencies) to convey their views on payments system issues as an input to the payments policy formulation process. More details on the activities of this group are provided in the *Payments System Board Annual Report 2021*.

Staff from Payments Settlements Department continued to conduct regular liaison meetings with Reserve Bank Information and Transfer System (RITS) members and industry groups, such as the Australian Payments Network (AusPayNet). Staff also participated in various industry forums, including AusPayNet's High Value Clearing System Management Committee. A senior staff member sits on the board of AusPayNet and another senior staff member sits on the board of New Payments Platform Australia Limited (NPPA), the company established to build and operate the NPP. Staff from Payments Settlements and Banking departments represent the Bank on NPP operating committees. Participation in these groups, and a number of other industry forums, helps the Bank to remain well informed about developments in these areas and contribute to innovations in the banking and payments industry.

The Reserve Bank sponsors and provides the secretariat to the Australian Foreign Exchange Committee (AFXC). The AFXC is a member committee of the Global Foreign Exchange Committee (GFXC), of which the Deputy Governor is the Chair. During 2020/21, the AFXC contributed to the GFXC's review of the FX Global Code (see chapter on 'International Financial Cooperation').

During the year, the Bank received approximately 2,800 public enquiries on a broad range of topics, including monetary policy, the economy, financial markets and regulation of the payments system. Responses were provided to the majority of enquiries received by the Bank. Staff from Note Issue Department also continued their engagement with industry and members of the public in relation to the new banknote series (see chapter on 'Banknotes').

Research

The Reserve Bank publishes the results of longer-term research conducted by staff in the form of Research Discussion Papers (RDPs), to stimulate discussion and comment on policy-relevant issues. The views expressed in RDPs are those of the authors and do not necessarily represent those of the Bank. During 2020/21, 12 RDPs were published on a range of topics in the Bank's areas of interest, including Australian household debt, the JobKeeper payment scheme, economic activity in Australia and central bank communication. Reserve Bank staff also published their research in various external journals, including *Economic Modelling* and the *Journal of Banking and Finance*.

Research undertaken at the Reserve Bank is frequently presented at external conferences and seminars. In 2020/21, Bank staff presented virtually at a number of conferences and institutions in Australia and overseas, including the Bank of England, the Royal Economic Society Annual Conference, APRA, the Australian Bureau of Statistics and the University of Queensland Business School.

The Reserve Bank hosts regular conferences, which foster interaction between academics, central bankers and other economic practitioners on topical policy issues. The Bank's annual conference for 2021 was again cancelled because of the pandemic. The next annual conference will be scheduled for the first half of 2022. The annual Macroeconomic Workshop was also cancelled in 2020 because of the pandemic and the 2021 Workshop remains under review.

The Reserve Bank usually hosts visits from policymakers and academics from domestic and overseas institutions. In 2020/21, the Bank facilitated such interactions through online seminars. These included presentations from the Bank for International Settlements and the Australian Treasury, as well as academics from a range of institutions including the University of Colorado, the University of California, Berkeley and the University of Melbourne.

The Bank sponsors 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 2020/21, 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. The Bank also maintained its contribution to a quarterly survey of union inflation and wage expectations undertaken by the Australian Council of Trade Unions.

The Bank continued to contribute to funding the *International Journal of Central Banking*, whose primary objectives 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 also provides financial support to the Group of Thirty's program of research into issues of importance to global financial markets.

The Bank provides financial support for research on population ageing being conducted by the Australian Research Council Centre of Excellence in Population Ageing Research (CEPAR), based at the University of New South Wales. This financial support has been continued for a further three years. A senior official of the Bank sits on the Advisory Board of CEPAR.

The Reserve Bank makes a financial contribution to a number of conferences in economics and closely related fields. In 2020/21, these conferences included the Economic Society of Australia's Women in Economics Network Retreat, the University of New South Wales' Australasian Finance and Banking Conference, and the Economic Society of Australia's Australian Conference of Economists. The Bank continues its sponsorship of the Economic Society of Australia's Central Council for the second year. The three-year sponsorship helps to build and strengthen the profession and the debate on economic issues.

In addition, the Bank is a corporate member of number of economic policy institutes. In 2020/21, the Bank undertook a review of its criteria for corporate membership of policy institutes in view of the increased number of these entities in Australia and more frequent requests for sponsorship. The criteria are that the entity is: independent and not aligned with a political party or some other institution; is not for profit; regularly produces research reports and makes those research reports publicly available; covers a broad range of economic and financial issues that are relevant to the Bank's mandate (rather than specific issues); offers corporate membership that is assessed to provide good value for money; and promotes the public interest. Following this review, the Bank renewed its membership of the Centre for Independent Studies, the Committee for Economic Development of Australia (CEDA), the Ethics Alliance and the Lowy Institute for International Policy, and became a member of the McKell Institute. The Bank is also an associate member of the South East Asian Central Banks Research and Training Centre.

In conjunction with APRA, the Reserve Bank has continued to sponsor the Brian Gray Scholarship Program, initiated in 2002 in memory of a former senior staff member of the Reserve Bank and APRA. Two scholarships were awarded under this program in 2021. The cost to the Bank of this scholarship was $15,000.

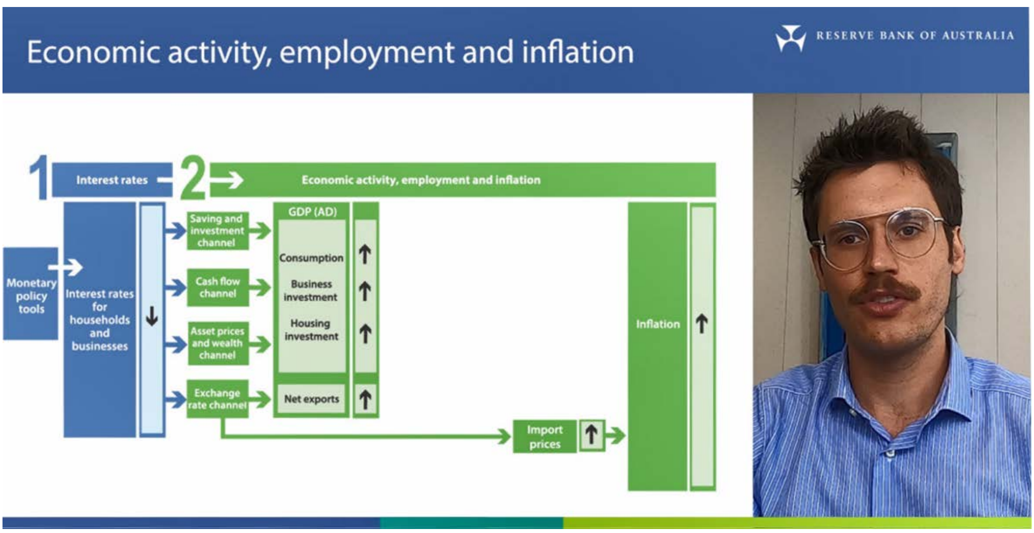
The total value of support provided for research and education in 2020/21 was $297,997.

Education

Supporting educators and students is a key part of the Reserve Bank's community engagement. A dedicated team coordinates the efforts of staff across the Bank to deliver a public education program. The main focus of the program is economics education at senior high school, although educational activities are also undertaken for different stages of learning (at both school and university). In response to COVID-19, additional resources were developed to cater for remote learning needs and to explain the Bank's role in supporting the economy during the pandemic.

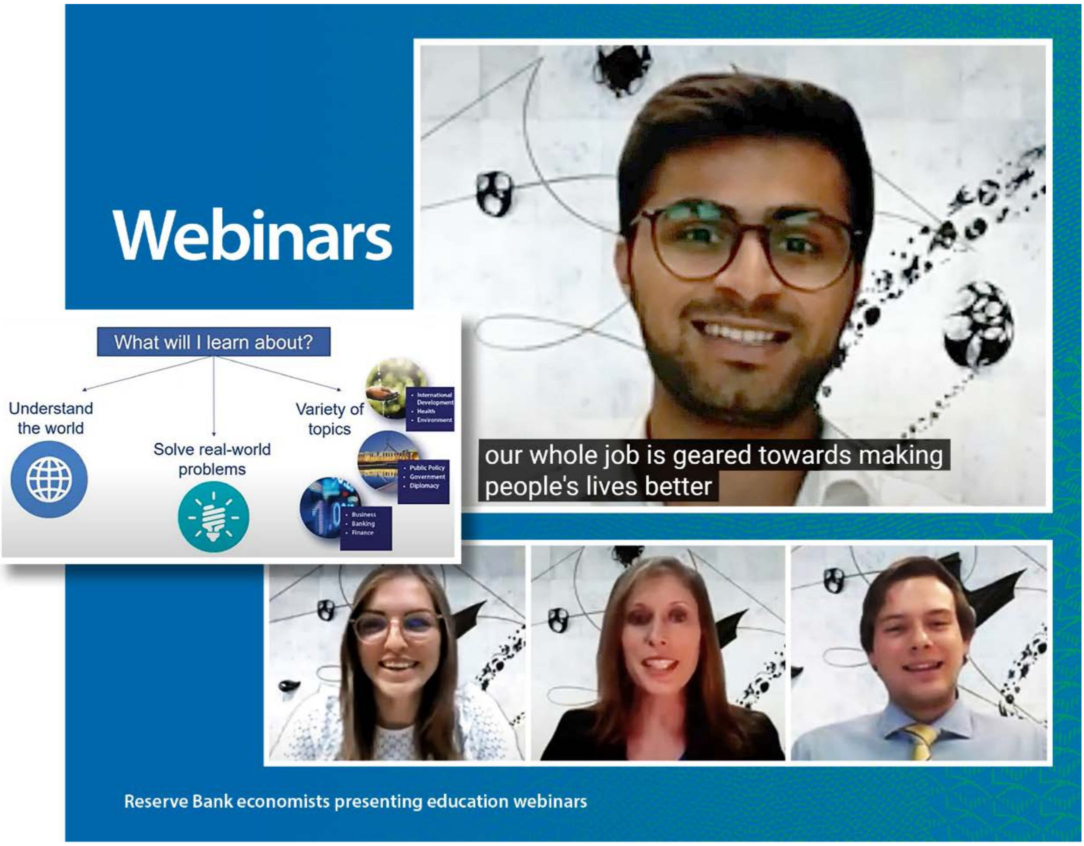
The Reserve Bank's commitment to economics education is motivated by the importance of economic literacy in the community and its concerns about the falling size and diversity of the economics student population. Nationally, the number of high school students studying economics in Year 12 has fallen by around 70 per cent since the early 1990s. Over the same period, the share of high schools offering economics has also fallen (particularly among comprehensive government schools), as has participation by females and students from schools that are culturally diverse or located in lower-income areas. A similar pattern is evident at university. To help address these issues, the Bank has been providing practical support by creating widely accessible resources that are aligned with curricula, giving presentations to students and offering professional development opportunities to educators. It has also been conducting research to identify where and how its efforts can be directed to support greater engagement with economics and diversity among its student body.

With the pandemic significantly disrupting in-person classes, over the past year the Bank's public education team developed a series of 29 videos that could be played to students in online classes (or by students for self-directed learning). The series included 25 short videos in which a Bank economist explained a broad range of economic concepts, with these videos 'bringing to life' the content of the Bank's library of written Explainers (which was further expanded). In addition, four videos were produced that summarised economic conditions at quarterly intervals, tracing the economic impact of the pandemic during the year. While the video series was designed to support remote learning by high school students, those videos on current economic conditions and the Bank's monetary policy response to the pandemic were also useful for university students and other audiences. Furthermore, the videos were valued by educators when in-person classes subsequently resumed and are considered an important new resource.



A Reserve Bank economist explains the transmission of monetary policy in the new video suite for students

For much of the year, COVID-19 restrictions resulted in the suspension of a key aspect of the public education program - the in-person talks to students that had previously been delivered by the Reserve Bank's Ambassadors (the 50 or so Bank staff who are trained to engage directly with students). Consequently, webinars were introduced as a substitute for in-person talks for schools and student conferences. Webinars also provided the opportunity to introduce a new service for students - a review of economic conditions, accessible to all Year 12 students that preceded the commencement of their final year exams. A similar service was provided to university students. Importantly, the webinars facilitated far more participation by students from non-metropolitan areas than in previous years.



Reserve Bank economists presenting education webinars

The shift to webinars extended to teacher professional development events. During the year, the Bank hosted three online professional development events for economics teachers and participated in two others, one of which was in-person. The focus of these events was an explanation of the economic effects of the pandemic and the Bank's monetary policy response, which entailed a revised approach to the implementation of monetary policy.

The economic effects of the pandemic highlighted the relevance of economics in the personal lives of students. Consequently, the Bank hosted online events that advocated the study of economics and the wide range of careers in which it can be used. These sessions were for students in middle high school who might be encouraged to choose economics, and for those already studying economics in senior high school who might consider further study. Towards the end of the year, some traditional in-person careers fairs resumed, with Bank staff participating. At the same time, the first in-person school talks resumed.

Reserve Bank economists discuss current economic conditions with students from Sydney Girls High School

At the HSC and Careers Expo, students speak with a Reserve Bank Ambassador about studying economics

The combination of webinars and some in-person talks and careers events enabled the Bank's public education program to directly reach over 7,000 students in 2021. This reach was up significantly from the previous year, and with an increase by geographic location and school type. In particular, webinars enabled presentations to schools that had previously not engaged with the Bank, and allowed more focused engagement with university students.

Additional educational resources were developed for Years 7–10 students to introduce them to economics in their junior to middle years of high school. These resources are aligned with the core economics component of the new NSW Commerce Syllabus, but are also relevant to other subjects (across all states) that include aspects of economics. In addition, resources were produced on reading and interpreting charts about economic variables, relevant to a wide cross-section of students at school and university.

Further research was undertaken to guide the strategic direction of the public education program. Using a new administrative dataset on university admissions, research was conducted on the transition from school to university economics, with the results published in the June 2021 issue of the *Bulletin*.[3] This research identified pathways and obstacles for different student groups that can inform approaches to encouraging them to choose economics at university. It complemented earlier work in which the Reserve Bank collaborated with Ipsos to undertake a detailed survey of high school students, which investigated why they choose particular subjects and their perceptions of economics. This work culminated in a Research Discussion Paper, which was also published in June 2021.[4] In addition, a survey was conducted of economics teachers, identifying their confidence and experience in teaching economics, their perceptions of the effectiveness of the Bank's resources and their requirements for additional support.

[3] Lovicu G (2021), 'The Transition from High School to University Economics', RBA *Bulletin*, June.

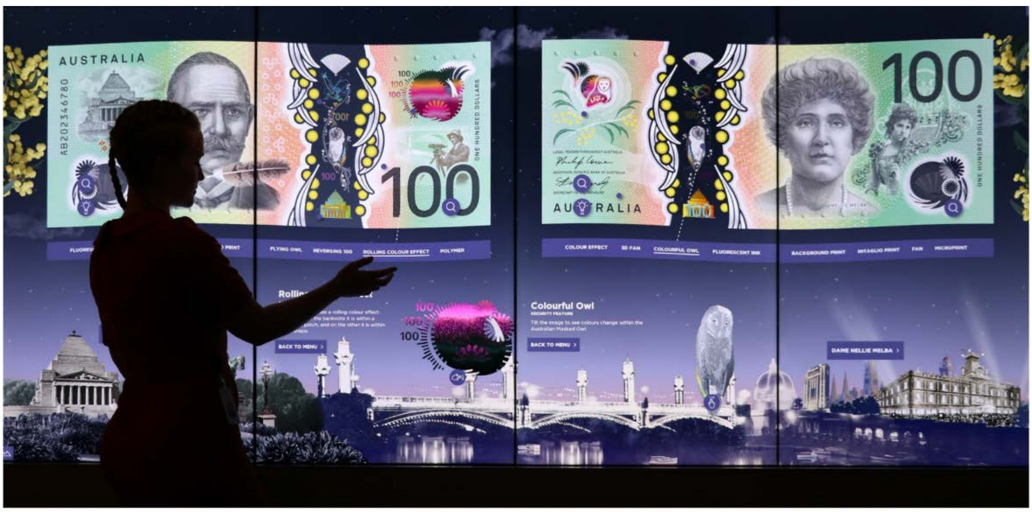
[4] Livermore T and M Major (2021), 'What Is Driving Participation and Diversity Trends in Economics? A Survey of High School Students', RBA Research Discussion Paper No 2021-06.

The Educators Advisory Panel – which comprises external education experts who advise on the strategic direction of the Bank's public education program – met twice virtually during the year to review the program's progress.

Museum

The Reserve Bank's Museum showcases a permanent collection of artefacts and hosts additional periodic exhibitions. In the permanent collection, visitors can view the various types of money used in Australia before Federation through to the innovative new series of 'next generation' banknotes. Visitors can trace the evolution of the nation's identity as expressed through its banknotes and learn about the influential women and men depicted on them. They can also see the artwork used in banknote design, learn about how banknotes are made and discover their security features.

The Museum released the final installment of the next generation banknotes display called *A New Vision for Banknotes*. Information about the new $100 banknote was added to that for the $20 banknote (released in 2019), the $50 banknote (released in 2018), the $10 banknote (released in 2017) and the $5 banknote, which launched the new series in 2016. The display has been designed to capture the innovative properties of the new banknotes; it provides details about their design and production, and their tactile accessibility feature for people who are vision-impaired. A large multi-touch screen enables visitors to explore the design elements and security features of the new banknotes, along with the rich historical and social context of the imagery and stories that the banknotes contain - for the new $100 banknote, this relates to the lives of General Sir John Monash and Dame Nellie Melba.



A visitor to the Museum explores the new $100 banknote using the multi-touch screen

At the onset of the pandemic, visits to the Museum were suspended, including for the talks and events typically hosted there. The Museum reopened to limited visitors in March 2021 when bookings resumed for students and some other groups. Given constraints on the use of the physical space associated with COVID-19, the focus shifted to the Museum website, which was redesigned to accommodate new online displays. Prominent among these displays was *Exploring Australian Banknotes* with its five Pocket Guides.[5] These Guides form a comprehensive catalogue of the banknotes that have been issued in Australia, including the social and historical context of their design. Additionally, the Pocket Guides were published as physical booklets to complement the presentation of the actual banknotes in the Museum.

Children from Campsie Public School return to the reopened Museum and learn about the new $100 banknote

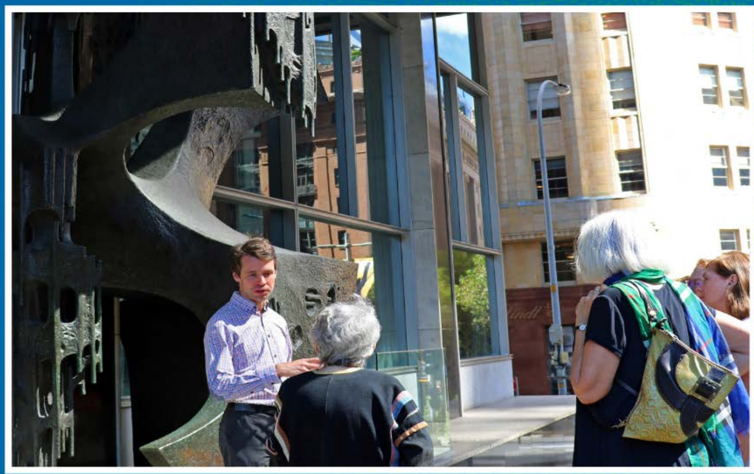
Smaller online exhibitions were also produced during the year. These included King O'Malley, which examined the colourful and at times controversial politician in the period following Federation.[6] King O'Malley was a significant figure in the initiative to create a national bank with central banking responsibilities. This online exhibition was accompanied by a physical display in the Museum of artefacts from the Reserve Bank's archives about O'Malley, including his famous pocket watch, which was used as the official timepiece at the ceremony naming Canberra as the capital of Australia.

The Museum collaborated with the Art Gallery of New South Wales (AGNSW), lending the maquette of the Bank's sculpture by Margel Hinder to the gallery for a major retrospective of her work. The Bank's curators gave talks about this public sculpture to members of the AGNSW and Museum visitors.

5 See RBA Museum, 'Pocket Guides to Australian Banknotes'. Available at <https://museum.rba.gov.au/exhibitions/pocket-guides>.

6 See RBA Museum, 'King O'Malley'. Available at <https://museum.rba.gov.au/exhibitions/collection-spotlight/king-o-malley.html>.

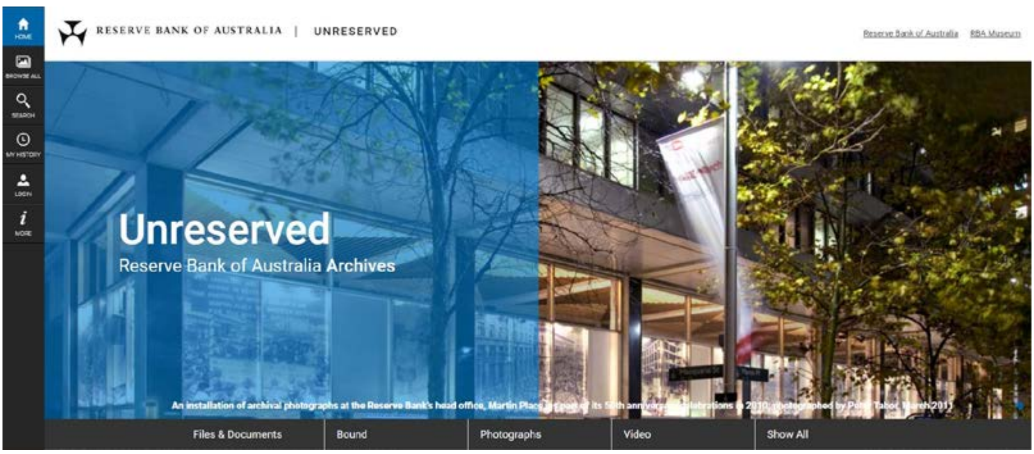
Curator Guy Betts gives a talk to visitors about the Reserve Bank's sculpture by Margel Hinder, during the retrospective of her work



Archives

The Reserve Bank has a unique and rich archives collection. In addition to records about the Bank's own operations, the archives contain records about Australia's economic, financial and social history over nearly 200 years. The records predate the central bank as it is known today because the Reserve Bank had its origins in the Commonwealth Bank of Australia, which had a central banking function and had absorbed other banks with a colonial history.

During 2020/21, the Reserve Bank launched a digital archive, Unreserved.[7] Unreserved enables users independently to research and download digital versions of key archival records, learn about the nature and scope of the Bank's archival collection, and lodge requests for information or assistance from the archivists.



The homepage of the Reserve Bank's digital archive tool, Unreserved

[7] See RBA, 'Unreserved'.
Available at <https://unreserved.rba.gov.au/?utm_source=rba&utm_medium=banner&utm_content=archives-page&utm_campaign=unreserved-promo>.

The first tranche of digitised records released through Unreserved included:

- colonial banking records – a set of records relating to six colonial banks operating in Australia during the 19th century; these records are from 1824 to 1935 and include convict banking records
- the London Letters – a series of information sent between the Bank's Head Office and its London Office from 1912 to 1975
- the New York Agency records – a series of correspondence, banking records and financial vouchers for the Bank's original New York Agency over its short period of existence from 1927 to 1929
- the Papua New Guinea series – a series covering the creation of a financial system and central bank in Papua New Guinea, financial education, economic and financial surveys, and preparations for the transfer of activities to the Bank of Papua New Guinea ahead of the nation's political independence in 1975
- audio visual collections – various series of film, photographs and glass plate negatives covering the Bank's buildings and staff during the First World War, the early built environment of Sydney and other locations in which there are Bank buildings, and the Bank's activities in Papua New Guinea.

Together, these digitised series provided a 'sampler' of the content of the Reserve Bank's archives. They were accompanied by index lists of the Bank's entire archival collection and key metadata for those series that are yet to be digitised. A second tranche of records is expected to be released in September 2021, with twice yearly releases thereafter.

To showcase the value of the archival records, a *Bulletin* article explored the content of the London Letters and summarised the insights they provide to the central bank's experience of some of the most significant events of the 20th century.[8] It was accompanied by another *Bulletin* article, which used the historic banking ledgers to analyse household depositor behaviour in Australian depressions.[9]

In addition to the development and launch of Unreserved, the Archives team continued to respond to requests for information that was outside the scope of records contained in Unreserved. They dealt with around 120 research requests from both Australia and overseas on a very diverse range of topics, including family history and banknotes. There was also a number relating to the Second World War, brought about by the 75th anniversary of the Armistice in 2020.

While the COVID-19 outbreak required the closure of the Reserve Bank's Archives repository and public research room throughout 2020/21, the archivists were able to support most requests for information remotely by accessing digital versions of records that were then shared with researchers using the Bank's secure external collaboration tool, RBA Box. These researchers included the Bank's Historian, Associate Professor Selwyn Cornish of the Australian National University, who continued to make considerable progress documenting the 1975–2000 period of the Reserve Bank's official history.

8 See Dwyer J and V MacDonald (2021), 'From the Archives: The London Letters', RBA *Bulletin*, March.

9 See La Cava G (2021), 'The Anatomy of a Banking Crisis: Household Depositors in the Australian Depressions', RBA *Bulletin*, March.

From the Reserve Bank's archival photographic collection, an image of staff at work in the Commonwealth Bank of Australia's head office in Moore Street (now Martin Place), Sydney, 1916. RBA Archives PN-002107

Charitable activities

During 2020/21, the Reserve Bank made its 19th annual contribution of $50,000 to the Financial Markets Foundation for Children, which is chaired by the Governor. Coinciding with the release of the final denomination of the new generation banknote series, the Bank donated an uncut sheet of banknotes to the ASX Refinitiv Charity Foundation. As the final such sheet to be donated, it raised $71,000 at auction. The Foundation includes the Financial Markets Foundation for Children in the distribution of auction proceeds. In September 2021, the Governor is scheduled to deliver his fifth address to the Anika Foundation's annual event to raise funds to support research into adolescent depression and suicide. This will be the 16th such event supported by the Bank.

The Reserve Bank supports several staff-led charitable initiatives, key among which involves dollar-matching staff payroll deductions (totalling $117,100 in 2020/21) organised by the Reserve Bank Benevolent Fund. The Fund supports a set of 15 recognised charities working in the areas of welfare, education, mental health, illness, disability, international medical aid and animal protection. The Bank also facilitates staff salary sacrificing under a Workplace Giving Program.

The Bank matched staff donations for the Benevolent Fund's Christmas appeal for Foodbank Australia and Barnardos Australia. Staff participated in the Cancer Council's Biggest Morning Tea event, where fundraising was matched by the Bank. In October 2020, the Bank donated toys to The Smith Family totalling $5,600 in lieu of the staff's Children's Christmas Party.

Following the devastating impact of the COVID-19 pandemic, Bank staff raised $11,529 for the India COVID-19 Relief Appeal in a fundraising initiative organised by the Benevolent Fund. These fundraising efforts were supported by the Bank's Race and Cultural Identity Employee Resource Group, which held a coin drive during Eid celebrations in May to support the appeal.

Reserve Bank staff participated in one volunteering activity in 2020/21 with Barnardos Australia.

The Reserve Bank's contributions under all these initiatives in 2020/21 totalled $187,834.

PART 3

Management

Management of the Reserve Bank

This chapter outlines the management structure of the Reserve Bank and describes the Bank's approach to managing its finances, technology, data and facilities. The subsequent chapters provide further detail on the Bank's people, risk management and earnings. The Bank is managed by the Governor, with assistance from the Executive Committee and the Risk Management Committee. The Bank is committed to the prudent management of its finances and the efficient functioning and security of its systems and facilities. It maintains a strong focus on cost control in discharging its key policy and operational responsibilities, and continues to invest in its technology, data, facilities and related capabilities that are essential for the Bank to achieve its objectives.

Management structure

Under the *Reserve Bank Act 1959*, the Bank is managed by the Governor, with the support of two key management committees – the Executive Committee and the Risk Management Committee.

The Executive Committee is the key management committee of the Reserve Bank for matters of strategic or Bank-wide significance, including delivery of the Bank's key objectives and its strategic focus areas (see chapter on 'Our Role'). Its role is to assist and support the Governor in managing the Bank. The Committee, which is chaired by the Governor and includes the Deputy Governor and the Assistant Governors, meets weekly. Other senior executives attend meetings of the Committee when required to provide specialist advice.

The Risk Management Committee has responsibility for ensuring that operational and financial risks are identified, assessed and properly managed across the Reserve Bank in accordance with its Risk Management Policy. It is chaired by the Deputy Governor and comprises senior executives drawn mainly from the operational areas of the Bank. During 2020/21, the Risk Management Committee met regularly and kept the Executive Committee and Reserve Bank Board Audit Committee informed of its activities. Details of the Bank's risk management framework are provided in the chapter on 'Risk Management'.

During 2020/21, the Executive Committee developed and approved an Executive Accountability Framework (EAF) to further enhance and support the Reserve Bank's high standards of executive accountability. The EAF outlines where accountability lies within the executive team for the Bank's functions and operations. It complements the Bank's broader governance framework, which is set out in legislation, charters of board subcommittees and Bank committees, and Bank policies. The EAF has been published to the Bank's website.

Financial management

The Reserve Bank seeks to ensure its key policy and operational objectives are met, while managing its spending and staffing levels carefully. The Bank's budget is a key component of this accountability, covering the Bank's resourcing and expenditure plans for the coming year. The Executive Committee supports the Governor in overseeing the Bank's budget.

The Reserve Bank's Investment Committee, chaired by the Deputy Governor, is responsible for oversight of the Bank's project portfolio. Its primary role is to support the Governor and the Executive Committee in recommending how the Bank should best prioritise spending on projects to deliver efficient and effective outcomes, consistent with the Bank's strategic objectives. The work of the Committee is supported by a project governance framework, which includes the review and approval of business cases outlining proposed initiatives. Senior executive accountability to promote efficient and effective project outcomes is established via project steering committees. Projects report at least quarterly to the Executive Committee on their status, including performance against project plans and budget, and the management of project-related risks.

In their operational capacity, Assistant Governors and Department Heads are responsible for managing expenditure within their approved budgets. Support is provided by the Reserve Bank's Finance Department, which monitors and reports the Bank's financial performance monthly. The Finance Department also provides the Executive Committee with regular forward-looking updates to allow it to make timely decisions about priorities.

Financial management is supported by the Reserve Bank's expenditure and payment approval policy and its associated processes, which ensures appropriate oversight of expenditure and payments to the Bank's various suppliers of goods and services. Material spending commitments are approved by senior staff.

The Reserve Bank is a corporate Commonwealth entity 'prescribed' under section 30 of the *Public Governance, Performance and Accountability Rule 2014*, and is therefore required to apply the Commonwealth Procurement Rules (CPRs) when performing duties relating to certain procurements with an expected value exceeding $400,000 for non-construction services and $7.5 million for construction services. The CPRs require public reporting of certain activities on the Commonwealth's AusTender website. For the reporting period, the Reserve Bank notified the award of 27 contracts and 21 procurement opportunities. The reported procurement opportunities were for utilities, construction, and IT hardware, software and services. For other procurements, the Reserve Bank follows the principles contained in the CPRs. The broad objective is to ensure that all goods and services procured by the Bank support its policy and operational responsibilities in an efficient and cost-effective manner, achieve value for money for the Bank, and that effective process accountability and probity applies.

The Reserve Bank's costs arise from fulfilling its policy and operational responsibilities, and from investment that supports the delivery of key objectives through the Bank's strategic focus areas. Where appropriate, the Bank seeks to recoup operating costs associated with many of its operational responsibilities through fees and charges. This includes from the use of payment systems run by the Bank (such as the Reserve Bank Information and Transfer System and the Fast Settlement Service), and from transactional banking services provided to clients. The Bank also earned fee income of $330.7 million in 2020/21 from the provision of the Committed Liquidity Facility to eligible authorised deposit-taking institutions. Operating costs associated with the production, issuance and management of Australia's banknotes are indirectly funded by net interest income. This reflects that holders of 'banknotes on issue' are not paid interest, while the Bank earns interest on the assets it holds, albeit currently at low rates. Further details on these services are provided in the chapters on 'Banking and Payment Services', 'Banknotes' and 'Operations in Financial Markets'.

Operating costs

The Reserve Bank's general operating costs were $412.7 million in 2020/21, a 1.6 per cent increase on the previous year. Staff costs, the largest component of the Bank's general operating costs, grew by 0.2 per cent and reflected, on average, higher staffing numbers during the year (including a temporary increase in project staff supporting the Bank's data and technology initiatives), and salary increases stipulated in the Reserve Bank's Workplace Agreement, although these were deferred by six months for most staff (with no wage increases for senior staff). The Bank's staffing at 30 June 2021 was around the same level as a year earlier. Managing resourcing and associated costs remains an area of focus for the Bank. This includes seeking to contain staffing numbers, while ensuring that staff levels remain appropriate to support the Bank's core operations and strategic priorities.

General Operating Costs[(a)]

$ million

	2016/17	2017/18	2018/19	2019/20	2020/21
Staff costs	216.2	223.6	227.9	244.1	244.5
Technology costs	28.8	31.2	34.8	41.0	42.4
Premises costs	24.4	25.0	24.8	26.5	28.8
Other costs	34.7	28.6	29.5	29.5	34.4
General operating costs (excl. depreciation)	**304.1**	**308.4**	**317.0**	**341.1**	**350.1**
Depreciation	38.4	51.7	56.2	64.9	62.6
General operating costs	**342.5**	**360.1**	**373.2**	**406.0**	**412.7**
Of which: Cost of projects	43.5	35.1	23.2	20.1	30.3
General operating costs by function[(b)]					
Policy	80.8	80.9	82.6	89.7	89.7
Business Services	80.2	95.8	100.1	100.9	90.8
Executive and Corporate Support	181.5	183.4	190.5	215.4	232.2

(a) Excluding NPA and banknote management expenses, and costs directly linked with transaction-based revenue. Some prior period costs have been reclassified to align with the current basis of presentation

(b) Costs by function shown above are on a direct rather than an allocated cost basis

Source: RBA

Operating expenditure on projects was higher in 2020/21, including from initial planning work for the upgrade of the Reserve Bank's Head Office, and for initiatives supporting the strategic focus areas. Further enhancing the overall resilience and performance of key technology assets contributed to a 3.6 per cent increase in technology expenditure, as did ongoing investment to strengthen further the Bank's cyber security capabilities and manage the Bank's technology response to the COVID-19 pandemic. The rise in 'other' costs primarily reflected the sourcing of external expertise to support the delivery of a range of strategic initiatives relating to the Bank's systems and premises. The decline in depreciation expense is consistent with a number of technology infrastructure assets having been fully written down, though the current program of capital expenditure will see a rise in depreciation in the medium term.

The Reserve Bank's operating costs were 3.1 per cent below its 2020/21 budget, in part reflecting the ongoing effects of COVID-19 restrictions on expenditure, including restrictions on accessing sites during the early part of the financial year that delayed some projects, and a continuation of travel restrictions. Despite these restrictions, the Bank's ongoing effective prioritisation of activities allowed it to deliver its operations and strategic initiatives, including its policy responses to support the economy during the pandemic.

General operating costs are expected to grow by around 10 per cent in 2021/22. This increase will be primarily driven by heightened investment in operating systems to enhance cyber and operational resilience, while also simplifying the technology infrastructure and data management and governance capabilities. General operating costs, excluding project spending, are forecast to grow by 5.1 per cent. Staff costs are budgeted to increase, reflecting a return to normal arrangements for salary increases stipulated in the Reserve Bank's Workplace Agreement, and a rise in staffing levels to deliver key projects.

Capital expenditure reflects the program of investment aimed at maintaining the value of the Reserve Bank's buildings and technology assets and supporting the delivery of new capabilities and services. Capital expenditure rose by 42.3 per cent in 2020/21, largely reflecting the commencement of major works to upgrade the Bank's Head Office in Sydney and its H.C. Coombs Centre training facility in Kirribilli (see below under 'Facilities'). Capital projects to further strengthen the resilience of technology services, including through the establishment of a 'data bunker' facility, also contributed to the increase (see below under 'Technology'). Capital expenditure is also expected to rise in the coming year, reflecting the significant ongoing program to upgrade the Bank's Head Office and a refresh of technology infrastructure, including that supporting the Fast Settlement Service.

Capital Expenditure[(a)]

$ million

	2016/17	2017/18	2018/19	2019/20	2020/21
Capital Costs	100.7	45.7	36.5	43.6	62.0
Of which: Cost of major projects[(b)]	85.8	39.5	31.7	19.0	44.1

(a) Excluding NPA

(b) Projects on the Enterprise Master Schedule

Source: RBA

The Reserve Bank engages consultants from time to time where it lacks specialist expertise or if independent research, review or assessment is required. Spending on consultancies increased in 2020/21.

Spending on Consultancies[(a)]

	$
2011/12	535,000
2012/13	1,190,000
2013/14	387,000
2014/15	773,000
2015/16	622,520
2016/17	987,388
2017/18	596,157
2018/19	1,113,425
2019/20	485,896
2020/21	613,823

(a) Sum of individual consultancies that cost $10,000 or more

Source: RBA

Workplace changes in response to the COVID-19 pandemic

During 2020/21, the Reserve Bank closely monitored the spread of COVID-19 and undertook measures to protect employees and ensure the continuity of the Bank's operations. During periods of government mandated restrictions on movement, the majority of the Bank's employees were able to perform their duties by working remotely, with minimal disruption to day-to-day operations. Enhancements to the Bank's IT systems were implemented to enable hybrid working arrangements and remote access to computing services, without any adverse effects on IT security. 'Split-site' arrangements for the Bank's critical functions were maintained for most of the period to reduce the risk of simultaneous infections on Bank sites. In line with changing rates of the spread of community infections and government advice, these restrictions were progressively relaxed from the end of 2020 before being reimposed as a result of the most recent COVID-19 outbreak in late June 2021.

Mechanisms in place to support Bank employees, contractors and visitors over 2020/21 included:

- controls to ensure adherence to Safework Australia guidelines on Bank premises, including workspace management practices, physical distancing, hygiene services and increased cleaning of common areas
- establishing regular communications to staff on the Bank's response to COVID-19 developments and protocols for responding to potential COVID-19 infections
- introducing initiatives designed to maintain employees' physical and mental wellbeing, and to assist with their engagement and productivity – given the longevity of the working-from-home arrangements, these included establishing virtual gym classes, weekly engagement challenges, a fitness challenge and an influenza vaccination program; employees were also provided with access to assistance through the Bank's Employee Assistance Program provider
- providing targeted staff training on technology collaboration services, including remote access connectivity and video conferencing, and productivity tips for hybrid working.

Between early 2021 and June 2021, almost all staff were working at least several days a week at a Bank site, although adjustments were made from time to time (in accordance with government advice) where localised infections occurred. The Bank has successfully transitioned to a hybrid working arrangement that enables staff to work productively from any of the Bank's physical sites (subject to government advice) or remotely where it is practical or necessary to do so. These arrangements continue to protect the Bank's critical functions as well as ensure a safe and healthy workplace.

The Bank continues to monitor the situation closely and follow government guidelines in managing its response.

Technology

Information Technology (IT) systems and infrastructure play a key role in the Reserve Bank's ongoing operations and account for a significant proportion of the Bank's strategic investments. The technology environment comprises more than 450 software applications, two highly available data centres and a highly resilient network infrastructure across multiple Bank sites.

A key focus for IT over the course of 2020/21 was to support the Bank's initial transition to predominantly remote working operations for Bank staff at the onset of the pandemic, and the subsequent shift to a 'hybrid' working model for staff towards the end of 2020. A further focus was the provision of technology support needed to deliver the economic response to the pandemic, including the processing of increased welfare and stimulus payments on behalf of the government and the implementation of the Reserve Bank's monetary policy measures.

Major technology-related projects completed in 2020/21 included the modernisation of systems to manage daily market liquidity operations, and a major program of technology stability improvements to ensure further operational resilience of Bank functions.

Significant progress was also made in modernising key aspects of the Reserve Bank's payment infrastructure and integration technologies supporting banking, payments and enterprise software.

Cyber security remains a key focus for the Bank, with continued investment in ensuring the security of the Bank's systems and information. This includes ongoing threat monitoring and vulnerability assessments for early detection of emerging security vulnerabilities to inform continuous security improvements, regular penetration testing of the Bank's systems and processes, and strong security governance over new technology solutions that are introduced into the Bank's environment. This is supported by a program of activities to build cyber security awareness among all Bank staff, and active intelligence-sharing within the financial services, government and central banking communities. The Bank also continues to invest in its cyber security team to ensure it attracts and retains high-quality staff resources.

The Bank continues to pursue strategies to drive the efficiency, stability and resilience of its IT assets, including: automation of patching and release management; development of a data bunker to provide additional resilience for highly available banking, payments and financial markets services; and utilising cloud computing and managed services where appropriate. A dedicated platform engineering function has been established to standardise, simplify and automate technology infrastructure development with a continuous focus on the simplification and modernisation of the Bank's technology infrastructure. The Bank has introduced a technology skills certification program to ensure staff working on highly available systems maintain the knowledge and experience required to do so.

The Bank operates an Innovation Lab to explore the implications and opportunities of emerging technologies and trends relevant to both its charter obligations and Bank operations. In 2020/21, the focus included experimentation related to the use of high-availability, low-cost technology architectures to reduce technology operating costs, and the use and implications of a wholesale form of central bank digital currency using distributed ledger technology.

Data

The Reserve Bank's Enterprise Data Office is responsible for the management and governance of the Bank's data as an asset in an external environment that is complex, data rich and rapidly changing. A key focus over the course of 2020/21 was to refresh the Bank's strategic data platforms and to accelerate migration and consolidation of critical data on these platforms, which is ongoing. This has been accompanied by an enterprise-wide training initiative to uplift Bank staff's proficiency with modern data analytics technologies and tools. Work is also underway to centralise, standardise and automate common data management activities where possible. These initiatives seek to reduce data-related risks, optimise data management activities to improve employee productivity and engagement, and enhance analytical outcomes through the use of modern data tools and methods, thereby harnessing the power of data.

The Bank has established a Data Science Hub, which will use modern technology and techniques from machine learning and elsewhere to conduct policy and operational research to support the Bank's functions.

Facilities

The Reserve Bank owns premises in locations where there is a business need to do so. The Bank's facilities include: the Head Office in Sydney; the H. C. Coombs Centre for Financial Studies in Kirribilli, Sydney; an office building in Canberra; facilities for the printing, processing, storage and distribution of banknotes at Craigieburn, north of Melbourne; and a Business Resumption Site in north-west Sydney. In addition to the buildings it owns, the Bank leases accommodation for its state offices in Melbourne, Adelaide, Brisbane and Perth and for its offices in London, New York and Beijing. Independent valuers estimated the value of the Bank's domestic property assets at $556.1 million on 30 June 2021. The total value of the Bank's property portfolio has increased by $17.9 million, reflecting higher property values in Sydney and Melbourne.

Office space in the Reserve Bank's properties that is not required for the Bank's own business purposes is leased to external tenants. Net income from these leases amounted to $5.9 million in 2020/21, compared with $6.8 million in the previous year. The reduction is primarily as a result of the exit of an external tenant from the Bank's Head Office building in Sydney in preparation for the commencement of the Bank's planned building renovations later in 2021.

During the year in review, the Reserve Bank commenced building works at the H.C. Coombs Centre, with completion planned by the end of 2021. Detailed planning for the refurbishment of the Bank's Head Office has been completed and the building contract has been released for competitive tender. These works will upgrade base building infrastructure that is at end-of-life and will ensure a safe, efficient and effective workplace to meet the long-term needs of the Bank, while preserving heritage features. The construction of a new high-security vehicle gatehouse at the Craigieburn site was completed in late 2020, and works to increase the Bank's data centre infrastructure efficiency and capacity are nearing completion. Other improvements to the Bank's physical security infrastructure are under way across several sites as part of a periodic program to replace assets that are at end-of-life and no longer fit for purpose.

Ecologically sustainable development and environmental performance

The Reserve Bank is committed to improving the environmental performance of its operations. The Bank has developed policies and practices that are consistent with the principles of ecologically sustainable development (ESD) as set out in the *Environment Protection and Biodiversity Conservation Act 1999*. These policies and practices serve to minimise the impact of the Bank's activities on the environment by: increasing the use of renewable energy sources; undertaking continuous environmental improvement through more efficient energy utilisation and management of waste streams; and incorporating sustainability and environmental aspects in the Bank's building designs and operations. The ESD principles are captured in the Bank's Environmental Statement.[1]

Key waste management activities in this period included:

- new waste-separation processes, including a separate organics waste stream, increasing the Bank's diversion of waste from landfill
- a reduction in single-use plastics, including use of alternatives to plastics for disposable cutlery and elimination of 30,000 plastic bin liners annually from landfill.

New and planned improvements to the performance of the infrastructure of the Reserve Bank's buildings include:

- installation of new, more energy efficient air conditioning equipment at the Bank's Business Resumption Site, including cold-air containment for equipment in the data centre
- incorporating sustainable building solutions in to the design of refurbishments of the Bank's Head Office building and H.C. Coombs Centre, including rooftop solar panels, improved insulation, increased fresh air ventilation and rainwater harvesting; the designs also include improved sub-metering to manage electricity consumption more efficiently
- completion of a feasibility study for a large solar panel installation at the Craigieburn facilities in Victoria
- completion of the design for new energy-efficient chillers for the Craigieburn site, including elimination of ozone-depleting refrigerants and enhancements for the operational performance of the chilled water system and cooling towers
- continued implementation of LED lighting across all Bank sites, replacing non-LED lighting to achieve improved environmental performance and reducing electricity consumption.

[1] See RBA (2019), 'Environmental Statement', December. Available at <https://www.rba.gov.au/about-rba/our-policies/environmental-statement.html>.

Electricity consumption at Bank-operated sites increased by 0.5 per cent in 2020/21, compared with the preceding year. Gas consumption in 2020/21 was 34 per cent higher compared with the previous year, while water consumption in 2020/21 was 1.4 per cent higher. These increases in consumption were due in part to the return of normal operations in most sites at the time when the COVID-19 restrictions were relaxed, allowing more Bank staff to return to the office and for full building services to resume. Gas consumption also increased as a result of changes to the Bank's archival storage arrangements in the Head Office building, with new temporary space requiring 24/7 humidity control. The Bank has also entered into a new three-year electricity supply contract that includes 20 per cent GreenPower, with the option to increase the amount of GreenPower over the life of the supply contract.

Our People

The Reserve Bank seeks to attract, develop and retain high-quality people with the technical skills and capabilities to achieve the Bank's strategic objectives, and behaviours that are consistent with the Bank's values.[1]

Our values

The Reserve Bank's values are set out in the Bank's Code of Conduct. These values are designed to shape the Bank's culture and guide expectations and standards around workplace behaviour and professional conduct. The Bank's values are as follows.

1. **Promotion of the public interest**

   We serve the public interest. We ensure that our efforts are directed to this objective, and not to serving our own interests or the interests of any other person or group.

2. **Excellence**

   We strive for technical and professional excellence.

3. **Intelligent inquiry**

   We think carefully about the work we do and how we undertake it. We encourage debate, ask questions and speak up when we have concerns.

4. **Integrity**

   We are honest in our dealings with others within and outside the Bank. We are open and clear in our dealings with our colleagues. We take appropriate action if we are aware of others who are not acting properly.

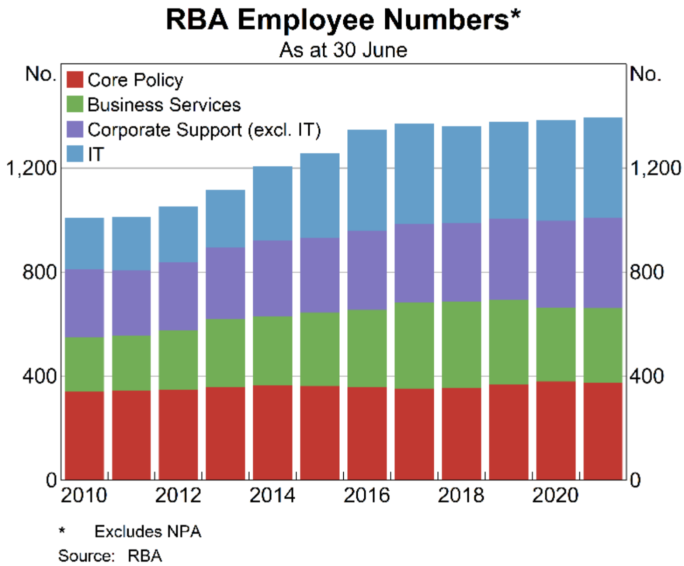
5. **Respect**

   We treat one another with respect and courtesy. We value one another's views and contributions.

[1] This section of the Annual Report constitutes the Reserve Bank's program report for the purposes of section 9 of the *Equal Employment Opportunity (Commonwealth Authorities) Act 1987*.

2020/21 workforce profile

In June 2021, the Reserve Bank (excluding Note Printing Australia Limited) had 1,380 employees. With 8.6 per cent of employees working part-time, the Bank's workforce comprised 1,342 full-time equivalent (FTE) employees. During the year, the Bank hired 155 employees, around half of whom were recruited on short-term contracts, mostly to undertake projects.



Employees of the Reserve Bank[(a)]

	30 June 2020	30 June 2021
Work practices		
– Full time	1,273	1,262
– Part time	111	118
Gender		
– Women	599	602
– Men	785	778
Location		
– Head Office, Sydney	1,225	1,227
– H. C. Coombs Centre for Financial Studies, Sydney	2	2
– Business Resumption Site, Sydney	39	38
– Note-printing facility and National Banknote Site, Craigieburn	69	70
– Canberra Branch, Canberra	13	11
– Victorian Office, Melbourne	4	4
– Queensland Office, Brisbane	5	3
– South Australian Office, Adelaide	3	3
– Western Australian Office, Perth	4	3
– New York Representative Office, New York	9	9
– European Representative Office, London	8	8
– China Representative Office, Beijing	3	2
Total	**1,384**	**1,380**

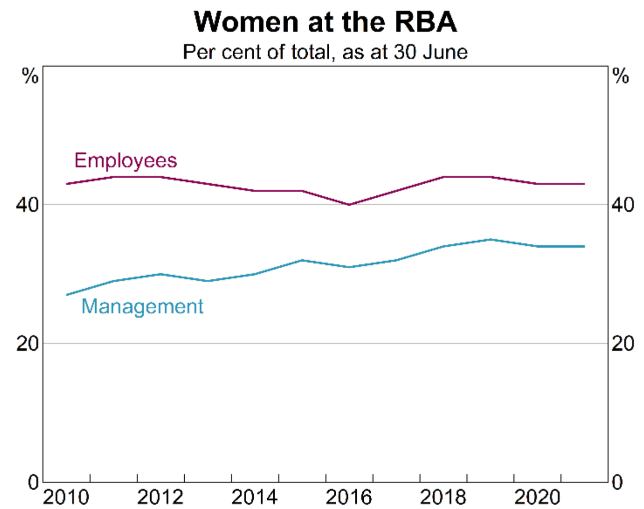
(a) Excludes NPA; these statistics have not been disaggregated by 'ongoing and non-ongoing employees' since the *Public Service Act 1999* definitions of these terms do not directly apply to employees of the Reserve Bank

Source: RBA

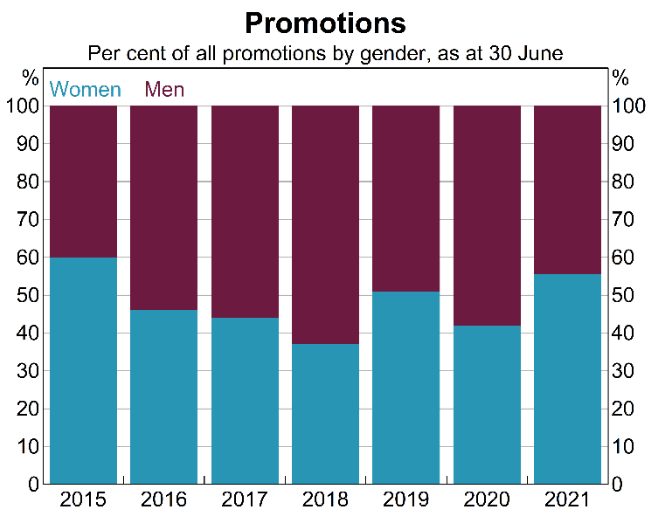
The Reserve Bank is committed to achieving gender equity at all levels, including in management positions. The Bank's current gender objective is to have 40 per cent women in management roles by 2023. Our longer-term objective continues to be achieving equal representation of women in management positions. To achieve this, a key focus is equity in recruitment and selection, succession planning and development opportunities.

As at June 2021, women accounted for 43.6 per cent of the Bank's employees, compared with the Australia-wide share of employment of 47 per cent. As at June 2021, 34.4 per cent of management positions were held by women and four of the seven positions on the Bank's Executive Committee were held by women.

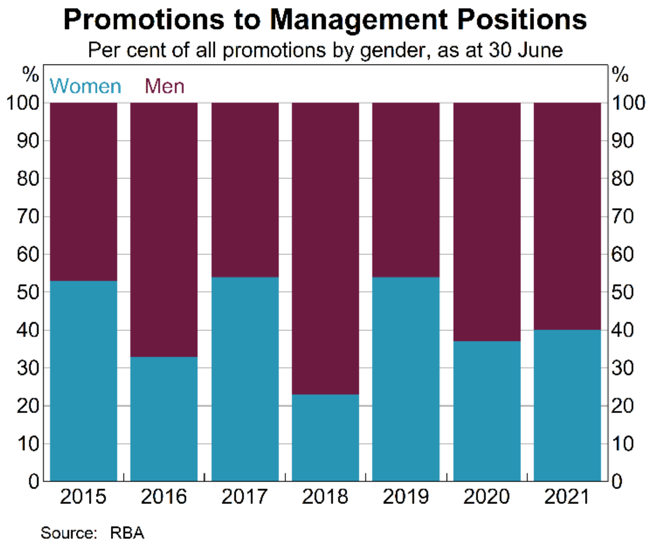
During 2020/21, 48.7 per cent of all promotions went to women. Of the 31 employees promoted to management positions, 38.7 per cent were women.



* Per cent of total employees and per cent of total managers
Source: RBA



Source: RBA



Recruitment and development

The ability to attract high-quality employees is essential to the Reserve Bank achieving its strategic objectives. Key to this is maintaining the Bank as an employer of choice and establishing strong recruitment practices and processes based on the principles of transparency, non-discrimination and merit.

In addition to feedback from employees – in particular, through the Bank's biennial engagement survey – this year the Bank undertook a study to establish the factors that make the Bank attractive to prospective employees. The key factors that were identified included:

- a strong public reputation of professionalism and integrity
- a positive culture focused on a supportive, welcoming, respectful, trustworthy and collaborative environment where our people are friendly and approachable and come from diverse backgrounds
- meaningful and challenging work that is closely aligned to the Bank's purposes
- an emphasis on maintaining work/life integration, with an emphasis on flexible work arrangements
- opportunities for staff to develop their capabilities and have meaningful careers.

The Bank encourages employees to continually develop their skills. This involves providing access to a range of online training tools and regular knowledge-sharing sessions. In terms of specific programs:

- The Bank offers an eight-week Internship Program, which provides high-performing university students with work experience and training through the completion of an applied research project. From the 721 applications for entry into the 2021 program, 17 places were offered.
- The Bank has a well-established, two-year Graduate Development Program. Under this program, graduates are provided with structured development opportunities through a balance of on-the-job training, rotations between key departments and complementary development activities. From the 1401 applications received in 2021, 24 graduates started the program in 2021, compared with 32 graduates a year earlier.

- The Bank provides financial support to employees for full-time and part-time study in disciplines related to their work, including economics, finance, business administration, accounting and information technology. During 2020/21, the Bank provided support to 30 employees to undertake part-time study and provided support to nine employees to undertake full-time postgraduate study at universities in Australia and overseas.

Rotations and secondments

In partnership with other Australian and international institutions, secondment opportunities are offered to Reserve Bank employees to share subject matter expertise and best practice, broaden their experience, and assist with the development of capabilities. During 2020/21, short-term secondments to other government agencies in Australia were increased to support the policy response to the COVID-19 pandemic, while secondments to international institutions were lower than average. Bank staff were seconded to the Australian Bureau of Statistics, the Australian Prudential Regulation Authority, the Australian Securities and Investments Commission, the National Housing Finance and Investment Commission, and the Australian Treasury, as well as a range of international institutions, including the Bank for International Settlements, the International Monetary Fund and the Bank of England.

Employee engagement

The Bank continues to monitor employee engagement closely. A biennial survey of all staff is conducted and will be run again at the end of 2021. Between these all-staff surveys, the Bank undertakes targeted employee surveys.

A new employee group, Ways of Working, has been established to source ideas and input from staff as the Bank establishes new approaches to how work is conducted. The group will look at how collaboration can be enhanced, especially given the transition to hybrid working arrangements.

Diversity and inclusion

The Reserve Bank's People and Culture Strategy actively promotes an inclusive work environment. During 2020/21, the Bank's Diversity and Inclusion Council launched a Diversity and Inclusion Strategy, with a commitment to building a more diverse and inclusive culture, whereby all employees are treated with respect throughout their careers. The key areas of focus of the strategy are:

- reinforcing leadership commitment to inclusion, where all leaders show visible, authentic commitment to inclusion and consistently role model inclusive behaviours
- building an inclusive culture, whereby our people are empowered to contribute to and deliver on the Bank's mission and drive results through challenging the status quo, effective collaboration and open communication
- reviewing and updating employee lifecycle processes, so that diversity and inclusion is considered and built into key processes from recruitment to talent development and promotion.

The Diversity and Inclusion Strategy is overseen by the Executive Committee, in consultation with the Diversity and Inclusion Council, which is responsible for monitoring the development and implementation of diversity and inclusion initiatives, policies and practices.

Diversity and Inclusion Council

The Diversity and Inclusion Council meets quarterly and is chaired by the Deputy Governor. The Council comprises the Head of Human Resources and the sponsors and chairs of the Employee Resource Groups (ERGs), which focus on the areas of: Accessibility; Gender Equity; Indigenous Australians; LGBTI+ Allies; and Race and Cultural Identity. Participation in the ERGs is voluntary and over 200 employees are members or associate members of the groups.

A major milestone was the launch of the Reserve Bank's *Innovate Reconciliation Action Plan* in August 2020. This plan builds on our *Reflect Reconciliation Action Plan* from 2018/19. It establishes our vision for meaningful engagement with Aboriginal and Torres Strait Islander peoples in our role as Australia's central bank, recognising and respecting the contribution of Australia's First Nations peoples to our social and economic progress. The Plan is underpinned by our commitment to reconciliation through engaging and involving Aboriginal and Torres Strait Islander peoples in the Bank's work. It is consistent with our objectives of having a diverse and inclusive workplace, and contributing to the economic prosperity and welfare of the people of Australia. We intend to continue the work started with our *Reflect Reconciliation Action Plan* in three ways:

- increase awareness and respect – raise awareness among our staff of Aboriginal and Torres Strait Islander cultures in a way that furthers reconciliation between Aboriginal and Torres Strait Islander peoples and other Australians
- build relationships – work with Aboriginal and Torres Strait Islander peoples by drawing on the Bank's unique position as Australia's central bank and the skill and expertise of its staff
- provide opportunities – position the Bank as a respectful employer of Aboriginal and Torres Strait Islander peoples.

To support and drive the *Innovate Reconciliation Action Plan* initiatives, the Bank has hired an Indigenous specialist.

The Bank continues to partner with My Gateway, an apprenticeship and traineeship support organisation. Four trainees from the 2020 cohort graduated with a Certificate III in Business Administration, with one transitioning to a role within the Bank. Two new trainees joined the Bank in 2021 to complete 12-month traineeships. The Bank also provided one student with an internship as part of its continuing partnership with CareerTrackers, a non-profit agency supporting organisations to provide work experience for Aboriginal and Torres Strait Islander university students.

Work health and safety, compensation and rehabilitation

The Reserve Bank is committed to maintaining and improving the safety, health and wellbeing of its employees. The Reserve Bank Board and the Bank's executives receive regular reports on work health and safety (WHS) matters to assist them in exercising their duty of care.

In recognition of the need to emphasise WHS in a hybrid work environment and in the wake of the pandemic, areas of strategic focus over the year included:

- the Mental Health and Wellbeing Strategic Plan, with an emphasis on developing people leadership capability, mental health awareness and peer support
- identification of health and safety management issues associated with a hybrid way of working and the implementation of targeted initiatives that aimed to positively impact employee's health and wellbeing
- continuation of a range of workplace safety and wellbeing initiatives to respond to the COVID-19 pandemic.

The Reserve Bank continued to implement initiatives to support the physical and psychological health of its employees, through promotion of positive health outcomes and prevention of potential health risks, including:

- ongoing encouragement for staff to take two-week blocks of leave
- physical health activities, such as wellbeing programs focused on good physical health and nutrition, fitness classes, health challenges and influenza vaccinations
- mental health initiatives, such as development of a manager's toolkit to increase support capability, completion of a Bank-wide Psychosocial Risk Review to understand factors that contribute to and detract from a healthy work environment, mental health supportive leadership training, and seminars on topics related to mental health and wellbeing
- regular wellbeing surveys to gauge staff experiences across the four key themes of Connectedness, Support, Work/Life Balance, and Mental Health and Wellbeing; there were consistent indications of positive employee experiences during 2021/21, especially in relation to overall wellbeing.

There were 72 WHS incidents reported in 2020/21, representing a 10 per cent decline on the previous year. The most common cause of incidents were: slips, trips and falls (16 per cent); workplace factors, such as property damage and electrical or environmental hazards (15 per cent); and cuts, sprains, strains and burns (14 per cent).

There were no accepted workers' compensation claims in 2020/21. The Reserve Bank's Lost Time Injury Frequency Rate (number of lost time injuries per million hours worked) increased in 2020/21 to 2.1 from 0.4 in the previous year, because of the number of injuries resulting in time off increasing from one to five.

Twelve internal WHS investigations were conducted in 2020/21, relating to incidents that either caused moderate harm or had the potential to cause harm to a staff member. The investigations indicated that there were no systemic issues that would point to deficiencies in the way the Bank manages health and safety.

No investigations were made into the Reserve Bank's businesses or undertakings by Comcare during 2020/21, and no improvement, prohibition or non-disturbance notices were issued by Comcare under Part 10 of the *Work Health and Safety Act 2011* (WHS Act).

Summary of Notifiable Incidents, Investigations and Notices under the WHS Act

Action	2020/21	2019/20
Death of a person that required notice to Comcare under section 35	0	0
Serious injury or illness of a person that required notice to Comcare under section 35	0	0
Dangerous incident that required notice to Comcare under section 35	1	1
Internal investigations conducted	12	9
Investigations conducted under Part 10 of the WHS Act	0	0
Notices given to RBA under section 90 (provisional improvement notices)	0	0
Notices given to RBA under section 191 (improvement notices)	0	0
Notices given to RBA under section 195 (prohibition notices)	0	0
Directions given to RBA under section 198 (non-disturbance notices)	0	0

Source: RBA

The Reserve Bank is a Licensed Authority under the *Safety, Rehabilitation and Compensation Act 1988*. This licence requires the Bank to report to the Safety, Rehabilitation and Compensation Commission each year on WHS, workers' compensation and rehabilitation matters as they affect the Bank. Compliance with the relevant legislation – and the conditions of the Bank's licence as a Licensed Authority – was validated during the period by external audits of the Bank's safety, compensation and rehabilitation arrangements. The Safety, Rehabilitation and Compensation Commission subsequently confirmed that the Bank retained the highest rating for its prevention, claims management and rehabilitation practices in each area for 2019/20.

In 2020/21, the Australian Postal Corporation provided claims management and rehabilitation services to the Bank, along with reconsideration services and representation in the Administrative Appeals Tribunal or Federal Court, when necessary.

Employment arrangements and remuneration

The positions of Governor and Deputy Governor are designated as Principal Executive Offices in terms of the *Remuneration Tribunal Act 1973*, which provides for the Remuneration Tribunal to determine the applicable remuneration for these positions. Within the parameters determined by the Remuneration Tribunal, the Reserve Bank Board Remuneration Committee, comprising three non-executive members, makes a recommendation on remuneration for these positions for approval of the Reserve Bank Board, which is the 'employing body' for the positions. In accordance with provisions of the *Reserve Bank Act 1959*, neither the Governor nor the Deputy Governor takes part in decisions of the Reserve Bank Board relating to the determination or application of any terms or conditions on which either of them holds office.

Employment arrangements that apply to Reserve Bank employees vary according to their occupation and level of seniority. Executive and managerial employees are engaged under Individual Employment Agreements. Non-managerial employees are covered by a Workplace Agreement. The existing Workplace Agreement nominally expired at the end of March 2020 and the Bank agreed to an approach to remuneration increases for the 2019/20 remuneration review and committed to return to workplace bargaining in 2021. In November 2020, the Australian Government released a new Public Sector Workplace Bargaining Policy, which links general salary increases to annual movements in the private sector Wage Price Index. The Bank and the Finance Sector Union of Australia identified the opportunity to work together towards a new modern, more flexible agreement, and commenced bargaining in May 2021. In the interim, all conditions contained in the existing Workplace Agreement continued to apply.

While the specific remuneration arrangements that apply to employees differ according to their employment arrangements with the Reserve Bank, remuneration packages are designed to attract and engage high-calibre employees. The Bank uses surveys such as those conducted by the Financial Institutions Remuneration Group and Aon Hewitt for remuneration and benefit benchmarking.

As part of the annual review of remuneration, the Bank monitors differences in the salaries paid to men and women. While the gap between the average FTE salaries of men and women has declined from 16 per cent in 2016, it did not decline in 2020, remaining at 14.5 per cent. This gap continues to be explained by a larger proportion of women occupying positions at lower levels compared with men. The average pay gap at most levels is small. The difference in the average male FTE salary exceeds the FTE salary for women by less than 2.5 per cent, except at one level. The Bank is undertaking further analysis to understand the gap at this level.

Given the difficult circumstances facing the country in the context of the COVID-19 pandemic, the Bank determined that it would not be appropriate to continue with pay increases on the same schedule as previous years in the 2019/20 remuneration review. While conditions of employment at the Bank are determined by the Governor, it was decided that it was appropriate to follow government guidelines regarding remuneration in the public sector during the pandemic.

For all staff in senior management positions, there were no general salary increases, career increments or performance payments for 2019/20. The general salary increases of 2 per cent for employees below the senior management level were deferred and paid in March 2021, rather than being paid in September 2020. Lump-sum performance payments and career increment-based increases were paid in September 2020, consistent with government guidelines.

The distribution of remuneration paid to Reserve Bank executives and other senior employees on an accrual basis is set out in the tables below. The provision of this information is consistent with similar information provided by other Commonwealth entities.

Remuneration of Key Management Personnel

Remuneration received in 2020/21($)[a]

Name	Position title	Short-term benefits			Post-employment benefits	Other long-term benefits		Termination benefits	Total remuneration[5,6]
		Base salary[1]	Bonuses	Other benefits and allowances[2]	Superannuation contributions[3]	Long service leave[4]	Other long-term benefits		
Reserve Bank Executives									
Philip Lowe	Governor	924,434	–	8,500	119,760	23,335	–	–	1,076,029
Guy Debelle	Deputy Governor	699,276	–	8,500	89,820	23,265	–	–	820,861
Lindsay Boulton[b]	Assistant Governor, Business Services	318,076	–	24,986	48,118	8,173	–	–	399,353
Michelle McPhee[c]	Assistant Governor, Business Services	169,008	–	12,751	29,244	4,756	–	–	215,759
Susan Woods	Assistant Governor, Corporate Services	514,785	–	37,737	50,899	12,092	–	–	615,513
Luci Ellis	Assistant Governor, Economic	480,420	–	37,737	86,736	15,652	–	–	620,545
Christopher Kent	Assistant Governor, Financial Markets	511,264	–	37,219	96,665	17,444	–	–	662,592
Michele Bullock	Assistant Governor, Financial System	524,577	–	37,737	97,834	13,241	–	–	673,389
Non-Executive Members of the Reserve Bank Board									
Mark Barnaba	Member – Reserve Bank Board	77,620	–	–	–	–	–	–	77,620
	Chair – Reserve Bank Board Audit Committee	22,430	–	–	–	–	–	–	22,430
Wendy Craik	Member – Reserve Bank Board	77,620	–	–	7,374	–	–	–	84,994
Ian Harper	Member – Reserve Bank Board	77,620	–	–	7,374	–	–	–	84,994
Carolyn Hewson[d]	Member – Reserve Bank Board	19,777	–	–	1,879	–	–	–	21,656
Steven Kennedy[e]	Member – Reserve Bank Board	–	–	–	–	–	–	–	–

Name	Position title	Short-term benefits			Post-employment benefits	Other long-term benefits		Termination benefits	Total remuneration[5,6]
		Base salary[1]	Bonuses	Other benefits and allowances[2]	Superannuation contributions[3]	Long service leave[4]	Other long-term benefits		
Allan Moss[(f)]	Member – Reserve Bank Board	32,749	–	–	3,111	–	–	–	35,860
	Member – Reserve Bank Board Audit Committee	4,734	–	–	450	–	–	–	5,184
Carol Schwartz	Member – Reserve Bank Board	77,620	–	–	7,374	–	–	–	84,994
Catherine Tanna[(g)]	Member – Reserve Bank Board	57,843	–	–	3,717	–	–	–	61,560
Alison Watkins[(h),(i)]	Member – Reserve Bank Board	41,681	–	–	3,960	–	–	–	45,641
	Member – Reserve Bank Board Audit Committee	4,550	–	–	432	–	–	–	4,982
Non-Executive Members of the Payments System Board									
Wayne Byres[(e)]	Member – Payments System Board	–	–	–	–	–	–	–	–
Gina Cass-Gottlieb	Member – Payments System Board	60,980	–	–	5,793	–	–	–	66,773
Deborah Ralston	Member – Payments System Board	60,980	–	–	5,793	–	–	–	66,773
Greg Storey	Member – Payments System Board	60,980	–	–	5,793	–	–	–	66,773
Catherine Walter	Member – Payments System Board	60,980	–	–	5,793	–	–	–	66,773
Brian Wilson[(j)]	Member – Payments System Board	22,888	–	–	2,175	–	–	–	25,063
External Appointments to the Reserve Bank Board Audit Committee[(k)]									
Sandra Birkensleigh	Member – Reserve Bank Board Audit Committee	11,220	–	–	1,066	–	–	–	12,286
Rahoul Chowdry	Member – Reserve Bank Board Audit Committee	11,220	–	–	1,066	–	–	–	12,286

(a) Remuneration of Key Management Personnel are in relation to the Reserve Bank of Australia entity only

(b) Retired on 28 February 2021

(c) Appointed on 1 March 2021

(d) Appointed to the Reserve Bank Board on 30 March 2021

(e) The Secretary to the Treasury, as a member of the Reserve Bank Board, and the Chairman of APRA, as a member of the Payments System Board, are not remunerated

(f) Retired from the Reserve Bank Board and Reserve Bank Board Audit Committee on 1 December 2020

(g) Retired from the Reserve Bank Board on 29 March 2021

(h) Appointed to the Reserve Bank Board on 17 December 2020

(i) Appointed to the Reserve Bank Board Audit Committee as a member on 3 February 2021

(j) Retired from the Payments System Board on 14 November 2020

(k) External appointments to the Reserve Bank Board Audit Committee are not Key Management Personnel of the Reserve Bank of Australia but have been included for consistency of disclosure alongside the reported remuneration of Non-Executive Members of the Reserve Bank Board who are also members of the Reserve Bank Board Audit Committee

Notes

1. The 'Base salary' column is prepared on an accrual basis and includes gross fees or salary earned while working plus annual leave accrued in the case of Reserve Bank Executives.
2. The 'Other benefits and allowances' column includes benefits that form part of an individual's remuneration package. This includes, for eligible members of staff, motor vehicle benefits, car parking and health benefits plus the related fringe benefits tax on these benefits.
3. The 'Superannuation contributions' column is calculated as: contribution amounts for individuals who are eligible for a defined contribution arrangement in a defined contribution scheme; and for individuals who are in a defined benefit arrangement, an amount equal to 15.4 per cent of superannuable salary plus any employer productivity contributions.
4. The 'Long service leave' column is calculated as long service leave accrued.
5. Total remuneration does not include the cost of revaluing previously accrued leave entitlements and non-superannuation post-employment benefits, which are included in the reported total remuneration of Key Management Personnel in the notes to the financial statements.
6. Reported total remuneration for the positions of Governor and Deputy Governor differs to the remuneration determined by the Remuneration Tribunal by the net accrual of leave.

Remuneration of Senior Executives

Remuneration received in 2020/21($)[(a)]

Total remuneration bands	Number of senior executives	Short-term benefits			Post-employment benefits	Other long-term benefits		Termination benefits	Total remuneration
		Average base salary[1]	Average bonuses	Average other benefits and allowances[2]	Average superannuation contributions[3]	Average long service leave[4]	Average other long-term benefits	Average termination benefits	Average total remuneration
$0 to $220,000	4	62,297	–	9,376	12,914	2,041	–	–	86,628
$220,001 to $245,000	1	172,732	–	24,251	39,237	6,659	–	–	242,879
$295,001 to $320,000	2	222,282	–	29,919	42,683	6,931	–	–	301,815
$320,001 to $345,000	6	248,863	–	36,002	38,848	6,471	–	–	330,184
$345,001 to $370,000	6	264,614	–	35,929	48,558	8,403	–	–	357,504
$370,001 to $395,000	10	286,955	1,380	35,968	50,406	8,496	–	–	383,205
$395,001 to $420,000	2	305,200	–	35,783	55,196	8,699	–	–	404,878
$420,001 to $445,000	3	338,166	–	36,002	48,867	9,254	–	–	432,289
$445,001 to $470,000	2	359,599	–	35,783	54,875	10,109	–	–	460,366
$470,001 to $495,000	1	399,480	–	36,002	38,141	9,091	–	–	482,714
$495,001 to $520,000	2	400,153	–	36,002	66,461	11,443	–	–	514,059
$520,001 to $545,000	3	417,711	–	36,002	61,645	12,344	–	–	527,702
$545,001 to $570,000	1	421,232	–	36,002	76,917	13,881	–	–	548,032
$570,001 to $595,000	1	469,661	–	35,563	67,220	10,871	–	–	583,315
$595,001 to $620,000	1	472,295	–	36,002	85,752	11,607	–	–	605,656
$820,001 to $845,000	1	379,121	–	384,869	69,139	10,438	–	–	843,567
$1,170,001 to $1,195,000	1	285,716	–	847,326	50,077	7,994	–	–	1,191,113

(a) Each row shows an average figure based on the number of individuals within each remuneration band based on total remuneration earned; a Senior Executive for the purpose of this table is a member of staff holding a position of Head of Department or Deputy Head of Department (or equivalent)

Notes

1. The 'Base salary' column is prepared on an accrual basis and includes gross salary earned while working plus annual leave accrued.
2. The 'Other benefits and allowances' column includes benefits that form part of an individual's remuneration package. This includes, for eligible members of staff, motor vehicle benefits, car parking and health benefits plus the related fringe benefits tax on these benefits. For staff located inter-state or overseas, this may also include allowances and accommodation benefits plus the related fringe benefits tax on these benefits.
3. The 'Superannuation contributions' column is calculated as: contribution amounts for individuals who are eligible for a defined contribution arrangement in a defined contribution scheme; and for individuals who are in a defined benefit arrangement, an amount equal to 15.4 per cent of superannuable salary plus any employer productivity contributions.
4. The 'Long service leave' column is calculated as long service leave accrued.

Remuneration of Other Highly Paid Staff

Remuneration received in 2020/21($)[(a)]

Total remuneration bands	Number of other highly paid staff	Short-term benefits			Post-employment benefits	Other long-term benefits		Termination benefits	Total remuneration
		Average base salary[1]	Average bonuses	Average other benefits and allowances[2]	Average superannuation contributions[3]	Average long service leave[4]	Average other long-term benefits	Average termination benefits	Average total remuneration
$230,001 to $245,000	40	183,007	2,926	18,423	28,211	4,641	–	–	237,208
$245,001 to $270,000	38	190,898	3,846	23,241	34,354	4,905	–	–	257,244
$270,001 to $295,000	31	207,422	1,380	30,192	35,787	5,501	–	–	280,282
$295,001 to $320,000	9	209,044	796	56,399	33,973	5,598	–	–	305,810
$320,001 to $345,000	3	271,949	–	21,042	38,332	6,584	–	–	337,907
$345,001 to $370,000	2	94,821	–	121,602	17,462	2,763	–	116,356	356,335
$370,001 to $395,000	2	168,892	3,331	177,451	29,098	4,833	–	–	382,014
$470,001 to $495,000	2	172,722	1,740	260,654	31,538	4,260	–	–	472,756
$645,001 to $670,000	1	118,723	3,582	501,128	21,433	3,880	–	–	649,171
$670,001 to $695,000	1	256,512	4,007	376,477	44,012	7,968	–	–	684,969
$920,001 to $945,000	1	187,236	–	707,895	34,210	4,645	–	–	933,986

(a) Each row shows an average figure based on the number of individuals within each remuneration band based on total remuneration earned

Notes

1. The 'Base salary' column is prepared on an accrual basis and includes gross salary earned while working plus annual leave accrued.
2. The 'Other benefits and allowances' column includes benefits that form part of an individual's remuneration package. This includes, for eligible members of staff, motor vehicle benefits and health benefits plus the related fringe benefits tax on these benefits. For staff located inter-state or overseas, this may also include allowances and accommodation benefits plus the related fringe benefits tax on these benefits.
3. The 'Superannuation contributions' column is calculated as: contribution amounts for individuals who are eligible for a defined contribution arrangement in a defined contribution scheme; and for individuals who are in a defined benefit arrangement, an amount equal to 15.4 per cent of superannuable salary plus any employer productivity contributions.
4. The 'Long service leave' column is calculated as long service leave accrued.

Risk Management

Effective risk management is an integral element in the Reserve Bank achieving its strategic objectives and meeting its policy responsibilities. Accordingly, a risk management and control framework underpins effective decision-making in the Bank, while allowing enterprise-wide and emerging risks to be identified and managed in a way that is consistent with the Bank's risk appetite. This framework is overseen by the Risk Management Committee.

Objectives and governance structure

The Reserve Bank, like any organisation, cannot achieve its objectives without taking on risk. Management of these risks is the responsibility of all staff. In particular, the Bank has implemented the 'three lines model'. Departments – the 'first line' – are responsible for evaluating their risk environment, putting in place appropriate controls and ensuring that these controls are implemented effectively. This is supported by a 'second line' of staff who provide additional expertise, monitoring and challenge (particularly in areas where the inherent risks are more severe). Audit Department provides a 'third line' of independent assurance and advice.

The Bank identifies, assesses and manages risk at both an enterprise ('top-down') and business ('bottom-up') level, a process that is subject to ongoing review. These risks are managed to a level that is consistent with the Bank's risk appetite that is articulated by the Bank's management. The Bank supports and promotes the development and maintenance of an active risk management culture that acknowledges the need for careful analysis and management of risk in all business processes.

Oversight of the Reserve Bank's arrangements for risk management is undertaken by the Risk Management Committee. The committee is chaired by the Deputy Governor and comprises: the Assistant Governors for Business Services, Corporate Services and Financial Markets groups; the Chief Financial Officer; the Chief Information Officer; the Heads of the Audit, Human Resources, Information, and Risk and Compliance departments; and the General Counsel. The Risk Management Committee meets at least six times each year and informs the Executive Committee and the Reserve Bank Board Audit Committee of its activities.

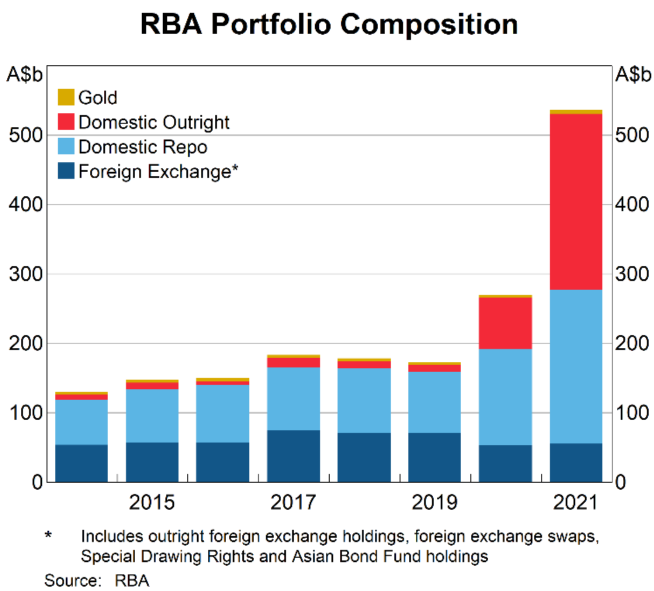
The Risk Management Committee is responsible for ensuring the proper assessment and effective management of all the risks the Reserve Bank faces, with the exception of those arising directly from its monetary and financial stability policies and payments policy functions. These risks remain the responsibility of the Governor, the Reserve Bank Board and the Payments System Board. The risks associated with the Bank's ownership of Note Printing Australia Limited (NPA) are overseen by the Reserve Bank Board, while the risks of operating NPA are overseen by the NPA Board and management.

The Risk Management Committee is assisted in its responsibilities by Risk and Compliance Department. The department assists individual business areas manage their risk and compliance environment effectively within a framework that is consistent across the Bank. It monitors risk and performance associated with the Reserve Bank's activities in financial markets. It also supports the business areas by implementing Bank-wide control frameworks covering fraud, bribery and corruption, business continuity and compliance-related risks. The Head of Risk and Compliance Department reports directly to the Deputy Governor and the Chair of the Audit Committee.

Audit Department undertakes a risk-based audit program to provide independent assurance that risks are identified and key controls to mitigate these risks are well designed, implemented and working effectively. The Head of Audit Department reports to the Deputy Governor and the Chair of the Audit Committee. Audit Department's work is governed by the Audit Department Charter, which is approved by the Audit Committee.

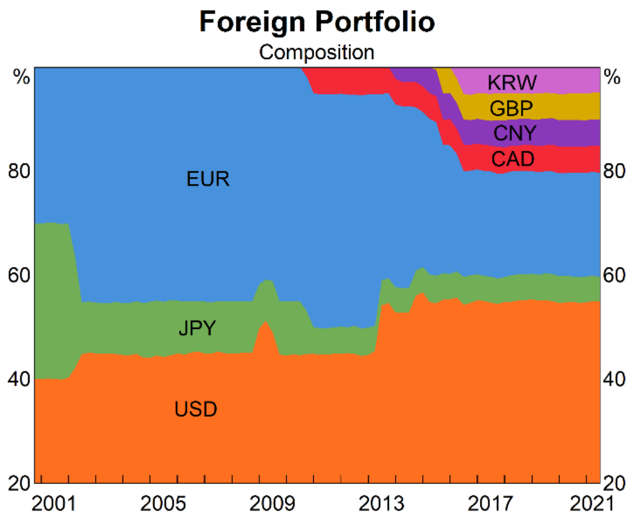
Portfolio risks

The Reserve Bank holds domestic and foreign currency-denominated financial instruments to support its operations in financial markets in pursuit of its policy objectives. These instruments account for the majority of the Bank's assets and expose its balance sheet to a number of financial risks. The primary responsibility for managing these risks rests with the Financial Markets Group. Risk and Compliance Department monitors these risks and assesses compliance with the approved risk framework. Within this framework, compliance with financial management guidelines and developments in portfolio risks are reported to the Risk Management Committee.



Exchange rate risk

The Reserve Bank is exposed to exchange rate risk as some of the Bank's assets are denominated in foreign currency, while most of the Bank's liabilities are denominated in Australian dollars. Foreign currency assets consist of outright foreign exchange holdings, assets funded by foreign exchange swaps, Special Drawing Rights (an international reserve asset created by the International Monetary Fund) and units in the Asian Bond Fund (an investment that is managed externally by the Bank for International Settlements). Outright foreign exchange holdings are the largest component of foreign currency assets. As these assets are held for policy purposes, the Bank does not seek to eliminate or hedge the associated foreign exchange exposure. However, the Bank mitigates some of this risk by diversifying these assets across various currencies. The foreign portfolio has target shares of 55 per cent in US dollars, 20 per cent in euros and 5 per cent each in Japanese yen, Canadian dollars, UK pound sterling, Chinese renminbi and South Korean won. These shares have been unchanged since 2016. The portfolio composition reflects the Bank's risk appetite and desired liquidity. Some limited deviation from target currency shares is permitted to simplify management and minimise transaction costs.



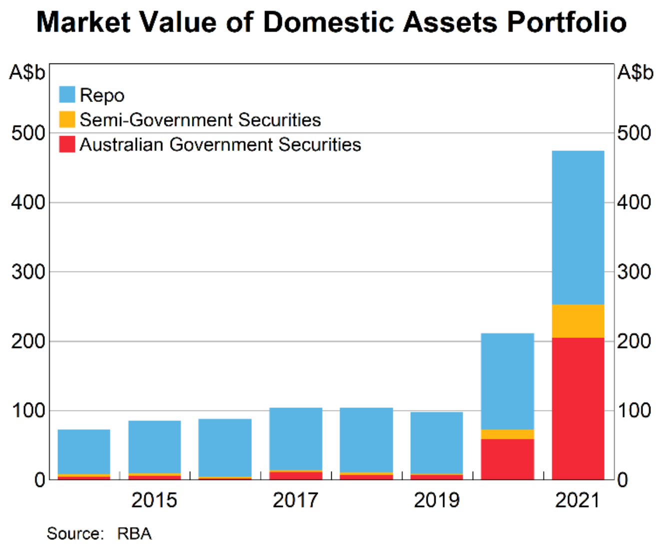
* Excludes assets funded by foreign exchange swaps
Source: RBA

The Australian dollar value of the Reserve Bank's foreign portfolio decreased over 2020/21 owing to the broad-based appreciation of the Australian dollar, while being little changed in foreign currency terms. Based on the size of the foreign portfolio as at 30 June 2021, a 10 per cent appreciation of the Australian dollar would result in a mark-to-market loss of $5.2 billion.

Interest rate risk

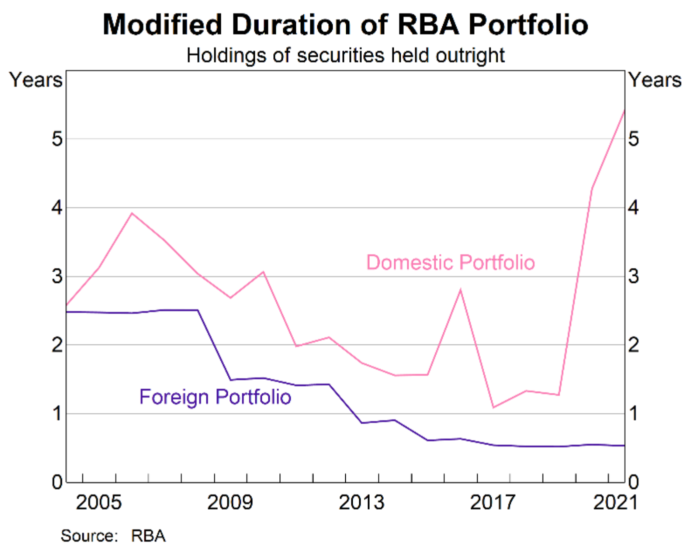
The value of the Reserve Bank's financial assets is also exposed to movements in market interest rates. Interest rate risk on the Reserve Bank's portfolio rose to a historically high level over 2020/21, reflecting the increase in the size and interest rate sensitivity of the domestic portfolio.

Total holdings of domestic securities increased by $263 billion over 2020/21 to $475 billion. Domestic securities held outright increased by $180 billion to $253 billion, while those held on a temporary basis under repurchase agreements (repos) increased by $83 billion to $221 billion.

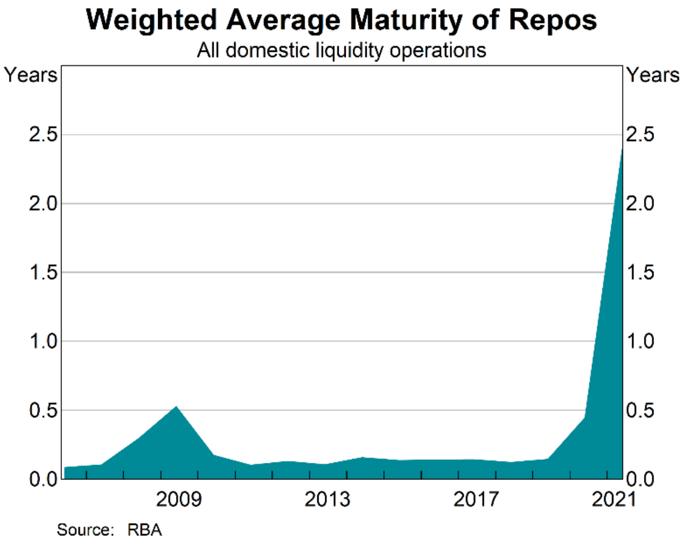


The expansion in securities held outright was a result of the Reserve Bank's policy actions to support the Australian economy since the onset of COVID-19 – in particular, purchases of Australian Government Securities (AGS) and semi-government securities (semis) in the secondary market to support the three-year yield target, as part of the bond purchase program, which focused on the 5 - to 10-year segment of the yield curve, and to address dysfunction in the government bond market.

The interest rate sensitivity of outright holdings in the domestic portfolio, as measured by modified duration, increased from 4¼ years to 5½ years over 2020/21. However, the Bank intends to hold these bonds to maturity. This means the return the Bank will earn on these bonds will be determined by the yield on each bond at the time of purchase and will not change with valuation gains or losses that result from fluctuations in yields (see chapter on 'Earnings, Distribution and Capital').



The increase in repos was mainly due to the Bank providing additional liquidity to the financial system under the Term Funding Facility (TFF), which closed to new drawdowns on 30 June 2021. Under the TFF, the Bank offered three-year funding to authorised deposit-taking institutions (ADIs) under repurchase transactions (see chapter on 'Operations in Financial Markets'). Reflecting an increased share of repos with three-year terms, the average term of all outstanding repos increased over the year from around 5½ months to 2½ years.



The Reserve Bank's foreign portfolio is comprised of assets denominated in the seven reserve currencies. Each asset portfolio is managed relative to a benchmark portfolio, with a duration target that reflects the Bank's long-term appetite for interest rate risk and return. These targets are reviewed periodically. During 2020/21, duration targets were unchanged in all seven asset benchmark portfolios. The duration targets are: 18 months for the Chinese and South Korean portfolios; six months for the European, Canadian and US portfolios; three months for the UK portfolio; and less than three months for the Japanese portfolio. Some limited variation in actual portfolio duration from these duration targets is permitted to reduce transaction costs and provide scope to staff to enhance portfolio returns. The weighted-average benchmark duration target for the Bank's total foreign portfolio was little changed over 2020/21 at around 6¾ months. This is low by historical standards, reflecting the generally low level of interest rates, which offer little compensation for the risk of capital losses should longer-term bond yields increase significantly.

The Reserve Bank is also exposed to an increase in interest rate risk on its balance sheet liabilities owing to a maturity mismatch between assets and liabilities since the introduction of the TFF and asset purchase program. Liabilities include Exchange Settlement (ES) account balances held by ADIs, deposits held by the Australian Government and its agencies, and banknotes on issue. ES account balances have increased significantly since the onset of the pandemic (see chapter on 'Operations in Financial Markets'). Interest paid on ES account balances, as well as deposits held by the Australian Government and its agencies, reflects the Bank's monetary policy settings. Historically, this interest cost has been broadly offset by earnings on the domestic asset portfolio. However, TFF repo rates are fixed for three years and government bond holdings attract a fixed yield if held to maturity, while the remuneration rate on ES balances can change with the Bank's monetary policy settings (see chapter on 'Earnings, Distribution and Capital'). Banknotes on issue have declined as a share of liabilities over the year from 32 per cent to 18 per cent and carry no interest cost to the Bank.

Credit risk

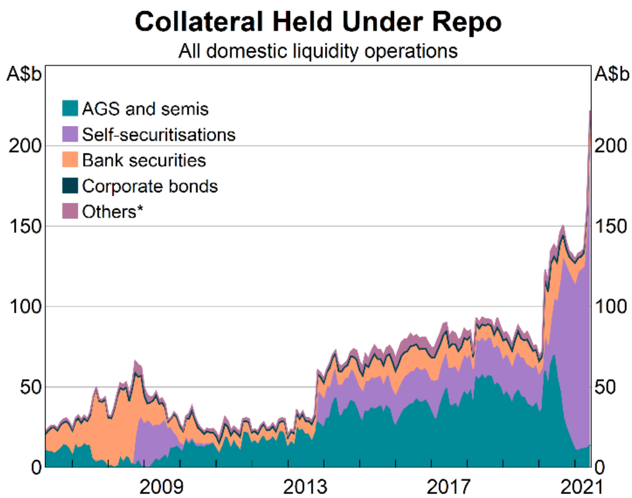
Credit risk is the potential for financial loss arising from the default of a debtor or issuer, or from a decline in asset values following a deterioration in credit quality. The Reserve Bank manages its credit exposure by applying a strict set of eligibility criteria to its holdings of financial assets and to counterparties with which it is willing to transact.

The Bank is exposed to very little issuer credit risk on its outright holdings in the domestic portfolio as it invests only in securities issued by the Australian Government or by state and territory government borrowing authorities. The Bank is exposed to a small amount of counterparty credit risk on domestic assets that are held under repo. The Bank would face a loss only if a counterparty failed to repurchase securities sold to the Bank under repo *and* the market value of the securities fell below the agreed repurchase amount. The Bank manages this exposure by requiring that these securities meet certain eligibility criteria and by applying an appropriate margin to the securities, which reduces the risk profile the Bank faces. The required margin is maintained throughout the term of the repo through daily two-way margining.

Alongside the establishment of the TFF in March 2020, the Reserve Bank relaxed constraints on certain ADIs posting eligible self-securitised asset-backed securities (ABS) (also called self-securitisations) as collateral.[1] Previously, only ADIs with access to the Committed Liquidity Facility (CLF) were allowed to post self-securitisations as collateral under the Bank's standing facilities. Any eligible self-securitisation can be presented as collateral under the TFF. This adjustment in the policy has been associated with a significant increase in usage of self-securitisations as collateral as the majority of collateral presented under the TFF has been self-securitisations. These securities are related to the counterparty presenting them as collateral in a repo, implying that a default by the counterparty may be associated with a decline in the value of the securities held as collateral. However, this risk is mitigated because the issuing trust is bankruptcy remote,[2] the securities must be rated AAA and they attract a relatively high margin. Unlike other types of securities accepted as collateral in the Bank's operations, these securities are not typically traded in the market as they are held by ADIs solely for the purpose of accessing central bank liquidity. Risk and Compliance Department values these securities based on a pricing model that references prices in the public ABS market. When the TFF was established, the Reserve Bank froze prices of eligible self-securitisations until early 2023 for the purpose of valuing collateral accepted under repo. This was to ensure that modelled prices are not unduly affected by potential volatility in public ABS arising from the COVID-19 pandemic.

1 ABS are debt securities issued by a trust that are backed by a pool of assets such as residential mortgages. Investors that purchase the securities receive income funded by the principal-and-interest payments from the pool of assets. Self-securitisations are a type of ABS. A distinguishing feature of self-securitisations is that notes issued from the trust are typically not sold to the public; rather, they are held by the ADI that issued them to use as collateral to access central bank liquidity. The Bank accepts securities issued by eligible self-securitisations as collateral.

2 That is, the assets sold into the trust are not at risk if the counterparty that sold those assets into the trust becomes bankrupt.

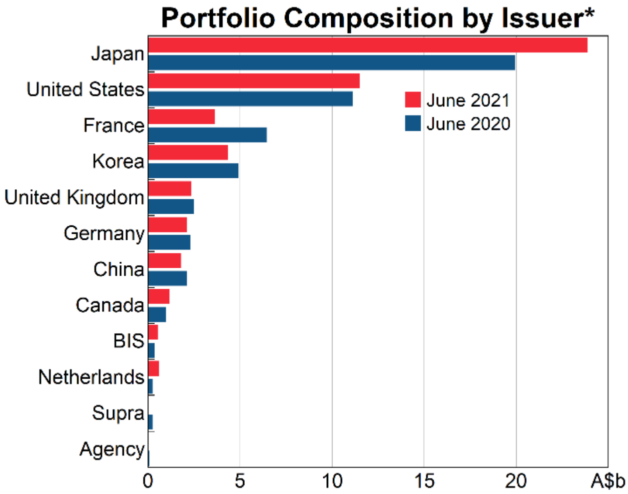


* Others include RMBS, ABS, supranational and corporate debt, securities with government guarantee and other AAA securities

Source: RBA

The counterparties of the Reserve Bank dealing in policy operations in the domestic market must be members of the Reserve Bank Information and Transfer System (RITS), subject to an appropriate level of regulation and able to settle transactions within the Austraclear system. Certain counterparties must also demonstrate a material connection to the bond and/or repo markets and be creditworthy to be eligible. Repo transactions with the Bank are governed by a Global Master Repurchase Agreement.

Investments in the Reserve Bank's foreign currency portfolio are typically confined to highly rated and liquid securities, as well as deposits with foreign central banks. The majority of the Bank's outright holdings are securities issued by the national governments of the United States, Germany, France, the Netherlands, Japan, Canada, the United Kingdom, China and South Korea, with modest holdings of securities issued by highly rated supranational institutions and government agencies. Gross holdings of Japanese yen-denominated assets increased by $4.3 billion over 2020/21, and remained the largest share of the Bank's foreign currency issuer exposures. The majority of these assets are funded under short-term foreign exchange swaps between Japanese yen and other currencies in the Reserve Bank's portfolio. When the cost of hedging currency risk under short-term foreign exchange swaps is taken into account, yields on short-dated Japanese investments have generally been higher than those available in the other currencies in the Reserve Bank's portfolio (see chapter on 'Operations in Financial Markets'). A limit on the size of exposures to individual currencies based on the Bank's capital mitigates concentration risk.



* Includes assets held outright, funded by foreign exchange swaps, and held under repurchase agreements

Source: RBA

The Reserve Bank holds a portion of its foreign currency portfolio in short-term repos. This exposes the Bank to the small amount of residual credit risk that is inherent in repos, as noted above. The Bank manages this risk by: requiring 2 per cent over-collateralisation, which is maintained through two-way margining in the local currency; and accepting only high-quality and liquid securities as collateral. Credit exposure on foreign repos is further managed by imposing limits on individual counterparty exposures and requiring execution of a Global Master Repurchase Agreement (or Master Repurchase Agreement where appropriate) with each counterparty.

The Reserve Bank undertakes foreign exchange and gold swaps as part of its policy operations and as a means of enhancing returns on the foreign currency portfolio. The Bank commenced transacting in long-term foreign exchange swaps during the year to manage existing and future foreign currency commitments to the International Monetary Fund (IMF). This involves swapping Australian dollars into US dollars for terms of up to two to three years. IMF commitments were previously funded from net foreign currency reserves. Credit risk on foreign exchange and gold swaps is managed by transacting only with counterparties that meet strict eligibility criteria, including the requirement to have executed with the Bank an International Swaps and Derivatives Association (ISDA) agreement with a credit support annex. Exposures generated by movements in market exchange and interest rates and gold prices are managed through daily two-way margining in Australian dollars.

In addition to gold swaps, the Bank undertakes some limited lending of its gold holdings. The lending is either fully collateralised or the borrower has government support. As at 30 June 2021, 6.0 tonnes of gold, valued at $0.5 billion, was on loan.

Operational risk

The Reserve Bank faces a diverse range of operational risks reflecting its responsibilities as a central bank. These risks range from those related to the health and wellbeing of its staff during the COVID-19 pandemic, availability of technology and facilities services, and the unintentional disclosure of confidential and sensitive information. In order to achieve its strategic objectives effectively, the Bank's appetite for these types of risk is generally low, although it recognises that it is neither possible nor necessarily desirable to eliminate some risks inherent in its activities. The Bank also accepts some risk in order to promote innovation in its core activities.

The most significant operational risks the Bank is exposed to are:

- transacting in financial markets to implement monetary policy
- maintaining the infrastructure to facilitate real-time interbank payment and settlement services through RITS and the FSS
- providing banking facilities for a number of government entities, including the Australian Taxation Office, Medicare and Centrelink
- the provision of safe, secure and reliable Australian banknotes.

Managing risk and innovation presents the Bank with opportunities, while also reducing possible operational failure in critical activities that can have widespread consequences. The Bank's Financial Markets Group, for example, executed around 32,000 transactions in 2020/21, generating an average daily settlement value of around $21.3 billion, while RITS settles around $196 billion every day on average. The risk management framework supports the identification, analysis and management of risks that could adversely affect these operations, and also promotes greater efficiencies and agility. These include mechanisms by which emerging risks are identified, processes and systems by which subject matter experts consider these risks, and channels that facilitate these risks being raised with executives. Various metrics are used to highlight to executives how risks are being managed and whether risks are consistent with the Bank's risk appetite. These metrics range, for example, from payment settlements systems availability targets to whether business resilience tests are performed regularly.

Considering these risks in more detail, the Reserve Bank's activities are highly dependent on information technology (IT) systems. The risk management and control framework supports an ongoing focus on managing the risks associated with complex IT systems. The IT Department collaborates with relevant business areas to facilitate the monitoring, assessment and management of IT-related risks and ensures IT-related initiatives are consistent with the Bank's Strategic Plan. This work is supported by the continuous evaluation of industry developments in order to ensure that the Bank's systems and procedures remain robust and conform to current IT standards. Assessment of appropriate resourcing, the adequacy of IT process controls and the level of security over information management are all incorporated in the risk management and control framework.

As part of the Bank's management of the risks associated with technology and operational systems, a strong focus is placed on the security of these systems. Cyber resilience is a key operational risk, and managing this risk is supported by staff at all levels of the Bank. The Bank prioritises protecting digital assets from cybersecurity threats, while also providing a high-quality service to all Australians. The Bank remains committed to a mature implementation of the Australian Signals Directorate Information Security Manual and relevant security standards, introducing innovative security technologies, and proactively searching for emerging threats in order to continually meet the Bank's strategic cyber resilience objectives. The Bank continues to work with peer central banks, the Australian Government and industry participants to increase the cyber resilience of national and international financial systems.

The Reserve Bank invests in significant security controls and risk assurance functions, which are supported by a regular assessment regime. The Bank receives regular independent assurance of its compliance with security strategies endorsed by the Australian Signals Directorate, and maintains independent certification for the ISO 27001 global standard for Information Security Management.

During the past year, the Bank continued to direct substantial resources towards the delivery or completion of a number of large and complex multi-year projects. These include the Next Generation Banknotes project with the final denomination ($100 note) issued in October 2020, and the completion of a refresh of core payments settlement infrastructure that delivers increased system resilience and processing throughput. Successfully completing and embedding these projects will ensure high-quality services are maintained for the Bank's clients and the Australian public. Project risks are carefully managed so that adequate resources are available, nominated project deadlines are met and change management is effective. Project steering committees play an important role in overseeing the management of these risks.

The Reserve Bank manages risks related to the handling of confidential and sensitive information and, in particular, ensuring that there are no unintended disclosures. While the primary focus is on ensuring that sufficient controls exist to prevent a breach occurring, the risk and control framework also seeks to ensure that the Bank would respond appropriately if one were to occur. The Bank has completed the implementation of the Australian Government's 'Digital Continuity 2020 Policy'. The National Archives of Australia has released a new policy – 'Building Trust in the Public Record' – which seeks to ensure that agencies manage their information assets with appropriate governance, fit-for-purpose processes and systems, and reduced risk.

The Bank does not tolerate dishonest or fraudulent behaviour and is committed to deterring and preventing such behaviour. It takes a very serious approach to cases, or suspected cases, of fraud. All staff involved in financial dealing have well-defined limits to their authority to take risks or otherwise commit the Bank. These arrangements are further enhanced by the separation of front-, back- and middle-office functions, where staff involved in trading, settlement and reconciliation activity remain physically apart and have separate reporting lines. For non-trading activities, several layers of fraud control are in place. A clear decision-making hierarchy, separation of duties and physical controls over systems and information have been established and are subject to regular review. Ongoing training and awareness programs are also conducted; the Bank requires all staff to undertake fraud awareness training. The Bank has arrangements in place for staff and members of the public to report concerns anonymously. All concerns are fully investigated. During 2020/21, there were no reported instances of fraud by employees.

The Reserve Bank remains strongly committed to maintaining and strengthening a workplace culture in which employees uphold the highest standards of behaviour. The Code of Conduct sets out requirements of the Bank's employees and others who are involved in its activities. The Bank has arrangements in place for staff to report concerns about breaches of the Code of Conduct, including channels by which concerns can be reported anonymously. Arrangements are in place to ensure staff are comfortable reporting concerns across a range of issues.

The effective management of compliance risk is central to the Bank's activities. Supporting this, staff complete regular training on areas such as privacy and workplace health and safety. Risk and Compliance Department also collaborates with all business areas to ensure compliance risks are being managed effectively and keeps the Risk Management Committee informed regarding the level of compliance in key areas. In particular, one key area of work completed was the preparation of a joint NPA and Reserve Bank Modern Slavery statement. The statement was published on Australian Border Force's Online Register for Modern Slavery Statements.

Notwithstanding these measures, events can occur from time to time that may lead to service disruption, or to financial or other costs. Timely reports on incidents and 'near misses' are provided to the Risk Management Committee. These reports outline the circumstances, including impact and cause, as well as identify areas where new controls may be needed, where existing controls should be strengthened or where more significant innovation efforts might be well placed.

The Reserve Bank continues to act as the administrator of the Guarantee of State and Territory Borrowing. Applications for new guaranteed liabilities under this scheme closed in 2010, although existing liabilities will continue to be guaranteed until maturity, at the latest in 2023. To date, a total of $428 million in fees has been collected for state and territory borrowing since the scheme commenced in 2009, with $2 million collected in 2020/21.

Business resilience

The resilience of critical business functions is a key focus area for the Reserve Bank. The Bank's policy is to maintain resilient arrangements when responding to any incident that has the potential to adversely affect its people, operations, assets or reputation, or compromise its physical security.

Since the onset of the COVID-19 pandemic, the Bank has focused on maintaining the health and wellbeing of its staff and has continued to maintain business critical functions. The Bank activated its Pandemic Response Plan and Incident Assessment Team to respond to operational risks and issues arising from the pandemic and its effects on the Bank's people and operations across Australia and in our foreign offices.

Another major consideration will be maintaining business resilience during a major project of building works at the Bank's Head Office at 65 Martin Place, Sydney between 2022 and 2024. Planning is well under way to develop contingency responses and exercises to ensure staff are well briefed on their roles during the project, including effective communication arrangements. The Risk Management Committee is regularly overseeing this project to ensure operational risks are managed effectively.

Earnings, Distribution and Capital

In 2020/21, the Bank recorded an accounting loss of $4.3 billion, as unrealised valuation losses exceeded the sum of other components of profit. Despite the accounting loss, earnings of $3.9 billion were still available for distribution. This was because, when determining the amount available for distribution under the *Reserve Bank Act 1959*, unrealised valuation losses are offset against previously retained unrealised valuation gains. A sum of $1.2 billion was transferred to the Reserve Bank Reserve Fund (RBRF), consistent with the Reserve Bank Board's target for this reserve; $2.7 billion will be paid as a dividend to the Australian Government in September.

While the Reserve Bank earns a profit in most years, it also holds capital and reserves to cover potential financial losses when they occur. The framework for assessing the Bank's target level of capital was reviewed and updated during 2020/21, in response to the significant change in the size and structure of the Bank's balance sheet. The Board views the Bank's capital as appropriate given the risks arising from its assets and liabilities.

The Reserve Bank's earnings

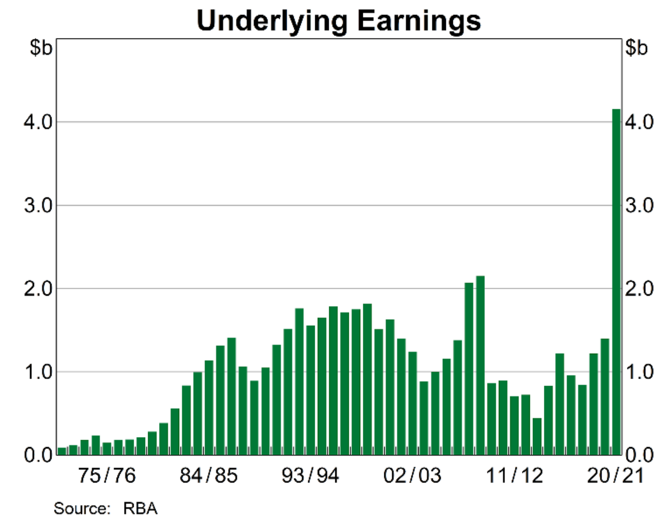
The Reserve Bank's earnings come from two sources: underlying earnings, including net interest and fee income, less operating costs; and valuation gains or losses. Net interest income arises from the Bank earning interest on almost all of its assets, albeit currently at low rates, while paying no interest on a large portion of its liabilities – namely, banknotes on issue, and capital and reserves. Moreover, Exchange Settlement (ES) balances, which have grown significantly over the past year as a result of the Bank's policy actions, are also currently paid a zero interest rate. Fees paid by authorised deposit-taking institutions in relation to the Committed Liquidity Facility also contribute to underlying earnings.

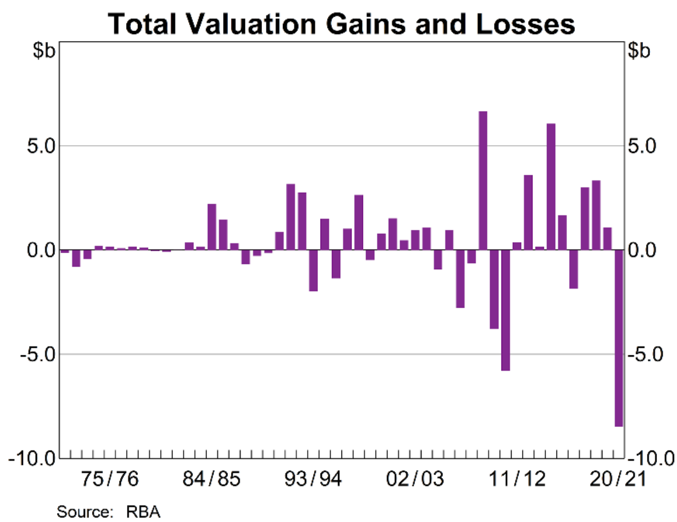
Valuation gains and losses result from fluctuations in the value of the Reserve Bank's assets because of movements in exchange rates or changes in the market yields on securities held outright. A depreciation of the Australian dollar or a decline in market yields results in valuation gains. Conversely, an appreciation of the Australian dollar or a rise in market yields leads to valuation losses. These gains and losses are realised only when the underlying asset is sold or matures. Valuation gains and losses are volatile, as both exchange rates and market interest rates can fluctuate in wide ranges over time. Market risk is managed by the Bank within strict parameters, although it is not completely eliminated given the policy purposes for which the Bank's assets are held.

Management of the Bank's assets is discussed in the chapter on 'Operations in Financial Markets'; the associated risks are outlined in the chapter on 'Risk Management'.

The Reserve Bank reports net profit in accordance with Australian Accounting Standards, while the distribution of profits is determined by section 30 of the Reserve Bank Act. In terms of the Act, net profit is dealt with in the following way:

1. Unrealised gains (or losses) are not available for distribution and are transferred to (absorbed by) the unrealised profits reserve. The remainder of net profit after this transfer is available for distribution.
2. The Treasurer determines, after consulting the Reserve Bank Board, any amounts to be placed from distributable earnings to the credit of the RBRF, the Bank's general reserve.
3. The remainder of distributable earnings is payable as a dividend to the Commonwealth.





In 2020/21, the Reserve Bank recorded an accounting loss of $4.3 billion, comprising:

- Underlying earnings of $4.2 billion, an increase of $2.8 billion from the previous year. This increase reflects interest earnings on Australian government bonds purchased as part of the Bank's policy responses to the COVID-19 pandemic, including under the bond purchase program and to support the three-year yield target. At the same time, the corresponding liability, ES balances, were paid a zero interest rate since November 2020.
- Unrealised valuation losses of $8.2 billion, from:
  - the appreciation of the Australian dollar over the year ($3.5 billion loss)
  - a rise in bond yields in Australia and abroad ($2.0 billion loss)
  - the unwinding of premiums on domestic government bonds that were purchased at a higher price than their face value (due to their coupon rates being greater than the market yields at the time) ($2.7 billion loss). These premiums are unwound on a straight-line basis and recorded as unrealised valuation losses each day, and realised upon sale or maturity of the bond.

- Realised valuation losses of $0.2 billion, from maturities of Australian government bonds that had been purchased at a premium, partly offset by gains realised on sales of foreign exchange in the normal course of managing the portfolio of foreign reserves. Taking account of coupon payments received on while these bonds were held, these holdings were profitable for the Bank.

Despite the accounting loss in 2020/21, earnings of $3.9 billion were still available for distribution, as unrealised losses of $8.2 billion were absorbed by the unrealised profits reserve in accordance with the Reserve Bank Act (explained above).

Capital, reserves and distribution

The Reserve Bank maintains capital and reserves for the risks on its balance sheet. These include the RBRF, which is the Bank's general reserve established under the Reserve Bank Act. The RBRF is funded from transfers from earnings available for distribution.

The Reserve Bank Board has for many years had a policy of aiming to hold sufficient funds in the RBRF to absorb losses that might reasonably be anticipated from time to time. The Board has a framework that assigns capital to various risks on the Bank's balance sheet, including credit risk and market risk. It calculates a target balance for the RBRF based on an assessment of these risks. This target balance is used as an input into the Board's advice to the Treasurer about dividend payments from distributable earnings. It is not a minimum level of capital that needs to be maintained at all times. At the end of the previous financial year, the target balance of the RBRF was $12.6 billion and the actual balance was $14.1 billion.

The capital framework is reassessed over time to take account of the changing risk environment or material changes in the composition of the Bank's balance sheet, as was the case in 2020/21. It was appropriate to do so given the significant changes in the size and structure of the Bank's balance sheet, the changes in the operation of monetary policy and the changed nature of the risks.

The Reserve Bank's existing capital framework accounts for credit risk and market risk:

- The Bank has no history of loss from credit risk and the capital held against credit risk is very small. This reflects the high quality of the Bank's assets, the soundness of the counterparties with which it deals, and the fact that repurchase agreements and foreign exchange swaps are highly collateralised. The expansion of the Bank's balance sheet over the past year has not materially changed the assessment of credit risk.
- The largest potential for loss from the Bank's assets comes from market risk, comprising foreign exchange and interest rate risk. The capital assigned to each component of market risk is based on the Bank's own experience as well as stress tests of the balance sheet, which incorporate significant adverse movements in exchange rates and interest rates drawn from historical experience.
  - For foreign exchange risk, the stress scenario used is a 25 per cent appreciation of the Australian dollar in a given year. As at 30 June 2021, the target level of capital for exchange rate risk was $12.8 billion, a little higher than a year earlier.
  - For interest rate risk, the scenario that has been used for some years is a 200 basis point rise in interest rates across the whole yield curve. For the foreign portfolio, this results in a capital target of $0.6 billion, similar to that of 2019/20. For the domestic portfolio, the comparable figure is $27.4 billion, which is a very large increase from a year earlier. This increase reflects the significant expansion of the Bank's balance sheet.

Combining the capital calculations for credit risk, foreign exchange risk and interest rate risk generates an overall figure of $40.8 billion.

The Reserve Bank Board's recent review of the capital framework focused on interest rate risk for the domestic portfolio, particularly given that the government bonds purchased under the bond purchase program and to support the three-year yield target are intended to be held to maturity. For these bonds, any mark-to-market valuation losses that occur as yields increase will be offset at the time that the bonds mature at their face value. This means that fluctuations in yields alter the timing of any valuation gain or loss over time, but do not change the ultimate return the Bank will earn on these bonds. This would not be the case if the bonds were sold prior to maturity. Given the intention to hold these bonds to maturity, the financial risks are different from other bond holdings and the Board judged that this should be reflected in an alternative assessment of the risks associated with these bonds.

The Board also considered the financial risks arising from the mismatch between having fixed-rate assets (the purchased bonds and funds lent under the Term Funding Facility (TFF)) and floating rate liabilities (the additional balances in ES Accounts). The interest rate on ES balances moves with the cash rate target, meaning that the Bank's net interest earnings are now exposed to a rise in the ES rate. This is because a future increase in the cash rate would result in the Bank paying a higher rate on its liabilities, but it would still be earning the same fixed interest rate on its assets. In the past this earnings risk was very small, given the close matching of maturity of the Bank's domestic assets and liabilities. Hence, there was no capital assigned to these 'earnings at risk'.

To assess this risk, the maximum annual decline in net interest earnings over coming years is calculated based on the projected balance sheet and financial market expectations for the cash rate. Market expectations for the cash rate have been used solely as an independent input, and should not be viewed as providing information on the Reserve Bank's own guidance for the future path of the cash rate. The maximum annual decline in earnings is in the next two to four years, after which the risks decline when the bonds purchased to support the three-year yield target mature and the funds lent under the TFF are repaid.

The capital calculation for these 'earnings at risk' is $2.0 billion. Combining this with the figures for credit risk, foreign exchange risk and interest rate risk on the foreign portfolio generates a total of $15.4 billion.

The Reserve Bank Board will continue to monitor the capital calculation based on interest rate risk on the domestic portfolio (assuming a 200 basis point rise in yields), as well as the earnings at risk on the domestic portfolio. In the interest of transparency, the Bank will continue to report both figures in the Annual Report.

The Board is mindful that valuation losses in any given year could be large enough to exceed the balance in the RBRF and result in a negative equity position. Such an outcome, if it were to occur for these reasons, would not affect the Reserve Bank's ability to operate effectively or perform any of its policy functions.

After consulting with the Board, the Treasurer determined that a sum of $1.2 billion be transferred from earnings available for distribution to the RBRF. This sum brings the balance in the RBRF to the Board's target of $15.4 billion. Following this transfer, a sum of $2.7 billion was payable as a dividend to the Commonwealth.

In addition to the RBRF, the Reserve Bank maintains a number of other financial reserves.

Reserve Bank Capital and Reserves

$ million

	30 June 2021	30 June 2020
Reserves		
Reserve Bank Reserve Fund	15,366	14,119
Unrealised profits reserve	502	8,751
Asset revaluation reserves	6,753	7,335
Superannuation reserve	344	87
Capital	40	40
Total	**23,005**	**30,332**

Source: RBA

The balance of the unrealised profits reserve stood at $0.5 billion at 30 June 2021, a decline of $8.2 billion from the previous year. The balance of this reserve is available either to absorb future valuation losses or to be distributed over time as the gains become realised when relevant assets are sold.

Asset revaluation reserves are held for non-traded assets, such as gold holdings and property. Balances in these reserves represent the difference between the market value of these assets and the cost at which they were acquired. The total balance for these reserves was $6.8 billion at 30 June 2021, $0.6 billion lower than in the previous financial year, largely reflecting a decrease in the Australian dollar value of the Reserve Bank's holdings of gold.

Details of the composition and distribution of the Reserve Bank's profits are contained in the table at the end of this chapter.

The Financial Statements (and accompanying Notes to the Financial Statements) for the 2020/21 financial year were prepared in accordance with Australian Accounting Standards, consistent with the Finance Reporting Rule issued under the *Public Governance, Performance and Accountability Act 2013*.

Composition and Distribution of Reserve Bank Profits

$ million

	Composition of Profits[a]				Distribution of Profits				Payments to Government		
					Transfer to/from (–)						
	Underlying earnings	Realised gains and losses (–)[b]	Unrealised gains and losses (–)	Accounting profit or loss (–)	Unrealised profits reserves	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	710	405	–39	1,076	–20	–	596	500	–	–	–
2012/13	723	–135	3,725	4,313	3,725	–	588	–	500	–	500
2013/14	9,242[c]	790	–640	9,392	–640	–3	8,800	1,235	–	–	–
2014/15	832	2,622	3,434	6,888	3,434	–	1,570	1,884	618	–	618
2015/16	1,223	3,389	–1,729	2,883	–1,729	–	1,390	3,222	1,884	618	2,501
2016/17	960	322	–2,179	–897	–2,179	–4	–	1,286	3,222	–	3,222
2017/18	845	–176	3,178	3,847	3,178	–	–	669	1,066	–	1,066

	Composition of Profits[(a)]				Distribution of Profits				Payments to Government		
					Transfer to/from (–)						
	Underlying earnings	Realised gains and losses (–)[(b)]	Unrealised gains and losses (–)	Accounting profit or loss (–)	Unrealised profits reserves	Asset revaluation reserves	Reserve Bank Reserve Fund	Dividend payable	Payment from previous year's profit	Payment delayed from previous year	Total payment
2018/19	1,167	412	2,970	4,549	2,970	–106	–	1,685	669	220	889
2019/20	1,399	1,168	–79	2,488	–79	–	–	2,567	1,685	–	1,685
2020/21	4,157	–240	–8,249	–4,332	–8,249	–1	1,247	2,671	2,567	–	2,567

(a) As originally published

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

(c) Includes the Commonwealth grant of $8,800 million

Source: RBA

PART 4

Financial Statements

For the year ended 30 June 2021

Statement of Assurance

In the opinion of each of the Governor, as the accountable authority of the Reserve Bank of Australia (RBA), and the Chief Financial Officer, the financial statements for the year ended 30 June 2021 present fairly the Reserve Bank's financial position, financial performance and cash flows, comply with the accounting standards and any other requirements prescribed by the rules made under section 42 of the *Public Governance, Performance and Accountability Act 2013* and have been prepared from properly maintained financial records. These financial statements have been approved by a resolution of the Reserve Bank Board on 7 September 2021.

Philip Lowe
Governor and Chair, Reserve Bank Board

Emma Costello
Chief Financial Officer

10 September 2021

Statement of Financial Position – as at 30 June 2021

Reserve Bank of Australia and Controlled Entity

	Note	2021 $M	2020 $M
Assets			
Cash and cash equivalents	6	721	516
Australian dollar investments	1(b), 15	474,974	211,914
Foreign currency investments	1(b), 15	56,710	58,200
Gold	1(d), 15	6,022	6,615
Property, plant and equipment	1(e), 8	754	729
Other assets	7	716	697
Total assets		539,897	278,671
Liabilities			
Deposits	1(b), 9	415,576	153,541
Distribution payable to the Commonwealth	1(h), 3	2,671	2,567
Australian banknotes on issue	1(b)	95,485	90,102
Other liabilities	10	3,160	2,129
Total liabilities		516,892	248,339
Net Assets		23,005	30,332
Capital and Reserves			
Reserves:			
Unrealised profits reserve	1(g)	502	8,751
Asset revaluation reserves	1(g), 5	6,753	7,335
Superannuation reserve	1(g)	344	87
Reserve Bank Reserve Fund	1(g)	15,366	14,119
Capital	1(g)	40	40
Total Capital and Reserves		23,005	30,332

The above statement should be read in conjunction with the accompanying Notes.

Statement of Comprehensive Income – for the year ended 30 June 2021

Reserve Bank of Australia and Controlled Entity

	Note	2021 $M	2020 $M
Net interest income	2	4,285	1,498
Fees and commission income	2	460	521
Other income	2	53	44
Net gains/(losses) on securities and foreign exchange	2	(8,489)	1,089
General administrative expenses	2	(483)	(474)
Other expenses	2	(158)	(190)
Net Profit/(Loss)		(4,332)	2,488
Gains/(losses) on items that may be reclassified to profit or loss:			
Gold		(593)	1,456
		(593)	1,456
Gains/(losses) on items that will not be reclassified to profit or loss:			
Property		24	32
Superannuation		257	(34)
Shares in international and other institutions		(12)	45
		269	43
Other Comprehensive Income		(324)	1,499
Total Comprehensive Income		(4,656)	3,987

The above statement should be read in conjunction with the accompanying Notes.

Statement of Distribution – for the year ended 30 June 2021

Reserve Bank of Australia and Controlled Entity

	Note	2021 $M	2020 $M
Net profit/(loss)		(4,332)	2,488
Transfer (to)/from unrealised profits reserve		8,249	79
Transfer from asset revaluation reserves		1	–
Earnings available for distribution		3,918	2,567
Distributed as follows:			
Transfer to Reserve Bank Reserve Fund		1,247	–
Payable to the Commonwealth	3	2,671	2,567
		3,918	2,567

The above statement should be read in conjunction with the accompanying Notes.

Statement of Changes in Capital and Reserves – for the year ended 30 June 2021

Reserve Bank of Australia and Controlled Entity

	Note	Unrealised profits reserve	Asset revaluation reserves	Superannuation reserve	Earnings available for distribution	Reserve Bank Reserve Fund	Capital	Total capital and reserves
		$M	$M	$M	$M	$M	$M	$M
Balance as at 30 June 2019		**8,830**	**5,802**	**121**	**–**	**14,119**	**40**	**28,912**
Net Profit/(Loss)	1(h)	(79)			2,567			2,488
Gains/(losses) on:								
Gold	1(d), 5		1,456					1,456
Shares in international and other institutions	1(b), 5		45					45
Property	1(e), 5		32					32
Superannuation	1(j)			(34)				(34)
Other comprehensive income			1,533	(34)				1,499
Total comprehensive income for 2019/20								3,987
Transfer to Reserve Bank Reserve Fund	1(g), 3				–	–		–
Transfer to distribution payable to the Commonwealth	1(h), 3				(2,567)			(2,567)
Balance as at 30 June 2020		**8,751**	**7,335**	**87**	**–**	**14,119**	**40**	**30,332**
Net Profit/(Loss)	1(h)	(8,249)			3,917			(4,332)
Gains/(losses) on:								
Gold	1(d), 5		(593)					(593)
Shares in international and other institutions	1(b), 5		(12)					(12)
Property	1(e), 5		24					24
Superannuation	1(j)			257				257

	Note	Unrealised profits reserve	Asset revaluation reserves	Superannuation reserve	Earnings available for distribution	Reserve Bank Reserve Fund	Capital	Total capital and reserves
		$M	$M	$M	$M	$M	$M	$M
Other comprehensive income			(581)	257				(324)
Total comprehensive income for 2020/21								(4,656)
Transfer from Asset revaluation reserves	1(g), 3		(1)		1			–
Transfer to Reserve Bank Reserve Fund					(1,247)	1,247		–
Transfer to distribution payable to the Commonwealth	1(h), 3				(2,671)			(2,671)
Balance as at 30 June 2021		**502**	**6,753**	**344**	**–**	**15,366**	**40**	**23,005**

The above statement should be read in conjunction with the accompanying Notes.

Cash Flow Statement – for the year ended 30 June 2021

Reserve Bank of Australia and Controlled Entity

For the purposes of this statement, cash includes overnight settlement balances due from other banks.

	Note	2021 Inflow/ (outflow) $M	2020 Inflow/ (outflow) $M
Cash flows from operating activities			
Interest received		3,523	1,639
Interest paid		(165)	(471)
Net fee income received		374	424
Net payments for investments		(267,996)	(96,150)
Net cash collateral received/(provided)		132	1,018
Other		(438)	(437)
Net cash from operating activities	6	(264,570)	(93,977)
Cash flows from investment activities			
Net payments for property, plant and equipment		(52)	(32)
Net payments for computer software		(19)	(19)
Other		–	10
Net cash from investment activities		(71)	(41)
Cash flows from financing activities			
Distribution to the Commonwealth	3	(2,567)	(1,685)
Net movement in deposit liabilities		262,035	84,887
Net movement in banknotes on issue		5,383	10,078
Other		(5)	3
Net cash from financing activities		264,846	93,283
Net increase/(decrease) in cash		205	(735)
Cash at beginning of financial year		516	1,251
Cash at end of financial year	6	721	516

The above statement should be read in conjunction with the accompanying Notes.

Notes to and Forming Part of the Financial Statements – for the year ended 30 June 2021

Reserve Bank of Australia and Controlled Entity

Notes

Note 1 – Accounting Policies

The RBA reports its consolidated financial statements in accordance with the *Reserve Bank Act 1959* and the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). These financial statements for the year ended 30 June 2021 are a general purpose financial report prepared under Australian Accounting Standards (AAS) and accounting interpretations issued by the Australian Accounting Standards Board, in accordance with the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*, which is issued pursuant to the PGPA Act. The RBA is classified as a for-profit public sector entity for the purposes of financial disclosure. These financial statements comply with International Financial Reporting Standards. In preparing them, the RBA has not 'early adopted' new accounting standards or amendments to current standards that apply from 1 July 2021.

All amounts in these financial statements are expressed in Australian dollars, the functional and presentational currency of the RBA. All revenues and expenses are brought to account on an accruals basis.

COVID-19 pandemic

In response to the ongoing COVID-19 pandemic, the Reserve Bank Board announced policy measures during 2020/21 to provide additional support for the economy through lower funding costs to support the provision of credit to households and businesses, which extended the range of measures announced in March 2020. These additional measures included:

- A Bond Purchase Program under which the RBA purchases government bonds with maturities of 5 to 10 years in the secondary market. An initial $100 billion of purchases was completed between November 2020 and March 2021. An additional $100 billion was announced in February 2021, with purchases to occur between April and September 2021. Government bonds with a face value of $153.9 billion have been purchased since November 2020. These are reported within Australian dollar securities. At its meeting on 6 July 2021, the Board decided to continue purchasing government bonds after the completion of the current bond purchases in early September. These purchases will be at a rate of $4 billion a week until at least mid February 2022.
- Lowering of the target for the yield on 3-year Australian Government bond to 0.10 per cent. To achieve this objective, purchases of $28.0 billion were undertaken in the secondary market during 2020/21 ($51.3 billion in 2019/20).
- Reduction of the interest rate on the Term Funding Facility (TFF) established in March 2020 to 10 basis points from 25 basis points previously. Under this arrangement, authorised deposit-taking institutions (ADIs) were able to access funding through reverse repurchase agreements with a 3-year term and at a fixed interest rate. Reverse repurchase agreements of $187.7 billion had been settled at 30 June 2021 ($13.9 billion at 30 June 2020). New drawings under the facility ceased on 30 June 2021.

Transactions arising from these measures are accounted for under the RBA's existing policies for such financial instruments (see Note 1(b)). Financial risks associated with these instruments are disclosed within Note 15. Further detail is provided in the chapter on 'Operations in Financial Markets'.

Accounting estimates

COVID-19 has increased the uncertainty of some accounting estimates, including assumptions around salary growth used to value the RBA's provisions for employee benefits (Note 1(i)) and the defined benefit superannuation obligation (Note 14). Uncertainty remains around inputs used in the valuation of the RBA's property assets at 30 June 2021 (Note 16) and the RBA's assessment of expected credit losses on its financial instruments (Note 15). Management does not consider that the current uncertainty around these estimates and assumptions has had a material effect on the RBA's overall financial position and performance as at 30 June 2021.

(a) Consolidation

The financial statements show information for the economic entity only; this reflects the consolidated results for the parent entity, the RBA, 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 Limited

NPA was incorporated as a wholly owned subsidiary of the RBA on 1 July 1998.

NPA Balance Sheet	2021 $M	2020 $M
Assets	174.9	175.0
Liabilities	43.8	46.3
Equity	131.1	128.7

The assets, liabilities and results of NPA have been consolidated with the accounts of the parent entity in accordance with AASB 10 – *Consolidated Financial Statements*. All internal transactions and balances have been eliminated on consolidation. These transactions include items relating to the purchase of Australian banknotes, lease of premises and the provision of premises and security services.

(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 accounts for its financial instruments in accordance with AASB 9 – *Financial Instruments* and reports these instruments under AASB 7 – *Financial Instruments: Disclosures* and AASB 13 – *Fair Value Measurement*.

The RBA brings its securities and foreign exchange transactions to account on a trade date basis. Deposits, repurchase agreements and gold swaps are brought to account on settlement date.

Financial assets

Australian dollar securities

Australian dollar securities, except those held under reverse repurchase agreements, are measured at fair value through profit or loss, as they are held to implement monetary policy and may be sold or lent, typically for short terms, under repurchase agreements. The securities are valued at market bid prices on balance date; valuation gains or losses are taken to profit. Interest earned on securities is accrued as revenue.

Reverse repurchase agreements

In carrying out operations to manage domestic liquidity and foreign reserves, the RBA enters into reverse repurchase agreements in Australian dollar and foreign currency securities. A reverse repurchase agreement involves the purchase of securities with an undertaking to reverse this transaction at an agreed price on an agreed future date. As a reverse repurchase agreement provides the RBA's counterparties with cash for the term of the agreement, the RBA treats it as an asset by recording a cash receivable. Reverse repurchase agreements are measured at amortised cost. Interest earned is accrued over the term of the agreement and recognised as revenue.

RBA open repurchase agreements are provided to assist eligible financial institutions manage their liquidity after normal business hours. An RBA open repurchase agreement is an Australian dollar reverse repurchase agreement without an agreed maturity date. The RBA accrues interest daily on open repurchase agreements at the target cash rate.

Gold borrowed under gold swaps

Gold swaps are available to assist with domestic liquidity management and to enhance the return on the RBA's gold holdings.

Gold swaps involving the purchase of gold include an undertaking to reverse this transaction at an agreed price on an agreed future date. As these gold swaps provide the RBA's counterparty with cash for the term of the agreement, the RBA treats it as an asset by recording a cash receivable. Gold swaps are measured at amortised cost in accordance with AASB 9. The difference in agreed gold prices for the first and second legs is accrued over the term of the swap and recognised as interest income. Gold borrowed under a swap agreement is not recognised on the RBA's balance sheet, as the predominant risk and reward of ownership, including exposure to any movement in the market price of gold, remains with the counterparty.

Foreign government securities

Foreign government securities, except those held under reverse repurchase agreements, are measured at fair value through profit or loss, as they are available to be traded in managing the portfolio of foreign reserves. These securities are valued at market bid prices on balance date and valuation gains or losses are taken to profit. Interest earned on securities is accrued as revenue.

Foreign deposits

Some foreign currency reserves are invested in deposits with central banks and the Bank for International Settlements (BIS), while small working balances are also maintained with a small number of commercial banks. Deposits are measured at amortised cost. Interest is accrued over the term of deposits.

Foreign currency swaps

The RBA uses foreign currency swaps to assist domestic liquidity management and in managing foreign reserve assets and Australia's foreign currency commitments as a member of the IMF. A foreign currency swap is the simultaneous purchase and sale of one currency against another currency for a specified maturity. 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 therefore reflects 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 currency swaps are measured at fair value through profit or loss.

A temporary foreign exchange swap facility with the US Federal Reserve (the Fed) was established in March 2020 to help lessen strains in global US funding markets. Under these swaps, the Fed provides US dollars to the RBA in exchange for Australian dollars. The US dollars were, in turn, made available by the RBA to local market participants under reverse repurchase agreements, in exchange for Australian dollar denominated collateral (and reported within 'Foreign currency investments'). The Australian dollars provided to the Fed under the swap were held on deposit with the RBA. On maturity, these swaps were unwound at the same exchange rate as the currencies were exchanged in the first leg. The facility has not been accessed since June 2020, with the final swap unwinding in September 2020. Accordingly, there were no swaps outstanding under the facility at 30 June 2021 ($0.8 billion at 30 June 2020).

Bond futures

The RBA uses bond futures contracts on overseas exchanges to manage interest rate risk on its portfolio of foreign assets. Bond futures positions are measured at fair value through profit or loss with valuation gains or losses taken to net profit. Futures positions are reported within 'Foreign currency investments'.

Asian Bond Fund 2 (ABF2)

The RBA invests in a number of non-Japan Asian debt markets through participation in the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Asian Bond Fund. This investment comprises units in ABF2, which invests in local currency-denominated bonds issued by sovereign and quasi-sovereign issuers in EMEAP markets. ABF2 is measured at fair value through profit or loss and is valued on balance date at the relevant unit price of the fund, with valuation gains or losses taken to profit. ABF2 is reported within 'Foreign currency investments'.

Shareholding in Bank for International Settlements

Shares in the BIS are owned exclusively by the central banks and monetary authorities that are its members, including the RBA. The RBA has made an election to designate its shareholding in the BIS at fair value through other comprehensive income, as permitted under AASB 9. The shareholding is measured at fair value and valuation gains or losses are transferred directly to the revaluation reserve for 'Shares in international and other institutions' (Note 5). An uncalled portion of this shareholding is disclosed as a contingent liability in Note 11. Dividends are recognised as revenue in net profit, when declared.

Financial liabilities

Deposit liabilities

Deposits held with the RBA include both deposits on-demand and term deposits (see Note 9). Deposit liabilities are measured at amortised cost. Interest is accrued over the term of deposits and is paid periodically or at maturity. Interest accrued on deposits not yet paid is included in Note 10.

Australian banknotes on issue

Banknotes on issue are a financial liability recorded at face value.

The RBA pays interest on working balances of banknotes held by banks under cash distribution arrangements (see Note 4).

Costs related to materials used in the production of banknotes are included in 'Other expenses' in Note 2.

Repurchase agreements

A repurchase agreement involves the sale of securities with an undertaking to repurchase them on an agreed future date at an agreed price. Securities sold and contracted for repurchase under repurchase agreements are retained on the balance sheet and reported within the relevant investment portfolio (see 'Australian dollar securities' and 'Foreign government securities', above). The counterpart obligation to repurchase the securities is reported in 'Other liabilities' (Note 10) and measured at amortised cost. The difference between the sale and purchase price is accrued over the term of the agreement and recognised as interest expense.

Gold loaned under gold swaps

Gold swaps involving the sale of gold include an undertaking to reverse this transaction at an agreed price on an agreed future date. Gold sold under gold swaps is retained on the balance sheet and reported within gold holdings (Note 1(d)). The counterpart obligation to repurchase the gold is reported in 'Other liabilities' (Note 10) and measured at amortised cost. The difference in agreed gold prices for each leg is accrued over the term of the swap and recognised as interest expense.

(c) Foreign exchange translation

Assets and liabilities denominated in foreign currency are converted to Australian dollar equivalents at the relevant market exchange rate on balance date in accordance with AASB 121 – *The Effects of Changes in Foreign Exchange Rates*. Valuation gains or losses on foreign currency are taken to net profit. Interest revenue and expenses and revaluation gains and losses on foreign currency securities are converted to Australian dollars using exchange rates on the date they are accrued or recognised.

(d) Gold

Gold holdings (including gold sold under gold swaps or on loan to other institutions) are valued at the Australian dollar equivalent of the 3.00 pm fix in the London gold market on balance date. Valuation gains or losses on gold are transferred to the asset revaluation reserve for gold.

In addition to gold swaps (Note 1(b)), the RBA also lends gold to institutions that participate in the gold market under gold loan agreements. Similar to gold swaps, gold provided under a loan is retained on the balance sheet. Interest is accrued over the term of the loan and is paid at maturity. The interest receivable on gold loans is accounted for in accordance with AASB 9.

(e) Property, plant and equipment

The RBA accounts for property, plant and equipment it owns outright in accordance with AASB 116 – *Property, Plant and Equipment* and AASB 13. Property, plant and equipment held under lease arrangements, including overseas and interstate representative offices and computer hardware, are accounted for under AASB 16 – *Leases*.

Annual expenditure, revaluation adjustments and depreciation of property, plant and equipment, including leased assets, are included in Note 8.

Property

The RBA measures its property at fair value. The RBA's Australian properties are formally valued annually by an independent valuer; overseas properties are independently valued on a triennial basis, with the most recent valuation conducted in 2018/19. Reflecting their specialised nature, fair value for the RBA's Business Resumption Site and National Banknote Site is based on depreciated replacement cost. Valuation gains (losses) are generally transferred to (absorbed by) the asset revaluation reserve of each respective property. Any part of a valuation loss that exceeds the balance in the relevant asset revaluation reserve is expensed. Subsequent valuation gains that offset losses that were previously treated as an expense are recognised as income in net profit.

Annual depreciation is calculated on a straight line basis using assessments of the remaining useful life of the relevant building.

Plant and equipment

Plant and equipment is valued at cost less accumulated depreciation. Annual depreciation is calculated on a straight line basis using the RBA's assessment of the remaining useful life of individual assets.

Depreciation rates for each class of depreciable assets are based on the following range of useful lives:

	Years
Buildings	15–50
Fit-out	5–10
Computer hardware	4
Motor vehicles	5
Plant and other equipment	4–20

Leased Assets

Leased assets are measured at cost and comprise of the amount equal to the lease liability, adjusted by the amount of any lease payments made before commencement date and initial direct costs less accumulated depreciation. Annual depreciation is calculated on a straight line basis using the length of the lease term.

(f) Computer software

Computer software is reported in accordance with AASB 138 – *Intangible Assets*. Computer software is recognised at cost less accumulated amortisation and impairment adjustments, if any (see Note 7). Amortisation of computer software is calculated on a straight line basis over the estimated useful life of the relevant asset, usually for a period of between four and six years (see Note 7). The useful life of payments systems and core banking software may be for a period of between 10 and 15 years, reflecting the period over which future economic benefits are expected to be realised from these assets.

(g) Capital and reserves

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

The Reserve Bank Reserve Fund (RBRF) is also established by the Reserve Bank Act and is regarded essentially as capital. The RBRF is a reserve maintained to provide for events that are contingent and not foreseeable, including to cover losses from falls in the market value of the RBA's holdings of Australian dollar and foreign currency investments that cannot be absorbed by its other resources. The RBRF also provides for other risks such as operational risk. In accordance with the Reserve Bank Act, this reserve is funded only by transfers from net profits, as determined by the Treasurer, after consulting the Reserve Bank Board (see Note 1(h)). The Board assesses the adequacy of the balance of the RBRF each year. The balance of the RBRF currently stands at a level that the Board regards as appropriate for the risks the RBA holds on its balance sheet (see 'Earnings, Distribution and Capital' chapter).

The RBA's equity also includes a number of other reserves.

Unrealised gains and losses on foreign exchange, foreign securities and Australian dollar securities are recognised in net profit. Such gains or losses are not available for distribution and are transferred to the unrealised profits reserve, where they remain available to absorb future unrealised losses or become available for distribution if gains are realised when assets are sold or mature.

The balance of the Superannuation reserve represents accumulated remeasurement gains or losses on the RBA's defined benefit superannuation obligations (Note 1(j)).

Balances of asset revaluation reserves reflect differences between the fair value of non-traded assets and their cost. These assets are: gold; property held outright; and shares in international and other institutions. Valuation gains on these assets are not distributable unless an asset is sold and these gains are realised.

(h) Net profits

Net profits of the RBA are dealt with in the following terms by section 30 of the Reserve Bank Act:

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

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

(i) Provisions for employee benefits entitlements

In accordance with AASB 119 – *Employee Benefits*, the RBA records provisions for certain employee benefit entitlements, including accrued annual and long service leave and post-employment health insurance benefits. These provisions reflect the present value of the estimated future cost to meet those entitlements, including any applicable fringe benefit or payroll taxes and, in the case of leave entitlements, future leave accrual and superannuation contributions to the extent that any leave is assumed to be taken during service. Leave provisions are calculated using assumptions for length of staff service, leave utilisation and future salary. The provision for post-employment health insurance benefits is estimated using assumptions about the length of staff service, longevity of retired staff and future movements in health insurance costs. This post-employment benefit ceased to be available for new staff appointed after 30 June 2013.

Further detail on employee benefit provisions are included in Note 10.

(j) Superannuation funds

The RBA includes in its Statement of Financial Position an asset or liability representing the position of its defined benefit superannuation funds measured in accordance with AASB 119. Movements in the superannuation asset or liability are reflected in the Statement of Comprehensive Income. Remeasurement gains and losses are transferred to the Superannuation reserve.

Details of the superannuation funds and superannuation expenses are included in Note 14.

(k) Committed Liquidity Facility

The RBA provides a Committed Liquidity Facility (CLF) to eligible ADIs. Fees received from providing the CLF are recognised as fee income in net profit. Additional information on the CLF is provided in Note 11.

(l) Lease liabilities

Lease liabilities are measured at the present value of the remaining lease payments (see Note 10). The lease liability is subsequently remeasured where there is a change in the lease term or future lease payments. Lease payments in relation to leases with a lease term of 12 months or less and leases for low-value assets are expensed on a straight-line basis over the lease term.

(m) Revenue from contracts with customers

In the course of its operations, the RBA enters into contracts for the provision of goods and services. These include: contracts for the provision of banking and payment services to the Australian Government, overseas central banks and official institutions; the provision of the CLF for participating ADIs (see Note 1(k)); and, in the case of the RBA's subsidiary, banknote and security products to overseas central banks.

Revenue is recognised on a gross basis at the point the contracted performance obligation is satisfied, as required by AASB 15 – *Revenue from Contracts with Customers*. In the case of banking and payment services, revenue is recognised upon the completion of the provision of service. Revenue from the sale of banknote and security products is recognised at the point at which the product is accepted and CLF fee income is recognised over the period the facility is provided.

Where the right to consideration for the completion of the performance obligation under the contract becomes unconditional, a receivable is recognised in the Statement of Financial Position; a contract asset is recorded when this right remains conditional (see Note 7). Where a performance obligation under a contract remains unsatisfied, but consideration has been received, the RBA reports this as an unearned contract liability (see Note 10).

(n) Rounding

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

(o) Comparative information

Certain comparative information may be reclassified where required for consistency with the current year presentation.

(p) Application of new or revised Australian Accounting Standards

New Australian Accounting Standards and amendments made to existing standards that apply to the RBA's financial statements in the current and future financial years are not expected to result in a material impact on disclosures.

Note 2 – Net Profit

	Note	2021 $M	2020 $M
Net interest income			
Interest income	1(b), 4	4,432	1,944
Interest expense	1(b), 4	(147)	(446)
		4,285	1,498
Fees and commissions income			
Committed liquidity facility	1(k), 1(m)	331	373
Banking services	1(m)	96	115
Payment services	1(m)	33	33
		460	521
Other income			
Sales of banknote and security products	1(m)	37	33
Rental of Bank premises		3	5
Dividend revenue	1(b)	9	–
Other		4	6
		53	44
Net gains/(losses) on securities and foreign exchange			
Foreign investments	1(b)	(107)	212
Australian dollar securities	1(b)	(5,154)	(435)
Foreign currency	1(b)	(3,228)	1,312
		(8,489)	1,089
General administrative expenses			
Staff costs		(247)	(246)
Net gains/(losses) on employee provisions		(3)	7
Superannuation costs	1(j)	(70)	(71)
Depreciation of property, plant and equipment	1(e), 8	(52)	(52)
Amortisation of computer software	1(f), 7	(21)	(24)
Premises and equipment		(75)	(73)
Other		(15)	(15)
		(483)	(474)
Other expenses			
Banking service fees		(78)	(97)
Materials used in banknote and security products		(40)	(51)
Banknote distribution		(2)	(2)
Other		(38)	(40)
		(158)	(190)
Net Profit/(Loss)		(4,332)	2,488

Note 3 – Distribution Payable to the Commonwealth

Net profits of the RBA, less amounts transferred to the RBRF, are paid to the Commonwealth as required by section 30 of the Reserve Bank Act (see Note 1(h)). Also under section 30, unrealised profits from foreign exchange, foreign securities and Australian dollar securities are not available for distribution. Instead they are transferred to the unrealised profits reserve where they remain available to absorb future valuation losses or are realised when relevant assets are sold or mature. Unrealised losses are, in the first instance, absorbed within the unrealised profits reserve where they are offset against unrealised profits accumulated from previous years. For purposes of distribution, if such losses exceed the balance of the unrealised profits reserve, the amount by which they do so is initially charged against other components of net profit, and any remaining loss is absorbed by the RBRF.

In 2020/21, the RBA recorded a net accounting loss of $4,332 million. Unrealised losses of $8,249 million were absorbed within the unrealised profits reserve. A gain of $1 million was transferred from the Asset revaluation reserve to the Statement of Distribution. Earnings available for distribution therefore amounted to $3,918 million in 2020/21.

The Treasurer, after consulting the Board, determined that a sum of $1,247 million was to be placed from earnings to the credit of the RBRF. Accordingly, a sum of $2,671 million is payable as a dividend to the Commonwealth. This sum will be paid to the Commonwealth in September 2021. An amount of $2,567 million was paid to the Commonwealth in 2020/21.

	2021 $M	**2020** $M
Opening balance	2,567	1,685
Distribution to the Commonwealth	(2,567)	(1,685)
Transfer from Statement of Distribution	2,671	2,567
As at 30 June	2,671	2,567

Note 4 – Interest Income and Interest Expense

Analysis for the year ended 30 June 2021

	Average balance $M	Interest $M	Average annual interest rate Per cent
Interest income			
Foreign currency investments	54,220	138	0.3
Australian dollar investments	280,805	4,293	1.5
Overnight settlements	503	0	0.0
Cash collateral provided	86	0	0.1
Gold loans	826	1	0.1
Gold borrowed under gold swaps	–	–	–
Loans, advances and other	32	0	0.6
	336,472	4,432	1.3
Interest expense			
Exchange Settlement balances	139,878	40	0.0
Deposits from governments	74,308	107	0.1
Deposits from overseas institutions	5,401	0	0.0
Banknote holdings of banks	3,873	1	0.0
Foreign currency repurchase agreements	556	0	0.0
Australian dollar repurchase agreements	180	0	(0.1)
Gold loaned under gold swaps	623	(1)	(0.1)
Cash collateral received	172	0	0.0
	224,991	147	0.1
Net interest margin			1.3
Analysis for the year ended 30 June 2020			
Interest income	190,279	1,944	1.0
Interest expense	84,610	446	0.5
Net interest margin			0.8

Interest income for 2020/21 includes $276 million calculated using the effective interest method for financial assets not at fair value through profit or loss ($736 million in 2019/20). Interest expense for 2020/21 includes $147 million calculated using the effective interest method for financial liabilities not at fair value through profit or loss ($446 million in 2019/20).

Note 5 – Asset Revaluation Reserves

The composition of the RBA's asset revaluation reserves (Note 1(g)) is shown below.

	Note	2021 $M	2020 $M
Gold	1(d)	5,894	6,488
Shares in international and other institutions	1(b), 7	462	474
Property	1(e), 8	397	373
As at 30 June		6,753	7,335

Note 6 – Cash and Cash Equivalents

	2021 $M	2020 $M
Cash	17	39
Overnight settlements	704	477
As at 30 June	721	516

Cash and cash equivalents include net amounts of $704 million owed to the RBA for overnight clearances of financial transactions through the payments system ($477 million at 30 June 2020). Other cash and cash equivalents include NPA's bank deposits.

Cash and cash equivalents exclude Australian and foreign short-term investments held to implement monetary policy or as part of Australia's foreign reserve assets. These investments are disclosed as Australian dollar investments and foreign currency investments, respectively; further detail is disclosed in Note 15.

Reconciliation of net cash used in operating activities to Net Profit	Note	2021 $M	2020 $M
Net Profit		(4,332)	2,488
Net (gain)/loss on overseas investments	2	107	(212)
Net (gain)/loss on Australian dollar securities	2	5,154	435
Net (gain)/loss on foreign currency	2	3,228	(1,312)
Depreciation of property, plant and equipment	2	52	52
Amortisation of computer software	2	21	24
Net payments for investments		(267,996)	(96,150)
(Increase)/decrease in interest receivable		(911)	(293)
Increase/(decrease) in interest payable		(16)	(37)
Cash collateral received/(provided)		132	1,018
Other		(9)	10
Net cash used in operating activities		(264,570)	(93,977)

Note 7 – Other Assets

	Note	2021 $M	2020 $M
Shareholding in Bank for International Settlements	1(b)	507	518
Computer software	1(f)	90	92
Other		119	87
As at 30 June		716	697

At 30 June 2021, the gross book value of the RBA's computer software amounted to $192.9 million and the accumulated amortisation on these assets was $102.5 million ($174.6 million and $82.7 million, respectively, at 30 June 2020). During 2020/21, there were $18.3 million in net additions to computer software ($18.4 million in 2019/20) and $20.9 million in amortisation expense ($24.3 million in 2019/20). The RBA had contractual commitments of $0.8 million as at 30 June 2021 for the acquisition of computer software (less than $0.1 million at 30 June 2020).

Other assets include receivables of $33.6 million at 30 June 2021 ($19.1 million at 30 June 2020).

None of these assets is impaired. There were no contract assets at 30 June 2021 (Note 1(m)).

Note 8 – Property, Plant and Equipment

	Land and buildings $M	Plant and equipment $M	Leased assets $M	Total $M
Gross Book Value as at 30 June 2020	568	330	25	923
Accumulated depreciation	(1)	(189)	(4)	(194)
Net Book Value	567	141	21	729
Additions	20	33	1	54
Depreciation expense	(14)	(34)	(4)	(52)
Net gain/(loss) recognised in Other Comprehensive Income	24	–	–	24
Disposals	–	(1)	0	(1)
Net additions to net book value	30	(2)	(3)	25
Gross Book Value as at 30 June 2021	598	357	26	981
Accumulated depreciation	(1)	(218)	(8)	(227)
Net Book Value	597	139	18	754

The net book value of the RBA's property, plant and equipment includes $48.3 million of work in progress ($25.0 million at 30 June 2020). The carrying amount of leased assets at 30 June 2021 includes $11.3 million in property and $6.7 million in plant and equipment ($11.9 million and $9.0 million, respectively, at 30 June 2020).

As at 30 June 2021, the RBA had contractual commitments of $19.2 million for acquisitions relating to its property, plant and equipment ($24.5 million at 30 June 2020), of which $16.6 million are due within one year ($18.6 million at 30 June 2020).

Note 9 – Deposits

	2021 $M	2020 $M
Exchange Settlement balances	341,800	73,497
Australian Government	61,539	76,110
State governments	44	544
Foreign governments, foreign institutions and international organisations	12,193	3,390
Other depositors	0	0
As at 30 June	415,576	153,541

Note 10 – Other Liabilities

	Note	2021 $M	2020 $M
Provisions			
Provision for annual and other leave	1(i)	29	25
Provision for long service leave	1(i)	56	50
Provision for post-employment benefits	1(i)	98	100
Other		4	9
		187	184
Other			
Securities sold under agreements to repurchase	1(b)	996	22
Payable for unsettled purchases of securities	1(b)	1,480	579
Cash payable for gold loaned under gold swaps	1(b)	0	884
Foreign currency swap liabilities	1(b)	383	90
Interest accrued on deposits	1(b)	5	12
Superannuation liability	1(j), 14	23	247
Other		86	111
		2,973	1,945
Total Other Liabilities as at 30 June		3,160	2,129

The RBA's provision for its post-employment benefits was $2.1 million lower in 2020/21, due to a decline in the longevity of retired staff and an increase in discount rates used to measure the estimated future cost of providing these benefits in present value terms. Benefits of $4.7 million were paid out of the provision for post-employment benefits in 2020/21. The balance of the provision for post-employment benefits will change if assumptions about the length of staff service, the longevity of retired staff, future costs of providing benefits, or discount rates vary.

Other provisions include amounts for legal matters and workers compensation.

Other liabilities include contract liabilities of $23.1 million relating to unearned revenue from the provision of the CLF (Note 1(m)) and $19.6 million in lease liabilities. Interest on lease liabilities was $0.2 million in 2020/21.

Note 11 – Contingent Assets and Liabilities

Committed Liquidity Facility

Since 1 January 2015, the RBA has provided a CLF to eligible ADIs as part of Australia's implementation of the Basel III liquidity standards. The CLF provides ADIs with a contractual commitment to funding under repurchase agreements with the RBA, subject to certain conditions. It was established to ensure that ADIs are able to meet their liquidity requirements under Basel III. The CLF is made available to ADIs in Australia because the supply of high-quality liquid assets (HQLA) is lower in Australia than is typical in other major economies (in other countries, these liquidity requirements are usually met by banks' HQLAs on their balance sheet). While the RBA administers the CLF, the Australian Prudential Regulation Authority (APRA) determines which institutions have access to the facility and the limits available. Any drawdown must meet certain conditions, including: APRA does not object to the drawdown; and the RBA assesses that the ADI has positive net worth. Accordingly, the potential funding under the CLF is disclosed as a contingent liability; repurchase agreements associated with providing funding are disclosed as a contingent asset. If an ADI drew on the CLF, the funds drawn would be shown as a deposit liability of the RBA, and the counterpart repurchase agreement as an Australian dollar investment.

The aggregate undrawn commitment of the CLF at 30 June 2021 totalled $115 billion for 14 ADIs ($201 billion for 15 ADIs at 30 June 2020).

Bank for International Settlements

The RBA has a contingent liability for the uncalled portion of its shares held in the BIS amounting to $68.3 million at 30 June 2021 ($72.4 million at 30 June 2020).

Insurance

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

Performance guarantees

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.

Similarly, the RBA has provided a performance guarantee for pension payments to members of the Reserve Bank of Australia UK Pension Scheme in relation to a UK insurer. This exposure is not material. Further detail is provided in Note 14.

Note 12 – Key Management Personnel

The key management personnel of the RBA are the Governor and Deputy Governor, non-executive members of the Reserve Bank Board, non-executive members of the Payments System Board and the Assistant Governors, who are the senior staff responsible for planning, directing and controlling the activities of the RBA. There were 20 of these positions in 2020/21 (unchanged from 2019/20). A total of 23 individuals occupied these positions for all or part of the financial year (21 in the previous year).

The positions of Governor and Deputy Governor are designated as Principal Executive Offices in terms of the *Remuneration Tribunal Act 1973*, which provides for the Remuneration Tribunal to determine the applicable remuneration for these positions. Within the parameters determined by the Remuneration Tribunal, the Reserve Bank Board Remuneration Committee, comprising three non-executive members, makes a recommendation on remuneration for these positions for the approval of the Board, which is the 'employing body' for the positions. In accordance with provisions of the Reserve Bank Act, neither the Governor nor the Deputy Governor takes part in decisions of the Reserve Bank Board relating to the determination or application of any terms or conditions on which either of them holds office. In June 2020, the Remuneration Tribunal determined that no adjustment would be made at that time to the remuneration of offices in its jurisdiction, including Principal Executive Offices. Accordingly, the remuneration reference rates for these positions of Governor and Deputy Governor were unchanged in 2020/21 at $1,061,210 (superannuable salary of $774,683) for the Governor and $795,910 (superannuable salary of $581,014) for the Deputy Governor. Remuneration of each of the Governor and Deputy Governor in 2020/21 was at the applicable reference rate. No performance payments were made to either the Governor or Deputy Governor in 2020/21.

Fees for non-executive members of the Reserve Bank Board and the Payments System Board are determined by the Remuneration Tribunal. The Governor determines the rates of remuneration of the Assistant Governors. For staff generally, remuneration aims to be market competitive and designed to attract and retain appropriately skilled people. Remuneration levels for employees are externally benchmarked.

The disclosure of key management personnel remuneration is based on AASB 124 – *Related Party Disclosures*, as shown below. The figures are disclosed on an accruals basis and show the full cost to the consolidated entity; they include all leave and fringe benefits tax charges.

	2021 $	**2020** $
Short-term employee benefits	5,125,974	5,184,273
Post-employment benefits	805,758	853,974
Other long-term employee benefits	304,513	256,536
Termination benefits	–	–
Total compensation[(a)]	6,236,245	6,294,783

(a) Within the group of key management personnel, 21 individuals (18 in 2019/20) were remunerated and included in this table; the two key management personnel that are not remunerated are the individuals who held the positions of Secretary to the Treasury, as a member of the Reserve Bank Board, and the Chairman of APRA, as a member of the Payments System Board

Short-term benefits include salary and, for relevant executives, lump-sum performance payments and motor vehicle, car parking and health benefits (including any fringe benefits tax on these benefits).

Post-employment benefits include superannuation and, in the case of executives, an estimate of the cost to provide health benefits in retirement. Other long-term employee benefits include long service leave and annual leave, as well as the effect of revaluing previously accrued leave entitlements in accordance with AASB 119 (see Note 10).

There were no loans or other related party transactions with Board members or other key management personnel during 2020/21 and 2019/20. Transactions with Board member-related entities that occurred in the normal course of the RBA's operations were incidental and conducted on terms no more favourable than similar transactions with other employees or customers; any vendor relationships with such entities were at arm's length and complied with the RBA's procurement policy.

Note 13 – Auditor's Remuneration

	2021 $	**2020** $
Fees paid or payable to the statutory auditor (Australian National Audit Office) for audit services	409,000	436,091

KPMG has been contracted by the Australian National Audit Office (ANAO) to provide audit services for the external audit of the RBA and the RBA's subsidiary, NPA.

During 2020/21, KPMG earned additional fees of $34,395 for non-audit services that were separately contracted by the RBA ($91,197 in 2019/20). These fees included advisory services provided to the RBA.

Note 14 – Superannuation Funds

The RBA sponsors two superannuation funds: RB Super and the Reserve Bank of Australia UK Pension Scheme. For RB Super, current and future benefits are funded by member and RBA contributions and the existing assets of the scheme.

RB Super is a hybrid plan, with a mix of defined benefit members, defined contribution members and pensioners. Defined benefit members receive a defined benefit in accordance with RB Super's plan rules. Most members have unitised accumulation balances, which comprise employer contributions and members' personal contributions plus earnings on these contributions. Defined benefit membership was closed to new RBA staff from 1 August 2014. From that date, new staff have been offered defined contribution superannuation. The RBA does not have a role in directly operating or governing RB Super and has no involvement in the appointment of the RB Super Trustees.

The UK Pension Scheme is a closed defined benefit scheme subject to relevant UK regulation. In 2018, the Trustees, with agreement from the RBA, entered into the buy-in side of a bulk purchase annuity contract with Aviva Life and Pensions UK Limited (Aviva) to reduce the funding risk in relation to the UK Pension Scheme's pension liabilities. During 2019 and 2020, the Trustees completed their work with Aviva to convert the buy-in policy to a buy-out policy, thereby fully securing members' benefits with Aviva. The Trustees and the RBA are now nearing completion of winding up the Scheme. Defined benefit accrual for current members ceased on 30 June 2018. From that date, current and new staff have been offered defined contribution arrangements in a separate fund.

Funding valuation

An independent actuarial valuation of RB Super is conducted every three years. The most recent review was completed for the financial position as at 30 June 2020 using the Attained Age Funding method. Accrued benefits were determined as the value of the future benefits payable to members (allowing for future salary increases), discounted by the expected rate of return on assets held to fund these benefits. At the time of this review, the surplus was $313 million. On the same valuation basis, the RB Super surplus as at 30 June 2021 amounted to $534 million. The RBA maintained its contribution rate to fund defined benefit obligations at 18.3 per cent of salaries in 2020/21, consistent with the actuary's recommendation.

Accounting valuation

For financial statement purposes, disclosures required by AASB 119 are provided only for RB Super, as the UK Pension Scheme is not material.

Actuarial assumptions

The principal actuarial assumptions for the AASB 119 valuation of RB Super are:

	2021 Per cent	**2020** Per cent
Discount rate (gross of tax)[(a)]	3.6	3.5
Future salary growth[(b)]	3.0	3.0
Future pension growth[(b)]	3.0	3.0

(a) Based on highly rated Australian dollar-denominated corporate bond yields

(b) Includes a short-term assumption of 2.0 per cent for the first two years of the projections (2.0 per cent for the first three years in 2020)

Maturity analysis

The weighted average duration of the defined benefit obligation for RB Super is 20 years (20 years at 30 June 2020). The expected maturity profile for defined benefit obligations of RB Super is as follows:

	2021 Per cent	**2020** Per cent
Less than 5 years	14	15
Between 5 and 10 years	14	15
Between 10 and 20 years	27	27
Between 20 and 30 years	22	21
Over 30 years	23	22
Total	100	100

Risk exposures

Key risks from the RBA's sponsorship of the RB Super defined benefit plan include investment, interest rate, longevity, salary and pension risks.

Investment risk is the risk that the actual return on future plan assets will be lower than the assumed rate.

Interest rate risk is the exposure of the defined benefit obligations to adverse movements in interest rates. A decrease in interest rates will increase the present value of these obligations.

Longevity risk is the risk that RB Super members live longer, on average, than actuarial estimates of life expectancy.

Salary risk is the risk that higher than assumed salary growth will increase the cost of providing a salary-related pension.

Pension risk is the risk that pensions increase at a faster rate than assumed, thereby increasing the cost of providing them.

The table below shows the estimated change in the defined benefit obligation resulting from movements in key actuarial assumptions. These estimates change each assumption individually, holding other factors constant; they do not incorporate any correlations among these factors.

	2021 $M	2020 $M
Change in defined benefit obligation from an increase of 0.25 percentage points in:		
Discount rate (gross of tax)	(86)	(82)
Future salary growth	18	17
Future pension growth	68	64
Change in defined benefit obligation from a decrease of 0.25 percentage points in:		
Discount rate (gross of tax)	93	88
Future salary growth	(18)	(17)
Future pension growth	(65)	(61)
Change in defined benefit obligation from an increase in life expectancy of one year	49	45

Asset distribution

The distribution of RB Super's assets used to fund members' defined benefits at 30 June is:

	Per cent of fund assets	
	2021	2020
Cash and short-term securities	2	2
Fixed interest and indexed securities	9	8
Australian equities	28	30
International equities	26	26
Property	10	10
Private equity	10	9
Infrastructure	10	10
Alternative strategies	5	5
Total	100	100

AASB 119 Reconciliation

The table below contains a reconciliation of the AASB 119 valuation of RB Super. These details are for the defined benefit component only, as the RBA faces no actuarial risk on defined contribution balances and these balances have no effect on the measurement of the financial position of RB Super.

	2021 $M	2020 $M
Opening balances:		
Net market value of assets	1,325	1,376
Accrued benefits	(1,572)	(1,552)
Opening superannuation asset/(liability)	(247)	(177)
Change in net market value of assets	256	(51)
Change in accrued benefits	(32)	(20)
Change in superannuation asset/(liability)	224	(70)
Closing balances:		
Net market value of assets	1,581	1,325
Accrued benefits	(1,604)	(1,572)
Closing superannuation asset/(liability)	(23)	(247)
Interest income	46	46
Benefit payments	(49)	(46)
Return on plan assets	240	(70)
Contributions from RBA to defined benefit schemes	19	19
Change in net market value of assets	256	(51)
Current service cost	(44)	(49)
Interest cost	(54)	(53)
Benefit payments	49	46
Gains/(losses) from change in demographic assumptions	(58)	–
Gains/(losses) from change in financial assumptions	21	64
Gains/(losses) from change in other assumptions	54	(28)
Change in accrued benefits	(32)	(20)
Current service cost	(44)	(49)
Net Interest (expense)/income	(8)	(6)
Productivity and superannuation guarantee contributions	(11)	(10)
Superannuation (expense)/income included in profit or loss	(63)	(66)
Actuarial remeasurement gain/(loss)	257	(34)
Superannuation (expense)/income included in Statement of Comprehensive Income	194	(100)

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

Note 15 – Financial Instruments and Risk

As the central bank in Australia, the RBA is responsible for implementing monetary policy, facilitating the smooth functioning of the payments system and managing Australia's foreign reserve assets. Consequently, the RBA holds a range of financial assets, including government securities, repurchase agreements and foreign currency swaps. With regard to financial liabilities, the RBA issues Australia's banknotes and takes deposits from its customers, mainly the Australian Government, and eligible financial institutions. The RBA also provides banking services to its customers and operates Australia's high-value payments and interbank settlement systems.

Financial risk

The RBA is exposed to a range of financial risks that reflect its policy and operational responsibilities. These risks include market risk, liquidity risk and credit risk. The chapters on 'Operations in Financial Markets' and 'Risk Management' provide information on the RBA's management of these financial risks. The RBA's approach to managing financial risk is set out in the Risk Appetite Statement available on the RBA website.

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. In the RBA's case, market risk comprises foreign exchange risk and interest rate risk.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or cash flows of the RBA's foreign currency assets and liabilities will fluctuate because of movements in exchange rates. The RBA's net foreign currency exposure as at 30 June 2021 was $51.6 billion ($55.7 billion as at 30 June 2020). An appreciation in the Australian dollar would result in valuation losses, while a depreciation would lead to valuation gains. The overall level of foreign currency exposure is determined by policy considerations. Foreign currency risk can be mitigated to a limited extent by holding assets across a diversified portfolio of currencies. The RBA holds foreign reserves in seven currencies – the US dollar, euro, Japanese yen, Canadian dollar, Chinese renminbi, UK pound sterling and South Korean won.

The RBA also undertakes foreign currency swaps to assist its daily domestic liquidity management and in managing foreign reserve assets and Australia's foreign currency commitments as a member of the IMF. These instruments carry no foreign exchange risk.

Concentration of foreign exchange

The RBA's net holdings of foreign exchange (excluding Special Drawing Rights and Asian Bond Fund 2) were distributed as follows as at 30 June:

	Per cent of foreign exchange	
	2021	**2020**
US dollar	55	55
Euro	20	20
Japanese yen	5	5
Canadian dollar	5	5
Chinese renminbi	5	5
UK pound sterling	5	5
South Korean won	5	5
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.

	2021 $M	**2020** $M
Change in profit/equity due to a 10 per cent:		
appreciation in the reserves-weighted value of the A$	(4,693)	(5,066)
depreciation in the reserves-weighted value of the A$	5,736	6,192

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 faces interest rate risk because most of its assets are financial assets that have a fixed income stream, such as Australian dollar and foreign currency securities. The price of such securities rises when market interest rates decline, and it falls if market rates rise. Interest rate risk increases with the maturity of a security. Interest rate risk on foreign assets is controlled through limits on the duration of these portfolios.

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 significant increase in interest rate risk on Australian dollar securities is primarily due to purchases under the bond purchase program, which have increased the amount and average duration of the RBA's holdings at 30 June 2021.

	2021 $M	**2020** $M
Change in profit/equity due to movements of +/–1 percentage point across yield curves:		
Foreign currency securities	–/+294	–/+321
Australian dollar securities	–/+13,650	–/+3,135

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 can 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 repurchase agreements and obligations to repurchase gold sold under gold swap agreements.

Liquidity risk may also be associated with the RBA, in extraordinary circumstances, being forced to sell a financial asset at a price less than its fair value. The RBA manages this risk by holding a diversified portfolio of highly liquid Australian dollar and foreign currency assets.

The analysis of portfolio maturity in the table that follows is based on the RBA's contracted portfolio as reported in the RBA's Statement of Financial Position. All financial instruments are shown at their remaining term to maturity, which is equivalent to the repricing period. Other liabilities include amounts outstanding under repurchase agreements and obligations to repurchase gold sold under gold swap agreements. Foreign currency swaps reflect the gross contracted amount of the RBA's outstanding foreign currency swap positions.

Maturity Analysis – as at 30 June 2021

	Balance sheet total $M	Contracted maturity $M					No specified maturity $M	Weighted average effective rate %
		On demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Assets								
Cash and cash equivalents	721	14	704	–	–	–	3	0.00
Australian dollar investments								
Securities sold under repurchase agreements	979	–	–	–	960	19	–	0.43
Securities purchased under repurchase agreements	221,994	–	7,704	–	187,722	–	26,568	0.14
Other securities	250,587	–	355	4,572	92,076	153,584	–	0.90
Accrued interest	1,414	–	352	875	187	–	–	na
	474,974							
Foreign currency investments								
Balance with central banks	14,756	14,024	732	–	–	–	–	0.00
Securities sold under repurchase agreements	–	–	–	–	–	–	–	na
Securities purchased under repurchase agreements	281	–	281	–	–	–	–	0.05
Other securities	41,047	–	16,786	7,886	10,103	93	6,179	0.22
Deposits	524	0	524	–	–	–	–	2.53
Cash collateral provided	52	–	52	–	–	–	–	0.03
Accrued interest	50	–	33	17	–	–	–	na
	56,710							
Gold								
Gold holdings on loan	454	–	303	151	–	–	–	0.09
Gold holdings	5,568	–	–	–	–	–	5,568	na
	6,022							

	Balance sheet total $M	Contracted maturity $M					No specified maturity $M	Weighted average effective rate %
		On demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Property, plant & equipment	754	–	–	–	–	–	754	na
Other assets	716	–	39	10	3	1	663	na
Total assets	539,897	14,038	27,865	13,511	291,051	153,697	39,735	0.50
Liabilities								
Deposits	415,576	359,025	56,551	–	–	–	–	0.01
Distribution payable to the Commonwealth	2,671	–	2,671	–	–	–	–	na
Cash collateral received	163	–	163	–	–	–	–	0.03
Australian banknotes on issue	95,485	–	–	–	–	–	95,485	0.00
Other liabilities	2,997	–	2,596	2	188	3	208	(0.04)
Total liabilities	516,892	359,025	61,981	2	188	3	95,693	0.01
Capital and reserves	23,005							
Total balance sheet	539,897							
Swaps								
Australian dollars								
Contractual outflow	(29)	–	(29)	–	–	–	–	
Contractual inflow	4,449	–	75	–	4,374	–	–	
	4,420	–	46	–	4,374	–	–	
Foreign currency								
Contractual outflow	(28,159)	–	(23,785)	–	(4,374)	–	–	
Contractual inflow	23,739	–	23,739	–	–	–	–	
	(4,420)	–	(46)	–	(4,374)	–	–	

Maturity Analysis – as at 30 June 2020

	Balance sheet total $M	Contracted maturity $M					No specified maturity $M	Weighted average effective rate %
		On demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Assets								
Cash and cash equivalents	516	38	477	–	–	–	1	0.09
Australian dollar investments								
Securities sold under repurchase agreements	22	–	–	11	11	–	–	0.27
Securities purchased under repurchase agreements	138,626	–	81,367	15,326	13,922	–	28,011	0.23
Other securities	72,793	–	215	15,643	22,042	34,893	–	0.52
Accrued interest	473	–	178	292	3	–	–	na
	211,914							
Foreign currency investments								
Balance with central banks	16,046	15,245	801	–	–	–	–	(0.01)
Securities sold under repurchase agreements	–	–	–	–	–	–	–	na
Securities purchased under repurchase agreements	3,509	–	3,509	–	–	–	–	(0.01)
Other securities	38,197	–	13,984	10,858	6,133	111	7,111	0.16
Deposits	319	–	319	–	–	–	–	1.69
Cash collateral provided	49	–	49	–	–	–	–	0.14
Accrued interest	80	–	62	18	–	–	–	na
	58,200							
Gold								
Gold holdings on loan	1,096	–	590	506	–	–	–	0.12
Gold holdings	5,519	–	–	–	–	–	5,519	na
	6,615							

	Balance sheet total $M	Contracted maturity $M					No specified maturity $M	Weighted average effective rate %
		On demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Property, plant & equipment	729	–	–	–	–	–	729	na
Other assets	697	–	25	9	4	1	658	na
Total assets	278,671	15,283	101,576	42,663	42,115	35,005	42,029	0.27
Liabilities								
Deposits	153,541	82,032	71,509	–	–	–	–	0.18
Distribution payable to the Commonwealth	2,567	–	2,567	–	–	–	–	na
Cash collateral received	27	–	27	–	–	–	–	0.14
Australian banknotes on issue	90,102	–	–	–	–	–	90,102	0.00
Other liabilities	2,102	–	1,651	1	10	12	428	(0.05)
Total liabilities	248,339	82,032	75,754	1	10	12	90,530	0.11
Capital and reserves	30,332							
Total balance sheet	278,671							
Swaps								
Australian dollars								
Contractual outflow	(107)	–	(107)	–	–	–	–	
Contractual inflow	988	–	988	–	–	–	–	
	881	–	881	–	–	–	–	
Foreign currency								
Contractual outflow	(20,844)	–	(20,844)	–	–	–	–	
Contractual inflow	19,963	–	19,963	–	–	–	–	
	(881)	–	(881)	–	–	–	–	

Credit risk

Credit risk is the potential for financial loss arising from an issuer or counterparty defaulting on its obligations to repay principal, make interest payments due on an asset, or settle a transaction. The RBA's credit exposure is managed within a framework designed to contain risk to a level consistent with its very low appetite for such risk. In particular, credit risk is controlled by holding securities issued by a limited number of highly rated governments, government-guaranteed agencies and supranational organisations and holding high-quality collateral under reverse repurchase agreements.

The RBA held no past due or impaired assets at 30 June 2021 or 30 June 2020.

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

The RBA's maximum credit risk exposure to derivative financial instruments is:

1. Foreign exchange swaps – As at 30 June 2021, the RBA was under contract to purchase $23.7 billion of foreign currency ($20.0 billion at 30 June 2020) and sell $28.2 billion of foreign currency ($20.8 billion at 30 June 2020). As of that date there was a net unrealised loss of less than $0.1 billion on these swap positions included in net profit ($0.1 billion unrealised gain at 30 June 2020).

The RBA has a credit exposure from foreign exchange swaps because of the risk that a counterparty might fail to deliver the second leg of a swap, a sum that would then have to be replaced in the market, potentially at a loss. To manage credit risk on both foreign exchange swaps (excluding swaps with the Fed under the US dollar swap facility) and gold swaps (see 'Gold exchanged under gold swap agreements' below), the RBA exchanges collateral with counterparties under terms specified in credit support annexes (CSAs), which cover the potential cost of replacing the swap position in the market if a counterparty fails to deliver. The RBA's CSAs specify that only Australian dollar cash is eligible as collateral. Under CSAs, either party to the agreement may be obliged to deliver collateral with interest paid or received on a monthly basis. At 30 June 2021, the RBA held $0.1 billion of collateral (less than $0.1 billion of collateral was provided at 30 June 2020).

2. Bond futures – As at 30 June 2021, the amount of credit risk on margin accounts associated with bond futures contracts held by the RBA was approximately $2.4 million ($2.4 million at 30 June 2020). As at 30 June 2021, there was an unrealised loss of less than $0.1 million brought to account on those contracts ($1.1 million unrealised gain at 30 June 2020).

Assessment of expected credit loss under AASB 9

The RBA assesses its financial assets carried at amortised cost, mainly its reverse repurchase agreements, gold swaps and foreign currency-denominated balances held with other central banks, for any deterioration in credit quality which could result in losses being recorded. The RBA's assessment is done on an individual exposure basis and takes account of: the counterparties with which balances are held; the collateral, if any, it holds against exposures and the terms upon which collateral is margined; and the remaining terms to maturity of such exposures. Based on the assessment at 30 June 2021, the provision for expected credit losses was immaterial.

Collateral held under reverse repurchase agreements

Cash invested under reverse repurchase agreements in overseas markets is secured against 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 Australian dollar reverse repurchase agreements is secured by securities issued by Australian governments, supranational organisations, banks and various corporate and asset-backed securities. The RBA holds collateral equivalent to the amount invested plus a margin according to the risk profile of the collateral held. If the current value of collateral falls by more than a predetermined amount, the counterparty is required to provide additional collateral to restore this margin; the thresholds are specified in the legal agreement that governs these transactions. The management of collateral and cash associated with tri-party repurchase agreements is conducted through a third party, in this case the Australian Securities Exchange. The terms and requirements of tri-party repurchase agreements are broadly consistent with bilateral agreements and the RBA manages the risk in a similar way. The RBA does not sell or re-pledge securities held as collateral under reverse repurchase agreements.

Collateral provided under repurchase agreements

At 30 June 2021, the carrying amount of securities sold and contracted for purchase under repurchase agreements was $996 million ($22 million at 30 June 2020). Terms and conditions of repurchase agreements are consistent with those for reverse repurchase agreements disclosed above.

Gold exchanged under gold swap agreements

Credit exposure from gold swaps is managed under CSAs the RBA has established with its swap counterparties, which cover both gold swaps and foreign exchange swaps. Australian dollar cash collateral is exchanged to cover the potential cost of replacing swap positions in the market if a counterparty fails to meet their obligations. The potential cost is assessed as the net costs of replacing all outstanding swap positions covered by the CSA.

As at 30 June 2021, there was no gold sold and contracted for purchase under gold swap agreements ($0.9 billion at 30 June 2020). There was no gold purchased and contracted for sale under gold swap agreements at 30 June 2021 or 30 June 2020.

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 at 30 June.

	Risk rating of security /issuer(a)	Risk rating of counterparties(a)	Per cent of investments	
			2021	2020
Australian dollar investments				
Holdings of Australian Government Securities	Aaa	na	37.8	21.2
Holdings of semi-government securities	Aaa	na	0.1	2.2
	Aa	na	8.7	2.8
Securities purchased under reverse repurchase agreements	Aaa	Aaa	–	0.2
	Aaa	Aa	29.1	24.0
	Aaa	A	7.0	9.9
	Aaa	Baa	1.4	1.2
	Aaa	Other(b)	0.5	2.2
	Aa	Aaa	–	0.2
	Aa	Aa	0.5	5.4
	Aa	A	1.3	3.1
	Aa	Baa	0.1	0.2
	Aa	Other(b)	0.3	0.1
	A	Aa	0.2	0.9
	A	A	0.7	2.0
	A	Baa	0.1	0.2
	Baa	Aa	0.0	0.1
	Baa	A	0.1	0.1
	Baa	Baa	0.0	0.1
Securities sold under repurchase agreements	Aaa	Aa	0.1	0.0
Foreign investments				
Holdings of securities	Aaa	na	3.5	6.5
	Aa	na	1.5	4.3
	A	na	2.5	2.8
Securities purchased under reverse repurchase agreements	Aaa	Aa	0.1	1.0
	Aa	A	–	0.3
Deposits	na	Aaa	0.4	0.4
	na	Aa	0.0	0.1
	na	A	2.4	5.4
	na	Other	0.1	–
Other	Aaa	Aa	–	0.1
	Aaa	A	0.1	–
Other assets			1.4	3.0
			100.00	100.00

(a) Average of the credit ratings of the three major rating agencies, where available

(b) This category includes counterparties that are not rated

Note 16 – Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date. This is the quoted market price if one is available. The RBA's financial assets measured at fair value include its holdings of Australian dollar securities, foreign government securities, bond futures, foreign currency swap contracts and its shareholding in the BIS. Non-financial assets carried on the balance sheet at fair value include the RBA's property and gold holdings. Other than derivatives, there are no financial liabilities measured at fair value.

AASB 13 requires financial and non-financial assets and liabilities measured at fair value to be disclosed according to their position in the fair value hierarchy. This hierarchy has three levels: valuation for Level 1 is based on quoted prices in active markets for identical assets; for Level 2, valuation is based on quoted prices or other observable market data not included in Level 1; Level 3 includes inputs to valuation other than observable market data.

The table below presents the RBA's assets and liabilities measured and recognised at fair value and their classification within the fair value hierarchy at 30 June 2021.

	Fair Value			Amortised Cost	Total
	Level 1 $M	Level 2 $M	Level 3 $M	$M	$M
As at 30 June 2021					
Financial assets					
At fair value through profit or loss					
Australian dollar securities	250,029	2,705	–	na	252,734
Foreign government securities	35,386	4,982	–	na	40,368
Foreign currency swaps	–	212	–	na	212
At fair value through other comprehensive income					
Shares in international and other institutions	–	–	510	na	510
At amortised cost	na	na	na	239,125	239,125
	285,415	7,899	510	239,125	532,949
Non-financial assets					
Land and buildings	–	–	597	12	609
Gold holdings	6,021	–	–	na	6,021
Other	–	–	–	318	318
	6,021	–	597	330	6,948
Total assets	291,436	7,899	1,107	239,455	539,897
Financial liabilities					
At fair value through profit or loss					
Foreign currency swaps	–	220	–	na	220
Not at fair value through profit or loss	na	na	na	516,409	516,409
	–	220	–	516,409	516,629
Non-financial liabilities	na	na	na	263	263
Total liabilities	–	220	–	516,672	516,892

	Fair Value			Amortised Cost $M	Total $M
	Level 1 $M	Level 2 $M	Level 3 $M		
As at 30 June 2020					
Financial assets					
At fair value through profit or loss					
Australian dollar securities	72,880	368	–	na	73,248
Foreign government securities	32,263	5,664	–	na	37,927
Foreign currency swaps	–	204	–	na	204
At fair value through other comprehensive income					
Shares in international and other institutions	–	–	521	na	521
At amortised cost	na	na	na	159,273	159,273
	105,143	6,236	521	159,273	271,173
Non-financial assets					
Land and buildings	–	–	567	12	579
Gold holdings	6,614	–	–	na	6,614
Other	–	–	–	305	305
	6,614	–	567	317	7,498
Total assets	111,757	6,236	1,088	159,590	278,671
Financial liabilities					
At fair value through profit or loss					
Foreign currency swaps	3	60	–	na	63
Not at fair value through profit or loss	na	na	na	247,776	247,776
	3	60	–	247,776	247,839
Non-financial liabilities	na	na	na	500	500
Total liabilities	3	60	–	248,276	248,339

The RBA's Level 2 financial instruments include foreign currency swaps priced with reference to an active market yield or rate, but which have been interpolated to reflect maturity dates. Prices for some Australian dollar and foreign currency-denominated securities are derived from markets that are not considered active.

Level 3 assets include the RBA's shareholding in the BIS and its property (excluding leased property, which is recorded at amortised cost). The shareholding in the BIS is valued using the net asset value, as published in annual financial statements of the BIS, less a discount of 30 per cent. The discount applied is based on a Hague Arbitral Tribunal decision on compensation paid to former private shareholders in 2002, which remains the latest repurchase conducted by the BIS. Fair values of the RBA's property incorporate factors such as net market income and capitalisation rates, for property valued using an income capitalisation or a discounted cash flow approach, and depreciation rates for property valued using a depreciable replacement cost methodology.

Australian dollar securities valued at $164 million at 30 June 2020 were transferred from Level 1 to Level 2 during the year, as prices for these bonds are derived from markets that are considered less active. There were no other transfers between levels within the fair value hierarchy during the financial year.

Movements in the fair value of the RBA's property during the financial year are detailed in Note 8. Fair value changes in the RBA's shareholdings in international and other institutions solely reflect valuation movements recognised in Other Comprehensive Income.

Note 17 – Subsequent Events

Unless otherwise disclosed in this report, there are no events subsequent to 30 June 2021 to be disclosed.

Auditor-General for Australia

Australian National Audit Office

Independent Auditor's Report

To the Treasurer

Opinion

In my opinion, the financial statements of the Reserve Bank of Australia and its subsidiary (together the Consolidated Entity) for the year ended 30 June 2021

(a) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and

(b) present fairly the financial position of the Consolidated Entity as at 30 June 2021 and its financial performance and cash flows for the year then ended.

The financial statements of the Consolidated Entity, which I have audited, comprise the following as at 30 June 2021 and for the year then ended:

- Statement of Assurance;
- Statement of Financial Position;
- Statement of Comprehensive Income;
- Statement of Distribution;
- Statement of Changes in Capital and Reserves;
- Cash Flow Statement; and
- Notes to and Forming Part of the Financial Statements comprising a summary of significant accounting policies and other explanatory information.

Basis for opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Consolidated Entity in accordance with the relevant ethical requirements for financial statement audits conducted by me. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

Key audit matter

Accuracy of the liability for the Australian Banknotes

Refer to note 1 'Accounting Policies'

The balance of Australian banknotes on issue represents the value of all banknotes on issue and the liability $95,485m as at 30 June 2021 is measured at the face value of all Australian banknotes issued less any banknotes withdrawn from circulation.

The accuracy of the liability for Australian banknotes on issue is based on their ability to retain legal tender status.

Australian banknotes on issue relates directly to one of the Reserve Bank of Australia's key roles, the issuance of currency, as defined in the *Reserve Bank Act 1959* and is a key audit matter due to:

- high interest to the users of the financial statements; and
- the balance is significant relative to the Reserve Bank of Australia's Statement of Financial Position.

How the audit addressed the matter

To audit the Australian banknotes on issue, I performed the following audit procedures:

- tested design and operating effectiveness of key controls relevant to the accurate recording of the issuance and return of banknotes, including information technology general controls (ITGCs) over the Note Control System;
- agreed the liability for Australian banknotes on issue recorded in the financial statements to the balance recorded in the Note Control System as at 30 June 2021;
- tested a sample of transactions of issuance and return of banknotes during the year and transactions occurring after the reporting period using the following procedures:
    - obtained the amounts recorded in the general ledger and compared against transactional records in the Note Control System and cash movements;
    - checked that transactions in the Note Control System were appropriately authorised; and
    - checked that the transaction was recorded in the correct reporting period.
- checked that all Australian banknotes remain legal tender under the *Reserve Bank Act 1959*.

Key audit matter

Valuation of Australian dollar and foreign currency investments

Refer to note 1 'Accounting Policies' and note 15 'Financial Instruments and Risk'

Valuation of Australian dollar and foreign currency investments was a key audit matter due to their significant size relative to the Reserve Bank of Australia's statement of financial position $531,684m as at 30 June 2021 and the complexity inherent in auditing a wide range of investments which use different valuation methodologies.

The portfolio of investments primarily comprises Australian dollar securities, foreign currency securities, repurchase agreements, deposits with other central banks, and foreign currency swap contracts. All investments are measured at fair value except for reverse repurchase agreements and deposits which are measured at amortised cost.

How the audit addressed the matter

To audit the valuation of Australian dollar and foreign currency investments, I performed the following audit procedures:

- tested the design and operating effectiveness of key controls over the accurate recording of the purchase and sale of investments, including ITGCs on the Reserve Bank of Australia's investment trading system;
- tested design and operating effectiveness of key controls over valuation of investments, including ITGCs on the Reserve Bank of Australia's securities valuation system;
- tested design and operating effectiveness of key controls relevant to the ongoing monitoring of the collateralisation of repurchase agreements, including those established as part of the Term Funding Facility; and
- tested year end valuations of Australian dollar and foreign currency securities using the following procedures:
  - checked all year end valuations of Australian dollar and foreign government securities and foreign currency swaps against independent pricing sources;
  - tested the year-end valuations of all foreign currency swaps using independent publicly available information;
  - checked whether all reverse repurchase agreements were appropriately collateralised in line with the Reserve Bank of Australia's policy. As part of this, for a sample of securities held as collateral I agreed valuations to independent pricing sources; and
  - requested and obtained independent confirmation from other central banks regarding the value of deposits held with them.

Other information

The Accountable Authority is responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2021 but does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and accordingly I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Accountable Authority's responsibility for the financial statements

As the Accountable Authority of the Consolidated Entity, the Governor is responsible under the *Public Governance, Performance and Accountability Act 2013* (the Act) for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards and the rules made under the Act. The Governor is also responsible for such internal control as the Governor determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Governor is responsible for assessing the ability of the Consolidated Entity to continue as a going concern, taking into account whether the entity's operations will cease as a result of an administrative restructure or for any other reason. The Governor is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

Auditor's responsibilities for the audit of the financial statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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 Consolidated Entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;

- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Consolidated Entity to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated Entity to express an opinion on the financial report. I am responsible for the direction, supervision and performance of the Consolidated Entity audit. I remain solely responsible for my audit opinion.

I communicate with the Accountable Authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

From the matters communicated with the Accountable Authority, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Australian National Audit Office

Grant Hehir
Auditor-General

Canberra
10 September 2021

PART 5

Indexes

Statutory Reporting Requirements Index

The *Reserve Bank Annual Report 2021* complies with the reporting requirements of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), rules made under the PGPA Act and other applicable legislation.

To assist readers locate this information, the index of statutory reporting requirements identifies where relevant information can be found in this annual report.

PGPA Rule Reference	Part of Report, page number	Description	Requirement
17BE	*Contents of annual report*		
17BE(a)	Governance and Accountability, 9	Details of the legislation establishing the body	Mandatory
17BE(b)(i)	Our Role, 5-8	A summary of the objects and functions of the entity as set out in legislation	Mandatory
17BE(b)(ii)	Annual Performance Statement for 2020/21, 55-77	The purposes of the entity as included in the entity's corporate plan for the reporting period	Mandatory
17BE(c)	Governance and Accountability, 19	The names of the persons holding the position of responsible Minister or responsible Ministers during the reporting period, and the titles of those responsible Ministers	Mandatory
17BE(d)	Governance and Accountability, 20	Directions given to the entity by the Minister under an Act or instrument during the reporting period	If applicable, mandatory
17BE(e)	Governance and Accountability, 20	Any government policy order that applied in relation to the entity during the reporting period under section 22 of the Act	If applicable, mandatory
17BE(f)	Not applicable	Particulars of non-compliance with: (a) a direction given to the entity by the Minister under an Act or instrument during the reporting period; or a government policy order that applied in relation to the entity during the reporting period under section 22 of the Act	If applicable, mandatory
17BE(g)	Annual Performance Statement for 2020/21, 55-77	Annual performance statements in accordance with paragraph 39(1)(b) of the Act and section 16F of the rule	Mandatory
17BE(h), 17BE(i)	Governance and Accountability, 20	A statement of significant issues reported to the Minister under paragraph 19(1)(e) of the Act that relates to non-compliance with finance law and action taken to remedy non-compliance	If applicable, mandatory
17BE(j)	Reserve Bank Board, 23-24	Information on the accountable authority, or each member of the accountable authority, of the entity during the reporting period	Mandatory
17BE(k)	Operational structure, 45-52	Outline of the organisational structure of the entity (including any subsidiaries of the entity)	Mandatory
17BE(ka)	Our people, 163	Statistics on the entity's employees on an ongoing and non-ongoing basis, including the following: (a) statistics on full-time employees; (b) statistics on part-time employees; (c) statistics on gender; (d) statistics on staff location	Mandatory

PGPA Rule Reference	Part of Report, page number	Description	Requirement
17BE(l)	Management of the Reserve Bank, 157	Outline of the location (whether or not in Australia) of major activities or facilities of the entity	Mandatory
17BE(m)	Governance and Accountability, 9-19	Information relating to the main corporate governance practices used by the entity during the reporting period	Mandatory
17BE(n), 17BE(o)	Governance and Accountability, 20	For transactions with a related Commonwealth entity or related company where the value of the transaction, or if there is more than one transaction, the aggregate of those transactions, is more than $10,000 (inclusive of GST): (a) the decision-making process undertaken by the accountable authority to approve the entity paying for a good or service from, or providing a grant to, the related Commonwealth entity or related company; and (b) the value of the transaction, or if there is more than one transaction, the number of transactions and the aggregate of value of the transactions	If applicable, mandatory
17BE(p)	Governance and Accountability, 21	Any significant activities and changes that affected the operation or structure of the entity during the reporting period	If applicable, mandatory
17BE(q)	Governance and Accountability, 21	Particulars of judicial decisions or decisions of administrative tribunals that may have a significant effect on the operations of the entity	If applicable, mandatory
17BE(r)	Governance and Accountability, 19	Particulars of any reports on the entity given by: (a) the Auditor-General (other than a report under section 43 of the Act); or (b) a Parliamentary Committee; or (c) the Commonwealth Ombudsman; or (d) the Office of the Australian Information Commissioner	If applicable, mandatory
17BE(s)	Not applicable	An explanation of information not obtained from a subsidiary of the entity and the effect of not having the information on the annual report	If applicable, mandatory
17BE(t)	Governance and Accountability, 18-19	Details of any indemnity that applied during the reporting period to the accountable authority, any member of the accountable authority or officer of the entity against a liability (including premiums paid, or agreed to be paid, for insurance against the authority, member or officer's liability for legal costs)	If applicable, mandatory
17BE(taa)	Governance and Accountability, 11-12 and our People, 171-173	The following information about the audit committee for the entity: (a) a direct electronic address of the charter determining the functions of the audit committee; (b) the name of each member of the audit committee; (c) the qualifications, knowledge, skills or experience of each member of the audit committee; (d) information about each member's attendance at meetings of the audit committee; (e) the remuneration of each member of the audit committee	Mandatory
17BE(ta)	Our People, 171-176	Information about executive remuneration	Mandatory

PGPA Rule Reference	Part of Report, page number	Description	Requirement
17BF	*Disclosure requirements for government business enterprises*		
17BF(1)(a)(i)	Not applicable	An assessment of significant changes in the entity's overall financial structure and financial conditions	If applicable, mandatory
17BF(1)(a)(ii)	Not applicable	An assessment of any events or risks that could cause financial information that is reported not to be indicative of future operations or financial conditions	If applicable, mandatory
17BF(1)(b)	Not applicable	Information on dividends paid or recommended	If applicable, mandatory
17BF(1)(c)	Not applicable	Details of any community service obligations the government business enterprise has including: (a) an outline of actions taken to fulfil those obligations; and (b) an assessment of the cost of fulfilling those obligations	If applicable, mandatory
17BF(2)	Not applicable	A statement regarding the exclusion of information on the grounds that the information is commercially sensitive and would be likely to result in unreasonable commercial prejudice to the government business enterprise	If applicable, mandatory
Public Governance, Performance and Accountability Act 2013			
43(4)	Financial Statements, 199-247	Annual Financial Statements and Auditor-General's report	Mandatory
Work Health and Safety Act 2011 Schedule 2 Part 4			
4(2)(a)	Our People,167-169	Health, safety and welfare initiatives	Mandatory
4(2)(b)	Our People, 167-169	Health and safety outcomes	Mandatory
4(2)(c)	Our People, 167-169	Statistics of notifiable incidents	Mandatory
4(2)(d)	Our People, 167-169	Investigations conducted	Mandatory
Environment Protection and Biodiversity Conservation Act 1999			
516A(6)(a)	Management of the Reserve Bank, 158-159	Report on implementation of ecologically sustainable development principles	Mandatory
516A(6)(b)	Not applicable	Identify how any outcomes specified for the Reserve Bank in an Appropriations Act contribute to ecologically sustainable development	Mandatory
516A(6)(c)	Management of the Reserve Bank, 158-159	Effect of the Reserve Bank's activities on the environment	Mandatory
516A(6)(d)	Management of the Reserve Bank, 158-159	Measures to minimise the impact of the Reserve Bank's activities	Mandatory
516A(6)(e)	Management of the Reserve Bank, 158-159	Mechanisms for reviewing/increasing effectiveness of measures	Mandatory
Equal Employment Opportunity (Commonwealth Authorities) Act 1987			
9	Our People, 161-176	Report on development and implementation of the Bank's equal employment opportunity program	Mandatory

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Abbreviations

A glossary of relevant terms is available on the Reserve Bank website

24/7	24 hours per day, 7 days per week
AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
ABF2	Asian Bond Fund 2
ABN	Australian Business Number
ACCC	Australian Competition and Consumer Commission
ACT	Australian Capital Territory
ADI	authorised deposit-taking institution
AFXC	Australian Foreign Exchange Committee
AGNSW	Art Gallery of New South Wales
AGS	Australian Government Securities
AIF	Automated Information Facility
AM	Member of the Order of Australia
ANAO	Australian National Audit Office
ANU	Australian National University
AO	Officer of the Order of Australia
AOFM	Australian Office of Financial Management
APC	Australian Payments Council
APEC	Asia-Pacific Economic Cooperation
API	Application Programming Interface
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ASXFS	ASX Financial Settlements
ATM	automated teller machine
ATO	Australian Taxation Office
AusPayNet	Australian Payments Network
AUSTRAC	Australian Transaction Reports and Analysis Centre
BA	Bachelor of Arts
BCBS	Basel Committee on Banking Supervision (of the BIS)
BIS	Bank for International Settlements
BPA	bulk purchase annuity
BPAY	A payments clearing organisation owned by a group of retail banks
BRS	Business Resumption Site
CAC Act	*Commonwealth Authorities and Companies Act 1997* (repealed)
CBDC	Central bank digital currency
CCPs	central counterparties
CEDA	Committee for Economic Development of Australia
CEPAR	Australian Research Council Centre of Excellence in Population Ageing Research

CFR	Council of Financial Regulators
CHESS	Clearing House Electronic Sub-register System
CLF	Committed Liquidity Facility
CME	Chicago Mercantile Exchange Inc.
COVID-19	Coronavirus disease
CPMI	Committee on Payments and Market Infrastructures (of the BIS)
CPRs	Commonwealth Procurement Rules
CRC	Cooperative Research Centre
CS	clearing and settlement
CSA	credit support annex
CSIRO	Commonwealth Scientific and Industrial Research Organisation
EAP	Employee Assistance Program
EDO	Enterprise Data Office
ELA	Emergency liquidity assistance
EMEAP	Executives' Meeting of East Asia-Pacific Central Banks
EFS	Economic and Financial Statistics
eftpos	electronic funds transfer at point of sale
EAF	Executive Accountability Framework
ERG	Employee Resource Group
ES	Exchange Settlement
ESA	Exchange Settlement Account
ESD	ecologically sustainable development
ESG	environmental, social and governance
ESP	Economic Support Payments
FINMA	Swiss Financial Market Supervisory Authority
FMI	financial market infrastructure
FOI	Freedom of Information
FOI Act	*Freedom of Information Act 1982*
FSAP	Financial Sector Assessment Program (of the IMF)
FSB	Financial Stability Board
FSS	Fast Settlement Service (of RITS)
FTE	full-time equivalent
FX	foreign exchange
G20	Group of Twenty
G-SIB	global systemically important bank
GDP	gross domestic product
GFC	Global Financial Crisis
GFXC	Global Foreign Exchange Committee
GST	Goods and Services Tax
HQLA	high-quality liquid assets
IAT	Incident Assessment Team
IMF	International Monetary Fund

IOSCO	International Organization of Securities Commissions
IPS	Information Publication Scheme
ISDA	International Swaps and Derivatives Association
ISO	International Organization for Standardisation
IT	information technology
KRW	Korean won
LCR	Liquidity Coverage Ratio
LED	light emitting diode
LGBTI	lesbian, gay, bisexual, transgender and intersex
LIBOR	London Inter-Bank Offered Rate
LLB	Bachelor of Laws
LVSS	RITS Low Value Settlement Service
MBA	Master of Business Administration
MFSC	Monetary and Financial Stability Committee (of EMEAP)
MIT	Massachusetts Institute of Technology
MP	member of parliament
NAB	National Australia Bank
NABERS	National Australian Built Environment Ratings System
NAIDOC	National Aborigines and Islanders Day Observance Committee
NBS	National Banknote Site
NGB	Next Generation Banknote
NGFS	Network for Greening the Financial System
NPA	Note Printing Australia Limited
NPP	New Payments Platform
NPPA	NPP Australia Limited
NSW	New South Wales
OECD	Organisation for Economic Co-operation and Development
OAM	Medal of the Order of Australia
OMO	open market operations
OPA	Official Public Account
PEXA	Property Exchange Australia Limited
PFMI	*Principles for Financial Market Infrastructures*
PGPA Act	*Public Governance, Performance and Accountability Act 2013*
PGPA Rule	*Public Governance, Performance and Accountability Rule 2014*
PhD	Doctor of Philosophy
Prospera	Australia Indonesia Partnership for Economic Development
PSM	Public Service Medal
RAP	Reconciliation Action Plan
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
RTGS	real-time gross settlement
R&D	research and development
SAR	Special Administrative Region (of China)
SDR	Special Drawing Right
SEACEN	South East Asian Central Banks
Semis	semi-government securities (Australian state and territory government securities)
SME	Small and medium-sized enterprises
SVF	stored-value facility
TFF	Term Funding Facility
TTBC	Trans-Tasman Council on Banking Supervision
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UK	United Kingdom
UNSW	University of New South Wales
US	United States
WA	Western Australia
WHS	work health and safety
WHS Act	*Work Health and Safety Act 2011*
WPIT	Welfare Payment Infrastructure Transformation Program (of Services Australia)

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[1] Freecall – not available to callers in Sydney. Excludes calls from mobile phones, which are charged at the applicable rate.