

Governance of the Reserve Bank

The Reserve Bank's activities are overseen by the Reserve Bank Board and the Payments System Board as well as several high-level committees. The Reserve Bank Board is responsible for monetary policy and other policy matters, except those relating to the payments system, which are the responsibility of the Payments System Board.

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 external members appointed by the Treasurer, a total of nine. Members of the Board during 2014/15 are shown below and details of their qualifications and experience are provided on pages 12–18.

The Board meets 11 times a year, on the first Tuesday of each month except January. Five members form a quorum for a meeting of the Board. In terms of the *Reserve Bank Act 1959*, 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.

Most meetings are held at the Reserve Bank's Head Office in Sydney. Twice in each calendar year, meetings are held in other Australian cities, usually once in Melbourne and once in another location. In 2014/15, the Board met in Adelaide in September 2014 and in Melbourne in March 2015.

The Board has an Audit Committee and a Remuneration Committee. The Governor and Board reviewed and amended the charter of the Audit Committee in 2014/15 to ensure its consistency

with the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and Rules made under the PGPA Act.

Board Meetings in 2014/15 Attendance by Members

	No. of meetings attended	No. of meetings eligible to attend
Glenn Stevens (Governor)	11	11
Philip Lowe (Deputy Governor)	11	11
Martin Parkinson (Secretary to the Treasury) ^(a)	5 ^(b)	6
John Fraser (Secretary to the Treasury) ^(c)	5	5
John Akehurst	10	11
Roger Corbett	10	11
John Edwards	11	11
Kathryn Fagg	11	11
Heather Ridout	11	11
Catherine Tanna	11	11

(a) Martin Parkinson's term on the Board ended on 12 December 2014

(b) Jenny Wilkinson (Acting Executive Director (Domestic), Macroeconomic Group, Australian Treasury) attended the October 2014 meeting in place of Martin Parkinson, in terms of section 22 of the *Reserve Bank Act 1959*

(c) John Fraser's term on the Board commenced on 15 January 2015



The Reserve Bank's boardroom in the Sydney Head Office building

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:

- 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 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 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 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 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.

During 2014/15, the Code of Conduct for Reserve Bank Board members was revised to provide greater clarity around the restrictions on members' ability to undertake financial transactions for their own account or participate in decisions regarding financial transactions in relation to their business or other interests. This followed a request by members for the Code to ensure consistency in the restrictions applying to the Governor and Deputy Governor (in terms of their adherence to the Code of Conduct for Bank staff), the Secretary to the Treasury (in terms of a voluntary set of arrangements) and the other members, in particular in the period between the receipt of Board papers and the announcement of the monetary policy decision after each Board meeting. A copy of the Code of Conduct for Reserve Bank Board members is on the Bank's website.

Audit Committee

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

- preparing the annual report, including a report of operations, a performance statement (from 2016) 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 Roger Corbett AO, 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 experience in the finance sector. Consistent with contemporary governance standards, no Bank executive is a member of the Audit Committee. Representatives of the Bank's internal and external auditors are expected to 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 2014/15, the Audit Committee met on four occasions. At its July 2015 meeting, the Committee considered the draft consolidated financial statements for the Reserve Bank for the year ended 30 June 2015 and agreed that the statements be presented to the Governor and the Reserve Bank

Audit Committee Meetings in 2014/15 Attendance by Members

	No. of meetings attended	No. of meetings eligible to attend
John Akehurst ^(a)	4	4
Michael Coleman	3	4
Roger Corbett ^(a)	4	4
Terry Williamson	4	4

(a) Member of the Reserve Bank Board

Board with its endorsement. The Committee meets at least annually with the external auditors without management present; in respect of 2014/15 this occurred immediately following the July 2015 meeting.

Remuneration Committee

The Remuneration Committee of the Reserve Bank Board is 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 Roger Corbett AO (Chair), John Edwards and Catherine Tanna. The Committee met on three occasions during 2014/15.

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

Remuneration Committee Meetings in 2014/15 Attendance by Members

	No. of meetings attended	No. of meetings eligible to attend
Roger Corbett	3	3
John Edwards	3	3
Catherine Tanna	3	3

Remuneration and Allowances

Remuneration and travel allowances for the non-executive members of the Reserve Bank Board are set by the Remuneration Tribunal. In December 2014, the Remuneration Tribunal issued a formal determination in respect of the level of fees for members of the Audit Committee who were also members of the Board, which entailed an increase in the applicable fees to the A1 tier in the Tribunal’s framework. The Board resolved that the new fee tier would apply to all members of the Audit Committee, in line with the Bank’s longstanding practice of paying all Audit Committee members the same remuneration. Membership of the Remuneration Committee is not remunerated.

Induction of Board Members

The induction program assists newly appointed Board members in understanding 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 of members.

Executive Committee

The Executive Committee is the key decision-making committee of the Reserve Bank for matters of an administrative and management 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 2014/15 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 covered in the chapter on 'Risk Management'.

Policy Risk Management Framework and Board Review

During 2014, the key risks inherent in the consideration of monetary policy, for which the Reserve Bank Board is responsible, were confirmed and a formal risk register that codified these risks was finalised early in 2015.

The Reserve Bank Board conducted a review of its operation and processes towards the end of 2014, which concluded that these were functioning effectively.

Indemnities for Members of Boards and Senior Staff

During 2014/15, members of the Reserve Bank Board and 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 2014/15 were indemnified in substantially similar terms.

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 executives 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) continue.

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 2014/15.

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. In August 2015, annual reports were also presented to the Board covering matters relating to work health and safety in the Bank and its Anti-Money Laundering and Counter-Terrorism Financing Program.