

Governance

The Reserve Bank has two boards: the Reserve Bank Board, which has responsibility for monetary and banking policy and the Bank's policy on other matters excluding payments system policy; and the Payments System Board, which has responsibility for payments system policy. Subject to policy set by the boards, the Bank is managed by the Governor.

The Reserve Bank's governance structure is set out in the *Reserve Bank Act 1959*. The Governor is the accountable authority of the Bank for the purposes of the *Public Governance, Performance and Accountability Act 2013* (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.

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 2016/17 are shown below and details of their qualifications and experience are provided on pages 16–25. In mid September 2016, Philip Lowe succeeded Glenn Stevens as Governor and Guy Debelle took office as Deputy Governor. The Board's tribute to Mr Stevens on the occasion of his retirement is shown on page 24.

The Reserve Bank 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 accordance with 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.

Reserve Bank Board meetings are usually held at the Reserve Bank's Head Office in Sydney. Meetings are held in two other Australian cities each year. The Board's most recent interstate meeting was in Melbourne in April 2017.

The Reserve Bank 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

Board Meetings – 2016/17

Attendance by members

	No. of meetings attended	No. of meetings eligible to attend
Glenn Stevens ^(a)	3	3
Philip Lowe (Governor) ^(b)	11	11
Guy Debelle (Deputy Governor) ^(c)	8	8
John Fraser (Secretary to the Treasury)	10 ^(d)	11
John Akehurst	11	11
John Edwards ^(e)	1	1
Kathryn Fagg	11	11
Ian Harper ^(f)	10	10
Allan Moss	11	11
Heather Ridout ^(g)	6	7
Carol Schwartz ^(h)	4	4
Catherine Tanna	11	11

(a) Glenn Stevens' term as Governor ended on 17 September 2016

(b) Philip Lowe was Deputy Governor until 17 September 2016 and Governor from 18 September 2016

(c) Guy Debelle's term on the Board commenced on 18 September 2016 following his appointment as Deputy Governor

(d) Nigel Ray (Deputy Secretary, Macroeconomic Group, Australian Treasury) attended the September 2016 meeting in place of John Fraser, in terms of section 22 of the Reserve Bank Act

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

(f) Ian Harper's term on the Board commenced on 31 July 2016

(g) Heather Ridout's term on the Board ended on 13 February 2017

(h) Carol Schwartz's term on the Board commenced on 14 February 2017

Source: RBA

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 Payments System Board 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 officials of the Reserve 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 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 must declare to the other members of the Reserve Bank Board any material personal interest they have in a matter 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.

A Code of Conduct for Reserve Bank Board members supplements these statutory requirements and imposes obligations on members that are designed to ensure that members observe the highest possible standards of ethical conduct. The Code of Conduct, which is available on the Reserve Bank's website, addresses a range of matters including conflicts of interest and restrictions on undertaking, or being involved in, financial transactions of certain types at certain times.

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.

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 2016/17, the Audit Committee met on four occasions. At its July 2017 meeting, the committee considered the draft consolidated financial statements for the Reserve Bank for the year ended 30 June 2017 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;

Audit Committee Meetings – 2016/17 Attendance by members

	No. of meetings attended	No. of meetings eligible to attend
John Akehurst ^(a)	4	4
Sandra Birkenleigh	4	4
Michael Coleman	3	4
Kathryn Fagg ^(a)	4	4

(a) Member of the Reserve Bank Board
Source: RBA

in respect of 2016/17, this occurred immediately following the July 2017 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 and Allan Moss. During 2016/17, 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 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. The committee is also kept informed of the general remuneration arrangements for Reserve Bank staff. The Governor attends meetings of the 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 Reserve Bank Board relating to the determination or application of any terms or conditions on which either of them holds office.

Remuneration Committee Meetings – 2016/17 Attendance by members

	No. of meetings attended	No. of meetings eligible to attend
Catherine Tanna	3	3
Ian Harper ^(a)	3	3
Allan Moss	3	3

(a) Ian Harper’s term commenced on 31 July 2016
Source: RBA

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 Reserve 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 Reserve Bank 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 2016, 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 modest

refinements to the risk register and concluded that the control framework had been operating effectively.

At the same time, the Reserve Bank Board conducted its annual review of its own operation and processes. It concluded that Board processes were functioning effectively. Members agreed that the addition of special topics for discussion at some meetings in 2015/16 had been valuable. This expansion of meeting agendas continued during 2016/17 and allowed the Board to spend more time on medium-term issues relevant to monetary policy at most Board meetings during the year. The performance of the Board's Audit and Remuneration committees is assessed as part of the annual survey of the effectiveness of the Board itself. The most recent review concluded that the committees and their processes were functioning effectively.

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 (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 2016/17, the Risk Management 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 Reserve Bank's risk management framework are provided in the chapter on 'Risk Management'.

Indemnities for Members of Boards and Staff

Members of the Reserve Bank Board and the Payments System Board are indemnified against liabilities incurred by reason of their appointment to the relevant board or by virtue of holding and discharging such office. Indemnities for those members appointed 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 for members appointed after 1 July 2014, when the CAC Act was repealed, have reflected the substance of the previous CAC Act restrictions. The terms of indemnification for new members of both boards were reviewed by the Reserve Bank Board in early 2017 and a revised form of indemnity, which continues to reflect the substance of the previous CAC Act restrictions, was approved in March 2017.

The Reserve Bank has also provided an indemnity in accordance with section 27M of the CAC Act to senior staff of the Bank in relation to liabilities they may incur in the conduct of their duties at the Bank. In March 2017 the Bank limited the application of that indemnity to claims or liability relating to events prior to 1 April 2017 and adopted a policy on assistance to staff for legal proceedings to replace that indemnity. The new 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*.

Certain other indemnities given prior to 1 July 2014 in accordance with section 27M of the CAC Act continue. These indemnities were provided by the Reserve Bank to current and former 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 CCL Secure Pty Limited (formerly Innovia Security Pty Ltd and, prior to that, Securrency International Pty Ltd).

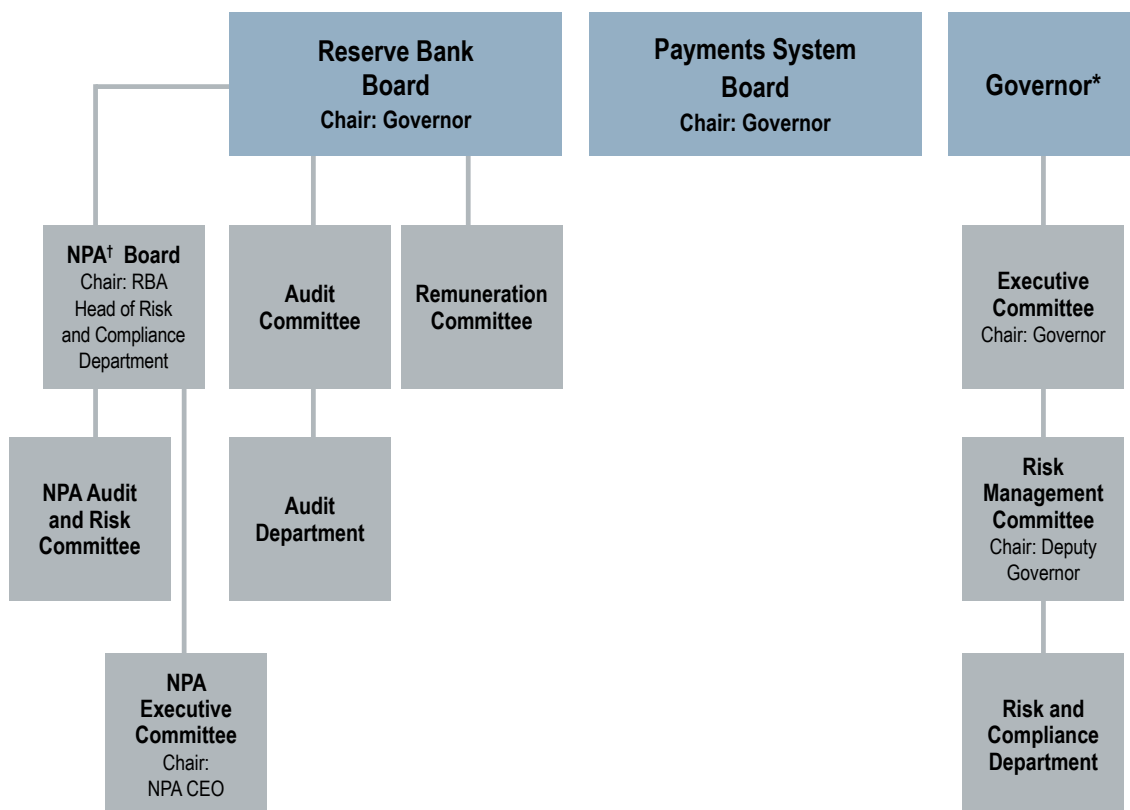
As the Reserve Bank does not take out directors' and officers' insurance in relation to members of its boards or other officers, no premiums were paid for any such insurance in 2016/17.

Other Policy Matters

As part of the governance arrangements to assist the Reserve Bank Board discharge its obligations in relation to the Reserve Bank's policies other than monetary policy, the Governor reports annually to the 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 Board. The reports for 2016/17 were provided to the Board at its August 2017 meeting.

Reserve Bank of Australia Governance Structure

16 August 2017



† 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*.