

# Governance

The Reserve Bank's activities are overseen by the Reserve Bank Board, Payments System Board and several board and management committees. The Reserve Bank Board has responsibility for monetary policy, banking policy and other policy matters, except those relating to the payments system, which are overseen by the Payments System Board.

The Reserve Bank is governed in accordance with the *Reserve Bank Act 1959*. The activities undertaken by the Bank in fulfilment of its responsibilities are overseen by two policy boards and several board and high-level management committees. The Governor is responsible for managing the Bank and is the accountable authority of the Bank for the purposes of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

## Reserve Bank Board

The Reserve Bank Board has responsibility for monetary and banking policy and the Reserve Bank's policy on all other matters except payments system policy. The Board comprises the Governor (Chair), Deputy Governor (Deputy Chair), Secretary to the Treasury and six non-executive members appointed by the Treasurer, a total of nine. Members of the Board during 2015/16 are shown below and details of their qualifications and experience are provided on pages 17–25.

The Board 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. In terms of the Reserve Bank Act, the Board makes decisions by a majority of the

votes of the members present and voting, with the Chair having a casting vote, if necessary, in addition to a deliberative vote.

### Board Meetings – 2015/16 Attendance by Members

	No. of meetings attended	No. of meetings eligible to attend
Glenn Stevens (Governor)	11	11
Philip Lowe (Deputy Governor)	10	11
John Fraser (Secretary to the Treasury)	10 <sup>(a)</sup>	11
John Akehurst	10	11
Roger Corbett <sup>(b)</sup>	6	6
John Edwards <sup>(c)</sup>	11	11
Kathryn Fagg	10	11
Allan Moss <sup>(d)</sup>	5	5
Heather Ridout	10	11
Catherine Tanna	10	11

(a) Nigel Ray (Executive Director (Domestic), Macroeconomic Group) attended the September 2015 meeting in place of John Fraser, in terms of section 22 of the Reserve Bank Act

(b) Roger Corbett's term on the Board ended on 1 December 2015

(c) John Edwards' term on the Board ended on 30 July 2016

(d) Allan Moss's term on the Board commenced on 2 December 2015

Most meetings are held at the Head Office in Sydney. A meeting is held in Melbourne at least every second year. In addition, a meeting is held in another Australian city each year. In 2015/16, the Board met in Perth in December 2015 and in Hobart in April 2016.

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

## Payments System Board

The responsibilities of the Payments System Board are set out in the Reserve Bank Act. In particular, the Act requires the 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:

- (i) controlling risk in the financial system; and
- (ii) promoting the efficiency of the payments system; and
- (iii) 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 Reserve Bank's boardroom in the Sydney Head Office building

The Payments System Board is distinct from the Reserve Bank Board and issues a separate annual report.

## Conduct of Reserve Bank Board Members

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

Members must comply with their statutory obligations as directors of the Bank, including those 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 to discuss and decide monetary and financial system stability policies, notwithstanding any material personal interest in the outcome, the Reserve Bank Act requires them to furnish a confidential statement of material personal interests to the Treasurer annually and, during the year, to notify any substantial change since their most recent annual statement. Members must declare to the other members of the Board any material personal interest they have in a matter relating to the affairs of the Board other than monetary and financial stability policies. Members may give standing notice to other members outlining the nature and extent of a material personal interest in such matters.

Over and above these statutory requirements, members recognise their responsibility for

maintaining a reputation for integrity and propriety on the part of the Board and the Reserve Bank in all respects. Members have therefore adopted a Code of Conduct that provides a number of general principles as a guide for their conduct in fulfilling their duties and responsibilities as members of the Board, including restrictions on members undertaking financial transactions for their own account or participating in decisions regarding financial transactions in relation to their business or other interests at particular times. A copy of the Code of Conduct is on the Bank's website.

## Audit Committee

The Audit Committee is constituted as a subcommittee of the Reserve Bank Board. Its primary objective is to assist the Governor and the Board in fulfilling certain obligations in terms of the Reserve Bank Act and the PGPA Act. In particular, the Audit Committee assists the Governor and the Board in relation to:

- preparing the annual report, including a report of operations, a performance statement and the financial statements
- establishing and maintaining appropriate systems of internal control
- establishing and maintaining appropriate systems of risk oversight and management.

John Akehurst, a member of the Reserve Bank Board, chairs the Audit Committee. Other members of the committee are Kathryn Fagg, a member of the Reserve Bank Board, and Sandra Birkenleigh and Michael Coleman, both of whom are company directors and former senior audit partners of major accounting firms who have extensive experience in the finance sector.

In September 2015, Terry Williamson, a company director and former senior audit partner of a major accounting firm, retired from the Audit

## Audit Committee Meetings – 2015/16

### Attendance by Members

	No. of meetings attended	No. of meetings eligible to attend
John Akehurst*	4	4
Sandra Birkenleigh <sup>(a)</sup>	3	3
Michael Coleman	3	4
Roger Corbett <sup>*(b)</sup>	2	2
Kathryn Fagg <sup>*(c)</sup>	2	2
Terry Williamson <sup>(d)</sup>	1	1

\* Member of the Reserve Bank Board

(a) Sandra Birkenleigh's term commenced on 9 September 2015

(b) Roger Corbett's term ended on 1 December 2015

(c) Kathryn Fagg's term commenced on 2 December 2015

(d) Terry Williamson's term ended on 8 September 2015

Committee after completing a five-year term. At the final meeting attended by Mr Williamson in July 2015, the Chair, on behalf of all committee members, paid tribute to the contribution Mr Williamson had made to the work of the committee, drawing on his background and experience in the finance sector.

Consistent with contemporary governance standards, no Reserve Bank executive is a member of the Audit Committee. 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 senior Bank executives attend meetings of the committee by invitation on a regular basis or as required.

During 2015/16, the Audit Committee met on four occasions. At its July 2016 meeting, the committee considered the draft consolidated financial statements for the Reserve Bank for the year ended 30 June 2016 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 respect of 2015/16, this occurred immediately following the July 2016 meeting.

## Remuneration Committee

The Remuneration Committee of the Reserve Bank Board was 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 Catherine Tanna (Chair), Ian Harper (following John Edwards' retirement from the Board on 30 July 2016) and Allan Moss. During 2015/16, the committee met on three occasions.

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 adjustments to the Board for approval, providing that such terms and conditions are consistent with the framework for Principal Executive Offices determined by the Remuneration Tribunal. The Remuneration Committee is also kept informed of the general remuneration arrangements for Reserve Bank staff. The Governor attends meetings of the Remuneration Committee at the invitation of the Chair to discuss remuneration matters in the Bank, but not those relating to his own remuneration. The committee communicates with the Remuneration Tribunal as required.

In accordance with section 21A of the Reserve Bank Act, neither the Governor nor the Deputy Governor takes part in decisions of the Board

## Remuneration Committee Meetings – 2015/16 Attendance by Members

	No. of meetings attended	No. of meetings eligible to attend
Roger Corbett <sup>(a)</sup>	1	1
John Edwards <sup>(b)</sup>	3	3
Allan Moss <sup>(c)</sup>	2	2
Catherine Tanna	3	3

(a) Roger Corbett's term ended on 1 December 2015

(b) John Edwards' term ended on 30 July 2016

(c) Allan Moss's term commenced on 2 December 2015

relating to the determination or application of any terms or conditions on which either of them holds office.

## Remuneration and Allowances

Remuneration and travel allowances for the non-executive members of the Reserve Bank Board are set by the Remuneration Tribunal. Remuneration of Board members for their membership of the Audit Committee is determined by the Remuneration Tribunal. The longstanding practice of the Bank 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.

## Induction of Board Members

The induction program assists newly appointed Board members to understand their role and responsibilities, and provides them with an overview of the Reserve Bank's policy framework and operations. Separate briefing sessions are tailored to meet particular needs or interests.

## Policy Risk Management Framework and Board Review

Towards the end of 2015, the Reserve Bank Board reviewed the monetary policy risk register and endorsed a process whereby some risks and controls would be more fully articulated. At the same time, the Board conducted a review of its own operation and processes. This concluded that Board processes were functioning effectively and led to some enhancements whereby members spend more time on medium-term issues relevant to monetary policy at a number of meetings each year.

## Executive Committee

The Executive Committee is the key decision-making committee of the Reserve Bank for matters of a management and/or administrative nature. It is a management committee, whose role is to assist and support the Governor in fulfilling his responsibilities to manage the Bank (in particular under the Reserve Bank Act and as the accountable authority under the PGPA Act). The committee, which is chaired by the Governor and comprises the Bank's most senior executives, generally meets weekly. The heads of the Audit, Information and Risk and Compliance departments and the General Counsel attend meetings of the Executive Committee in an advisory capacity.

## Risk Management Committee

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 a management committee chaired by the Deputy Governor and comprises senior executives drawn mainly from the operational areas of the Bank. During 2015/16, the committee met on six occasions and kept the Executive Committee and Reserve Bank Board Audit Committee informed of its activities.

Risks associated with the formulation of monetary and payments policies are the direct responsibility of the Reserve Bank Board and the Payments System Board, respectively. The boards review management of these risks periodically as part of their decision-making processes. Details of the Bank's risk management framework are provided in the chapter on 'Risk Management'.

## Indemnities for Members of Boards and Senior Staff

During 2015/16, members of the Reserve Bank Board and the Payments System Board continued to be indemnified against liabilities incurred by reason of their appointment to the relevant Board or by virtue of holding and discharging such office. Indemnities given prior to 1 July 2014, the date of repeal of the *Commonwealth Authorities and Companies Act 1997* (CAC Act), were in accordance with section 27M of the CAC Act. New members of each Board whose term of office commenced during 2015/16 were indemnified in substantially similar terms.

Certain other indemnities continue, being indemnities in accordance with section 27M of the CAC Act provided by the Reserve Bank to other officers of the Bank in relation to liabilities they may incur in the conduct of their duties at the Bank, and to current senior staff and Reserve Bank Board members who, at the request of the Bank, are serving on the board of Note Printing Australia Limited or formerly served on that board or the board of Innovia Security Pty Ltd (formerly Securrency International Pty Ltd).

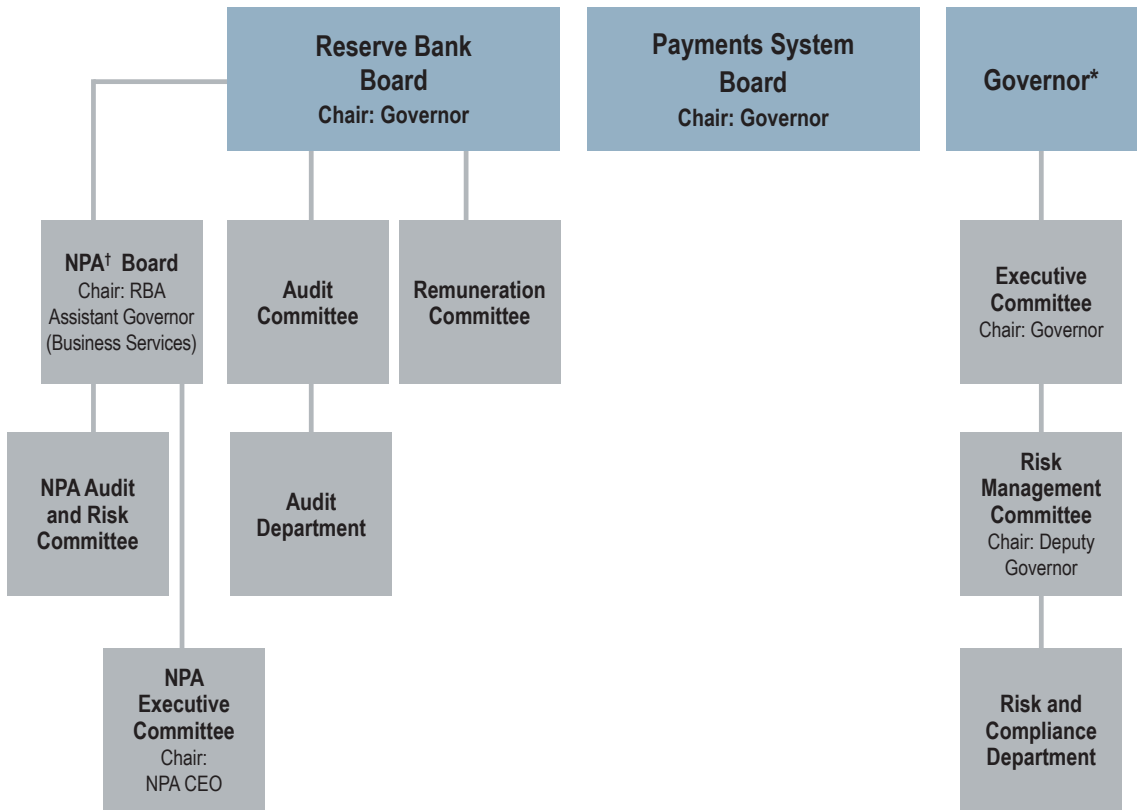
As the Reserve Bank does not take out directors' and officers' insurance in relation to its Board members or other officers, no premiums were paid for any such insurance in 2015/16.

## Other Policy Matters

The Governor reports annually to the Reserve Bank Board on the process of review and implementation of key Reserve Bank policies, including compliance arrangements. An annual report covering matters relating to work health and safety in the Bank is also presented to the Board. The report for 2015/16 was provided to the Board at its August 2016 meeting.

# Governance Structure

August 2016



† 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*.