

# Governance

The activities undertaken by the Reserve Bank in fulfilment of its functions and objectives are overseen by two boards and several key permanent committees.

## Reserve Bank Board

The Reserve Bank Board has responsibility for monetary policy and financial stability, as well as a range of other statutory obligations. The Board comprises the Governor (Chairman), Deputy Governor (Deputy Chairman), Secretary to the Treasury and six external members appointed by the Treasurer, a total of nine. Two members completed terms on the Board during the past year; the resolution passed by the Board on the occasion of the departure of Ric Battellino and Graham Kraehe from the Board is shown on page 11. Members of the Board during 2011/12 are shown below and on pages 9–10.

The Board meets 11 times a year, on the first Tuesday of each month except in January. Five members form a quorum.

Most meetings are held at the Head Office in Sydney. From time to time, Board meetings are held in Reserve Bank offices in other Australian capitals. During the year in review, the September 2011 meeting was held in Perth and the April 2012 meeting was held in Melbourne.

The Board has an Audit Committee and a Remuneration Committee.

## Payments System Board

The responsibilities of the Payments System Board are set out in the *Reserve Bank Act 1959*. In particular, the Act requires the Board to determine the Reserve Bank's payments system policy so as to best contribute to:

- controlling risk in the financial system
- promoting the efficiency of the payments system
- promoting competition in the market for payment services, consistent with the overall stability of the financial system.

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

## Board Meetings in 2011/12 – Attendance by Members<sup>(a)</sup>

Glenn Stevens	11	(11)
Ric Battellino <sup>(b)</sup>	7	(7)
Philip Lowe <sup>(c)</sup>	4	(4)
Martin Parkinson <sup>(d)</sup>	10	(11)
John Akehurst	10	(11)
Jillian Broadbent	10	(11)
Roger Corbett	10	(11)
John Edwards <sup>(e)</sup>	10	(10)
Graham Kraehe <sup>(f)</sup>	7	(7)
Warwick McKibbin <sup>(g)</sup>	1	(1)
Heather Ridout <sup>(h)</sup>	4	(4)
Catherine Tanna	11	(11)

- (a) Figures in brackets show the number of meetings each member was eligible to attend during the year in review
- (b) Ric Battellino's term as a member ended on 13 February 2012
- (c) Philip Lowe's term on the Board commenced on 14 February 2012, following his appointment as Deputy Governor
- (d) David Gruen (Executive Director (Domestic) Macroeconomic Group, Australian Treasury) attended one meeting in place of Martin Parkinson, in terms of section 22 of the *Reserve Bank Act 1959*
- (e) John Edwards' term on the Board commenced on 31 July 2011
- (f) Graham Kraehe's term as a member ended on 13 February 2012
- (g) Warwick McKibbin's term as a member ended on 30 July 2011, as noted in the 2011 Annual Report
- (h) Heather Ridout's term on the Board commenced on 14 February 2012

## 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. Further, by law, members must meet the general obligations of directors of statutory authorities, as set out in the *Commonwealth Authorities and Companies Act 1997* (CAC Act). The CAC Act sets standards of conduct for directors and officers of Commonwealth authorities. Directors must:

- discharge their duties with care and diligence
- act in good faith, and in the best interests of the Reserve Bank
- not use their position to benefit themselves or any other person, or to cause detriment to the Reserve Bank or any person
- not use 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 person
- declare any material personal interest where a conflict arises with the interests of the Reserve Bank.

Over and above these legislated 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 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; a copy of the Code is on the Bank's website.

Members of the Payments System Board have adopted a Code of Conduct in substantially the same terms, which is also on the Bank's website.

## Audit Committee

The objectives of the Audit Committee of the Reserve Bank Board are to:

- ensure that both the internal and external audit processes are effective and carried out to a very high standard
- assist the Governor and the Board in fulfilling their obligations relating to financial reporting, compliance with laws and regulations, internal control and risk assessment, employee conflicts of interest, business ethics and prevention of fraud.

Jillian Broadbent has been Chairman of the Audit Committee since August 2008. Other members of the Committee are Roger Corbett, a member of the Reserve Bank Board, and Michael Coleman and Terry Williamson, both of whom are company directors and former senior audit partners of major accounting firms who have extensive control experience in the financial sector. Mr Coleman succeeded Mr Battellino, who retired from the position of Deputy Governor and from the Audit Committee in February 2012.

During 2011/12, the Audit Committee met on four occasions. The Committee also meets, at least annually, with the external auditors in the absence of management. At its meetings in July and August 2012, the Committee considered the draft consolidated financial statements for the Reserve Bank for the year ended 30 June 2012 and agreed that the statements be presented to the Reserve Bank Board with its endorsement.

## Remuneration Committee

The Reserve Bank Board also has a Remuneration Committee, which 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 at present comprises Roger Corbett (Chairman), Jillian Broadbent

and Catherine Tanna. Ms Tanna succeeded Graham Kraehe as a member of the Remuneration Committee following Mr Kraehe's retirement from the Board in February 2012. The Committee meets as often as necessary, but at least twice each year.

Early in the year in review, the offices of Governor and Deputy Governor were declared 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 and allowances) 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 Committee communicates with the Remuneration Tribunal as required.

In accordance with section 21A of the Reserve Bank Act, the Governor and Deputy Governor are not present during deliberations and do not take part in decisions of the Remuneration Committee or the Board relating to the determination or application of any terms or conditions on which they hold office. The Remuneration Committee is also kept informed of the remuneration arrangements for Reserve Bank staff.

Remuneration and allowances for the non-executive members of the Reserve Bank Board are determined by the Remuneration Tribunal.

## **Executive Committee**

The Executive Committee is the key decision-making committee of the Reserve Bank for matters of an administrative and management nature. Its role is to assist and support the Governor in fulfilling his responsibilities under the Reserve Bank Act to manage the Bank. The Committee, which is chaired by the Governor and comprises the Bank's most senior executives, meets weekly.

## **Risk Management Committee**

The Risk Management Committee of the Reserve Bank has responsibility for ensuring that non-policy risks are properly identified and managed across the Bank in accordance with its Risk Management Policy. The Committee, which is chaired by the Deputy Governor and comprises senior executives drawn mainly from the operational areas of the Bank, meets quarterly.

## **Indemnities for Members of Boards**

Members of the Reserve Bank Board and the Payments System Board have been indemnified in accordance with section 27M of the CAC Act against liabilities incurred by reason of their appointment to the relevant Board or by virtue of holding and discharging such office.

