

RESERVE BANK OF AUSTRALIA



65 MARTIN PLACE
SYDNEY NSW 2000
PHONE: (61 2) 9551 9507
FAX: (61 2) 9551 8030
EMAIL: governor@rba.gov.au

G.R. Stevens
GOVERNOR

19 July 2011

The Hon. Wayne Swan, MP
Deputy Prime Minister and Treasurer
Parliament House
CANBERRA ACT 2600

Dear Deputy Prime Minister,

RBA DIVIDEND 2011/12

Since the Reserve Bank's profit results in 2010/11 are again historically unusual, I would like to give you early advice about them, based on estimates that I do not expect will change much as year-end accounting and auditing processes are completed. The key point is that, with the Bank again incurring a large accounting loss in 2010/11, all of which will be absorbed by a reduction in the Bank's capital reserves, no dividend will be payable from this year's results. This is consistent with advice provided for inclusion in the 2011/12 Budget.

The accounting loss for the year was about \$4.9 billion, largely reflecting large valuation losses from the appreciation of 16 per cent in the exchange rate during the year. The Bank's underlying earnings remained low because interest rates around the world also continued to be low.

The accounting loss in 2010/11 will be absorbed in full by a reduction in the Reserve Bank Reserve Fund (RBRF), essentially the Bank's capital. In 2009/10, valuation losses were largely offset against unrealised gains from previous years that were retained in the Unrealised Profits Reserve; this transfer, however, exhausted this reserve, so that particular loss-absorbing capability is no longer available.

The treatment of the loss in 2010/11 is consistent both with the purpose of the RBRF and the Board's policy toward it. The RBRF is established by section 29 of the *Reserve Bank Act 1959* as a general reserve which provides for events which are contingent and non-foreseeable, including covering exceptional losses on the RBA's holdings of domestic and foreign securities that cannot be absorbed by its other resources.

As a result of the losses incurred in the past two years, the balance of the RBRF has fallen from about \$6.9 billion to \$1.3 billion, a level much lower than the Board's longstanding target for the medium term which it sets according to the risks held on the Bank's balance sheet. The Board regards as desirable restoring the RBRF to this target. The Bank's external auditors also advise that it would be unusual in such a situation for future payment of dividends to take precedence over restoring the RBRF. Accordingly, the Board once again seeks your approval to applying profits in future years to replenish the RBRF before any dividends are paid. This would be in line with earlier conversations between us. It would also be consistent with the Budget estimates for the 'out-years' contained in the 2011/12 Budget.

It would be helpful in terms of the Bank's public communication if, when announcing the loss for 2010/11 in our annual report (finalised in August), we could also indicate that you are in agreement with the approach to restoring the RBRF outlined above.

The Bank is currently bringing to completion its financial statements for 2009/10. These will be considered by the Board early in August, following their review by staff of the Auditor-General. I do not expect that the final figures resulting from revisions will be materially different from the estimates on which this advice is based. If they were, I would advise accordingly in due course.

In light of the large losses recorded in the past two years, occasioned by unusual volatility in the exchange rate, and given the Bank has virtually no discretion to manage market risk that has led to these losses, the Board will review the current policy on the Bank's capital, to assess whether it adequately covers the risks the Bank is likely to face in future. If that review led to a change in the Board's preferred approach, I would write to you separately in due course.

I am sending a copy of this letter to Dr Parkinson for his information.

Yours sincerely,





**DEPUTY PRIME MINISTER
TREASURER**

PO BOX 6022
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CANBERRA ACT 2600

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Mr Glenn Stevens
Governor
Reserve Bank of Australia
GPO Box 3947
Sydney NSW 2001

19 SEP 2011

Dear Governor, 

Thank you for your letter of 19 July 2011 concerning the Reserve Bank's 2011-12 dividend and also for your letters of 9 September 2011 seeking my agreement to table the Reserve Bank's Annual Report for 2011, its Equity & Diversity Annual Report for 2011, and the Payments System Board Annual Report for 2011.

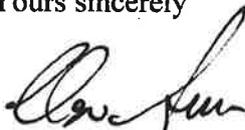
In response to the large accounting losses to be absorbed by the Reserve Bank Reserve Fund (RBRF) over the past two years, you propose that future RBA profits be used to replenish the RBRF before dividends are paid to the Commonwealth Government.

I agree in principle with this prudent approach and note that it is consistent with estimates in the 2011-12 Budget.

Consistent with the requirements of the *Reserve Bank Act 1959*, however, I note that I will need to provide formal approval of this approach prior to the determination of the Bank's dividends for each year.

I further agree to tabling of the Reserve Bank's Annual Report for 2011, its Equity & Diversity Annual Report for 2011, and the Payments System Board Annual Report for 2011, on 22 September 2011 with exact timing to be agreed.

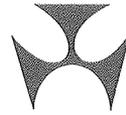
Yours sincerely



WAYNE SWAN

RECEIVED
27 SEP 2011

RESERVE BANK OF AUSTRALIA



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G.R. Stevens
GOVERNOR

13 July 2012

The Hon. Wayne Swan, MP
Deputy Prime Minister and Treasurer
Parliament House
CANBERRA ACT 2600

Dear Deputy Prime Minister,

RBA DISTRIBUTION 2011/12

The Reserve Bank's accounting profit is estimated at about \$1.1 billion in 2011/12, although the figure is yet to be finalised as year-end accounting and audit processes are on-going. In terms of section 30 of the *Reserve Bank Act 1959*, this sum is also available for distribution from the RBA's profits. The composition of the Bank's profits was: underlying earnings, mainly net interest income, of about \$685 million, an historically low level as interest rates around the world declined further from levels that were already low; realised valuation gains of \$405 million, primarily from the sale of foreign securities as market yields declined; and unrealised valuation losses of \$19 million. Earnings available for distribution in terms of the Act usually comprise the Bank's underlying earnings plus realised gains, with the unrealised valuation losses in 2011/12 representing a charge against these earnings, as the balance of the unrealised profits reserve has been exhausted by the valuation losses of previous years.

The Board seeks your approval to transfer all of the Bank's distributable earnings in 2011/12 to the Reserve Bank Reserve Fund (RBRF). This would be consistent with your earlier agreement to this approach to begin the process of restoring the balance of this reserve, which has been largely depleted by the losses of the previous two years. Your earlier 'in-principle' approval for this course was subject to your formal approval of any transfer each year, consistent with the requirements of the Reserve Bank Act. I now seek your formal approval for such a transfer, which would also be consistent with the Budget estimates.

If you were agreeable to such a transfer, the balance of the RBRF, the Bank's permanent capital, would stand at \$2.4 billion, a balance that remains significantly below a level appropriate for the risks held on the Bank's balance sheet in the medium term. The balance of this reserve was \$6.9 billion in June 2009, before the recent losses.

2.

The Bank is currently bringing to completion its financial statements for 2011/12. These will be considered by the Board in early August, following their review by staff of the Auditor-General. I expect that any revisions to current estimates will have no material impact. If revisions were material, I would advise accordingly in due course.

I am sending a copy of this letter to Dr Parkinson for his information.

Yours sincerely,

A handwritten signature in black ink, appearing to read "J. H. ...".



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TREASURER**

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Mr Glenn Stevens
Governor
Reserve Bank of Australia
GPO Box 3947
Sydney NSW 2001

Dear Governor,

Thank you for your letter of 13 July 2012, and our recent discussion, in which you advised that \$1.1 billion is available for distribution to the Commonwealth from the Reserve Bank's 2011-12 profits.

Consistent with long-standing practice, the Government believes it is appropriate that taxpayers receive a dividend from the Reserve Bank, where circumstances permit.

However, I agree it is prudent that the Reserve Bank work towards replenishing the Reserve Bank Reserve Fund, and for this reason should retain a portion of its 2011-12 profits.

I am writing to inform you of my decision, as we have discussed, to have a sum of \$500 million made available to the Commonwealth as a dividend, to be paid in the 2012-13 financial year.

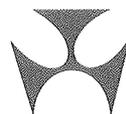
In accordance with the requirements of the *Reserve Bank Act 1959*, I hereby determine that the remaining profits available for distribution be transferred to the Reserve Bank Reserve Fund.

Yours sincerely

WAYNE SWAN



RESERVE BANK OF AUSTRALIA



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G.R. Stevens
GOVERNOR

10 April 2013

The Hon. Wayne Swan, MP
Deputy Prime Minister and Treasurer
Parliament House
CANBERRA ACT 2600

Dear Deputy Prime Minister

RBA EARNINGS 2012/13

We have recently provided Treasury with an estimate of the Bank's earnings in 2012/13 in preparation for the 2013/14 Budget. At the level of exchange rates and interest rates at end March, an accounting loss of \$189 million was projected, mainly reflecting substantial unrealised losses from the appreciation of the exchange rate over the financial year to date. If this proves to be the result at financial year-end, the loss would be absorbed by the Bank's capital, the Reserve Bank Reserve Fund (RBRF), and no earnings would be available to be paid as a dividend. I understand the Budget is being prepared on the assumption that no dividend will be paid. The risks around this projection are, of course, high and it is conceivable that the Bank will report either a larger loss or a profit, depending on whether the exchange rate rises or falls from its level in late March.

As you know, the RBRF has been substantially depleted by the Bank's losses of recent years resulting from the appreciation of the exchange rate. Despite a transfer from earnings in 2011/12 to the Reserve Bank Reserve Fund (RBRF), the balance of this reserve is well below the level the Board judges to be appropriate for market risks the Bank faces and which it has limited scope to control. A further loss in 2012/13 would aggravate this capital shortfall. It does remain possible, if the exchange rate were to depreciate, that the Bank might show a profit for the year and that earnings would be available either to be

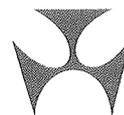
transferred to the RBRF or to be paid as a dividend. This possible scenario was discussed by the Board at its meeting earlier in April. The Board's strong view was that in the event a profit were recorded in 2012/13, it would be appropriate for all earnings available for distribution to be credited to the RBRF.

Accordingly, I write to seek your agreement, in principle, to such a transfer in these circumstances so that the Bank's financial statements might be prepared on this basis. In terms of the *Reserve Bank Act 1959*, any transfer to the RBRF would remain subject to your formal approval when the Bank's financial position for 2012/13 is actually known. The Board would normally approve the financial statements in early August, following their review by the Auditor-General. I will advise you of the results when they become available.

Yours sincerely

A handwritten signature in black ink, appearing to read "John R. Stewart". The signature is written in a cursive style with a large initial "J" and "S".

RESERVE BANK OF AUSTRALIA



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G.R. Stevens
GOVERNOR

11 July 2013

The Hon. Chris Bowen, MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

DISTRIBUTION OF RBA EARNINGS 2012/13

The Reserve Bank is expected to report an accounting profit of \$4.3 billion in 2012/13, compared to \$1.1 billion in the previous financial year. Although they are yet to be finalised with year-end accounting and audit work still on-going, it is likely that the audited disclosures will not vary much from the current estimates. The Bank's profit is composed of:

- Underlying earnings, mainly net interest income, of about \$724 million. In historical terms, underlying earnings are at a very low ebb reflecting the exceptionally low level of interest rates around the world during 2012/13.
- Realised valuation losses of \$135 million primarily from the maturity of domestic securities purchased at a premium that reflected the high coupon at which they were issued. The Bank purchased this stock for liquidity management purposes in preparation for its maturity late in the financial year. Taking account of the interest received while the bonds were held, the Bank earned a profit on this investment.
- Unrealised valuation gains of about \$3.7 billion, mainly from holdings of foreign exchange as the Australian dollar depreciated against the US dollar, euro, yen and Canadian dollar over the final months of the year.

Earnings available for distribution are calculated in accordance with section 30 of the *Reserve Bank Act 1959*. In terms of the Act, unrealised gains are not available for distribution, but are transferred to an unrealised profits reserve where they are retained

to absorb future valuation losses or until the gains are realised when the relevant assets are sold. Accordingly, \$3.7 billion of profits for 2012/13 will be transferred to the unrealised profits reserve. The remainder, which comprises underlying earnings net of realised losses, is available for distribution; this sum is currently estimated at \$589 million.

Also in terms of the Act, sums may be credited from distributable earnings to the Reserve Bank Reserve Fund (RBRF), as determined by the Treasurer after consulting the Board. The balance of earnings available for distribution after such a transfer is payable as a dividend to the Commonwealth.

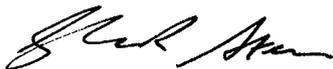
The RBRF is a permanent reserve established by the Reserve Bank Act. It is essentially the Bank's capital which, as with other financial institutions, is maintained to provide a capacity to absorb losses. This reserve was depleted by more than \$5.5 billion in 2009/10 and 2010/11 from large losses in those years resulting from the appreciation of the Australian dollar. The balance of this reserve remains substantially below the target set for it by the Board which is determined according to the risks held on the Bank's balance sheet. It is the Board's strong view that distributable earnings should be transferred in full to the RBRF, until it is replenished.

As you know, Mr Swan had agreed in principle that distributable earnings in 2012/13 would be transferred in full to the RBRF. This approach would be consistent with the Budget estimates. In terms of the Act, however, such a transfer is subject to the formal approval of the Treasurer each year. Accordingly, I seek your formal approval to credit to the RBRF all earnings available for distribution from the Bank's profits in 2012/13, a sum currently estimated at \$589 million. In that event, no dividend would be payable. If you were agreeable to this, the balance of RBRF would stand at \$2.5 billion, still about \$4.1 billion short of the Board's target relative to balance sheet risk.

As noted, the Bank is currently bringing to completion its financial statements for 2012/13. These will be considered by the Board in early August, following their review by staff of the Auditor-General. I expect that any revisions to current estimates will have no material impact. If, however, audited disclosures were materially different, I would advise accordingly in due course.

I am sending a copy of this letter to Dr Parkinson for his information.

Yours sincerely,





TREASURER

Mr Glenn Stevens
Governor
Reserve Bank of Australia
GPO Box 3947
Sydney NSW 2001

Dear Governor

Thank you for your letter of 11 July 2013 notifying me of the Reserve Bank of Australia's estimated accounting profit and earnings available for distribution for the 2012-13 financial year.

In line with your recommendation, and in accordance with the requirements of the *Reserve Bank Act 1959*, I hereby determine that all of the RBA's net profits for 2012-13 available for distribution are to be credited to the Reserve Bank Reserve Fund.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Chris Bowen', written over a faint, larger version of the signature.

CHRIS BOWEN

29 JUL 2013

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