

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. Under the *Reserve Bank Act 1959*, 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. Attendance by members at meetings of the Board during 2017/18 is shown opposite and members' qualifications and experience are provided on pages 15–26.

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



The Reserve Bank Board with members of staff; (clockwise from centre) Board members Governor Philip Lowe, Deputy Governor Guy Debelle, Catherine Tanna, Treasury Secretary Philip Gaetjens, Ian Harper, Carol Schwartz AM, Anthony Dickman (Reserve Bank Secretary), Mark Barnaba AM, Wendy Craik AM, Allan Moss AO; staff members: Christopher Kent (Assistant Governor, Financial Markets) and Luci Ellis (Assistant Governor, Economic); (back row) Andrea Brischetto (Deputy Secretary), Alex Heath (Head of Economic Analysis Department) and Ellis Connolly (Deputy Head of Domestic Markets Department), August 2018

Board Meetings – 2017/18

Attendance by members

	No. of meetings attended	No. of meetings eligible to attend
Philip Lowe (Governor)	11	11
Guy Debelle (Deputy Governor)	11	11
John Fraser (Secretary to the Treasury)	9 ^(a)	11
John Akehurst ^(b)	2	2
Mark Barnaba ^(c)	8	9
Wendy Craik ^(d)	1	1
Kathryn Fagg ^(e)	10	10
Ian Harper	11	11
Allan Moss	11	11
Carol Schwartz	9	11
Catherine Tanna	11	11

(a) (Nigel Ray (Deputy Secretary, Macroeconomic Group, Australian Treasury) attended the December 2017 and June 2018 meetings in place of John Fraser, in terms of section 22 of the Reserve Bank Act

(b) John Akehurst's term on the Board ended on 30 August 2017

(c) Mark Barnaba's term on the Board commenced on 31 August 2017

(d) Wendy Craik's term on the Board commenced on 7 May 2018

(e) Kathryn Fagg's term on the Board ended on 6 May 2018

Source: RBA

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 interstate meetings during 2017/18 were in Brisbane in September 2017 and in Adelaide in May 2018.

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 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 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. Following a review of the Code of Conduct by the Board in June 2018, some minor drafting changes were agreed.

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.

Audit Committee Meetings – 2017/18

Attendance by members

	No. of meetings attended	No. of meetings eligible to attend
John Akehurst ^{(a)(b)}	1	1
Sandra Birkensleigh	4	4
Rahoul Chowdry ^(c)	2	2
Michael Coleman ^(d)	2	2
Kathryn Fagg ^{(a)(e)}	3	3
Allan Moss ^{(a)(f)}	3	3

(a) Member of the Reserve Bank Board

(b) John Akehurst's term on the Audit Committee ended on 30 August 2017

(c) Rahoul Chowdry's term on the Audit Committee commenced on 14 February 2018

(d) Michael Coleman's term on the Audit Committee ended on 13 February 2018

(e) Kathryn Fagg's term on the Audit Committee ended on 6 May 2018

(f) Allan Moss's term on the Audit Committee commenced on 31 August 2017

Source: RBA

Membership of the Audit Committee is comprised of two non-executive members of the Reserve Bank Board, one of whom chairs the committee, and two external members, typically former senior audit partners of major accounting firms with extensive experience in auditing in the finance sector. Attendance by members at meetings of the Audit Committee during 2017/18 is shown below and members' qualifications and experience are provided on pages 27–29.

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 on a regular basis or as required.

During 2017/18, the Audit Committee met on four occasions. At its July 2018 meeting, the committee considered the draft consolidated financial statements for the Reserve Bank for the year ended 30 June 2018 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; in respect of 2017/18, this occurred immediately following the July 2018 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 Catherine Tanna (Chair), Ian Harper and Carol Schwartz. During 2017/18, 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. 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 – 2017/18

Attendance by members

	No. of meetings attended	No. of meetings eligible to attend
Catherine Tanna	3	3
Ian Harper	3	3
Allan Moss ^(b)	1	1
Carol Schwartz ^(a)	1	2

(a) Carol Schwartz's term on the Remuneration Committee commenced on 31 August 2017

(b) Allan Moss's term on the Remuneration Committee ended on 30 August 2017

Source: RBA

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.

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 of members.

Policy Risk Management Framework and Board Review

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. Operational

risks are managed by executives in terms of the Reserve Bank's risk management framework, as discussed in the chapter on 'Risk Management'.

Towards the end of 2017, 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 monetary policy risk control framework had continued to operate effectively.

At the same time, the Reserve Bank Board conducted its annual review of its own operation and processes, based on a survey of Board members. It concluded that Board processes were functioning effectively. The Board agreed that the special topics for discussion at several meetings in 2017, which had allowed the Board to spend more time on medium-term issues relevant to monetary policy, had been valuable. The performance of the Board's Audit and Remuneration committees is assessed as part of the annual review 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. 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 2017/18, the Risk Management Committee met on six occasions and kept the Executive Committee and Reserve Bank Board Audit Committee informed of its activities. Details of the Reserve Bank's risk management framework are provided in the chapter on 'Risk Management'.

Note Printing Australia Limited

Note Printing Australia Limited (NPA) is a wholly owned subsidiary of the Reserve Bank operating under a charter reviewed and approved annually by the Reserve Bank Board. NPA's prime function is the efficient and cost-effective production of high-quality and secure Australian banknotes, in accordance with specifications and requirements set by the Reserve Bank. NPA is governed by a board of directors appointed by the Reserve Bank. As at the date of this report, the NPA Board comprised four Reserve Bank executives and one former member of the Reserve Bank Board: Chris Aylmer (Head of Risk and Compliance Department) as Chair; Michelle McPhee (Head of Banking Department); Robert Middleton-Jones (Chief Financial Officer); Greg Johnston (Head of Payments Settlements Department); and Kathryn Fagg, a former member of the Reserve Bank Board. The NPA Board has an Audit and Risk Committee, whose membership comprises Michelle McPhee (Chair), Robert Middleton-Jones and an external member, Alan Beckett, a company director and former senior audit partner of a major accounting firm with extensive

experience in the corporate sector, including manufacturing.

More detail about the activities and operational structure of NPA is provided in the chapters on 'Banknotes' and 'Operational Structure'.

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. A revised form of the indemnity for new members of both boards, which continues to reflect the substance of the previous CAC Act restrictions, was approved by the Reserve Bank Board in March 2017. In December 2017, the Reserve Bank Board approved indemnities being given to members of the Audit Committee who are not also members of the Reserve Bank Board on substantially the same terms as the indemnities given to Board members.

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 relation to events on or after 1 April 2017, the Bank's policy on assistance to staff for legal proceedings applies. This 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).

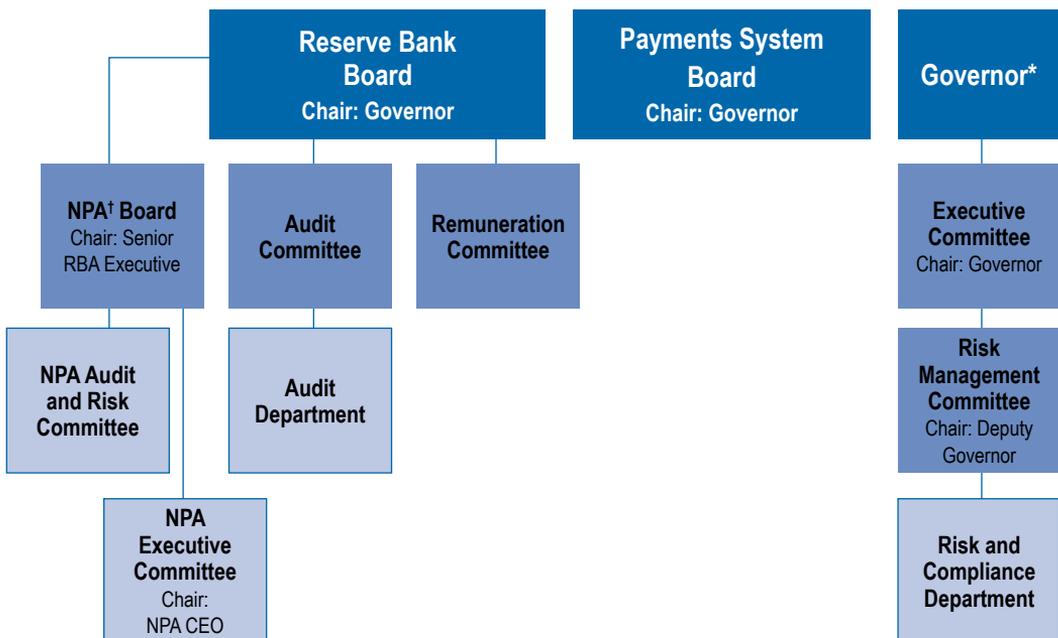
As the Reserve Bank does not take out directors' and officers' insurance in relation to members of its boards or other officers, no premiums were paid for any such insurance in 2017/18.

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 2017/18 were provided to the Board at its August 2018 meeting.

Reserve Bank of Australia Governance Structure

August 2018



† 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*.