

Governance

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Payments System Board

The Payments System Board has responsibility for the Bank's payments system policy. The Board comprises the Governor, who is the Chair; one representative of the Bank appointed by the Governor, who is the Deputy Chair; one representative of the Australian Prudential Regulation Authority (APRA) appointed by APRA; and up to five other members appointed by the Treasurer for terms of up to five years. Members of the Board during 2017/18 are shown below and details of the qualifications and experience of members are provided on pages 9 to 15.

Meetings of the Payments System Board

The Reserve Bank Act 1959 does not stipulate the frequency of Board meetings. Since its inception, the Board's practice has been to meet at least four times a year and more often as needed. Four meetings were held in 2017/18, all at the Bank's Head Office in Sydney. Five members form a quorum at a meeting of the Board or are required to pass a written resolution.

Conduct of Payments System Board Members

On appointment to the Payments System 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 Bank.

Table 1: Board Meetings in 2017/18
Number of meetings

	Attended	Eligible
Philip Lowe (Governor)	4	4
Michele Bullock (RBA)	4	4
Wayne Byres (APRA)	4	4
Gina Cass-Gottlieb	4	4
Paul Costello	3	4
Deborah Ralston	4	4
Catherine Walter	4	4
Brian Wilson	4	4

Members of the Board must comply with their statutory obligations in that capacity. The main sources of those obligations are the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and the Reserve Bank Act. Their obligations under the PGPA Act include 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 Bank or any other person. 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. Members may give standing notice to other members outlining the nature and extent of a material personal interest.

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 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; a copy of the Code is on the Bank's website. Following review of the Code of Conduct by the Board in August 2018, some minor drafting changes proposed by management were endorsed.

Remuneration and Allowances

Remuneration and travel allowances for the non-executive members of the Payments System Board are set by the Remuneration Tribunal.

Induction of Board Members

An induction program assists newly appointed Board members in understanding their role and responsibilities, and provides them with an overview of the Bank's role in the payments system and details of relevant developments in preceding years. Separate briefing sessions are tailored to meet particular needs or interests.

Policy Risk Management Framework and Board Review

Towards the end of 2017, the Board conducted its annual review of the key risks inherent in the consideration of payments policy and the payments policy risk register and control framework. Some minor changes were made to the risk register, in relation to the need to ensure recruitment and retention of staff of sufficient quality and expertise, and the ability of staff with responsibilities for payments policy to draw on specialist IT expertise in other parts of the Reserve Bank. The control framework

was assessed to be operating effectively and managing risks adequately.

At the same time, the Board conducted its annual review of its own operation and processes. It concluded that Board processes were functioning effectively. Members acknowledged the importance of finding means for the Board to acquire knowledge of emerging payments issues, specifically digital disruption.

Indemnities

Members of the Payments System Board are indemnified against liabilities incurred by reason of their appointment to the 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. A revised form of the indemnity for new members of both the Reserve Bank Board and the Payments System Board, which continues to reflect the substance of the previous CAC Act restrictions, was approved by the Reserve Bank Board in March 2017.

As the 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 2017/18.

Conflict of Interest Audit

The Bank has several distinct areas of responsibility in the Australian payments system: it owns, operates and participates in Australia's real-time gross settlement (RTGS) system, the Reserve Bank Information and Transfer System (RITS); it is a provider of transactional banking

services to the Australian Government and its agencies; and it is the principal regulator of the payments system through the Board. This combination of functions is conventional internationally. The operation of the high-value payment system is a core central banking function in most major economies. In addition, central banks in the advanced economies typically have regulatory responsibilities for the payments system (though the breadth of mandates varies) and most also provide banking services to government.

While the various functions are conceptually distinct, their existence in the one institution may give rise to concerns about actual or perceived conflicts of interest. The Board and the senior management of the Bank take very seriously the possibility of any perception that the Bank's policy and operational roles may be conflicted, especially since this could undermine public confidence in the regulatory and policy process.

Accordingly, the Bank has policies in place for avoiding conflicts and dealing with them when they do occur. The Board has formally adopted a policy on the management of conflicts of interests, which is published on the Bank's website.¹ In May 2018, the Board approved changes to the Bank's policy on the management of conflicts of interests following discussion of a set of arrangements to govern the Bank's ongoing engagement with NPP Australia Ltd (NPPA). Details of the steps taken to achieve compliance with the conflicts policy, including the minutes of informal meetings between departments, are audited annually, with the results presented to the Board. The most recent audit was conducted in July 2018 and reviewed by the Board in August 2018.

In the case of the Bank's oversight of RITS, the Board plays a governance role in managing conflicts of interest. In particular, while an internal financial market infrastructure (FMI) Review Committee has the formal responsibility to review and approve assessments of other FMIs, the Board retains primary responsibility for approving the staff's periodic assessments of RITS.

¹ Available at <<http://www.rba.gov.au/payments-and-infrastructure/payments-system-regulation/conflict-of-interest.html>>

