

## THE RESERVE BANK BOARD AND GOVERNANCE

### The Role of the Board

Sections 8A and 10 of the *Reserve Bank Act 1959* give the Reserve Bank Board responsibility for “monetary and banking policy”. The relationship of the Board and the government-of-the-day is set out in Section 11. Routinely, the “Government is to be informed, from time to time, of the Bank’s monetary and banking policy”. In practice this is done in the regular monthly meetings which the Governor, Deputy Governor and senior officers have with the Treasurer shortly after each Board meeting.

The Act itself has not been changed with respect to the mandate for monetary policy, but procedures and practices have evolved over time, in order to keep the RBA’s policy-making process relevant to the changing environment, and in parallel with developments overseas. In 1996, the responsible Minister, the Treasurer, and the Governor jointly signed the *Statement on the Conduct of Monetary Policy*, which confirmed the RBA’s independence in making monetary policy, and endorsed the Bank’s inflation target. The Governor’s twice-yearly appearances before the House of Representatives Standing Committee on Economics, Finance and Public Administration, and the quarterly *Statement on Monetary Policy*, have reinforced this process. An updated, though basically unchanged, second *Statement on the Conduct of Monetary Policy* was released at the time of the announcement by the Treasurer in July 2003 of the appointment of the Governor for a term of a further three years.

When the Australian Prudential Regulation Authority was established in 1998, it took on the

prudential supervision of banks, but the RBA retained responsibility for overall financial system stability. (See chapter 1 for an assessment of financial system stability.) The Treasurer’s statement in Parliament on 2 September 1997 confirmed that the RBA, in addition to monetary policy, was responsible for overall financial system stability and regulation of the payments system.

The *Reserve Bank Act 1959* was amended in 1998 to establish the Payments System Board, which is responsible for payments system policy, and reports separately in its own Annual Report.

### Composition of the Board

The Board comprises the Governor, who is Chairman, the Deputy Governor, the Secretary to the Treasury and six external members, appointed by the Treasurer – a total of nine. Details of the current members are set out on pages 104 and 105. Five members form a quorum for a meeting of the Board.

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

### Meetings of the Board

The *Reserve Bank Act 1959* does not stipulate the frequency of Board meetings. For many years the Board’s practice has been to meet eleven times each year, on the first Tuesday of each month, except January. Most meetings are held at the Head Office in Sydney. By custom, one meeting each year is usually held in Melbourne and, from time to time, the Board meets in other State capitals.

#### Number of Meetings Attended by Each Member in 2002/03

IJ Macfarlane	10	(11)
GR Stevens	11	(11)
KR Henry	11	(11)
JR Broadbent	11	(11)
RG Gerard +	2	(3)
FP Lowy	9	(11)
DG McGauchie	11	(11)
WJ McKibbin	11	(11)
HM Morgan	11	(11)
RFE Warburton *	6	(6)

+ Mr Gerard was appointed to the Board on 20 March 2003.

\* Mr Warburton's term as a member of the Board ended on 21 December 2002.

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

## Audit Committee

The primary objectives of the Audit Committee are to:

- ensure a high-quality, independent and effective audit process;
- assist the Governor and the Board in fulfilling their obligations relating to financial reporting, compliance with laws and regulations, internal control, employee conflicts of interest, business ethics and prevention of fraud; and
- enhance contact between management and the Audit Department.

The Committee also acts, at the request of the Note Printing Australia Limited (NPA) Board, as NPA's Audit Committee.

The Audit Committee is made up of the Deputy Governor as Chairman, a non-executive member of the Reserve Bank Board, JR Broadbent, and an external appointed member, GH Bennett, company director and former National Executive Chairman, KPMG Peat Marwick. During 2002/03, the Committee met on four occasions; all members attended each of these meetings.

Periodically, the Committee has commissioned external reviews of the audit function, including its own operations. During 2002/03, the Committee considered reviews, conducted by separate major accounting firms, of both the RBA internal audit function and the processes and structure of the Committee itself.

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

## Obligations under the Commonwealth Authorities and Companies (CAC) Act 1997

The CAC Act is one of three Acts which deal with the financial management, accountability and audit of Commonwealth agencies, authorities and companies. The CAC Act sets standards of conduct for directors and officers of Commonwealth authorities, with many of these requirements being modelled on comparable areas of the Corporations Law.

The RBA is a Commonwealth authority for the purposes of the CAC Act and, for these purposes, the members of the Reserve Bank Board are the directors of the RBA. As such, they are responsible for the preparation of the Annual Report and, at the meeting of the Board on 5 August 2003, they resolved that the Chairman sign the Report, and the Financial Statements as at 30 June 2003, transmit them in accordance with the requirements of the CAC Act, and arrange publication.

The House of Representatives Standing Committee on Economics, Finance and Public Administration has, in its Standing Orders, an obligation to review the Annual Report of the RBA, and the Annual Report of the Payments System Board.

## Remuneration

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

A committee of the non-executive Board members, currently chaired by DG McGauchie, reviews annually the remuneration of the Governor and Deputy Governor in terms of Section 24A of the Reserve Bank Act 1959.

## Indemnities

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

## RESERVE BANK BOARD

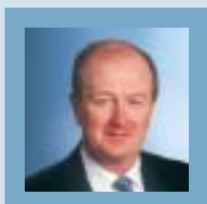
**Chairman, IJ Macfarlane**

Governor since 18 September 1996

Term ends 17 September 2006

Chairman – Payments System Board

Chairman – Council of Financial Regulators

**GR Stevens**

Deputy Governor since 21 December 2001

Present term ends 20 December 2008

**KR Henry**

Secretary to the Treasury

Member since 27 April 2001

**JR Broadbent AO**

Member since 7 May 1998

Present term ends 6 May 2008

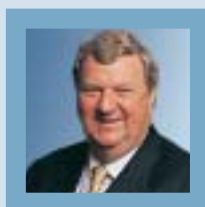
Director – Coca Cola Amatil Limited

Director – Special Broadcasting Service

Director – Westfield America Management Limited

Director – Westfield Management Limited

Director – Woodside Petroleum Limited

**RG Gerard AO**

Member since 20 March 2003

Present term ends 19 March 2008

Chairman & Managing Director –

Gerard Industries Pty Ltd

**FP Lowy** AC

Member since 27 June 1995  
 Present term ends 9 December 2005  
 Chairman – Westfield Holdings Limited  
 Chairman – Lowy Institute for International Policy  
 Chairman – Soccer Australia Limited  
 Director – Daily Mail and General Trust PLC (UK)

**DG McGauchie**

Member since 30 March 2001  
 Present term ends 29 March 2006  
 Chairman – Rural Finance Corporation of Victoria  
 Deputy Chairman – Australian Wool Testing Authority Limited  
 Deputy Chairman – Ridley Corporation Limited  
 Director – Australian Centre for International Agricultural Research  
 Director – GrainCorp Limited  
 Director – National Foods Limited  
 Director – Telstra Corporation Limited

**WJ McKibbin**

Member since 31 July 2001  
 Present term ends 30 July 2006  
 Professor of International Economics and Convenor of Division of Economics, Research School of Pacific & Asian Studies – Australian National University  
 Non-Resident Senior Fellow – The Brookings Institution, USA  
 President – McKibbin Software Group Inc (USA)  
 Director – McKibbin Software Group Pty Ltd  
 Director – EconomicScenarios.com Pty Ltd

**HM Morgan** AC

Member since 14 August 1996  
 Present term ends 28 July 2007  
 Chief Executive Officer – First Charnock Pty Ltd  
 Joint Chairman – Commonwealth Business Council