Reserve Bank of Australia
Annual Report

2020

RESERVE BANK OF AUSTRALIA

RESERVE BANK OF AUSTRALIA

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15 September 2020

The Hon Josh Frydenberg MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

RESERVE BANK OF AUSTRALIA ANNUAL REPORT 2020

In accordance with section 46 of the *Public Governance, Performance and Accountability Act 2013*, I am pleased to submit the Reserve Bank's Annual Report for 2020 for presentation to the Parliament.

Yours sincerely

Reserve Bank of Australia

Annual Report 2020

Contents

This report is available electronically in PDF and HTML formats on the Reserve Bank’s website: <www.rba.gov.au/publications/annual-reports/rba/index.html>.

The Reserve Bank welcomes comments on this report. Feedback and enquiries about any aspect of this report may be directed to:

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Governor's Foreword

The past year has been a challenging one in the life of the nation. We have experienced a global pandemic and the largest economic contraction since the Great Depression of the 1930s. While Australia has dealt with the health and economic challenges better than most other countries, it has been a difficult time.

There has been an unprecedented and coordinated economic policy response to the pandemic in Australia. The Government, the Reserve Bank and Australia's financial regulators and institutions have worked very closely together to build a bridge to the recovery. That bridge is helping many people and businesses now and means that Australia should be well placed for the recovery.

As part of the Reserve Bank's efforts to support the economy, interest rates have been reduced to the lowest level on record and low-cost funding arrangements have been put in place for Australia's financial institutions. The Bank also adopted a target for the 3-year Australian Government bond yield for the first time. The strategy is to ensure that funding costs are very low right across the economy and that credit is available to businesses, especially small and medium-sized businesses. The Bank will maintain its accommodative approach as long as it is required.

The economic outlook remains highly uncertain and is dependent upon the efforts to contain the virus. It is likely, though, that Australia will experience relatively high unemployment over the next couple of years and that inflation will be below target. Addressing the high rate of unemployment will be an important national priority. This will require ongoing support to aggregate demand through fiscal and monetary stimulus. Structural reforms that help Australia be a great place for businesses to invest, innovate, expand and hire people also have an important role to play.

Like everyone in Australia, the Reserve Bank has adjusted to doing things differently this year. Since mid March, around 90 per cent of the Bank's staff have been working from home and all meetings, including the Board meetings, have been held by videoconference. The Bank staff have done an amazing job adjusting to this changed way of working. Among other things, they have made sure that our banking and payment systems have operated as normal, processing record numbers of payments as part of the Government's support packages.

The Reserve Bank remains committed to being open, transparent and accountable. We have continued to produce our regular flagship publications on monetary policy and financial stability. We have held virtual speeches and participated in online events to explain our decisions and to answer questions. We are also continuing to invest in public education resources for students and teachers of economics.

Both prior to and during the pandemic, a priority for the Reserve Bank has been to invest in our banking and payment systems to make sure that they are secure, stable and efficient. We are also focusing on how we can best benefit from the larger and more complex sources of data that are now available.

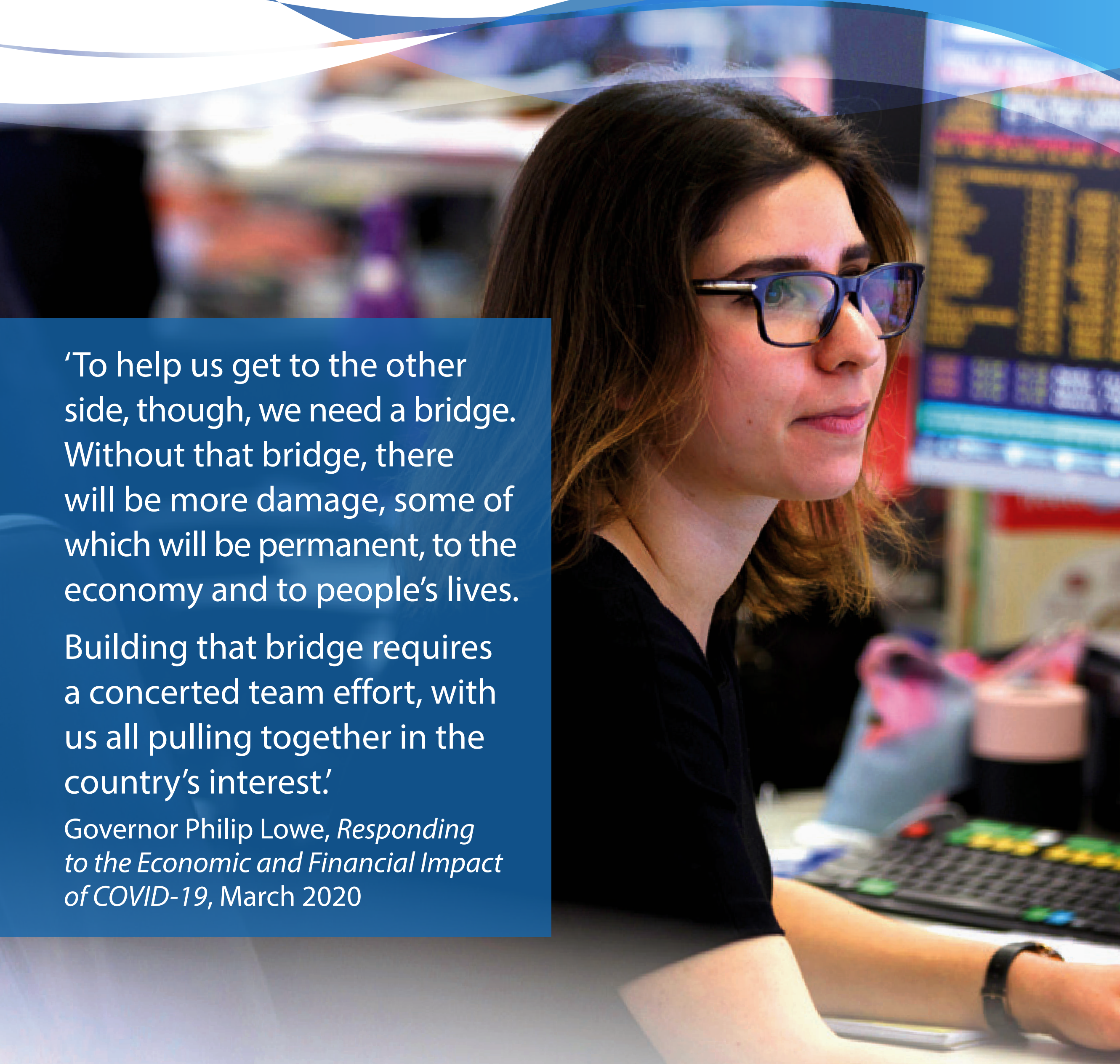
There has been record demand for banknotes this year as many people want to keep a little more cash around, while at the same time using banknotes less for day-to-day purchases. The Reserve Bank has met this record demand for banknotes despite the logistical challenges posed by the pandemic. Last October, we issued a new $20 banknote as part of our efforts to keep Australia's banknotes safe and secure. Through the Payments System Board, we are also continuing to support the shift to electronic payments, focusing on the public interest benefits from having a system that is secure, reliable and low cost and offers a wide range of payment options.

Our core value of serving the public interest has been very much on display by the Reserve Bank's staff over the past year. The staff have worked tirelessly and have played a critical role in building the bridge to the recovery. The Reserve Bank Board joins me in thanking all the staff for their dedication and their effort to support the Australian community through a very difficult period.

Philip Lowe
Governor
7 September 2020

Part 1:

About the Reserve Bank



‘To help us get to the other side, though, we need a bridge. Without that bridge, there will be more damage, some of which will be permanent, to the economy and to people’s lives.

Building that bridge requires a concerted team effort, with us all pulling together in the country’s interest.’

Governor Philip Lowe, *Responding to the Economic and Financial Impact of COVID-19*, March 2020

Our Role

The Reserve Bank is Australia's central bank, as established under legislation. The Bank has five broad responsibilities:

- determine and implement monetary policy in pursuit of price stability and full employment
- foster the stability of the financial system
- support a secure, stable and efficient payments system
- deliver efficient and effective banking services to the Australian Government
- provide secure and reliable Australian banknotes.

The Bank's mission is to promote the economic welfare of the Australian people through our monetary and financial policies and operations. Our vision is to be a world-leading central bank that is trusted for our analysis, service delivery and policies. As part of its strategic plan, the Bank has six strategic focus areas, which are outlined further in the Bank's Corporate Plan for 2020/21 to 2023/24.[1] The most important focus area is for the Bank to support the Australian economy in the wake of the COVID-19 pandemic. The other focus areas strengthen the capability of the Bank to deliver on its mission and key objectives successfully. The pursuit of our mission is also supported by our core values of promoting the public interest, integrity, excellence, intelligent inquiry and respect.

1 See <https://www.rba.gov.au/about-rba/corporate-plan.html>.

Price Stability and Full Employment

The Bank's responsibility for monetary policy is set out in section 10(2) of the *Reserve Bank Act 1959*, which states:

It is the duty of the Reserve Bank Board, within the limits of its powers, to ensure that the monetary and banking policy of the Bank is directed to the greatest advantage of the people of Australia and that the powers of the Bank … are exercised in such a manner as, in the opinion of the Reserve Bank Board, will best contribute to:

(a) the stability of the currency of Australia;

(b) the maintenance of full employment in Australia; and

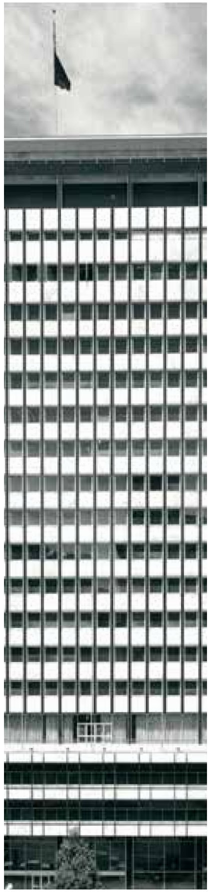
(c) the economic prosperity and welfare of the people of Australia.

Policies in pursuit of these objectives have found practical expression in a flexible, medium-term inflation target, which has formed the basis of Australia's monetary policy framework since the early 1990s. The policy objective is for consumer price inflation to average between 2 and 3 per cent over time. By achieving this objective, the Reserve Bank can help promote sustainable economic growth and employment.

The seventh *Statement on the Conduct of Monetary Policy*, agreed by the Treasurer and the Governor on 19 September 2016, records the common understanding of the government and the Reserve Bank on key aspects of the monetary policy framework. This update of the statement confirmed the monetary policy framework in

Reserve Bank of Australia Strategic Plan

August 2020



RESERVE BANK OF AUSTRALIA

Mission

To promote the economic welfare of the Australian people through our monetary and financial policies and operations

Key Objectives

- Price stability and full employment
- The stability of the financial system
- A secure, stable and efficient payments system
- The delivery of efficient and effective banking services to the Australian Government
- The provision of secure and reliable banknotes

Vision

To be a world-leading central bank that is trusted for our analysis, service delivery and policies

Strategic Focus Areas

- Support the Australian economy in the wake of COVID-19
- Support the evolution of payments
- Attract and maintain a high-quality and innovative workforce
- Strengthen the resilience of technology services
- Harness the power of data
- Ensure we communicate effectively in a changing world

Values

Promoting the public interest, integrity, excellence, intelligent inquiry and respect

Australia, explicitly recognising that it is appropriate for the Reserve Bank Board to take account of financial stability considerations in determining the appropriate setting of monetary policy.

The Reserve Bank conducts operations in domestic and international financial markets and undertakes analysis in support of its monetary policy objectives. The Bank ensures that there is sufficient liquidity in the domestic money market on a daily basis. The Bank also operates in the foreign exchange market to meet the foreign exchange needs of its clients (the largest of which is the Australian Government) and to assist with liquidity management in domestic markets. It holds and manages Australia's foreign currency reserves, and has the capacity to intervene in the foreign exchange market to address any apparent dysfunction in that market or significant misalignment in the value of the currency, consistent with the objectives of monetary policy.

The Stability of the Financial System

The Reserve Bank works with other regulatory agencies in Australia to foster overall financial stability, which is an important underpinning of a stable macroeconomic environment.

The Governor chairs the Council of Financial Regulators (CFR), a non-statutory coordinating body for Australia's main financial regulatory agencies, whose role is to promote the stability of the Australian financial system and support effective and efficient regulation by the financial regulatory agencies. Its members – the Reserve Bank, the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission and the Australian Treasury – seek to identify issues that could affect financial stability, coordinate preparation for and responses to episodes of financial instability, and discuss financial regulation more generally.

Australia's financial stability policy framework includes mandates for financial stability for both APRA and the Reserve Bank. APRA is responsible for the prudential supervision of financial institutions, through which it promotes financial system stability. The Bank is responsible for promoting overall financial system stability. In the event of a financial system disturbance, the Bank and relevant agencies work to mitigate the risk of systemic consequences. The Bank's responsibility to promote financial stability does not equate to a guarantee of solvency for financial institutions and the Bank does not see its balance sheet as being available to support insolvent institutions. Nevertheless, the Bank's central position in the financial system – and its position as the ultimate provider of liquidity to the system – gives it a key role in financial crisis management, in conjunction with the other members of the CFR.

A Secure, Stable and Efficient Payments System

The Reserve Bank has responsibility for ensuring the stability, efficiency and competitiveness of the payments system through the Payments System Board, which was established in 1998. The Bank's powers in relation to the payments system are set out in a number of statutes, including the Reserve Bank Act, the *Payment Systems (Regulation) Act 1998* and the *Payment Systems and Netting Act 1998*. Under the *Corporations Act 2001*, the Bank, through the Payments System Board, has responsibility for determining financial stability standards for licensed clearing and settlement facilities and assessing facilities' compliance with those standards.

The Reserve Bank also has an operational role in the payments system, as owner and operator of Australia's high-value real-time gross settlement system – the Reserve Bank Information and Transfer System (RITS). The Fast Settlement

Service of RITS settles obligations arising from individual payments exchanged on the New Payments Platform in real time on a 24/7 basis. A separate area of the Bank assesses RITS against international standards for such infrastructure on an annual basis.

The Delivery of Efficient and Effective Banking Services to the Australian Government

Insofar as the Commonwealth of Australia requires it to do so, the Reserve Bank must act as banker for the Commonwealth. The Reserve Bank's banking services fall into two components – those services provided in its capacity as the central bank and those transactional banking services it provides to Australian Government agencies. In common with many other central banks, the Bank also provides banking and custody services to a number of overseas central banks and official institutions. The banking services offered to the Australian Government and other central banks include payments and collections as well as general account maintenance and reporting.

The Provision of Secure and Reliable Banknotes

The Reserve Bank is responsible for the issue, reissue and cancellation of Australian banknotes. Its primary purpose in carrying out this role is to maintain the capacity of Australian banknotes to provide a safe, secure and reliable means of payment and store of value. The Bank works with its wholly owned subsidiary, Note Printing Australia Limited (NPA), to design and produce banknotes. NPA also produces banknotes for other countries and Australia's passports. The Bank distributes banknotes to financial institutions, monitors and maintains banknote quality in circulation and withdraws unfit banknotes from circulation. It also monitors and analyses counterfeiting trends and conducts research into banknote security technology.

Governance and Accountability

The Reserve Bank is an independent central bank, accountable to the Parliament of Australia. The 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.

Governance

The Reserve Bank is a body corporate distinct from the Commonwealth of Australia. This body corporate, established under the *Commonwealth Bank Act 1911* and continued in existence under the *Commonwealth Bank Act 1945*, was preserved and continued in existence with the name Reserve Bank of Australia under the *Reserve Bank Act 1959*.

The Reserve Bank's two boards have operational independence under the Reserve Bank Act to determine the policies of the Bank, to achieve the objectives set out in the Act.

In terms of monetary policy, the *Statement on the Conduct of Monetary Policy*, as updated from time to time, has recorded the common understanding of the Governor, as Chair of the Reserve Bank Board, and the government on key aspects of Australia's monetary and central banking policy framework since 1996. The Payments System Board issues a separate annual report, which outlines its role and activities.

The Reserve Bank's governance structure is set out in the Reserve Bank Act. Under this Act, the Bank is managed by the Governor. The Reserve Bank is a corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), of which the Governor is the 'accountable authority'. For further details, see the chapter on 'Management of the Reserve Bank'.

Reserve Bank Board

The responsibilities of the Reserve Bank Board are set out in the Reserve Bank Act, which states that the Board has power to determine the policy of the Bank in relation to any matter, other than its payments system policy. It is the duty of the Board to ensure that the monetary and banking policy of the Bank is directed to the greatest advantage of the people of Australia.

The Reserve Bank Board comprises nine members: the Governor (Chair), Deputy Governor (Deputy Chair), Secretary to the Australian Treasury and six other non-executive members appointed by the Treasurer. New appointments to the Board are made by the Treasurer from a register of eminent candidates maintained by the Secretary to the Treasury and the Governor. Attendance by members at meetings of the Board during 2019/20 is shown in the table below and members' qualifications and experience are provided in the chapter on the 'Reserve Bank Board'.

Reserve Bank Board members in Darwin, July 2019, following the Board meeting held in Parliament House, (from left) Deputy Governor Guy Debelle, Carol Schwartz, Ian Harper, Wendy Craik, Governor Philip Lowe, Catherine Tanna, Philip Gaetjens, Allan Moss and Mark Barnaba

Board Meetings – 2019/20

Attendance by members

	No. of meetings attended	No. of meetings eligible to attend
Philip Lowe (Governor)	12	12
Guy Debelle (Deputy Governor)	12	12
Philip Gaetjens (Secretary to the Treasury)[a]	2	2
Steven Kennedy (Secretary to the Treasury)[b]	9[c]	10
Mark Barnaba	12	12
Wendy Craik	12	12
Ian Harper	12	12
Allan Moss	11	12
Carol Schwartz	11	12
Catherine Tanna	12	12

(a) Philip Gaetjens' term on the Board ended on 1 September 2019
(b) Steven Kennedy's term on the Board commenced on 2 September 2019
(c) Matthew Flavel (at the time, Deputy Secretary, Corporate Services, Australian Treasury) attended the October 2019 meeting in place of Steven Kennedy, in terms of section 22 of the Reserve Bank Act

The Reserve Bank Board usually meets 11 times a year, on the first Tuesday of each month except in January. In 2020, owing to the rapidly changing economic environment following the onset of the COVID-19 pandemic, the Board held a special meeting on 18 March 2020. Five members form a quorum for a meeting of the Board. Consistent with the Reserve Bank Act, the Board makes decisions by a majority of the members present, with the chair having a casting vote, if necessary.

Prior to the COVID-19 pandemic, Reserve Bank Board meetings were usually held at the Reserve Bank's Head Office in Sydney. The Board has also aimed to meet in two other Australian cities each year: it held meetings in Darwin in July 2019 and in Melbourne in October 2019. A meeting scheduled to be held in Hobart in April 2020 was cancelled owing to the pandemic and domestic travel restrictions, and the meeting was held via videoconference. The special Board meeting in mid March 2020 and the subsequent meetings in the period under review were also held via videoconference.

The Reserve Bank Board has an Audit Committee and a Remuneration Committee, whose activities are described below.

Reserve Bank Board meeting by videoconference in May 2020 (from left top row) Governor Philip Lowe and Anthony Dickman, Steven Kennedy, Catherine Tanna, (from left middle row) Ian Harper, Deputy Governor Guy Debelle, Mark Barnaba, (from left bottom row) Wendy Craik, Carol Schwartz, Allan Moss

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:

(a) controlling risk in the financial system

(b) promoting the efficiency of the payments system

(c) 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.

Six of the eight members of the Payments System Board, including the Governor, are appointed by the Treasurer, with one member each appointed by the Reserve Bank and the Australian Prudential Regulation Authority.

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 the statutory obligations for 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.[1]

Audit Committee

The Audit Committee is constituted as a subcommittee of the Reserve Bank Board. The Audit Committee assists the Governor and the Reserve Bank Board in relation to reviewing the appropriateness of the Reserve Bank's:

- financial reporting, including the financial statements in the annual report
- performance reporting, including the annual performance statement in the annual report
- systems of risk oversight and management
- systems of internal control.

The Audit Committee's work in pursuit of these objectives assists the Governor and the Reserve Bank Board in fulfilling certain obligations in terms of the Reserve Bank Act and the PGPA Act.

The charter of the Audit Committee was most recently approved by the Reserve Bank Board in September 2020. The charter is published on the Bank's website.[2]

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 2019/20 is shown in the table below and members' qualifications and experience are provided in the chapter on the 'Reserve Bank Board'.

Consistent with contemporary governance standards, none of the members of the Audit Committee is an employee of the Reserve Bank. Representatives of the Bank's internal and external auditors participate in meetings as appropriate at

1 The Code of Conduct for Reserve Bank Board Members is available at <https://www.rba.gov.au/about-rba/our-policies/code-conduct-rba-board-members.html>.

2 The Reserve Bank Board Audit Committee Charter is available at <https://www.rba.gov.au/about-rba/boards/rba-board-audit-committee-charter.html>.

Audit Committee Meetings – 2019/20
Attendance by members

	No. of meetings attended	No. of meetings eligible to attend
Mark Barnaba[(a)]	4	4
Sandra Birkensleigh	4	4
Rahoul Chowdry	4	4
Allan Moss[(a)]	4	4

(a) Member of the Reserve Bank Board

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 as required.

During 2019/20, the Audit Committee met on four occasions. At its August 2020 meeting, the committee considered the draft consolidated financial statements for the Reserve Bank for the year ended 30 June 2020 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 2019/20, this occurred immediately prior to the August 2020 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 2019/20, the Committee met on three occasions. Attendance by members at meetings of the Remuneration Committee during 2019/20 is shown in the table below.

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 any 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.

The Remuneration Committee is also kept informed of the general remuneration arrangements for Reserve Bank staff. The Committee communicates with the Remuneration Tribunal as required.

Remuneration Committee Meetings – 2019/20
Attendance by members

	No. of meetings attended	No. of meetings eligible to attend
Catherine Tanna	3	3
Ian Harper	3	3
Carol Schwartz	2	3

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 Bank's longstanding practice 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. The remuneration of each member of the Reserve Bank Board and the Audit Committee is provided in the chapter on 'Our People'.

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 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 2019, 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 changes to streamline the risk register and add a risk and associated controls relating to unconventional monetary policy. The Board 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 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.

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 also produces banknotes for other issuing authorities and Australian passport booklets.

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 an external director with experience in manufacturing: Susan Woods (Assistant Governor, Corporate Services) as Chair; Michelle McPhee (Head of Banking Department) as alternate Chair; Robert Middleton-Jones (Chief Financial Officer); Greg Johnston (Head of Payments Settlements Department); and Ross Pilling (Chair of the Victorian Government's Advanced Manufacturing Advisory Council). The NPA Board has an Audit and Risk Committee, whose membership comprises Michelle McPhee (Chair), Robert Middleton-Jones and an external member, Megan Haas, a former PricewaterhouseCoopers partner with a strong background in cyber security and risk assurance across a broad range of industries, 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 to the extent permitted by law against liabilities incurred by reason of their appointment to the relevant board or by virtue of holding and discharging such office. Members of the Audit Committee who are not members of the Reserve Bank Board are indemnified on substantially the same terms as the indemnities given to Board members.

Certain other indemnities, all given prior to 1 July 2014, continue. These are:

- an indemnity to senior staff of the Bank in relation to liabilities they may have incurred in the conduct of their duties at the Bank (this indemnity covers liability in relation to events over a period ending on 31 March 2017)
- indemnities 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, Securency International Pty Ltd).

Indemnities given 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 given after 1 July 2014, when the CAC Act was repealed, have contained contractual restrictions reflecting the substance of the previous CAC Act restrictions. A new section 22B in the *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule) imposes limits on the granting of indemnities by corporate Commonwealth entities in relation to liabilities incurred from 28 February 2020. The Reserve Bank has not issued any new indemnities to members of either board or the Audit Committee since 28 February 2020.

The Bank's policy on Assistance to Staff for Legal Proceedings applies in relation to events on or after 1 April 2017. 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*. This policy has been updated to reflect that assistance will not be provided when section 22B of the PGPA Rule forbids it.

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 2019/20.

Other Policy Matters

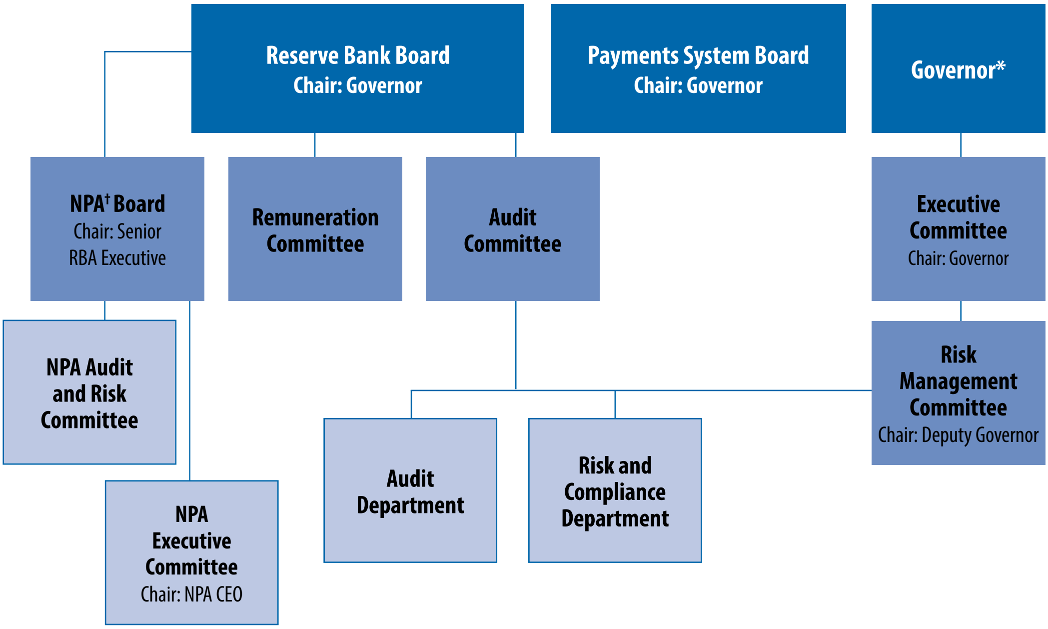
The Governor reports annually to the Board on the process of review and implementation of the key Reserve Bank policies that are determined and managed by the Governor. This report includes information on compliance arrangements. An annual report covering matters relating to work health and safety in the Bank is also presented to the Board. The reports for 2019/20 were provided to the Board at its August 2020 meeting.

Accountability

The Reserve Bank Board has an obligation to inform the government of its monetary policy 'from time to time'. This obligation is discharged mainly by regular contact between the Governor and other senior executives and the Treasurer, who is the Bank's responsible Minister (the Hon Josh Frydenberg MP), usually by way of regular discussions. The Governor also meets regularly with the House of Representatives Standing Committee on Economics.

Reserve Bank of Australia Governance Structure

August 2020



† 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*.

The House of Representatives Standing Committee on Economics has, in its Standing Orders, an obligation to review the annual report of the Reserve Bank and the annual report of the Payments System Board. The committee holds twice-yearly public hearings, at which the Bank presents its views on the economy and financial markets and other matters pertaining to the Bank's operations, and responds to questions from committee members. In 2019/20, the Governor and senior Bank officers attended hearings of this committee for this purpose in Canberra on 9 August 2019 and on 7 February 2020. The committee issued its report on the August 2019 hearing – *Review of the Reserve Bank of Australia Annual Report 2018* (Second Report) – on 12 December 2019. The committee's report on the February 2020 hearing – *Review of the Reserve Bank of Australia Annual Report 2019* (First Report) – was issued on 5 March 2020. In addition, the Parliamentary Standing Committee on Public Works issued a report in March 2020 on the Reserve Bank of Australia Head Office Workplace Project.

The Bank seeks to ensure a high degree of transparency about its goals, activities and the basis of its policy decisions. Transparency facilitates the Bank's accountability and increases the effectiveness of policy decisions by promoting a better understanding of those decisions in the community. The Bank communicates regularly through publications and speeches and engages with the community through its regional and industry liaison program. For more details, see the chapter on 'Communication and Community Engagement'.

Under section 46 of the PGPA Act, the Governor is responsible for preparing this annual report and providing it to the Treasurer for presentation to the Parliament, following approval by the Reserve Bank Board of the Bank's annual financial statements. That approval was given by the Board at its meeting on 1 September 2020.

The Auditor-General issued a performance audit report on the *Cyber Resilience of Government Business Enterprises and Corporate Commonwealth Entities* on 4 July 2019, which concluded that the Reserve Bank had effectively managed cyber security risks. No other report on the Reserve Bank was issued in 2019/20 by the Commonwealth Ombudsman, the Office of the Australian Information Commissioner or the Auditor-General, apart from those dealing with the audit of the Bank's annual financial statements (the Australian National Audit Office published its *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2019* on 17 December 2019 and its *Interim Report on Key Financial Controls of Major Entities* on 28 May 2020; the Reserve Bank was one of the entities covered in both of these reports).

Freedom of Information (FOI)

The Reserve Bank is an Australian Government agency subject to the *Freedom of Information Act 1982* (FOI Act). As required by Part II of the FOI Act, the Bank publishes information as part of the Information Publication Scheme (IPS). Details of the Bank's obligations under the FOI Act and the IPS can be found on the Bank's website.[3]

The Bank received 35 requests for access to documents under the FOI Act in 2019/20. Access was granted in full in relation to one request, in part in relation to twelve requests, and was denied in relation to five requests. No relevant documents were found in response to eleven requests and four requests were withdrawn. Two requests (both received in June 2020) were outstanding at the end of the financial year and were finalised by the end of July. Information that was released in response to FOI access requests was published on the Reserve Bank's website, as required by the FOI Act, with RSS feeds to these releases also available.

Two applications were received for the internal review of an FOI decision made by the Reserve Bank in 2019/20. In accordance with the FOI Act, a fresh decision was made in each case (one affirming the original decision and one varying the original decision via release of additional documents).

The estimated amount of staff time spent dealing with all aspects of FOI requests in 2019/20 was around 540 hours, compared with around 212 hours in 2018/19. The total cost to the Reserve Bank of administering the FOI Act in 2019/20 is estimated to have been about $76,500. Processing charges of $290 were received in 2019/20. In previous annual reports, the Reserve Bank has reported the cost of processing FOI requests taking into account the hourly pay rates of relevant staff plus applicable on-costs. The Bank has determined that these on-costs should not be included in the overall cost of processing FOI requests. The amounts reported for 2019/20 reflect the direct cost (aggregate hourly pay) incurred by the Bank in relation to relevant staff in 2019/20. Using this approach, the cost reported for 2018/19 would have been $32,000.

Other Reporting Requirements under the PGPA Act

The statutory reporting obligations applying to the Reserve Bank, including those that are

3 See <https://www.rba.gov.au/information/foi/index.html>.

covered elsewhere in this report, are identified in the 'Statutory Reporting Requirements Index'.

Ministerial directions

The Reserve Bank received no directions from its responsible Minister (the Treasurer) or from any other Minister during 2019/20.

Government policy orders

No government policy orders under section 22 of the PGPA Act applied in relation to the Reserve Bank during 2019/20.

Compliance with finance law

No issues relating to non-compliance by the Reserve Bank with the finance law were reported to the Bank's responsible Minister (the Treasurer) under paragraph 19(1)(e) of the PGPA Act.

Transactions with related entities

In accordance with the PGPA Act, the Reserve Bank is required to disclose certain transactions with related entities. During 2019/20, the Reserve Bank donated $50,000 to the Financial Markets Foundation for Children, which is managed by a Board of Directors chaired by the Governor of the Reserve Bank. The Bank has made an annual donation of $50,000 to the Foundation since 2002/03; the decision to continue making this donation is subject to annual review by the Bank.

Significant activities or changes affecting the Reserve Bank

There were no significant activities or changes that affected the operations or structure of the Reserve Bank in 2019/20.

Judicial decisions or decisions of administrative tribunals

There were no judicial decisions or decisions of administrative tribunals made during 2019/20 that have had, or may have, a significant effect on the operations of the Reserve Bank.

Reserve Bank Board

The Reserve Bank Board comprises nine members: the Governor (Chair), Deputy Governor (Deputy Chair), Secretary to the Australian Treasury (ex officio member) and six other non-executive members appointed by the Treasurer. Further to the legislative requirements, and in recognition of their responsibility to uphold the integrity of the Board and the Reserve Bank, members have adopted a Code of Conduct.

Information about members of the Reserve Bank Board Audit Committee is provided at the end of this chapter.

August 2020

Philip Lowe

BCom (Hons) (UNSW), PhD (MIT)

Governor and Chair

Governor since 18 September 2016
Present term ends 17 September 2023

Philip Lowe was Deputy Governor from February 2012 until his appointment as Governor took effect in September 2016. Prior to that, he held various senior positions at the Reserve Bank, including Assistant Governor (Economic) and Assistant Governor (Financial System), where he was responsible for overseeing economic and policy advice to the Governor and Reserve Bank Board. He spent two years at the Bank for International Settlements working on financial stability issues. Mr Lowe has authored numerous papers, including on the linkages between monetary policy and financial stability. He is a signatory to The Banking and Finance Oath.

Other roles

Chair – Payments System Board

Chair – Council of Financial Regulators

Chair – Bank for International Settlements Committee on the Global Financial System

Chair – Financial Markets Foundation for Children

Member – Financial Stability Board

Member – Trans-Tasman Council on Banking Supervision

Director – The Anika Foundation

Guy Debelle

BEc (Hons) (Adelaide), PhD (MIT)

Deputy Governor and Deputy Chair

Deputy Governor since 18 September 2016
Present term ends 17 September 2021

Prior to his appointment as Deputy Governor, Guy Debelle was Assistant Governor (Financial Markets) from March 2007. In that role he had oversight of the Bank's operations in the domestic and global financial markets. He has also worked at the Australian Treasury, the International Monetary Fund and the Bank for International Settlements, and he was a Visiting Professor at the Massachusetts Institute of Technology in 2003. From May 2015 until May 2017, Dr Debelle was Chair of the Bank for International Settlements Foreign Exchange Working Group, which developed the Global Code of Conduct for the Foreign Exchange Market. Since June 2019, he has been Chair of the Global Foreign Exchange Committee. He is a signatory to The Banking and Finance Oath.

Other roles

Chair – Reserve Bank Risk Management Committee

Chair – Global Foreign Exchange Committee

Mark Barnaba AM

BCom (Hons) (Western Australia), MBA (Harvard)

Non-executive member

Member since 31 August 2017
Present term ends 30 August 2022

Mark Barnaba has extensive experience in finance and commerce, having spent most of his career with McKinsey and Company, both in Australia and overseas, with companies he founded and in several senior executive roles at Macquarie Group. At the time of his retirement from Macquarie Group at the end of August 2017, Mr Barnaba served as Chair and Global Head of Natural Resources for Macquarie Capital. He was co-founder (and previously Co-Executive Chair) of Azure Capital and previously served as the Chair of Western Power, the Black Swan State Theatre Company of WA, the West Coast Eagles Football Club and Alinta Infrastructure Holdings. In 2009, Mr Barnaba was the recipient of the Western Australian Citizen of the Year award in industry and commerce. In 2012, he was awarded an honorary Doctor of Commerce from the University of Western Australia.

Other roles

Deputy Chair – Fortescue Metals Group Ltd

Chair – Audit and Risk Management Committee, Fortescue Metals Group Ltd

Chair – GLX

Chair – Investment Committee, HBF Health Limited

Emeritus Board Member – The University of Western Australia Business School Board

Board Member – The Centre for Independent Studies

Adjunct Professor – Investment Banking and Finance, University of Western Australia

Senior Fellow – EY Oceania

Senior Advisory Board Member – Appian Capital Advisory

Reserve Bank Board committee membership

Chair – Audit Committee

Wendy Craik AM

BSc (Hons) (ANU), PhD (Zoology) (British Columbia)

Non-executive member

Member since 7 May 2018
Present term ends 6 May 2023

Wendy Craik is an independent public policy advisor, particularly on issues related to natural resource management, and has over 25 years' experience in public policy. Senior positions she has held include Commissioner at the Productivity Commission (2009–14), Chief Executive of the Murray-Darling Basin Commission, President of the National Competition Council, Chair of the Australian Fisheries Management Authority, Executive Director of the National Farmers Federation (1995–2000) and Executive Officer of the Great Barrier Reef Marine Park Authority. She has also been a director on a number of boards in the Australian public sector. Dr Craik is a Fellow of the Australian Institute of Company Directors, the Australian Rural Leadership Foundation and the Academy of Technology, Science and Engineering. She was awarded a Centenary Medal in 2001.

Other roles

Chair – Climate Change Authority

Chair – Steering Committee, National Red Imported Fire Ant Eradication Program – South East Queensland

Director – Australian Farm Institute

Member – Advisory Board for the Centre for Strategy and Governance

Member – Advisory Board, National Drought and North Queensland Flood Response and Recovery Agency

Member – Advisory Board of the Public Leadership Research Group, Howard Library of the University of New South Wales

Member – Future Drought Fund Consultative Committee

Ian Harper AO

BEc (Hons) (Queensland), MEc, PhD (ANU)

Non-executive member

Member since 31 July 2016
Present term ends 30 July 2021

Ian Harper has extensive experience in public policy development, academia and economic consulting. Professor Harper chaired the Competition Policy Review (Harper Review), served as a member of the Financial System Inquiry (the Wallis Inquiry), and was the inaugural Chairman of the Australian Fair Pay Commission. He spent two decades as a Professor at the University of Melbourne – first as the NAB Professor of Monetary and Financial Economics (1988–92), then as the Ian Potter Professor of International Finance (1992–2002) and the Sidney Myer Professor of Commerce and Business Administration (2002–08) at the Melbourne Business School. Professor Harper spent eight years as an economic consultant – first as a director of Access Economics Pty Ltd (2008–11) and then as a partner of Deloitte Touche Tohmatsu (2011–16). In the 2020 Queen's Birthday Honours, Professor Harper was awarded an Officer of the Order of Australia for his distinguished service to education in the field of economics, and to public and monetary policy development and reform.

Other roles

Dean and Director – Melbourne Business School Limited

Chair – Stipends Committee, Anglican Diocese of Melbourne

Member – Crisis Management Committee, Anglican Diocese of Melbourne

Director – Harper Associates Australia

Director – Ridley College Limited

Reserve Bank Board committee membership

Member – Remuneration Committee

Steven Kennedy PSM

BEc (Hons) (Sydney), MEc, PhD (ANU)

Ex officio member

Secretary to the Australian Treasury
Member since 2 September 2019

Steven Kennedy was appointed Secretary to the Australian Treasury with effect from 2 September 2019.

Prior to his current role, Dr Kennedy was Secretary of the Department of Infrastructure, Transport, Cities and Regional Development from September 2017 to August 2019. During his nearly 30 years in the public service, Dr Kennedy has held other senior positions, including Deputy Secretary at the Department of the Prime Minister and Cabinet; Deputy Secretary at the Department of Industry, Innovation and Science; Deputy Secretary at the Department of the Environment; Deputy Secretary at the Department of Climate Change and Energy Efficiency; and the Head of Secretariat of the Garnaut Climate Change Review – Update 2011. Dr Kennedy was awarded a Public Service Medal in 2016 for outstanding public service in the area of climate change policy.

Other roles

Chair – Global Infrastructure Hub

Ex officio Member – Board of Taxation

Ex officio Member – Council of Financial Regulators

Member – Centre for Market Design Advisory Board

Member – Sir Roland Wilson Foundation

Member – Trans-Tasman Council on Banking Supervision

President and Chair – Institute of Public Administration Australia (IPAA) ACT

Allan Moss AO

BA, LLB (Hons) (Sydney), MBA (Harvard)

Non-executive member

Member since 2 December 2015
Present term ends 1 December 2020

Allan Moss has extensive experience in financial markets. He held various positions at Macquarie Bank before becoming Managing Director and Chief Executive Officer of Macquarie Bank Limited and subsequently Macquarie Group Limited from 1993 to 2008. Prior to this, Mr Moss was a director of Hill Samuel Australia and led the team responsible for preparing the submission to the Australian Government to form Macquarie Bank in 1983.

Other roles

Principal – Allan Moss Investments Pty Ltd

Advisory Board member – Eight Investment Partners Pty Ltd

Reserve Bank Board committee membership

Member – Audit Committee

Carol Schwartz AO

BA, LLB, MBA (Monash)

Non-executive member

Member since 14 February 2017
Present term ends 13 February 2022

Carol Schwartz has extensive experience in business, property, the arts and community organisations. Past high-level leadership roles, including a portfolio of diverse board appointments, have spanned the business, government, arts, health and community sectors. Mrs Schwartz received the Centenary Medal in 2001 in recognition of her outstanding service as a leading business executive and committee participant. In the 2019 Queen's Birthday Honours, she was awarded an Officer of the Order of Australia for her distinguished service to the community as a supporter of women in leadership roles, to social justice advocacy and to business. Mrs Schwartz is a Fellow of the Australian Institute of Company Directors.

Other roles

Founding Chair – Women's Leadership Institute Australia

Chair – Our Community

Director – Equity Trustees

Director – Qualitas Property Partners

Director – Trawalla Group

Reserve Bank Board committee membership

Member – Remuneration Committee

Catherine Tanna

LLB (Queensland)

Non-executive member

Member since 30 March 2011
Present term ends 29 March 2021

Catherine Tanna has extensive experience in the resources sector with BG Group, Royal Dutch Shell and BHP. She held senior executive roles with responsibility for liquefied natural gas, gas transmission and power-generation businesses across Africa, North Asia, Russia, North America, Latin America and Australia. From April 2012 to the end of June 2014, Ms Tanna was Chairman of BG Australia. In 2018, she was awarded an honorary Doctor of Business from the University of Queensland. Ms Tanna is a member of Chief Executive Women.

Other roles

Managing Director – EnergyAustralia Holdings Limited

Board Member – Business Council of Australia

Member – The B Team Australasia

Reserve Bank Board committee membership

Chair – Remuneration Committee

Retirement from the Board

Philip Gaetjens retired from the Board on 1 September 2019.

Philip Gaetjens

BA (Hons) (Flinders), Grad Dip (Professional Accounting) (Canberra)

Ex officio member

Secretary to the Treasury
Member from 1 August 2018 to 1 September 2019.

Philip Gaetjens was Secretary to the Treasury from August 2018 to September 2019. He has held leadership roles in the Commonwealth and state public sectors, including as Secretary of the New South Wales Treasury between 2011 and 2015, and has served as a senior executive in the Commonwealth Treasury, the Department of the Prime Minister and Cabinet, and the South Australian Department of Treasury and Finance. He was the Chief of Staff to the then Treasurer, the Hon Scott Morrison MP, for three years from mid 2015 and Chief of Staff to former Treasurer the Hon Peter Costello AC from March 1997 to December 2007. Mr Gaetjens served as the inaugural Director of the Asia-Pacific Economic Cooperation (APEC) Policy Support Unit in Singapore between 2008 and 2010.

Resolution Passed by the Reserve Bank Board – 6 August 2019

Members noted that this was the final meeting for Philip Gaetjens, who had served a year on the Board as Secretary to the Treasury. The Governor paid tribute to Mr Gaetjens' contribution to the conduct of monetary policy and to his contribution to economic policymaking more broadly, in leadership roles in the Commonwealth and State public sectors over a long period. The Governor thanked Mr Gaetjens for the constructive relationship between the Reserve Bank and the Treasury. Members wished Mr Gaetjens well in his new role as Secretary of the Department of the Prime Minister and Cabinet.

In Memoriam

Vale Edward Alfred (Ted) Evans AC

The Bank records, with deep regret, that Ted Evans AC, Secretary to the Treasury and Reserve Bank Board member from 10 May 1993 to 26 April 2001, died on 12 April 2020.

Vale The Honourable Robert James Lee (Bob) Hawke AC GGL

The Bank records, with deep regret, that Bob Hawke AC, member of the Reserve Bank Board from 28 August 1973 to 17 September 1980, died on 16 May 2019.

Reserve Bank Board Audit Committee

Membership of the Audit Committee comprises 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.

Mark Barnaba AM

Chair

Member since 23 July 2018
Term ends 30 August 2022

See above for Mr Barnaba's professional details.

Sandra Birkensleigh

BCom (UNSW)

Member

Member since 9 September 2015
Term ends 8 September 2023

Sandra Birkensleigh has extensive experience in financial services, with a particular focus on risk management, compliance and corporate governance. Ms Birkensleigh's career includes 24 years at PricewaterhouseCoopers, where she was formerly a Global Lead for Governance Risk & Compliance, a National Lead Partner for Risk and Controls Solutions, and a Service Team Leader for Performance Improvement. Ms Birkensleigh holds several directorships and is chair of the audit committees for most of the organisations listed below. She is a qualified chartered accountant, a member of the Institute of Chartered Accountants in Australia and New Zealand and a member of the Australian Institute of Company Directors. In February 2020, Ms Birkensleigh was reappointed to the Audit Committee for a further three years.

Other roles

Non-Executive Director and Audit Committee Chair – Auswide Bank Limited

Non-Executive Director and Audit Committee Chair – Horizon Oil Limited

Non-Executive Director and Audit Committee Chair – MLC (Insurance) Limited

Non-Executive Director and Audit Committee Chair – National Disability Insurance Agency

Non-Executive Director and Audit Committee Chair – 7-11 Holdings Limited and its subsidiaries

Non-Executive Director and Audit Committee Member – The Tasmanian Public Finance Corporation

Rahoul Chowdry

BCom (Hons) (Calcutta)

Member

Member since 14 February 2018
Term ends 13 February 2023

Rahoul Chowdry has extensive experience in the professional services industry, which enabled him to build a reputation as a leading adviser on governance, regulation and risk to major banks and other large financial institutions in Australia and Canada. Until the end of 2017, Mr Chowdry was the Global Banking and Capital Markets Assurance Leader at PricewaterhouseCoopers and a partner for almost 30 years in the firm's financial services practice. He is a qualified chartered accountant and a fellow of Chartered Accountants in Australia and New Zealand, and the Institute of Chartered Accountants in England and Wales.

Other roles

Partner – MinterEllison

Non-Executive Director – AMP Limited

Non-Executive Director – AMP Bank Limited

Chair – AMP Limited Risk Committee

Chair – AMP Bank Limited Risk Committee

Member – AMP Limited Audit Committee

Member – AMP Limited Remuneration Committee

Member – AMP Bank Limited Audit Committee

Allan Moss AO

Member

Member since 31 August 2017
Term ends 1 December 2020

See above for Mr Moss' professional details.

Operational Structure

The Reserve Bank is managed by the Governor, Philip Lowe, and the Deputy Governor, Guy Debelle. It has five operational groups – Business Services Group, Corporate Services Group, Economic Group, Financial Markets Group and Financial System Group – and six supporting departments.

Business Services Group

Assistant Governor: Lindsay Boulton

Business Services Group provides transactions-based services to the Reserve Bank's customers and other important stakeholders. In particular, it provides banking services and payments-related advice and assistance to the Australian Government and its agencies as well as to other central banks and is responsible for the distribution of Australia's banknotes. It also provides payment settlement services to financial institutions. The Group comprises three departments: Banking; Note Issue; and Payments Settlements.

Banking Department

Head: Michelle McPhee
Deputy Head: Stephanie Connors

Banking Department provides a range of banking services to Australian Government departments and agencies as well as a number of overseas central banks and official institutions. The services broadly comprise two activities – management of the Government's core accounts and transactional banking. Sydney-based staff are responsible for the direction, administration and development of the department's work, while the day-to-day interaction with customers is largely managed by staff in the Canberra Branch.

Note Issue Department

Head: Melissa Hope
Deputy Head: James Holloway

The Reserve Bank is responsible for the issue, reissue and cancellation of Australian banknotes. Its primary purpose in carrying out this role is to maintain the capacity of Australian banknotes to provide a safe, secure and reliable means of payment and store of value. The Bank works with its wholly owned subsidiary, Note Printing Australia Limited, to design and produce banknotes. The Bank distributes banknotes to financial institutions, monitors and maintains banknote quality in circulation and withdraws unfit banknotes from circulation. It also monitors and analyses counterfeiting trends and conducts research into banknote security technology.

Payments Settlements Department

Head: Greg Johnston
Deputy Head: David Emery, Peter Gallagher

Payments Settlements Department is responsible for the settlement of high-value payments and interbank obligations arising from the conduct of Exchange Settlement Accounts and the Reserve Bank's own trading activities, as well as operation of the Reserve Bank Information and Transfer System (RITS), Australia's real-time gross settlement system (RTGS). RITS includes the Fast Settlements Service, which Payments Settlements Department operates on an RTGS basis 24 hours a day, seven days a week for settlement of New Payments Platform transactions. Services are also provided for the clearing and settlement of low-value payments, such as those arising from cheque and direct entry transactions.

Corporate Services Group

Assistant Governor: Susan Woods

Corporate Services Group is responsible for the delivery of technology systems and infrastructure, facilities management services, procurement and data governance to support the day-to-day operations of the Bank. It comprises Information Technology Department, Workplace Department and the Enterprise Data Office.

Information Technology Department

Chief Information Officer: Gayan Benedict
Deputy Head: Julian Israel, Stephen Smith

Information Technology Department is responsible for developing and maintaining reliable, resilient and secure information technology to support the Reserve Bank's policy, operational and corporate functions. In fulfilling these responsibilities, the department delivers and maintains the Bank's technology systems and infrastructure, provides ongoing system quality assurance, and maintains the Bank's information security, including its cyber-security defensive controls. The department also supports technology planning for the Bank, which includes catering for emerging and future technology requirements.

Workplace Department

Head: Bruce Harries
Deputy Head: Ed Jacka

Workplace Department is responsible for management of the Reserve Bank's physical assets, the maintenance of its properties and building infrastructure, the delivery of workplace services, and the management and oversight of procurement activity, including strategic vendor management. Key activities include oversight of the provision of building services, building maintenance and upgrades, workspace fit-outs, physical and protective security, and staff amenities, as well as environmental risk management for the effective operation of the Bank and the safety, security, amenity and wellbeing of staff.

Economic Group

Assistant Governor: Luci Ellis

Economic Group is responsible for analysis of economic trends, both domestic and overseas, forecasting and research relevant to the framing of policy in a number of areas of the Reserve Bank's responsibility. It consists of Economic Analysis Department and Economic Research Department.

Economic Analysis Department

Head: Bradley Jones
Deputy Head: Lynne Cockerell, Merylin Coombs, Natasha Cassidy (Acting)

Economic Analysis Department monitors and forecasts trends in the domestic and international economies, provides regular advice on these developments and monetary policy to the Governors and the Reserve Bank Board, contributes to the work of various external bodies, maintains contacts with relevant external analysts, undertakes applied research and prepares reports for publication.

The Reserve Bank maintains four State Offices to conduct economic liaison across Australia. Staff in these offices hold regular discussions with individual firms and organisations in both the private and public sectors, and assist with communication to the wider community.

The Bank also has an office in Beijing, which is responsible for monitoring Chinese economic and financial developments as well as maintaining relationships with government and private sector entities in China.

Economic Research Department

Head: John Simon
Deputy Head: Adam Cagliarini

Economic Research Department undertakes longer-term research into issues relevant to the Reserve Bank's responsibilities, including research on the Australian economy, monetary policy, financial stability, the payments system and the operation of financial markets. Results of this research are published in the Research Discussion Paper series. The department organises a major annual conference and an annual research workshop. In addition, it organises a program of internal seminars, hosts a number of invited visitors each year and is responsible for administering a comprehensive library service for the Bank.

Financial Markets Group

Assistant Governor: Christopher Kent

Financial Markets Group is responsible for implementing the Reserve Bank's operations in domestic and foreign exchange markets, monitoring developments in financial markets and coordinating the Bank's relationships with international institutions. The group consists of Domestic Markets Department and International Department.

Domestic Markets Department

Head: Marion Kohler
Deputy Head: Andrea Brischetto, Carl Schwartz

Domestic Markets Department is responsible for the Reserve Bank's operations in the domestic money and bond markets. The department analyses developments in domestic financial markets, including the cost and availability of finance through financial intermediaries and capital markets, and provides regular advice to the Governors and the Reserve Bank Board on these issues.

International Department

Head: Alexandra Heath
Deputy Head: Matthew Boge, David Jacobs

International Department is responsible for the Reserve Bank's foreign exchange operations, the investment of international reserve holdings of gold and foreign exchange, and the provision of regular advice on developments in international financial markets to the Governors and the Reserve Bank Board. The department is also responsible for maintaining the Bank's relations with a number of major international financial and policymaking institutions.

Chief Representative in Europe: Darryl Ross
Chief Representative in New York: Michael Plumb

The Representative Offices in London and New York come under the umbrella of the Financial Markets Group. The European Representative Office in London maintains liaison with central banks and other institutions and authorities in Europe, including the Bank for International Settlements and the Organisation for Economic Co-operation and Development. The New York Representative Office performs similar functions in North America. Both of these offices monitor economic and financial developments in their respective local markets, and assist with the Reserve Bank's foreign exchange operations and investment of international reserves.

Financial System Group

Assistant Governor: Michele Bullock

Financial System Group supports the Reserve Bank's broad responsibilities for financial system stability and its role in payments system oversight and regulation. The group consists of Financial Stability Department and Payments Policy Department.

Financial Stability Department

Head: Jonathan Kearns
Deputy Head: Darren Flood, Penny Smith

Financial Stability Department analyses the implications for financial system stability of developments in the economy, financial markets and the financial sector more generally, including areas such as patterns of financial intermediation, financial products and risk management techniques. The department provides advice on these issues to the Governors and the Reserve Bank Board and supports the Reserve Bank's representation on bodies such as the Council of Financial Regulators, the Financial Stability Board and the Basel Committee on Banking Supervision. It is responsible for producing the Bank's semi-annual *Financial Stability Review*.

Payments Policy Department

Head: Tony Richards
Deputy Head: Sarah Harris, Chris Thompson

Payments Policy Department is responsible for developing and implementing the Reserve Bank's payments system policy. It provides analysis and advice to the Payments System Board on improving the safety, efficiency and competitiveness of the payments system. The department is also responsible for oversight of Australia's high-value payments, clearing and settlement facilities, and represents the Bank on the Committee on Payments and Market Infrastructures of the Bank for International Settlements.

Audit Department

Head: Ross Tilly

Audit Department is responsible for conducting independent appraisals of the Reserve Bank's activities, functions and operations to ensure that an adequate framework of internal control has been established and is operating effectively. The Head of Audit Department reports to the Deputy Governor and the Reserve Bank Board Audit Committee.

Finance Department

Chief Financial Officer: Robert Middleton-Jones
Financial Controller: Sam Tomaras

Finance Department is responsible for the Reserve Bank's financial statements and taxation reporting obligations, prepares the Bank's budget and provides a range of support services, including corporate payments, payroll and travel. Finance also manages the Bank's Enterprise Portfolio Management Office.

Human Resources Department

Head: Michael Andersen

Human Resources Department provides a range of people-related services to support the Reserve Bank in maintaining a productive and engaged workforce. This includes sourcing high-quality employees as well as implementing policies and programs that cover employment conditions, reward, development, diversity and workplace health and safety.

Information Department

Head: Jacqui Dwyer

Information Department is responsible for the Reserve Bank's information management framework, information governance, records management system and its archives. It facilitates public access to Bank records and archival material. It also manages the Reserve Bank of Australia Museum and a program of public education, with particular focus on supporting economics students and educators.

Risk and Compliance Department

Head: Keith Drayton

Risk and Compliance Department supports the consistent and effective application of the Reserve Bank's framework for managing risk, both at the enterprise level and for individual business units. It assists departments to identify, understand and manage their compliance obligations. It also monitors and reports on portfolio risks and compliance with respect to the Bank's operations in financial markets. The department is responsible for secretariat and coordination services and advice for the Risk Management Committee. The Head of Risk and Compliance Department reports to the Deputy Governor and the Reserve Bank Board Audit Committee.

Secretary's Department

Secretary: Anthony Dickman
Deputy Secretary: Ellis Connolly
General Counsel: Catherine Parr
Deputy General Counsel: Peter Jones

Secretary's Department provides secretariat and coordination services and advice on governance matters for the Governors, the Reserve Bank Board and its Audit and Remuneration committees, the Payments System Board and the Executive Committee. Secretary's Department is responsible for the Reserve Bank's communication, including preparing and publishing Reserve Bank information, maintaining the Bank's websites and managing enquiries from the media and general public.

In addition, the department provides legal services to the Bank through the General Counsel (who reports directly to the Deputy Governor), coordinates a range of contacts with government, the parliament, other central banks and international organisations, and arranges programs for international visitors.

Wholly owned subsidiary: Note Printing Australia Limited (NPA)

NPA is a wholly owned subsidiary of the Reserve Bank. NPA operates under a charter reviewed and approved annually by the Reserve Bank Board. See the chapter on 'Governance and Accountability' for further detail about the governance of NPA.

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 also undertakes other activities, including developing and producing passports for the Department of Foreign Affairs and Trade, producing banknotes for other issuing authorities and producing other security products.

NPA's Executive Committee, comprising its Chief Executive Officer and the heads of NPA's nine business areas, is responsible for the operational and administrative management of NPA. As at the end of June 2020, NPA employed 278 permanent staff.

The annual financial accounts of NPA are consolidated with those of the Reserve Bank.

Reserve Bank of Australia
Senior Executive Leadership

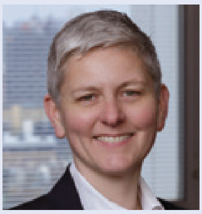
August 2020

Governor
Philip Lowe

Deputy Governor
Guy Debelle

Assistant Governor
Business Services
Lindsay Boulton

Assistant Governor
Corporate Services
Susan Woods



Assistant Governor
Economic
Luci Ellis

Assistant Governor
Financial Markets
Christopher Kent

Assistant Governor
Financial System
Michele Bullock

Reserve Bank of Australia Operational Structure

August 2020

Governor
Philip Lowe

Deputy Governor
Guy Debelle

Business Services

Assistant Governor
Lindsay Boulton

- Banking Department
  - **Head** *Michelle McPhee*
  - **Deputy Head** *Stephanie Connors*
- Note Issue Department
  - **Head** *Melissa Hope*
  - **Deputy Head** *James Holloway*
- Payments Settlements Department
  - **Head** *Greg Johnston*
  - **Deputy Head** *David Emery*; *Peter Gallagher*

Corporate Services

Assistant Governor
Susan Woods

- Workplace Department
  - **Head** *Bruce Harries*
  - **Deputy Head** *Ed Jacka*
- Information Technology Department
  - **Chief Information Officer** *Gayan Benedict*
  - **Deputy Head** *Julian Israel*; *Stephen Smith*

Economic

Assistant Governor
Luci Ellis

- Economic Analysis Department
  - **Head** *Bradley Jones*
  - **Deputy Head** *Lynne Cockerell*; *Merylin Coombs*; *Natasha Cassidy (Acting)*
- Economic Research Department
  - **Head** *John Simon*
  - **Deputy Head** *Adam Cagliarini*

- Audit Department
  - **Head** *Ross Tilly*
- Finance Department
  - **Chief Financial Officer** *Robert Middleton-Jones*
  - **Financial Controller** *Sam Tomaras*
- Human Resources Department
  - **Head** *Michael Andersen*
- Information Department
  - **Head** *Jacqui Dwyer*

Financial Markets

Assistant Governor
Christopher Kent

Domestic Markets Department

Head
Marion Kohler

Deputy Head
Andrea Brischetto
Carl Schwartz

International Department

Head
Alexandra Heath

Deputy Head
Matthew Boge
David Jacobs

European and New York Offices

European Chief Representative
Darryl Ross

New York Chief Representative
Michael Plumb

Financial System

Assistant Governor
Michele Bullock

Financial Stability Department

Head
Jonathan Kearns

Deputy Head
Darren Flood
Penny Smith

Payments Policy Department

Head
Tony Richards

Deputy Head
Sarah Harris
Chris Thompson

Risk and Compliance Department

Head
Keith Drayton

Secretary's Department

Secretary
Anthony Dickman

General Counsel
Catherine Parr

Deputy Secretary
Ellis Connolly

Deputy General Counsel
Peter Jones

Part 2:
Performance

'The first priority is to make sure people have jobs.

If they don't have jobs, it hurts the economy, it hurts society and it creates all sorts of problems. I think that should be our singular focus.'

Governor Philip Lowe,
Public Hearing before the House of Representatives Standing Committee on Economics, August 2020

Annual Performance Statement for 2019/20

I, as the accountable authority of the Reserve Bank of Australia, present the annual performance statement of the Reserve Bank for 2019/20, prepared under paragraph 39(1)(a) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). In my opinion, this annual performance statement accurately presents the performance of the Reserve Bank and complies with subsection 39(2) of the PGPA Act.

Philip Lowe
Governor, Reserve Bank of Australia
7 September 2020

Introduction

This performance statement outlines the key purposes of the Reserve Bank as set out in the 2019/20 corporate plan and provides the results of the measurement and assessment of the Bank's performance in achieving those purposes. Where necessary, additional context is provided, including an analysis of the significant factors that have contributed to the performance of the Bank in 2019/20.

Reserve Bank of Australia – Performance Summary 2019/20

Corporate Plan Purpose	Performance Objectives	Summary Performance Measures	Results
Monetary policy	Conduct monetary policy in a way that will best contribute to: • the stability of the currency • the maintenance of full employment • the economic prosperity and welfare of the people of Australia	Flexible medium-term inflation target to achieve consumer price inflation of between 2 and 3 per cent, on average, over time Foster sustainable growth in the economy	Consumer price inflation has averaged around 2½ per cent over the inflation-targeting period. Over the past five years, however, headline inflation has mostly been between 1¼ and 2¼ per cent, while measures of underlying inflation have mostly ranged between 1½ and 2 per cent. Headline inflation briefly turned negative in mid 2020 owing to the effect of declining oil prices and the temporary introduction of free childcare. Headline inflation is forecast to rebound to 3 per cent by mid 2021 before declining back to 1 to 1½ per cent in 2022 Growth in the economy had averaged around 2½ per cent over the five years prior to the pandemic, and the unemployment rate had declined from around 6¼ per cent around mid 2015 to be around 5¼ per cent in early 2020. Prior to the COVID-19 outbreak, growth in the economy was a little below average, at 2¼ per cent over 2019, but was recovering. Over the first half of 2020, the spread of COVID-19 infections in Australia resulted in a sharp contraction in GDP of around 7 per cent; the unemployment rate rose to 7½ per cent in July 2020 See the Bank's quarterly *Statement on Monetary Policy* for details
Financial stability	Support overall financial stability	A stable financial system that is able to support the economy	The financial system has been able to help buffer the economy from the severe effects of the COVID-19 pandemic by allowing affected households and businesses to defer their repayment obligations, and by continuing to supply credit to support economic activity. Financial institutions have been able to do this because their financial resilience improved significantly over the past decade, in particular from mandated increases in capital and liquidity management enhancements. The supply of credit has also been supported by the package of monetary policy measures announced by the Bank in March 2020 and various other initiatives by governments and financial regulators
		Work with the Council of Financial Regulators (CFR) agencies to identify and appropriately address evolving systemic risks	The Bank intensified its contact with the other CFR agencies during the pandemic to support a coordinated response. In addition, the CFR issued statements that outlined its discussions and provided a collective assessment of the Australian financial system

Reserve Bank of Australia – Performance Summary 2019/20

Corporate Plan Purpose	Performance Objectives	Summary Performance Measures	Results
Financial stability (continued)	Support overall financial stability (continued)	Assess and communicate risks to financial stability, including through the Bank's half-yearly *Financial Stability Review*	The Bank has continued to assess financial stability risks. This has been enhanced by extending the Bank's stress-testing and scenario analysis to assess more explicitly household and business sector vulnerabilities, as well as those in the banking sector. The Bank communicates its assessments of these and other risks through the half-yearly *Financial Stability Review*, *Bulletin* articles and speeches
Financial Market operations	Achieve cash rate target	Overnight cash rate consistent with the target each business day	The overnight cash rate was equal to the target on all business days until late March 2020. Since then, the cash rate drifted somewhat below the target as a result of the significant increase in liquidity in the financial system owing to the Bank's package of policy measures in response to the COVID-19 pandemic. This was an expected result of the policy package and consistent with the aim of reducing funding costs in the Australian economy
	Manage reserves to portfolio benchmarks	Portfolio managed within small deviations around the asset and duration benchmarks	Deviations from the benchmarks were small and in line with pre-defined tolerances
	Intervene in foreign exchange market as appropriate	Publish data and explanations of any interventions	No foreign exchange market intervention was conducted
Payments and infrastructure	Support competition and efficiency in the payments system and financial system stability	Maximise the competitiveness of the payments market, subject to maintaining financial system stability. Policy work focusing on the strategic priorities identified by the Payments System Board	In 2019/20, the Bank: • promoted competition in the market for card payment services through least-cost routing and transparency in merchant pricing • promoted the uptake of fast payments using the New Payments Platform (NPP) • participated in international initiatives to enhance the efficiency and competitiveness of cross-border payments
		Monitor the outcomes for consumers and businesses following past reviews of the regulatory framework for card payments	In 2019/20, the Bank focused on: • the provision of least-cost routing functionality to merchants • understanding differences in payment costs across merchants and card schemes • the operation of the surcharging framework • the implications for merchants and consumers of the rise of 'buy now, pay later' services • undertaking its three-yearly Consumer Payments Survey to better understand changes in payments behaviour

Reserve Bank of Australia – Performance Summary 2019/20

Corporate Plan Purpose	Performance Objectives	Summary Performance Measures	Results
Payments and infrastructure (continued)	Support competition and efficiency in the payments system and financial system stability (continued)	Commence work on a comprehensive review of the regulatory framework for card payments, focusing on promoting competition and low-cost payments	The Bank commenced a Review of Retail Payments Regulation with the publication of an Issues Paper and the start of a stakeholder consultation period in November 2019. The Review was initially expected to be completed by late 2020, but was put on hold in March 2020 owing to the COVID-19 pandemic and is expected to be completed in 2021
		Work with industry on plan to modernise payment messaging standards	The Bank completed an industry consultation (jointly with the Australian Payments Council) on the strategy for domestic migration to the ISO 20022 messaging standard in February 2020. The Bank has been participating in the industry-led migration project
		Work with industry and the Australian Prudential Regulation Authority (APRA) to develop disclosure standards for operational performance	The Bank made progress on work with the industry on an enhanced reporting and disclosure framework for retail payments operational incidents. However, this work was put on hold in March 2020 owing to the COVID-19 pandemic and is expected to be completed in 2021
	Stability in the provision of financial market infrastructure (FMI) services	Stability of FMI service provision. Assess Reserve Bank Information and Transfer System (RITS) and licensed clearing and settlement facilities (CS) against relevant standards. Establish recommendations and regulatory priorities as appropriate for each high-value payment system and CS facility based on these assessments	Assessments of RITS and all licensed clearing and settlement facilities (other than for CME) have been completed and published. The CME assessment was postponed for 12 months following the reprioritisation of work in response to the COVID-19 pandemic. Where necessary, the Bank has set regulatory priorities for facilities and monitored responses
		Monitor whether additional FMIs should be subject to supervision or oversight by the Bank	The Bank completed its annual review of whether any payment systems other than RITS and CLS should also be subject to ongoing oversight and assessment against the Principles for Financial Market Infrastructures (PFMI), concluding that no other systems should be included
		Develop proposals for enhancements to the FMI regulatory regime, including crisis management powers	The CFR consulted on proposed reforms to enhance the regulatory regime for a range of FMIs. The CFR has prepared advice to the Government on those proposals

Reserve Bank of Australia – Performance Summary 2019/20

Corporate Plan Purpose	Performance Objectives	Summary Performance Measures	Results
Payments and infrastructure (continued)	Stability in the provision of financial market infrastructure (FMI) services (continued)	Contribute to international policy work on central counterparty resilience and FMI crisis management	Bank staff actively participated in international policy development and implementation on crisis management and the resilience of financial market infrastructures
		Adapt domestic regulatory standards in response to international developments. Support international supervisory cooperation	No change to domestic regulatory standards was required
	RITS operational reliability	RITS availability at 99.95 per cent during core hours	RITS availability was 100 per cent during core hours in 2019/20
		RITS Fast Settlement Service (FSS) availability at 99.995 per cent on a 24/7 basis, with most transactions processed in less than one second	FSS availability was 100 per cent on a 24/7 basis and the processing time for 95 per cent of FSS transactions was 66 milliseconds or less
	RITS cyber security	Ongoing investment and regular reviews and testing to support cyber resilience	The Bank's ongoing program of cyber resilience work helped underpin the reliable operation of RITS in 2019/20. The Bank continued to comply with the requirements of ISO 27001 and SWIFT's mandatory Customer Security Program. The Bank also conducted an industry cyber 'tabletop' exercise during 2019/20. The Australian National Audit Office published a performance audit of the Bank's cyber resilience in July 2019 and concluded that the Bank had effectively managed its cyber security risks
Banking	Ensure central banking services remain fit for purpose	Work with key stakeholders to maintain and improve, where possible, the central banking services provided to the Commonwealth of Australia	The Bank continued to work with the Department of Finance (Finance) on its multi-stage plan to modernise Commonwealth cash management. Phase 1 of the project, to enable Finance to make agency funding payments using the NPP, was completed in March 2020
	Satisfy financial performance benchmarks	Minimum return on capital for transactional banking business equivalent to the yield on 10-year Australian Government Securities plus a margin for risk	The Bank's banking services achieved the minimum required return on capital in 2019/20

Reserve Bank of Australia – Performance Summary 2019/20

Corporate Plan Purpose	Performance Objectives	Summary Performance Measures	Results
Banking (continued)	Progress on activities to deliver convenient, secure, reliable and cost-effective banking services to customers	Provision of high-quality, cost-effective banking services to government and other official agency customers and, in turn, the public, supported by: • replacement of the Bank's core account maintenance system using a modern programming language and architecture • continued development of banking services and systems, including NPP capabilities • delivery of open and secure integration services via Application Programming Interfaces (API) for agencies	In 2019/20, the Bank: • completed the work undertaken to embed and enhance the core banking system in August 2019 • continued to work with the industry to develop new NPP capabilities, most notably the Mandated Payment Service • assisted Services Australia to leverage existing NPP and API capability for payment processing and enquiry functionality • supported agency customers as they progressed through the development and implementation of new payment systems
Banknotes	Maintain the capacity of Australian banknotes to provide a safe, secure and reliable means of payment and store of value, as follows:	Maintain or improve public perceptions of Australian banknotes as measured in the Bank's survey	The counterfeiting rate was 13 parts per million in 2019/20, which is lower than in recent history and relatively low by international standards
	• Meet banknote demand	More than 95 per cent of banknote orders from commercial banks fulfilled by the Bank within three days of the request	100 per cent of orders were fulfilled on the day requested in 2019/20. In response to the COVID-19 pandemic, the Bank made available its contingency distribution site in Sydney for a short period in late March and early April in order to meet public demand
	• Increase security of Australian banknotes	Issuance of new $20 banknote with upgraded security features as part of Next Generation Banknote program	The new $20 banknote was released on 9 October 2019 as planned
	• Ensure high-quality banknotes	Banknote production orders by the Reserve Bank to be met by Note Printing Australia Limited within agreed quality parameters	82 per cent of orders were met by Note Printing Australia Limited on time and to the required quality standard in 2019/20. The shortfall was due to an agreed deferral to assist NPA in meeting export orders, and minor delays in the production of banknotes owing to the COVID-19 pandemic
		Maintain quality of banknotes in circulation above the minimum quality standard agreed with industry	The quality of banknotes in circulation remained at a high level in 2019/20, as measured by the Bank's quality standards. The measurement of quality, however, was interrupted by the COVID-19 pandemic from February 2020

Monetary Policy

Purpose

It is the duty of the Reserve Bank Board to ensure that the monetary and banking policy of the Bank is directed to the greatest advantage of the people of Australia and that the powers of the Bank are exercised in a way that, in the Board's opinion, will best contribute to:

a. the stability of the currency of Australia

b. the maintenance of full employment in Australia

c. the economic prosperity and welfare of the people of Australia.

In support of this, the most recent *Statement on the Conduct of Monetary Policy* agreed by the Treasurer and the Governor, dated 19 September 2016, confirms the Bank's continuing commitment to achieving consumer price inflation between 2 and 3 per cent, on average, over time, consistent with its duties under the *Reserve Bank Act 1959*. Achieving the inflation target preserves the value of money and facilitates strong and sustainable growth in the economy over the longer term. This assists businesses and households in making sound investment decisions, underpins the creation of jobs and protects the savings of Australians. The *Statement on the Conduct of Monetary Policy* also recognises the importance of financial stability for a stable macroeconomic environment.

Results

Assessing the conduct of monetary policy during 2019/20 involves judging whether the policy decisions taken by the Reserve Bank Board, based on the information available at the time, were consistent with achieving the Bank's broad objectives.

Consumer price inflation has averaged around 2½ per cent over the inflation-targeting period. Over the past five years, headline inflation has mostly been between 1¼ and 2¼ per cent, while measures of underlying inflation have mostly ranged between 1½ and 2 per cent. Headline inflation briefly turned negative in the June quarter 2020 owing to the effect of declining oil prices and the temporary introduction of free childcare.

In 2019, prior to the COVID-19 outbreak, growth in the Australian economy was below trend but had been recovering and was expected to continue to pick up over 2020 and 2021 to be above estimates of trend growth in productive capacity. During 2019, employment growth had been relatively strong, but labour market participation rose by more than would be typically expected and there was ongoing spare capacity in the labour market. Over the first half of 2020, the spread of COVID-19 infections in Australia resulted in a sharp contraction in GDP of around 7 per cent, and by July 2020, the unemployment rate had risen to 7½ per cent. Both GDP and the labour market are expected to improve over 2020/21, but the pace of recovery is expected to be uneven and will remain highly dependent on containment of the virus.

Towards the end of 2019, the Reserve Bank Board reviewed the forecasts and monetary policy decisions it had taken over the previous year, including the reasons behind the forecast errors. GDP growth over 2019 had been weaker than initially expected, partly reflecting lower-than-expected growth in consumption and household disposable income. Weaker-than-expected growth in GDP and slower progress in reducing labour market spare capacity had contributed to consumer price inflation remaining a little below expectations and thus slightly below the Bank's target range. A decline in housing cost inflation to around historical lows and lower inflation in certain administered prices also weighed on inflation.

After leaving the cash rate unchanged since August 2016, the Reserve Bank Board lowered the cash rate by 75 basis points between June and October 2019, to 0.75 per cent. When the Board lowered the cash rate in October 2019, the forecasts suggested that it was likely that unemployment and inflation outcomes over the following years would remain short of the Bank's goals. The Board judged that lower interest rates would assist in reducing spare capacity in the labour market, which would be required for inflation to return sustainably to the Bank's target.

In early 2020, the Board needed to assess the effects of the COVID-19 outbreak on the economy and the functioning of the financial system. At the time the Board met on 3 March 2020, there was increasing evidence that the virus would cause major economic disruption globally but it was less clear how it would unfold in the Australian context. The Board decided to cut the cash rate by 25 basis points to 0.5 per cent at that meeting.

In response to the economic disruption caused by the spread of COVID-19, and with interest rates already at very low levels, on 19 March 2020 the Bank announced a package of policy measures to help to further lower funding costs across the economy, support the provision of credit, especially to small and medium-sized businesses, ensure that the financial system has plenty of liquidity and ensure the smooth functioning of key financial markets. The measures were introduced as part of a substantial, coordinated and unprecedented policy response by governments and financial regulators. The Bank's policy response included the following elements:

1. a reduction in the cash rate target to 0.25 per cent
2. a target for the yield on the 3-year Australian Government bond of around 0.25 per cent. The Bank commenced a program of buying government bonds in the secondary market as required to achieve this target and to address dislocations in the markets for Australian Government bonds and the bonds of the state governments
3. expanding the Bank's daily market operations in size and in maturity to ensure financial institutions had plentiful liquidity
4. a Term Funding Facility for the banking system, with particular support for credit to small and medium-sized businesses
5. modifying the interest rate corridor system so that balances held in Exchange Settlement Accounts at the Bank earn 10 basis points, rather than zero.

The Board indicated that it did not plan to increase the cash rate target, or change the target on the 3-year Australian Government bond yield, until the economy was making progress towards full employment and the Board was confident that inflation would be sustainably within the 2–3 per cent target band. The Board's expectation, though, was that the yield target would be removed before the cash rate is increased.

The Governor's statement and the minutes following the monetary policy meetings provide further details of the Reserve Bank Board's assessment of economic developments, the outlook and monetary policy decisions. A brief summary of analysis by the Bank of these issues is provided below. Further details of this analysis are provided in the Bank's quarterly *Statement on Monetary Policy*, the Governor's regular appearances before the House of Representatives Standing Committee on Economics, and speeches by the Governor and other senior Bank officials.

Analysis

In the second half of 2019, policy decisions were made in the context of significant uncertainty around the global economy, which included slowing growth in Australia's major trading partners and continuing trade and technology disputes. Despite tight labour market conditions in the major advanced economies, inflation generally remained below central bank targets. Central banks had lowered interest rates in a number of economies to respond to downside risks to their outlooks and subdued inflation.

During 2019, the Australian economy had been navigating a soft patch but was recovering, supported by accommodative monetary policy and the earlier depreciation of the exchange rate. The earlier decline in housing markets had weighed on consumption by more than had been initially anticipated; with the housing market recovering in the second half of the year, consumption growth was expected to pick up over 2020. Mining investment reached a trough in mid 2019, marking the end of the decline that followed the mining boom, and mining investment was expected to pick up over the following few years. Employment growth was reasonable over 2019 and early 2020. The participation rate rose a little to be around its historical high and, as a result, the unemployment rate remained around 5–5¼ per cent. Wages growth remained subdued. Consumer price inflation increased to 2¼ per cent in the March quarter 2020, although underlying inflation pressures remained subdued. Bushfires in the latter part of 2019 and early 2020 had a significant effect on regional communities, and resulted in a modest subtraction from GDP growth.

Over the second half of 2019, the Reserve Bank Board had considered a range of risks to the outlook and their implications for the required stance of monetary policy. For the global economy, the risks for the outlook were generally tilted to the downside. A potential re-escalation in trade tensions and uncertainty about how quickly growth in output in China might pick up in response to stimulus measures were some specific risks that were considered. For the domestic economy, the risks to the outlook were relatively balanced; however, it was likely that inflation and unemployment outcomes over the following few years would remain short of the Bank's goals. Ongoing spare capacity in the labour market was a particular concern; the potential for wage-setting norms to be anchored at a low level represented one downside risk, but it was also possible that wages growth could pick up faster than expected if labour market spare capacity was eroded faster than assumed.

In 2020, the COVID-19 pandemic dramatically shifted the economic landscape both in Australia and abroad. Measures implemented to contain the spread of the virus resulted in sizeable economic contractions in most economies over the first half of the year; a recovery had commenced in most economies since around May, but a number of economies were also forced to contend with fresh outbreaks of the virus, including Australia. The sharp contraction in activity in the first half of 2020 came at a time when inflation pressures were already subdued globally and in Australia. The shock was accompanied by temporary dysfunction in financial markets and a substantial decline in oil prices.

Following the onset of the pandemic, the outlook for the global economy deteriorated significantly and involved a high degree of uncertainty. The main source of uncertainty related to the evolution of the virus and potential medical advances; a resurgence in new cases had led to a decline in economic activity, partly because of a partial reinstatement of containment measures in some economies, including Australia. On the other hand, many advanced economies were being supported by unprecedented fiscal stimulus and significant monetary stimulus, providing critical support during the recovery.

The contraction in the Australian economy over the first half of 2020 was very large by historical standards, but not quite as large as initially feared. The speed of economic recovery in Australia also remained highly uncertain and would depend to some extent on the speed of global recovery. The recovery would also depend on a range of domestic factors, including the need for measures to contain fresh outbreaks of the virus, as well as the confidence of firms and households to spend and re-hire workers. The Reserve Bank Board also considered that there could be some long-lasting effects from the period of social and economic disruption, including lasting behavioural changes and shifts in business models.

Pressures that have weighed on wage and price inflation over recent years are likely to persist in the period ahead. The necessary containment measures that were introduced to limit the spread of the virus in Australia have added to ongoing spare capacity in the labour market, as seen in the marked rise in unemployment and underemployment rates, and it is uncertain how quickly this spare capacity will decline. Wages growth, which had been unusually slow over recent years, is expected to ease in the near term as a result of some employers introducing wage freezes or pay cuts. Some administered prices have also been increasing at a slower rate than usual over the past year or so as governments have taken steps to contain cost of living pressures, and this will weigh on inflation if it were to continue. Housing-related inflation is currently near historical lows, and the outlook is quite uncertain.

Financial Stability

Purpose

The Reserve Bank has a responsibility for fostering overall financial stability in Australia. This stems partly from the Bank's duties to exercise its powers in a way that will best contribute to 'the maintenance of full employment in Australia' and 'the economic prosperity and welfare of the people of Australia'. Given the serious damage to employment and economic prosperity that can occur in times of financial instability, the Reserve Bank Act has long had an implied mandate to pursue financial stability. This mandate has been made more explicit by successive governments. The Treasurer and the Governor recorded their common understanding of the Bank's longstanding responsibility for financial system stability, as part of the *Statement on the Conduct of Monetary Policy*.

The Bank works with other regulatory bodies to foster financial stability. The Governor chairs the Council of Financial Regulators (CFR) – comprising the Bank, the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission (ASIC) and the Australian Treasury – whose role is to promote the stability of the Australian financial system and support effective and efficient regulation by Australia's financial regulatory agencies. The Bank's central position in the financial system, and its position as the ultimate provider of liquidity to the system, gives it a key role in financial crisis management, in conjunction with the other members of the CFR.

The Bank's operations in domestic financial markets, discussed in the Financial Market Operations section below, and oversight and operational roles in the payments system, discussed in the Payments and Infrastructure section below, also contribute to the stability of the financial system.

Results

The Australian financial system remained resilient in the face of the deep economic contraction arising from the COVID-19 pandemic. This resilience has allowed the financial system to continue to perform its function of supporting economic activity. The strength of the financial system when it entered this period supported this outcome. This was, in part, a result of significant regulatory reforms that took place in response to the global financial crisis. In addition, the Reserve Bank acted quickly to alleviate strains in the financial system as they arose. The Bank's initial responses, announced in mid March, aimed to ensure that Australia's financial markets continued to operate effectively (see the Financial Market Operations section below). They also sought to ensure that credit was available in the economy, including with a new Term Funding Facility (TFF), which provided authorised deposit-taking institutions (ADIs) with access to low-cost funding, particularly for those that increased their lending to small and medium-sized businesses. With these measures, the Bank was fulfilling its mandate to maintain overall financial system stability so that it could support the economy.

With the Governor as Chair of the CFR, the Bank worked closely with the other CFR agencies to coordinate appropriate financial sector policy actions. The Bank's analysis of the economic and financial impact of the pandemic was shared and discussed with the other CFR agencies. The CFR agencies issued several statements to highlight their COVID-19 responses and other key messages. These combined efforts supported APRA and ASIC, the direct regulators of ADIs and most other financial institutions, in performing their supervision of these entities' financial and operational capacity. This also contributed to overall financial stability and the continued provision of credit in the economy.

As part of its routine operations, the Bank works closely with other CFR agencies on crisis preparedness to ensure a coordinated response. This includes processes for managing the resolution of a distressed financial institution. In addition, the CFR and the Trans-Tasman Council on Banking Supervision (TTBC), which comprises the CFR agencies and their New Zealand counterparts, periodically organise crisis simulation exercises to test the arrangements and amend protocols as required. The most recent TTBC crisis simulation exercise was carried out in September 2019 and focused on crisis management communication arrangements.

The Bank's April 2020 *Financial Stability Review* focused on the stability of the financial system given the onset of the COVID-19 pandemic. It noted that, while the pandemic had caused significant strains in the global financial system, the Australian financial system was well placed to manage them. In particular, the banking system was well capitalised and had significant liquid assets, and substantial financial buffers were available to be drawn down if required to support the economy. It also highlighted that regulatory authorities were working closely together to reduce the economic damage caused by the pandemic and that, partly as a result of the strong starting position of Australia's banking system, the nation's financial system has the ability to absorb, rather than amplify, the effects of the pandemic.

Towards the end of 2019/20, financial markets and broader financial sector conditions settled. This followed the measures put in place to ease strains in financial markets and ensure the supply of credit, a substantial fiscal response, and the easing of restrictions that had helped to contain COVID-19 across most parts of Australia. Credit continued to be supplied to households and businesses, and interest rates on outstanding housing loans declined. Banks facilitated the deferral of loan repayments for over 10 per cent of households and around 20 per cent of small and medium-sized businesses.

In 2019/20, the Bank continued to review other potential sources of risks to the financial system, including climate change, and especially those that could be exacerbated during the pandemic. For example, with many staff working from home and from different locations during the crisis, financial institutions faced increased operational risks, including IT and cyber risks. The Bank remained alert to these risks, including via its supervision and oversight of financial market infrastructures (discussed in the Payments and Infrastructure section below).

As discussed in the October 2019 *Financial Stability Review*, the level of household debt is a longstanding risk for the Australian financial system. The financial resilience of households and businesses during the pandemic has been a key focus of the Bank. The pressures affecting households' finances included the loss of employment and income, while many businesses have experienced significant disruption to their operations from measures to control COVID-19. None of these risks, on their own, appears likely to be the source of significant financial instability in the near term, given the substantial policy response, the overall resilience of households, businesses and banks, and the financial system more generally.

The Bank is a member of several international regulatory bodies, and continued to contribute to their work on financial stability in 2019/20. Like their domestic counterparts, these groups quickly reprioritised their work programs to address the unprecedented challenges posed by the pandemic. They sought to assess the pandemic's financial implications across markets and financial entities, determine how the pandemic may affect existing global vulnerabilities or give rise to new ones, and to share information on domestic developments and policy measures implemented. In addition, these bodies deferred the implementation of certain global regulatory reforms so as to allow firms to focus resources on responding to the pandemic. The Governor and other senior executives participated in these discussions, for example through the G20, several Financial Stability Board bodies (the Plenary, Steering Committee and Standing Committee on Assessment of Vulnerabilities), and the Basel Committee on Banking Supervision (BCBS). Other Bank staff participated as members of various committees and working groups. For further information, see the chapter on 'International Financial Cooperation' in this annual report.

Analysis

Several factors supported the performance of the financial system in 2019/20, notwithstanding the sizeable shock caused by the pandemic. Fundamentally, the Australian financial system was resilient prior to the COVID-19 crisis and therefore was well placed to deal with it. In particular, the domestic banks had large capital and liquidity buffers. The financial system was in this strong position partly because over the past decade APRA has worked with financial institutions to boost their capital and to reduce their liquidity risks. Australia's financial institutions were also profitable and had low levels of problem loans.

The improvement in lending standards seen over recent years, reflecting in large part regulatory actions by APRA and ASIC, has contributed to the resilience of lenders to risk. This also enhanced the resilience of households and businesses seeking credit, so that they too were generally better placed to withstand the financial stress brought on by the pandemic and the steps required to contain its spread. More generally, the broader operating environment also benefited from the regulators' actions, such as waiving some regulatory requirements on lenders, and lenders in turn supporting their borrowers. Indeed, the strong cooperative actions of lenders, retailers and households complemented government support measures and regulatory actions, which underpinned confidence and helped maintain stability in the overall financial system.

The central role of the CFR was an important element of an effective response by the Reserve Bank and other financial regulators to the pandemic during 2019/20. While it does not have formal powers, the strong cooperative culture embodied in the CFR helped Australia's financial regulators work together effectively. Contact across the four agencies intensified at both senior executive and working levels, allowing for better informed and coordinated responses. This coordination also enabled a comprehensive and consistent message to be delivered to the public about the risks posed by the pandemic, the effects on the financial system and the approach of regulators – including through the Bank's *Financial Stability Review*.

The analysis conducted by the Bank on the financial system helped to inform the Bank's executive and the Reserve Bank Board, other CFR members and the government as they formulated their response to the COVID-19 pandemic. In turn, the Bank's close monitoring of developments benefited from having access to a wide range of supervisory data on financial institutions. This included the modernised 'Economic and Financial Statistics' (EFS) collection, which is compiled by APRA on behalf of the Australian Bureau of Statistics (ABS) and the Bank. The EFS allows trends in broad aggregates related to ADIs and other financial institutions to be assessed. The Bank also drew upon its detailed knowledge of household and business balance sheets, to assess their resilience and to identify areas of potential vulnerability. This benefited from access to data from the ABS, the Bank's securitisation dataset, and data from a range of other data providers. The Bank's stress-testing model has provided important insights into the capacity of the banking system to withstand a downturn, and supported APRA's own stress-testing work. In addition, legislative changes in 2018, that expanded the coverage of financial firms reporting data to APRA, have enabled the Bank to better understand potential vulnerabilities at lenders that are not prudentially regulated. The Bank also extended its modelling capacity by establishing new stress-testing frameworks to analyse more directly both household and non-financial business sector risks.

Financial Market Operations

Purpose

The Reserve Bank has a sizeable balance sheet, which will continue to be managed through financial market operations in support of the Bank's policy objectives.

The Bank's operations in domestic financial markets are conducted to ensure that the cash rate is consistent with the target set by the Reserve Bank Board and that there is sufficient liquidity in the domestic money market on a daily basis. This promotes the objectives of monetary policy as described in the Monetary Policy section above and the stable functioning of the financial system, in particular the payments system.

The Bank's foreign reserves are held to give the Bank the capacity to intervene in the foreign exchange market. In particular, the foreign reserves enable the Bank to address any apparent dysfunction in the foreign exchange market and/or a significant misalignment in the exchange rate, consistent with the objectives of monetary policy. Such interventions occur rarely. Regular transactions in the foreign exchange market are, however, conducted to manage these reserves, to assist in liquidity management in domestic markets and to provide foreign exchange services to the Bank's clients (the largest of which is the Australian Government; see the Banking section below).

Results

The cash rate was equal to the target on all business days until late March 2020. At that time, the Reserve Bank introduced a package of policy measures in response to the COVID-19 restrictions (see the Monetary Policy section above). These measures resulted in higher system liquidity and, as expected, led to the cash rate, which reflects overnight interbank lending rates, drifting a little below the target. The lower cash rate was consistent with the aim of the package of reducing funding costs in the Australian economy.

The Bank manages its foreign reserves portfolio to a benchmark. During 2019/20, the portfolio was managed so that any deviations around the benchmark for exchange rate and interest rate risk were small and in line with pre-defined tolerances.

The Reserve Bank did not intervene in the foreign exchange market during 2019/20.

Analysis

The cash rate is the rate at which banks borrow from and lend to each other on an overnight, unsecured basis. The Reserve Bank operates a corridor system around the cash rate target. Under this system, the balances that banks hold with the Bank overnight in Exchange Settlement (ES) Accounts earn an interest rate set at a margin below the cash rate target (the floor of the corridor). And at the top of the corridor, when a bank needs to borrow from the Bank overnight, it is charged an interest rate set at a margin above the cash rate target. In this corridor system, banks have no incentive to borrow in the cash market at a rate higher than the top of the corridor (as they could borrow more cheaply from the Bank) nor lend at a rate below the floor of the corridor (as they could earn more by holding ES balances with the Bank).

Until the package of policy measures implemented in mid March 2020, the Bank altered the volume of ES balances so as to keep the cash rate as close as possible to the prevailing cash rate target each day. Following the package of policy measures, the volume of ES balances has increased substantially. As a result, and as expected, the cash rate has drifted below the cash rate target, but remained above the floor of the corridor. This is consistent with the aim of the Bank's policy package of ensuring that funding costs in the Australian economy are very low.

As part of the policy package, the floor of the corridor was increased relative to the cash rate target. This adjustment was made because of the very large increase in ES balances resulting from the package of policy measures. In the absence of this change, the ES balances held by banks with the Bank would have earned a zero interest rate, which would have increased the costs to the banking system, working against the aim of the package.

The package of policy measures has been working broadly as expected. It has helped to ease financial market conditions and improve functioning in government bond markets, which serve as important pricing benchmarks for many financial assets. The policy measures have reduced Australian banks' funding costs and encouraged a reduction in housing and business interest rates, which have all reached historic lows. Lenders have also taken steps to ease loan repayment burdens for households and businesses whose incomes have been affected by the COVID-19 disruptions. Since April 2020, there has been less demand for liquidity in the Bank's daily open market operations, given the large amount of liquidity that has been provided through the package of policy measures and as financial conditions have stabilised. The Bank did not purchase bonds from early May through to the end of June 2020, with the target for the 3-year Australian government bond yield achieved over that period and market functioning returning to more normal levels.

The COVID-19 pandemic led to episodes of heightened volatility and illiquidity in foreign exchange markets, including for the Australian dollar. This was most apparent in March 2020. The Bank's assessment was that the impairment in market functioning at this time was sufficiently short-lived that it was not necessary to support liquidity for Australian dollars by intervening in the foreign exchange market.

US dollar funding pressures emerged within global financial markets following the outbreak of COVID-19. A temporary US$60 billion swap line with the US Federal Reserve was established in March 2020, allowing the Bank to exchange Australian dollars for US dollars. The Bank made the US dollars available to Australian market participants through repos against Australian dollar-denominated securities. Usage of the swap line was modest as local market participants were able to continue meeting any US dollar funding needs in the market.

Payments and Infrastructure

Purpose

There are several distinct aspects to the Reserve Bank's role in the payments system, including those of policymaker, overseer and supervisor, and owner and operator of key national payments infrastructure.

In relation to the policymaking role, it is the duty of the Payments System Board to ensure that the Reserve Bank's payments system policy is directed to the greatest advantage of the people of Australia, and to ensure that the powers of the Bank under the *Payment Systems (Regulation) Act 1998* and the *Payment Systems and Netting Act 1998* are exercised in a way that, in the Board's opinion, will best contribute to:

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

In addition, it is the Payments System Board's duty to ensure that the powers and functions of the Reserve Bank under Part 7.3 of the *Corporations Act 2001* are exercised in a way that, in the Board's opinion, will best contribute to the overall stability of the financial system. These powers and functions relate to the supervision of central counterparties and securities settlement facilities, which are key components of the central infrastructure that supports financial markets. The Bank's payments policy area also acts as overseer of Australia's high-value payment system, the Reserve Bank Information and Transfer System (RITS).

The Bank's operational role in the payments system is effected through its ownership and management of RITS (including the Fast Settlement Service (FSS)), which is used by banks and other approved institutions to settle their payment obligations efficiently on a real-time, gross settlement basis. This ensures that there is no build-up of settlement obligations associated with high-value transactions and thereby promotes the stability of Australia's financial system.

The Bank's work in these areas supports its other work directed towards fostering overall financial stability (see the Financial Stability section above).

Results

Developments in the Australian payments system and the Bank's recent policy activities are discussed further in the *Payments System Board Annual Report 2020*.

The Reserve Bank has continued to monitor the impact of its card regulatory requirements on competition and efficiency in the payments system. In November 2019, the Bank launched a comprehensive Review of Retail Payments Regulation with the publication of an Issues Paper. It was originally anticipated that the Review would be completed by late 2020, but it was put on hold in March in order to reduce the demands on industry stakeholders during the COVID-19 pandemic, and is expected to be completed in 2021.

The Bank's standards for card payment interchange fees and surcharging have been helping to contain payment costs for merchants. Average merchant fees for debit and credit card payments have declined further over the past year. To help merchants control their payment costs and promote competition between schemes, the Bank has continued to encourage the provision of least-cost routing functionality, whereby merchants can choose to route contactless transactions on dual-network debit cards to the lowest-cost processing network. While all of the major acquirers are now offering some form of least-cost routing functionality, the Bank has been encouraging acquirers to make it widely available and improve awareness of it among their entire merchant customer base. As part of the Review, the Bank has also been exploring other policy options to strengthen competition in the market for acquiring services, including measures to enhance transparency of merchant pricing and make it easier for merchants to get a better deal.

The Bank has been monitoring the response of NPP Australia Limited (NPPA) and its participants to the recommendations on New Payments Platform (NPP) access and functionality contained in the Bank's report with the Australian Competition and Consumer Commission (ACCC) published in June 2019. NPPA has responded to all of the recommendations, including introducing some changes to its participation requirements and governance arrangements and publishing a roadmap of future NPP functionality that its participants have agreed to develop. The Bank has been encouraging financial institutions to complete the roll-out of their NPP services and to work collaboratively on the development of the new capabilities outlined in the NPP roadmap.

The Bank has been working with the industry to improve the efficiency and security of the Australian payments system by migrating to the data-rich International Organization for Standardization (ISO) 20022 payments messaging standard that is increasingly being adopted overseas. Together with the Australian Payments Council, the Bank undertook an industry consultation on the domestic migration approach and published the Conclusions Paper in February. This set out the agreed project scope, migration strategy, governance arrangements and timeline for the domestic migration. The industry-led migration project has commenced and is governed by a steering committee comprised of senior industry representatives, including one from the Bank.

As part of its efforts to improve the operational reliability of retail payments, the Bank began work with the industry and APRA to develop a set of standard operational performance statistics to be disclosed by individual financial institutions and reported to the Bank. The work was originally expected to be completed by late 2020, but was temporarily postponed in March 2020 in order to reduce the burden on industry stakeholders during the COVID-19 pandemic. The initiative is expected to be completed in 2021.

In November 2019, the CFR issued a consultation paper on a package of proposed reforms to the regulatory regime for financial market infrastructures (FMIs). The proposals related to the licensing and supervision of clearing and settlement (CS) facilities, market operators, derivative trade repositories and benchmark administrators, as well as a resolution regime for CS facilities. Following consultation, the CFR prepared advice to Government on those proposals.

The Bank published annual assessments of each of the licensed CS facilities (with the exception of the Chicago Mercantile Exchange Inc. (CME)) as part of its ongoing oversight of these facilities. Assessments were published for the ASX CS facilities in September 2019 and for LCH Limited's SwapClear service in December 2019. In these assessments, the Bank judged that all the entities had conducted their affairs in a way that causes or promotes overall stability in the Australian financial system, or had made progress against regulatory priorities set by the Bank. The Bank also set out a series of regulatory priorities for each of the facilities for the subsequent year. As a result of the reprioritisation of work in response to COVID-19, the CME assessment was postponed by 12 months, taking into account the entity's profile in Australia. In June 2020, the Bank published its annual assessment of RITS against the *Principles for Financial Market Infrastructures*, concluding that RITS observed all relevant principles other than Operational Risk, which was assessed to be broadly observed by RITS.

In support of the Bank's oversight approach and of its policy framework, Bank staff also participated in international policy development on crisis management and resilience of FMIs and monitoring the implementation of international standards. No change was required to domestic regulatory standards in 2019/20 as a result of international developments.

As the owner and operator of RITS, the Bank seeks to ensure that this system operates with extremely high levels of reliability and security, while also adapting to the needs of a 24/7 payments world. For RITS, the system availability target is 99.95 per cent during core system hours, while for the Fast Settlement Service (FSS), the system availability target is 99.995 per cent on a 24/7 basis. In 2019/20, both systems achieved their targets, with RITS and FSS availability both at 100 per cent. FSS met its target to complete settlement of most transactions in less than one second, with 95 per cent of FSS transactions processed in 66 milliseconds or less.

The Bank is committed to ensuring that RITS is well protected from cyber attack and has an ongoing program of work to maintain high levels of cyber resilience. In July 2019, the Bank's payment settlement systems were recertified under the ISO 27001 standard for Information Security Management and, in September 2019, the Bank completed its independently assessed compliance attestation to the SWIFT Customer Security Controls Framework with full compliance to all mandatory controls. The Australian National Audit Office published a performance audit of the Bank's cyber resilience in July 2019 and concluded that the Bank had effectively managed its cyber security risks. In late 2019, the Bank conducted a cyber 'tabletop' exercise with a range of industry participants to rehearse existing contingency procedures, with a focus on communication and collaboration arrangements in the event of an attack on participants' payments systems. The Bank has also engaged an external vendor to conduct a risk assessment of the external connections to RITS and recommend enhancements to current security requirements.

Analysis

The Reserve Bank's work in the payments area in 2019/20 occurred in an environment of continued shifts in consumer payments away from the use of cash and cheques and towards cards and other electronic means of payment. There has been rapid technological change and innovation, with new payment products and services being adopted, which can improve the convenience and security of payments to end users, but also bring particular risks and competitive issues into sharper focus. Innovation has also supported the entry of new players into the payments system, with implications for efficiency and competition. The long-term decline in the use of cash for transactions, has highlighted the importance of maintaining secure, resilient and competitive electronic payment services. The security environment for payments has also been evolving, with the growing digitisation of payments raising various types of fraud, scams and cyber risks that need to be managed in order to support confidence in payments.

The Bank's work in the payments area in 2019/20 was heavily affected by the COVID-19 pandemic. In order to reduce the demands on industry stakeholders at a time when they were focused on dealing with the impact of COVID-19, the Bank put on hold its Review of Retail Payments Regulation and the work on developing a new reporting and disclosure framework for retail operational incidents.

The Bank also took steps to reduce potential operational risk associated with the altered operational environment for itself, RITS members and major feeder systems. As the majority of the Bank's staff transitioned to working-from-home arrangements, a small number of personnel occupying critical roles remained on site at each of the Bank's two operating centres to support RITS operations and the Bank's back office settlement operations. Additional personnel were trained and certified to fill critical roles in the event a large number of Bank staff were infected with or exposed to the virus. The Bank also communicated with RITS members and major RITS feeder systems to advise them of the Bank's arrangements and noting RITS member obligations for continuing their own effective operations. Despite the potential risks associated with the changed working arrangements and heightened settlement activity in March 2020, both RITS and FSS continued to operate smoothly throughout the pandemic.

Banking

Purpose

Insofar as the Commonwealth of Australia requires it to do so, the Reserve Bank must act as banker for the Commonwealth. The Bank's banking services fall into two components – services provided in its capacity as the central bank and banking services provided as the transactional banker to the Australian Government and some of its agencies. In common with many other central banks, the Bank also provides banking and custody services to a number of overseas central banks and official institutions. The banking services offered to the Australian Government and other central banks include payments and collections as well as general account maintenance and reporting.

Results

In providing banking services to Australian Government agencies, the Reserve Bank must cost and price these services separately from its other activities. In addition, the return on providing these services must meet an externally prescribed minimum rate of return on capital over a business cycle. At present, this measure, equivalent to the 10 year yield on Australian Government Securities plus a margin for risk, is the Bank's principal measure of financial performance for its transactional banking business. In 2019/20, the Bank met the prescribed rate. Pro forma accounts for the transactional banking business are published in the Banking and Payment Services chapter of this annual report.

As the provider of the Commonwealth's Official Public Account, the Bank works closely with both the Department of Finance (Finance) and the Australian Office of Financial Management to ensure the central banking services it provides remain fit for purpose. The Bank continued to work with Finance on its multi-stage plan to modernise Commonwealth cash management. Phase 1 of the project, which was to implement NPP capability for whole-of-government funding payments, was completed in March 2020. This means Government agencies can access their funds in near real-time during business hours and on weekends if required.

During 2019/20, the seven-year project to upgrade the Bank's account maintenance system and banking systems was completed. The Bank continued to leverage its new Application Programming Interface (API) Gateway implemented in 2018/19, which facilitates fast, secure and automated messaging between the Bank and its customers. Specifically, the Bank assisted Services Australia with leveraging existing API and NPP overlay capabilities to make real-time payments and payment enquiries. In addition, the Bank has continued to participate in the ongoing industry work on further developing NPP services.

The Bank's upgraded banking systems and NPP capabilities enabled the Bank to process a larger volume of payments as part of normal business activities, notably following the Australian bushfires during the summer of 2019/20 and the COVID-19 pandemic.

Analysis

The banking and payments landscape has continued to evolve, particularly in the area of payment services. The ongoing development of NPP capabilities allows the community to use this new functionality through the delivery of real-time digital services. Government agencies continue to push ahead with their own initiatives to improve service delivery and achieve productivity gains. Those initiatives that will affect the Bank include: the Services Australia's Welfare Payment Infrastructure Transformation (WPIT) Program; collections and payments programs for the Australian Taxation Office; and Finance's project to modernise Commonwealth cash management. During 2019/20, the Reserve Bank continued to ensure that it remained in a position to respond appropriately with convenient, secure, reliable and cost-effective services as the provider of both central banking and transactional banking services to the Australian Government.

Banknotes

Purpose

The Reserve Bank is responsible for the issue, reissue and cancellation of Australian banknotes. Its primary purpose in carrying out this role is to maintain the capacity of Australian banknotes to provide a safe, secure and reliable means of payment and store of value. The Bank works with its wholly owned subsidiary, Note Printing Australia Limited (NPA), to design and produce banknotes. The Bank distributes banknotes to financial institutions, monitors and maintains banknote quality in circulation and withdraws unfit banknotes from circulation. It also monitors and analyses counterfeiting trends and conducts research into banknote security technology.

Results

The Reserve Bank aims to fulfil 95 per cent of banknote orders received from the major commercial banks within three days of the request; during 2019/20, 100 per cent of orders were fulfilled on the day requested. The Bank activated its contingency arrangements in March 2020 with the short-term use of the Sydney site for banknote distribution. This opening was in response to heightened demand for banknotes in the face of domestic transport restrictions associated with the COVID-19 pandemic, and the Bank's intent to support the private sector in moving cash to the right places to ensure there was adequate total supply across the country.

The Bank's key initiative to enhance banknote security is the release of the new banknote series with upgraded security features. Work on the Next Generation Banknote program continued during 2019/20, with the new $20 banknote entering circulation on 9 October 2019 as planned. The Bank implemented a targeted communication strategy to assist with public recognition of the new banknotes. The Bank has been working closely with the cash-handling industry to understand the impact of COVID-19 disruptions on their ability to prepare their machines and be ready for the new $100 banknote release, which is scheduled to enter circulation in late 2020.

The Bank continued to monitor Australian banknote counterfeiting rates, which remained low by international standards. The estimated counterfeiting rate was 13 parts per million in 2019/20, after having peaked at around 30 parts per million in 2014/15. The Bank also continued to monitor international developments in counterfeiting. This was assisted by engagement with other central banks and international organisations.

NPA met 82 per cent of the Bank's orders for new series banknotes, to the required quality standard and as per the agreed delivery schedule. The shortfall of 18 per cent was the result of an agreed deferral to assist NPA in meeting export orders, and minor delays in the production of $5, $20 and $100 banknotes owing to the COVID-19 pandemic. These will be delivered in the 2020/21 banknote order. This shortfall in the banknote order did not compromise the Bank's ability to meet public demand or jeopardise its target contingency stock of banknotes.

The quality of banknotes in circulation, as measured by the Bank in agreement with commercial banks, was broadly unchanged at a high level in 2019/20. The measurement of quality, however, was interrupted by the pandemic from February 2020 onwards.

Analysis

While the proportion of payments made using banknotes is declining relative to electronic payments, the number and value of banknotes on issue continued to rise over 2019/20. This increase was driven in part by a sharp rise in demand associated with the COVID-19 pandemic, which is likely to reflect the importance of cash as a store of value in times of uncertainty and dislocation. The Reserve Bank has continued to meet demand for banknotes by ensuring orders are fulfilled, including by temporarily making available its contingency distribution site in Sydney soon after the onset of the pandemic. The release of the new series of banknotes with upgraded security features is expected to maintain public confidence in banknotes. Australia's level of counterfeiting remains low by international standards.

Operations in Financial Markets

The Reserve Bank operates in domestic and international financial markets in order to achieve its policy objectives. These operations include implementing the monetary policy decisions of the Reserve Bank Board, facilitating the smooth functioning of the payments system, managing the nation's foreign exchange reserve assets and providing banking services to clients (mainly the Australian Government as well as foreign central banks).

Following the outbreak of COVID-19, in late February and through March there was a very sharp rise in the volatility of asset prices in Australia, as in other economies, as the economic outlook deteriorated and uncertainty increased. There were also periods of dysfunction across a number of financial markets, most notably government bond markets. In this environment, in mid March, the Reserve Bank Board announced a comprehensive package of policy measures to lower funding costs across the economy, to support the provision of credit, especially to small and medium-sized businesses, and to ensure the smooth functioning of key financial markets. The policy measures comprised:

- a 25 basis point cut in the cash rate to 0.25 per cent. This followed a reduction of 25 basis points earlier in March
- a target for the 3-year Australian Government bond yield of around 0.25 per cent, with purchases of government bonds in secondary markets to help achieve the yield target and address dislocations in government bond markets
- a Term Funding Facility (TFF) for the banking system, under which authorised deposit-taking institutions (ADIs) have access to funding from the Reserve Bank for three years at 25 basis points, with additional funding available if ADIs increase lending to businesses, especially small and medium-sized businesses
- Exchange Settlement (ES) balances at the Reserve Bank to be remunerated at 10 basis points, rather than zero, to mitigate the cost to the banking system associated with the large increase in banks' ES balances resulting from the above measures

The Reserve Bank also expanded its daily open market operations in size and in maturity in response to the large increase in demand for liquidity from the banking system and announced that it would continue to do so as long as market conditions warranted.

The policy measures have been working broadly as expected. They have helped to ease financial market conditions and improved functioning in government bond markets. The policy measures have reduced Australian banks' funding costs and supported a reduction in housing and business interest rates, which have all reached historic lows.

Lenders have also eased loan payment burdens for households and businesses whose incomes are affected by the disruptions brought about by the pandemic. Since April, the provision of liquidity through daily open market operations has declined as demand has abated, in part because a large amount of liquidity is being provided through the other policy measures. The Bank also scaled back its bond purchases in May and June, with market functioning returning to more normal levels and the yield target for the 3-year Australian Government bond achieved over that period.

Monetary policy implementation

Prior to 19 March 2020, the Reserve Bank Board's sole operational target for monetary policy was the cash rate – the rate at which banks borrow and lend to each other on an overnight, unsecured basis. The Board lowered the cash rate target four times during 2019/20, from 1.25 per cent at the start of the financial year to 0.25 per cent by the end of the financial year. Following the Bank's policy measures taken in response to the economic and financial effects of COVID-19 in March, including the provision of a large amount of liquidity to the banking system, the cash rate traded below the cash rate target and activity in the cash market declined. This was as expected and is discussed further below.

The funds traded in the cash market are the balances held by financial institutions in their Exchange Settlement Accounts (ESAs) at the Reserve Bank. These accounts are held by around 100 financial institutions and are used to settle payment obligations between these institutions. The aggregate level of ES balances changes as a result of payments made or received by customers of the Bank (principally the Australian Government) and ESA holders, and as a result of transactions undertaken by the Bank on its own behalf. These include undertaking repurchase agreements (repos) collateralised with eligible securities, buying or selling government securities on an outright basis, or using foreign exchange (FX) swaps involving Australian dollars.

A portion of ES balances arise from 'open repos'. These are repos contracted without a maturity date with the Reserve Bank by financial institutions to meet their liquidity needs outside of normal banking hours. As these balances are remunerated at the cash rate target and are held to facilitate the effective operation of the payments system, they have no implications for the implementation of monetary policy. At the end of June 2020, these balances were $28 billion. The remainder of ES balances, referred to as surplus ES balances, fluctuated between around $2 billion and $3 billion over the first eight months of 2019/20. As a result of the policy measures announced in mid March 2020 and in response to economic and financial market uncertainty, surplus ES balances rose significantly as banks' demand for cash increased. The Reserve Bank supplied cash via repos and outright bond purchases, with surplus ES balances reaching $89 billion in April. Surplus ES balances subsequently declined as financial conditions became more settled and demand for liquidity moderated, and stood at $46 billion at the end of June 2020. These changes are discussed further below.

As noted above, in response to the economic and financial disruption caused by the COVID-19 pandemic, on 19 March 2020 the Reserve Bank Board announced an additional monetary policy target – for the 3-year Australian Government bond yield to be around 0.25 per cent – to be achieved by purchasing government securities outright in the secondary market. Government bonds were also purchased to address market dislocations. As with the other components of the Reserve Bank's policy package, the aim of this policy was to lower funding costs across the economy, to support the provision of credit, and to ensure the smooth functioning of key financial markets. The Bank commenced purchases of Australian Government bonds and securities issued by the state and territory central borrowing authorities (known as semi-government securities or semis) on 20 March 2020. These purchases were conducted via a competitive reverse auction process, where the Bank announced which bond lines it intended to purchase and the total amount, and asked market participants to submit offers to sell that suite of bonds during a 5-minute window. By the end of June 2020, the Reserve Bank had purchased $40.25 billion of Australian Government bonds and $11.10 billion of semis. An additional policy tool was the TFF, which provides collateralised funding to ADIs at an interest rate of 25 basis points for a term of three years, also with the aim to lower funding costs across the economy and support the provision of credit. These policy tools are discussed further below.

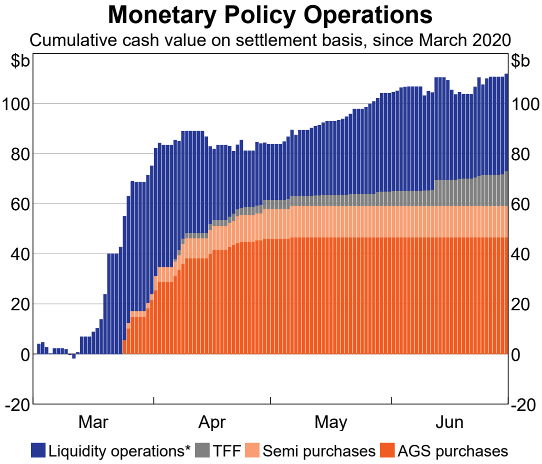
Open market operations

The Reserve Bank undertakes transactions in domestic financial markets to implement the policy decisions of the Reserve Bank Board and facilitate the smooth functioning of the payments system. Conventionally, an important aspect of implementing policy decisions involves the Reserve Bank transacting in domestic financial markets in its open market operations (OMO) to keep the standard operational target for monetary policy – the cash rate – consistent with the target set by the Reserve Bank Board. The cash rate is the interest rate on unsecured overnight loans between banks. The Reserve Bank is able to control the supply of funds in this market through transactions, affecting both the cash rate and liquidity provision to the financial system.[1]

An important class of transactions that the Bank conducts in the domestic market are repos contracted as part of its regular morning OMO. Repos involve the purchase of high-quality collateral securities where the Bank acquires the securities for a period of time in return for providing cash (i.e. funds deposited into an ES account). As a result, there is very little risk of the Bank suffering financial loss in its OMO. The securities accepted by the Bank include securities issued by the Australian Government, the Australian states and territories, and certain approved international sovereign and supranational issuers. Securities issued by ADIs, asset-backed securities and corporate bonds are also eligible for repo in the Reserve Bank's OMO, with eligibility for corporate bonds widened in May as discussed below.

In conducting its operations, the Reserve Bank takes account of the liquidity needs of the financial system as well as of the pricing of the bids and offers received in the OMO dealing round. During the first eight months of 2019/20, the repo transactions conducted in these operations had an average maturity at origination of around 30 days and a maximum term of around three months. The Bank lent cash under repo to banks, insurance companies, non-bank securities firms and government institutions. From March 2020, in response to increased demand for liquidity by the banking system the Bank substantially increased the amount and maturity of its daily open market operations. The Bank provided as much as $50 billion of additional liquidity through repos and the average maturity of these repos at origination increased to around 75 days with a maximum term of around six months. As the banking system's initial surge in demand for liquidity was met by a significant increase in supply, and as demand eased with improvements in financial conditions more generally, the amount and maturity of the Bank's daily market operations declined.

1 The Bank publishes the aggregate results of its OMO dealing rounds on market data services and on its website. See <https://www.rba.gov.au/statistics/tables/>.



* Liquidity injections net of drains and maturities; mainly contracted in OMOs and FX swaps

Source: RBA

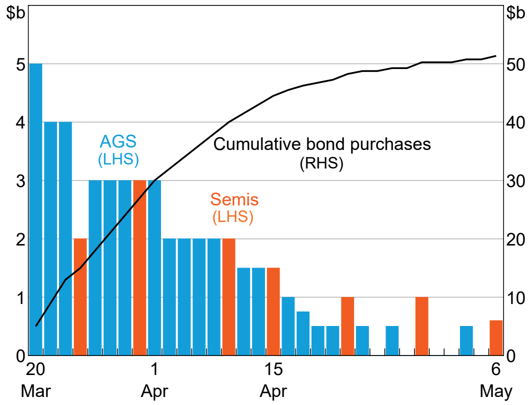
The Reserve Bank has the option of undertaking further rounds of market operations in the late afternoon, if required. Such additional rounds were announced, on average, four times per month during the first eight months of 2019/20, usually to inject additional liquidity into the system. In early March, additional rounds were frequently undertaken to withdraw excess liquidity from the system, after significant liquidity was injected in the regular morning dealing rounds. (Terms for these operations are typically shorter than the morning operations, with a maximum term of seven days over the past year.) However, no additional dealing rounds were conducted after 19 March 2020 as high surplus ES balances, and the associated downward pressure on short-term interest rates, were an intended effect of the Reserve Bank's accommodative monetary policy stance.

The Reserve Bank can also use foreign exchange swaps when managing system liquidity (swapping Australian dollars for foreign currencies increases the supply of ES balances in the same way as a repo transaction).[2] Over the first eight months of 2019/20, the amount of foreign currency held under swaps against Australian dollars ranged between $3 billion and around $25 billion. After early March, no new foreign exchange swaps were contracted because they became relatively expensive as stresses emerged in short-term US dollar funding markets. There was also less need to use swaps in managing system liquidity, because liquidity provided by other transactions rose substantially and the focus of daily market operations shifted away from stabilising ES balances.

As noted, the policy package announced on 19 March 2020 included purchases of longer-dated AGS and semis to achieve the yield target for the 3-year Australian Government bond of around 0.25 per cent and to address dysfunction in government bond markets. Between 20 March and early May 2020 these purchases amounted to $51.3 billion in face value. The purchases were spread across maturities of 1 to 10 years. The Bank's initial auctions in March entailed daily purchases of $4–5 billion worth of bonds. This was scaled back through April and early May as the yield target for the 3-year Australian Government bond was met and the functioning of government bond markets steadily improved. No bond auctions were judged to be required over the remainder of May and in June 2020. Auctions were well subscribed. Most bonds were bought at a higher yield (lower price) compared with prevailing mid-market yields (prices), indicating that the Bank's bond purchases helped to balance the supply and demand in these markets. In particular, the Bank's

2 While the use of foreign exchange swaps increases the Reserve Bank's holdings of foreign exchange, it has no effect on net foreign reserves, as the increased holdings of foreign exchange are matched with a commitment to sell foreign exchange at a predetermined price and date. For the same reason, the use of swaps has no effect on the exchange rate.

RBA Bond Purchases*



* Face value

Sources: RBA; Yieldbroker

bond purchases helped to alleviate the capacity constraints on bond dealers' balance sheets.[3]

The Reserve Bank also purchases near-dated government securities on an outright basis to assist in the management of large AGS maturities. This reflects the Bank's need to mitigate the system liquidity impact on the day when a bond matures arising from the funds that are paid out of the Australian Government's account at the Bank into ESAs (for the credit of the security holder). These purchases for liquidity management purposes are carried out for securities that have less than 18 months to maturity. To offset the liquidity effect of AGS maturities, the Bank purchased $8.2 billion of the October 2019 bond and $10.7 billion of the April 2020 bond prior to their maturity.

The Reserve Bank continues to operate a Securities Lending Facility on behalf of the Australian Office of Financial Management (AOFM). The securities available through the facility comprise all Treasury Bonds and Treasury Indexed Bonds currently on issue. The Bank lends these securities under intraday or open repos to the Reserve Bank's Information and Transfer System members eligible to participate in the Bank's domestic market operations. The Reserve Bank is also prepared to lend securities from its outright portfolio under repo in response to enquiries from eligible counterparties.

Term Funding Facility

ADIs have access to three-year funding through the Reserve Bank's TFF at a fixed rate of 25 basis points. This is substantially lower than ADIs' marginal cost of funding around that same maturity. For example, the estimated cost of sourcing three-year unsecured funding in domestic wholesale debt markets for the major banks was around 0.75 per cent at the end of June 2020, and somewhat higher for the non-major banks.

In addition to reducing ADIs' funding costs, the TFF aims to encourage ADIs to support businesses during a difficult period by providing access to additional low-cost funding if they expand their lending to businesses, with incentives particularly strong for lending to small and medium-sized enterprises (SMEs).

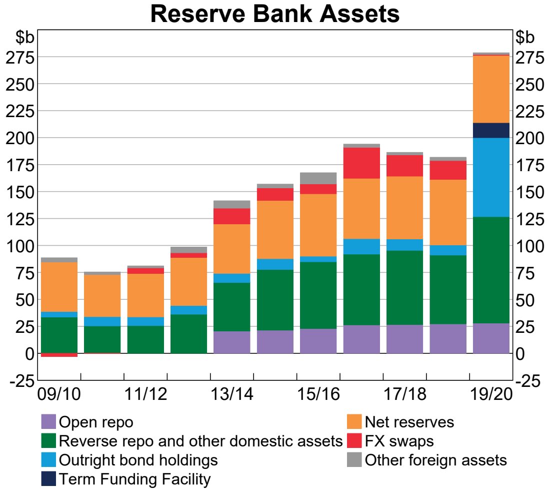
The total allowance available under the TFF to ADIs at the end of June 2020 was $135.1 billion. This comprised two components: initial allowances, which totalled $84 billion, which were fixed at the start of the scheme to be equivalent to 3 per cent of each ADI's total credit outstanding; and additional allowances, which totalled $51.1 billion at the end of June 2020, which are updated monthly and based on growth in each ADI's business lending. In particular, an ADI's additional allowance increases by one dollar for every extra dollar lent to large businesses and by five dollars for every extra dollar lent to SMEs. Under the rules of the TFF announced in March 2020, initial allowances were available for ADIs to draw down until end September 2020, and additional allowances until end March 2021.

3 The bond purchases were explained further in a speech by Deputy Governor Guy Debelle in June 2020. See <https://www.rba.gov.au/speeches/2020/sp-dg-2020-06-30.html>.

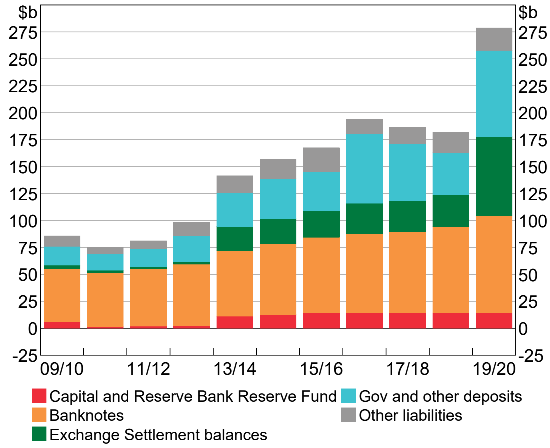
As at the end of June 2020, 62 ADIs – around half of those eligible – had accessed $14.4 billion of funding through the TFF. On average, those ADIs that had accessed the facility had used around half of their allowances. Most ADIs smoothed their take-up of the TFF over the drawdown windows, reflecting their strong funding positions prior to the pandemic, the large amount of liquidity available through other sources and their desire to smooth their maturities in 2023 (when the three-year TFF repos expire).

Balance Sheet

The Reserve Bank's balance sheet increased by $97 billion over 2019/20, due to the package of policy measures implemented since March 2020. The balance sheet ended the 2019/20 financial year at $279 billion, much larger than in recent years. On the assets side, government bond purchases, OMO, and to a lesser extent use of the TFF, resulted in an increase in securities held by the Bank outright and under reverse repo. On the liabilities side, ES balances rose significantly as a result of the Bank's purchases of government bonds and its OMO. Government deposits also rose significantly after the AOFM stepped up its issuance program and placed the proceeds on deposit at the Bank (ahead of using them to pay for government spending measures).



Source: RBA



Source: RBA

RBA Balance Sheet
$ billion, 30 June

	2019	2020
Assets	**182**	**279**
Foreign	81	65
Net reserves	61	62
FX swaps	17	1
Other	3	2
Domestic	100	214
Open repo	27	28
Outright bond holdings	9	73
Term Funding Facility	0	14
Reverse repo & other	64	99
Liabilities	**182**	**279**
Deposits	69	154
ES balances	29	73
Government & other	39	80
Banknotes	80	90
Other	19	21
Capital and Reserve Bank Reserve Fund	14	14

Source: RBA

Standing facilities

Separate from its OMO, the Reserve Bank also provides certain standing facilities, where eligible counterparties transact with the Bank on prearranged terms. These facilities are primarily to support the smooth functioning of the payments system, with liquidity made available via repos. The most frequently used standing facilities are those for the provision of intraday liquidity to ESA holders. The Bank can also extend overnight funding via repo where an ESA holder faces a shortage in ES balances that cannot be borrowed from another financial institution; such funding is extended at an interest rate of 25 basis points above the cash rate target. During 2019/20, these arrangements were used only occasionally, including for testing purposes and when an expected incoming cash payment to a bank was unexpectedly delayed owing to technical difficulties at another bank that prevented payments being made for a short period.

Open repos are provided under the Reserve Bank's standing facilities for ESA holders, and are mandatory for ESA holders that have to settle payment obligations outside normal business hours, such as 'direct-entry' payments and transactions through the New Payments Platform (see the chapter on 'Banking and Payment Services' for more detail). At the end of June 2020, 15 financial institutions had open repo positions with the Bank, valued at around $28 billion. To collateralise these open repos, the Bank has permitted the use of certain related-party assets issued by bankruptcy remote vehicles, such as self-securitised Residential Mortgage-backed Securities (RMBS).

Committed Liquidity Facility

Banks subject to the Liquidity Coverage Ratio (LCR) under Basel III prudential standards are required to hold sufficient high-quality liquid assets (HQLA) (which, in the Australian context, consist of AGS and semis) to meet outflows during a period of stress of 30 days. Given the relatively low levels of government debt outstanding in Australia in recent years, there has been a shortage of HQLA securities. To address this, the Reserve Bank provides some institutions with a contractual commitment to provide repo funding – the Committed Liquidity Facility (CLF) – subject to certain conditions. These conditions include a fee that financial institutions pay on the committed amount. In addition, any bank seeking to use the CLF must have positive net worth. The banks are able to contract these repos using securities eligible in the Bank's domestic market operations. The full terms and conditions of the facility are available on the Bank's website.[4]

The Reserve Bank administers the CLF, while the Australian Prudential Regulation Authority (APRA) determines which banks have access and the amount available (in aggregate and to each bank). During 2019/20, 15 banks were eligible to access the CLF, with their available CLF amounts counting towards their LCR requirements. The aggregate size of the CLF is the difference between APRA's assessment of banks' overall LCR requirements and the Bank's assessment of the amount of HQLA securities that could reasonably be held by the banking system, without unduly affecting market functioning.

In determining the amount of HQLA securities that LCR banks can reasonably be expected to hold, the Reserve Bank takes into account factors such as the total stock of HQLA securities, holdings of other market participants and the effect of LCR banks' holdings on the liquidity of HQLA securities in secondary markets. For the past few years, the stock of HQLA securities has risen and they have become more readily available in bond and repo markets. Given this, in 2019 the Reserve Bank assessed that the LCR banks can increase their holdings from 25 per cent to 30 per cent of the stock, commencing with an increase to 26 per cent in 2020 and increasing by 1 percentage point per year until 2024.

4 The CLF legal documentation is available at <https://www.rba.gov.au/mkt-operations/resources/tech-notes/pdf/clf-terms-and-conditions.pdf> and <https://www.rba.gov.au/mkt-operations/resources/tech-notes/clf-operational-notes.html>.

The total size of the CLF in 2020 was $226 billion, down from $243 billion in 2019. This was largely due to an increase in the value of HQLA securities that LCR banks can reasonably hold.[5] The Reserve Bank will conduct its assessment of LCR banks' reasonable holdings of HQLA securities for 2021 in late 2020.

The CLF fee is set so that the banks face similar financial incentives to meet their liquidity requirements through the CLF or by holding HQLA. From 2015 to 2019 the Reserve Bank charged a fee of 15 basis points per annum on the commitment to each bank. Following a review in 2019, the Bank assessed that the CLF fee should be increased gradually, to 17 basis points on 1 January 2020 and to 20 basis points on 1 January 2021.[6]

Eligible securities

In early May 2020, to assist with the smooth functioning of Australian capital markets, the Bank broadened the range of eligible collateral for its daily market operations to include Australian dollar securities issued by non-bank corporations with an investment grade credit rating.[7] Previously, the minimum requirements for repo eligibility of corporate securities were an average credit rating of AAA for long-term securities and A-1 for short-term paper. The broadening attracted considerable interest, with repo eligibility applications for 185 corporate securities across 71 corporate issuers received in the period to 30 June 2020.

To protect against a decline in the value of the collateral securities should the Bank's counterparty not meet its repurchase obligation, the Bank requires the value of the securities to exceed the cash lent by a specific margin. These margins, which are listed on the Bank's website, are considerably higher for securities that are not issued by governments.[8]

Participants in the Reserve Bank's market operations tend to be the fixed-income trading desks of banks and securities firms, as well as bank treasuries. Reflecting this, over half of the securities held by the Bank (excluding those under open repo and the TFF) are government-related obligations, with most of the remainder being bank-issued debt securities.

Domestic securities purchased by the Reserve Bank are held in an account that the Bank maintains in Austraclear, the central securities depository operated by the Australian Securities Exchange (ASX). Securities transactions conducted between the Bank and its counterparties are settled in the Austraclear system, mostly on a bilateral basis. The Bank also settles repo transactions contracted in its OMO within ASX Collateral, a collateral management service. During 2019/20, around 40 per cent of the value of securities the Bank purchased under repo was settled within ASX Collateral, up from around 36 per cent in 2018/19. The use of this system reduces the manual processing that would otherwise be required to manage this collateral, including marking it to market and maintaining margins.

Asset-backed securities form a significant share of the securities that the Reserve Bank purchases under open repo and under the TFF. Around 90 per cent of the outstanding value of open repos is backed by self-securitised RMBS, while for the TFF the figure is around 75 per cent. (Self-securitised RMBS are not eligible as collateral for daily OMO repos.) Self-securitised RMBS do

5 See <https://www.rba.gov.au/mkt-operations/committed-liquidity-facility.html>.

6 The adjustments made to the CLF were explained in a speech by Christopher Kent, Assistant Governor (Financial Markets), in July 2019, with further details provided in a *Bulletin* article. See <https://www.rba.gov.au/speeches/2019/sp-ag-2019-07-23.html> and <https://www.rba.gov.au/publications/bulletin/2019/sep/the-committed-liquidity-facility.html>.

7 See <https://www.rba.gov.au/mkt-operations/resources/tech-notes/eligible-securities.html>.

8 See <https://www.rba.gov.au/mkt-operations/resources/tech-notes/margin-ratios.html>.

not have directly observable market prices. As a result, the Bank uses an internal valuation model for self-securitised RMBS based on observed market prices of similarly structured RMBS; this internal model has been reviewed externally.

Asset-backed securities – particularly self-securitised RMBS – are also the major asset held as collateral for the CLF (see above). Given the importance of asset-backed securities to the Reserve Bank's operations, the Bank has mandatory reporting requirements for securitisations to remain eligible for repo. In 2019/20, the Bank received around 4,250 data submissions monthly on around 360 asset-backed securities from issuers or their appointed information providers. For eligible RMBS, this covers 2 million underlying individual housing loans with a combined balance of around $700 billion, which is around two-fifths of the total value of housing loans in Australia. The required data include key information on the structure of the RMBS and the relationships among counterparties within the RMBS structure; the required data also include anonymised information on each of the residential mortgage loans and the underlying collateral backing the RMBS structures.

Reflecting the Reserve Bank's interest in promoting transparency for investors in asset-backed securities, issuers are also required to make securitisation information available to investors and other permitted users. The data provided to these users are broadly similar to the data provided to the Bank; however, issuers may redact particular fields where the information poses a potential risk to privacy obligations and provide aggregated data instead. The mandatory reporting requirements allow the Bank (and other investors in RMBS) to analyse in detail the underlying risks in asset-backed securities and to price and manage risk for such securities accurately.

Australian Dollar Securities Held under Repurchase Agreements(a)

30 June

	2017		2018		2019		2020	
	$ billion	per cent of total	$ billion	per cent of total	$ billion	per cent of total	$ billion	per cent of total
AGS	43.8	43	49.9	48	36.5	37	47.4	31
Semis	6.2	6	8.7	8	12.7	13	25.2	16
Supranational	3.5	3	3.6	3	2.8	3	3.4	2
ADI issued	12.5	12	8.1	8	12.9	13	27.8	18
Corporate issued	0.0	0	0.0	0	0.0	0	0.3	0
Asset-backed securities	35.6	35	32.7	32	33.5	34	50.0	32
– Of which for open repo	33.5	33	32.3	31	32.4	33	32.4	21
– Of which for TFF	0.0	0	0.0	0	0.0	0	14.7	9
Other	0.6	1	0.6	1	0.4	0	1.1	1
Total	102.2	100	103.7	100	98.8	100	155.2	100
– Of which for open repo	35.7	35	34.2	33	34.5	35	35.3	23
– Of which for TFF	0.0	0	0.0	0	0.0	0	17.7	11

(a) Market value of securities before the application of margins; includes securities held under triparty repurchase agreements

Sources: RBA

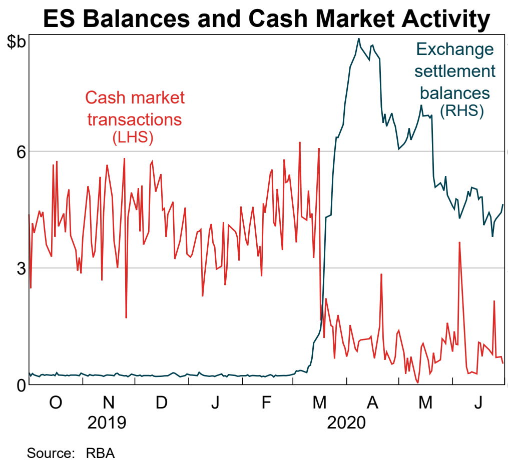
The cash rate

The Reserve Bank is the administrator of the cash rate, which is a significant financial benchmark referenced in overnight indexed swaps and the ASX's 30-day interbank cash rate futures contracts. The Bank publishes the Cash Rate Procedures Manual, which sets out the Bank's arrangements for administering the cash rate and the procedures for handling errors and complaints.[9] In 2020, the Bank made amendments to the Cash Rate Procedures Manual regarding fall-back procedures for the cash rate in case of insufficient cash market transactions to calculate a transaction-based cash rate reliably on any given day. The fall-back options are to use: the last cash rate published; or the new cash rate target should one be announced by the Reserve Bank Board; or another rate that reflects the interest rate relevant to unsecured overnight funds for cash market participants as determined by the cash rate administrator, in its expert judgement and based on market conditions.

In the first eight months of 2019/20 there was an average of 34 cash market transactions each day, with aggregate daily activity in the cash market averaging around $4 billion. The cash rate traded at the cash rate target throughout this period.

Activity in the cash market fell significantly following the large increase in ES balances beginning in March 2020, as had been expected. On several days activity was below the thresholds required to calculate a reliable cash rate based on market transactions. In accordance with the published fall-back procedures, the published cash rate on these days was the last cash rate published based on sufficient transactions (11 occasions), or another rate that reflected the interest rate relevant to unsecured overnight funds for cash market participants as determined by the cash rate administrator, in its expert judgement and based on market conditions (1 occasion).

From late March 2020, the traded cash rate declined below the target of 25 basis points, to stabilise at around 13–14 basis points, a little above the rate of 10 basis points at which the Bank remunerates ES balances.[10] The decline was an expected consequence of the mid-March 2020 policy package, which led to a rise in ES balances to be above the level needed to satisfy demand for cash. With supply greater than demand, the price to clear the cash market – that is, the cash rate – declined. This is consistent with the experience of other central banks that have pursued programs that significantly increased cash reserves in the banking system.



Foreign Exchange Operations

The Reserve Bank transacts in the foreign exchange market on almost every business day. The majority of these transactions are associated with providing foreign exchange services to the

9 See <https://www.rba.gov.au/mkt-operations/resources/cash-rate-methodology/cash-rate-procedures-manual.html>.

10 For many years in Australia, there had been a market convention for overnight cash market transactions to be conducted at the target cash rate. However, given the very high level of ES balances, with most banks' balances well above holdings sufficient for usual payment activities, this convention changed and market participants instead began to trade below the cash rate target of 25 basis points when lending cash overnight.

Bank's clients, the most significant of which is the Australian Government.

The Reserve Bank typically purchases the necessary foreign currency in the spot market. During 2019/20, the Bank bought $11 billion in the spot market to facilitate its customer business. However, the Bank retains the option – especially during periods of market stress – to use its existing stock of foreign currency reserves to fund its customer business, subsequently replenishing those reserves when market conditions have stabilised. Using foreign currency reserves in this manner has not been considered necessary since 2008, at which time global financial market functioning was significantly impaired. As a result, the Bank has not intervened in the foreign exchange market since 2008. The Bank nevertheless retains the discretion to intervene in the foreign exchange market to address any dysfunction and/or a significant misalignment in the value of the Australian dollar. At the time each Annual Report is published, intervention data for the year under review are published on the Bank's website.

During 2019/20, the outbreak of COVID-19 led to episodes of heightened volatility and illiquidity in the market for Australian dollars. This was most apparent in March 2020. The Bank's assessment was that the impairment in market functioning at this time was sufficiently short-lived and it was not necessary to support market liquidity through its own transactions.

The Reserve Bank also transacts in the foreign exchange market when managing its foreign currency reserves. As discussed below, the relative weightings of foreign currencies in the Bank's portfolio are tightly managed against a benchmark. To maintain the portfolio at these benchmark weights, or to accommodate discrete changes in the weights, the Bank transacts in spot foreign exchange markets. The final settlement of these rebalancing flows may be deferred through the use of foreign exchange swaps, whereby one currency is exchanged for another with a commitment to unwind the exchange at a subsequent date at an agreed (forward) rate. Swaps can also be an efficient way to manage the shorter-term investments within the reserves portfolio. During 2019/20, the Bank generally maintained around $20 billion in swaps for these purposes.

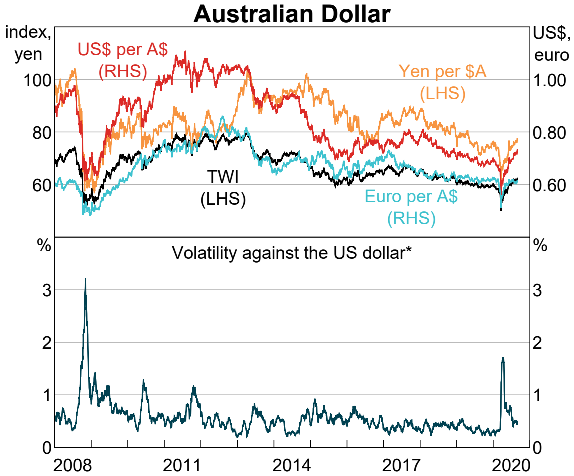
As discussed above, the Reserve Bank also makes use of foreign exchange swaps in its domestic market operations. Swapping Australian dollars for foreign currencies does not affect the exchange rate, but alters the supply of ES balances in the same way as the Bank's repo transactions. In 2019/20, the amount of foreign currency held under swaps against Australian dollars peaked at $29 billion, before declining to zero as the nature of the Bank's domestic market operations changed following the March policy announcements.

Foreign currency swaps executed by the Reserve Bank are generally for no more than three months' duration. The resulting forward foreign exchange positions with each of the Bank's counterparties are marked to market daily and collateral is held against net exposures. The terms under which collateral is exchanged are defined in two-way credit support annexes to the International Swaps and Derivatives Association (ISDA) Master Agreements that the Bank has executed with each of its counterparties (see the chapter on 'Risk Management' for more detail).

The Reserve Bank's activities in the foreign exchange market are conducted in a manner consistent with the principles of the FX Global Code. A 'Statement of Commitment to the FX Global Code' has been signed on behalf of the

Bank.[11] Further, the Bank transacts in the foreign exchange market only with counterparties that have also signalled their adherence to the code by signing such statements.

Australian Dollar



* Daily absolute percentage change, 22-day rolling average

Sources: RBA; Refinitiv

Reserves management

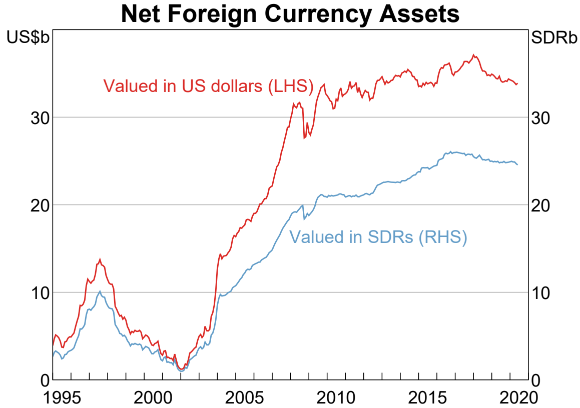
Australia's official reserve assets include foreign currency assets, gold, Special Drawing Rights (SDRs – an international reserve asset created by the International Monetary Fund (IMF)) and Australia's reserve position in the IMF. At 30 June 2020, these assets totalled $61.5 billion. All components of official reserve assets are owned and managed by the Reserve Bank, with the exception of Australia's reserve position in the IMF, which is an asset of the Australian Government.

Official reserve assets are held by the Reserve Bank to facilitate various policy operations, including in the foreign exchange market (described above) and to assist the Australian Government in meeting its commitments to the IMF (discussed below). The Bank's capacity to undertake such operations is best measured by its foreign currency assets net of any short-term forward commitments (such as foreign currency the Bank has obtained from short-term swaps against the Australian dollar). As at 30 June 2020, these net foreign currency assets were SDR24.6 billion or US$33.9 billion. (In Australian dollar terms, net foreign currency assets totalled $49.4 billion, a decrease of $0.1 billion since 30 June 2019, with earnings on assets offset by sales of foreign currency to the Australian Government to meet IMF commitments.) The amount held represents the level assessed as necessary to meet policy requirements.

To ensure a strong balance sheet, the Reserve Bank holds capital against certain risks arising from its reserve assets (see the chapter on 'Earnings, Distribution and Capital' for more detail). These assets can expose the Bank to market, liquidity and credit risk, which the Bank seeks to mitigate where possible, such as by holding a diversified portfolio and investing only in assets of high credit quality and appropriate liquidity (see the chapter on 'Risk Management' for more detail).

The composition of the Reserve Bank's net foreign currency assets is managed against an internally constructed benchmark that reflects the Bank's need to maintain effective intervention capacity. Subject to this constraint, and the Bank's

Net Foreign Currency Assets



Source: RBA

11 For the Reserve Bank's Statement of Commitment, see <https://www.rba.gov.au/mkt-operations/pdf/statement-of-commitment-to-fx-global-code.pdf>.

Foreign Assets
30 June 2020

	A$m
Official Reserve Assets	61,508
Foreign Currency	47,455
Gold	4,612
SDRs	6,351
Reserve Position in the IMF	3,090
Other Foreign Currency Assets	106
Net Forward Commitments	3,810
Foreign currency	1,806
Gold loans and swaps	2,002
Net Foreign Reserves	65,423
Memo item:	
Net Foreign Currency Assets	*49,366*

Source: RBA

overall risk tolerance, the benchmark is assessed to be the combination of foreign currencies and foreign currency assets that maximises the Bank's expected returns over the long run.

The structure of the benchmark is reviewed periodically and in response to significant changes in market conditions. Notwithstanding significant volatility in financial markets in early 2020, the existing structure of the benchmark portfolio remains suitable for the Reserve Bank's needs. Within the portfolio, the largest allocation is to the US dollar (55 per cent), reflecting the significant liquidity in US dollar currency and asset markets.

Given the extraordinarily low level of global interest rates, duration targets have remained short for most of the foreign currency portfolios. Short duration targets reduce the risk of capital losses in the event yields in these currencies increase in the future.

Investments in the benchmark currencies are limited to deposits at official institutions (such as central banks) and debt instruments issued (or guaranteed) by sovereign entities, central banks and supranational agencies. Debt instruments issued by quasi-sovereign entities can also be accepted as collateral under reverse repos.

Sovereign credit exposures are currently limited to the United States, Germany, France, the Netherlands, Canada, Japan, China, the United Kingdom and South Korea.

As has been the case for some years, when the cost of hedging currency risk is taken into account, yields on short-dated Japanese investments have generally exceeded those available in the other currencies in the Reserve Bank's portfolio. Reflecting this, when the Bank obtained foreign currency from swaps against Australian dollars during 2019/20, the bulk of it was Japanese yen.

The Reserve Bank also swaps other currencies in its foreign exchange reserves portfolio against the yen and South Korean won to enhance returns. As a consequence, while the Bank's exposure to changes in the value of the yen and won remains small (consistent with 5 per cent allocations in the benchmark to each of these currencies), an additional $16.4 billion of yen and

Benchmark Foreign Currency Portfolio
30 June 2020

	US dollar	Euro	Japanese yen	Canadian dollar	Chinese renminbi	UK pound sterling	South Korean won
Currency allocation (per cent of total)	55	20	5	5	5	5	5
Duration (months)	6	6	<3	6	18	3	18

Source: RBA

$2.5 billion of won was held at the end of June 2020 as a result of swaps against other foreign currencies in the portfolio.

A small component of the Reserve Bank's net foreign currency reserves sits outside the benchmark framework. These assets encompass investments in a number of Asian debt markets through participation in the Executives' Meeting of East Asia Pacific Central Banks (EMEAP) Asian Bond Fund Initiative. This initiative was established following the Asian currency crisis in the late 1990s to assist in the development of bond markets in the region. At the end of June 2020, the total allocation of the Bank's reserves to these funds was $760 million and the return on these investments since the end of June 2019 was 7.2 per cent when measured in SDR terms, largely reflecting interest earnings and capital gains on bond holdings.

Measured in SDRs, the overall return on the Reserve Bank's foreign currency assets over 2019/20 was 1.7 per cent. This return was broadly in line with returns observed in recent years, with a lower average level of yields on short-term securities offset by capital gains on securities as yields fell. The average running yield on the benchmark portfolio fell from 1.4 per cent to 0.1 per cent over 2019/20, driven by sharp falls in yields for most of the Bank's reserve currencies. Yields remained negative and relatively stable for the euro portfolio.

The Reserve Bank's holdings of SDRs at 30 June 2020 amounted to $6.3 billion, $0.2 billion higher than the previous year, mainly owing to the depreciation of the Australian dollar against the SDR. Under voluntary arrangements with the IMF, the Bank is willing to transact in SDRs upon request from other countries or prescribed holders. In these transactions, the Bank will generally either buy or sell SDRs in exchange for foreign currencies (such as euros or US dollars). While such transactions do not alter the level of Australia's reserve assets (only the respective proportions held in SDRs and foreign currency), the Bank may replenish foreign currency sold in exchange for SDRs by purchasing additional foreign currency against Australian dollars.

Australia's reserve position in the IMF comprises that part of Australia's quota in the IMF that is paid in foreign currency as well as other credit that Australia has extended to the IMF in support of its lending programs. At the end of June, Australia's reserve position in the IMF was $3.1 billion, $1.1 billion larger than a year earlier, mainly reflecting greater provision of foreign currency to the IMF. As noted above, Australia's reserve position in the IMF is not held on the Reserve Bank's balance sheet. However, the Bank will sell to (or purchase from) the Australian Treasury the foreign currency the Treasury needs to complete its transactions with the IMF. In contrast to other foreign exchange transactions with the Australian Government, the Bank will typically draw on (or add to) its foreign currency reserves when providing (or receiving) foreign currency for IMF-related purposes because these transactions do not alter the level of Australia's reserve assets. Nevertheless, as with SDR transactions, on certain occasions the Bank may offset the impact on foreign currency holdings of these IMF transactions by buying or selling foreign currency in exchange for Australian dollars.

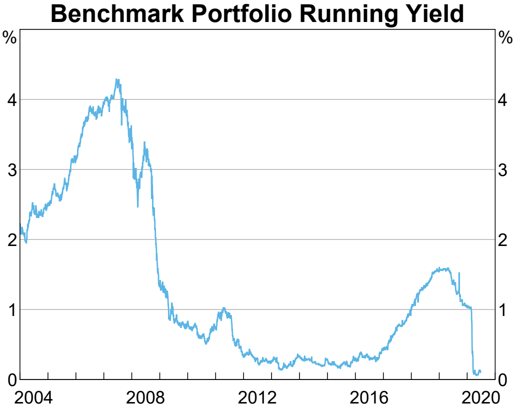
Gold holdings (including gold on loan) at the end of June 2020 were around 80 tonnes, unchanged from the previous year. Gold prices rose by 28.2 per cent in Australian dollar terms over 2019/20, increasing the value of the Reserve Bank's holdings of gold by around $1.4 billion to $6.6 billion. Returns from gold lending totalled $1.7 million, almost double the return of the prior year. The higher returns were due to an increase in lending activity, following the operationalisation

Foreign Currency Assets[(a)]
A$ million, 30 June 2020

Currency	Securities held outright	Securities lent under repurchase agreements	Deposits at official institutions[(b)]	Total (gross)	Forward FX commitments[(c)]			Total (net)
					Against A$	Against other currencies	Other	
US dollar	8,851	–	806	9,657	63	15,036	1,930	26,685
Euro	6,263	–	245	6,508	–14	2,481	821	9,796
Japanese yen	4,843	–	14,859	19,703	–	–16,398	–884	2,420
Canadian dollar	963	–	4	967	–	1,442	–	2,410
Chinese renminbi	2,105	–	329	2,433	–	–	–	2,433
UK pound sterling	2,429	–	6	2,436	–1	–48	–	2,387
South Korean won	4,927	–	6	4,933	–	–2,461	–	2,472
Total	30,382	–	16,256	46,638	48	51	1,867	48,604

(a) Excludes gold, special drawing rights, the reserve position in the IMF, investments in the Asian Bond Fund, balances with overseas banks, futures margins and non-reserve currency holdings
(b) Includes deposits at foreign central banks and the Bank for International Settlements (BIS)
(c) In accordance with IMF guidelines, 'forward commitments' reflect notional values of unsettled spot and forward transactions, converted to Australian dollars at the prevailing forward exchange rate. Other forward commitments largely reflect cash lent under repurchase agreements. This excludes forward commitments for non-reserve currencies and gold on loan.
Source: RBA

Benchmark Portfolio Running Yield



Source: RBA

of gold swaps, where the Reserve Bank's gold lending is fully collateralised by cash (either Australian dollars or foreign currency). The Bank's activities in the gold market are conducted in a manner consistent with the principles of the Global Precious Metals Code, and a 'Statement of Commitment to the Global Precious Metals Code' has been signed on behalf of the Bank.[12]

Bilateral currency swaps

In February 2020, the Reserve Bank renewed its bilateral local currency swap agreement with the Bank of Korea. The agreement with the Bank of Korea allows for the exchange of local currencies between the two central banks of up to A$12 billion or KRW 9.6 trillion. This agreement is for a further three years and can be extended by mutual consent. The Reserve Bank has similar agreements with the People's Bank of China, Bank Indonesia and the Bank of Japan. The purpose of these agreements is to allow each

12 For the Reserve Bank's Statement of Commitment, see <https://www.rba.gov.au/mkt-operations/pdf/statement-of-commitment-to-the-global-precious-metals-code-february-2019.pdf>.

central bank to support trade settlement in local currencies, particularly in times of market stress, or to support financial stability.

A temporary swap line with the US Federal Reserve was established in March 2020 as the COVID-19 outbreak led to US dollar funding pressures within global financial markets.[13] The Federal Reserve established temporary arrangements with eight other central banks at the same time, in addition to the standing US dollar swap lines it maintains with five major central banks. The Reserve Bank's US$60 billion swap line allowed it to exchange Australian dollars for US dollars. The US dollars were made available to Australian market participants through repos against Australian dollar-denominated securities. The US dollars were allocated by the Reserve Bank through an auction process, with the interest rate set by the Federal Reserve. Usage of the swap line was modest – amounting to only US$1.17 billion – as local market participants were able to continue meeting any US dollar funding needs in the market. The agreement with the Federal Reserve is due to expire in March 2021.

RBA Bilateral Local Currency Swap Agreements
June 2020

	Expiry	Size (A$b)
Bank of Indonesia	December 2021	10
Bank of Japan	March 2022	20
Bank Korea	February 2023	12
People's Bank of China	April 2021	40
US Federal Reserve	March 2021	87

Source: RBA

13 A prior swap agreement with the Federal Reserve expired in 2010.

Banking and Payment Services

The Reserve Bank provides banking and payment services to meet the needs of the Australian Government and to support the efficient and stable functioning of the Australian financial system. These services have underpinned the Government's measures to support Australian households and businesses during the COVID-19 pandemic by ensuring that financial assistance payments were processed quickly and reliably. A key ingredient in achieving this has been the Bank's systems. In August 2019, the Bank completed a number of multi-year projects to renovate and strengthen its banking and settlement capabilities. In addition to operating Australia's real-time gross settlement (RTGS) system, the Bank operates national infrastructure to support the settlement of real-time payments by households and businesses on a 24/7 basis. The Bank also developed services that enable the Australian Government to access 24/7 payment capabilities. These services are consistent with the Bank's strategic goal of providing innovative, high-quality banking and payment services to the Australian Government and its agencies and, in turn, the Australian public.

Transactional Banking Services

The Reserve Bank aims to deliver secure and efficient banking and payment arrangements to the Australian Government and its agencies.

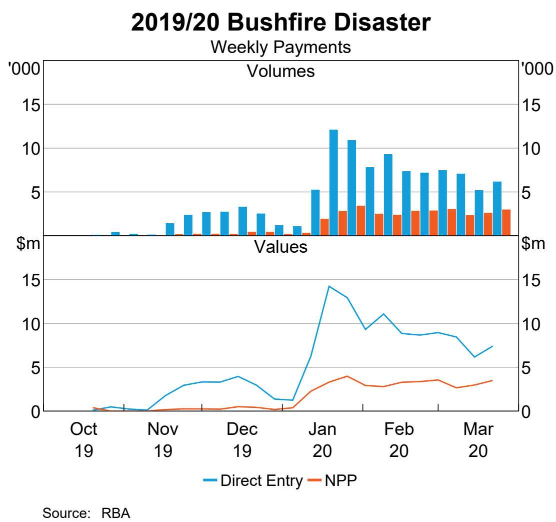
The provision of transactional banking services is consistent with the Reserve Bank's responsibilities under the *Reserve Bank Act 1959*, which requires the Bank to provide these services to the Australian Government if required. The key objective of the Reserve Bank's transactional banking function is to deliver secure, reliable and cost-effective services that meet the banking and payment needs of Australian Government agencies. Currently, the Bank provides transactional banking services to over 90 Australian Government agencies. While the Bank provides a broad range of payment and collection services, the bulk of the Australian Government's payments are made via the local low-value direct entry systems both domestically and overseas. The majority of these payments are welfare and pension payments made on behalf of Services Australia. The Australian Government also makes payments using a number of other methods, including NPP, RTGS, cheque, BPAY and prepaid cards. In 2019/20, the Bank processed around 326 million domestic and 1.1 million international payments, totalling $658 billion and $13 billion respectively. In line with broader industry trends, cheque payment volumes continued to decline, falling by a further 14 per cent over the course of 2019/20.

In addition, the Reserve Bank provides Australian Government agency customers such as the Australian Taxation Office (ATO) with access to a number of services through which they can collect monies owed from both domestic and international payers. These include direct entry, RTGS, BPAY, cheque, eftpos, cash, NPP and card-based services via the internet and phone. The Bank processed 39 million collections-related transactions for the Australian Government in 2019/20, amounting to $570 billion. Agencies continue to actively encourage customers to use more efficient electronic payment options with electronic payments now representing 99 per cent of all collections-related transactions in 2019/20.

As an Australian Government agency, the Reserve Bank's transactional banking services are subject to the Australian Government's competitive neutrality guidelines. To deliver such services, the Bank operates in a competitive environment, bidding for business via tenders conducted by the agencies themselves. The Bank must also cost and price the services separately from its other activities, including central banking services, and meet a prescribed minimum rate of return.

The nature of the transactional banking services offered by the Reserve Bank is evolving rapidly with changes in payments technology and business processes. As this is occurring, the Bank works closely with the industry to deliver new solutions. Bank staff also contribute to industry initiatives to ensure the interests of the Government, as a significant user of payment services, are represented. The Bank supports its government agency customers to embrace new technologies and processes to deliver convenient, reliable and cost effective payment options that meet the needs of their customers. For some services, the Bank combines its specialist knowledge of the government sector with specific services and products from commercial providers. In 2019/20, the Bank worked with Services Australia to expand the use of Application Programming Interface (API) services and NPP overlay capabilities for government payments. These capabilities enable full integration with government systems, facilitating real-time enquiry and payments processing. These new technologies and 24/7 capabilities introduced by the Bank ensure that the Government can meet the growing expectations of the community around reliability and speed of payments.

During extraordinary times the Australian Government uses the banking and payment services of the Reserve Bank to ensure timely support can be provided to affected households and businesses. This was demonstrated during the Australian bushfires during the summer of 2019/20, when the Bank processed and delivered more than 136,000 bushfire relief payments to affected people throughout the country with a total value of around $163 million. The number of bushfire relief payments processed was more than the total number of disaster recovery payments made in the 2018/19 financial year, including the Far North Queensland floods and Northern New South Wales bushfires.



During extraordinary times the Australian Government uses the banking and payment services of the Reserve Bank to ensure timely support can be provided to affected households and businesses

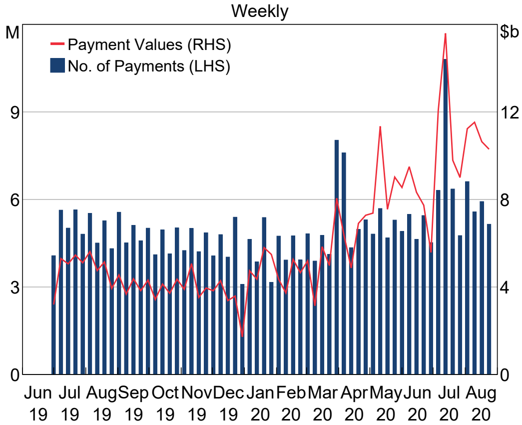
As part of its economic response to the COVID-19 pandemic, the Australian Government provided a number of stimulus measures to support households and businesses, including Economic Support Payments (ESP) and JobKeeper payments. The Reserve Bank supported the Government by ensuring payments were made quickly and efficiently. In addition, the Bank developed bespoke payment processing functionality for the ATO to streamline the JobKeeper payment process, ensuring there was no delay in delivering payments to eligible recipients.

The Reserve Bank has undertaken a significant program of work to upgrade its banking systems since 2012. The objective was to upgrade the account maintenance system and systems used to process government payments and collections to a more modern programming language and architecture. The seven-year upgrade project took place through several major releases and was completed in August 2019.

Pro forma business accounts for transactional banking are provided below. After-tax earnings from the Reserve Bank's transactional banking services were $4.7 million in 2019/20, $1.6 million lower than in the previous year.

Direct Entry Payments*

Weekly



* payments processed by the Reserve Bank for Centrelink welfare programs including Economic Support Payments and ATO tax payments including JobKeeper

Source: RBA

Pro forma Business Accounts

The following sets of accounts for the Reserve Bank's contestable businesses have been prepared in accordance with competitive neutrality guidelines. These accounts do not form part of the audited financial statements.

Transactional Banking

	2019/20 $ million	2018/19 $ million
Revenue		
– Service fees	114.4	122.8
– Other revenue	2.9	2.7
Total	117.3	125.5
Expenditure		
– Direct costs	110.7	116.9
– Indirect costs	0.0	0.0
Total	110.7	116.9
Net profit/(loss)	6.6	8.6
Net profit/(loss) after taxes[a]	4.7	6.3
Assets[b]		
– Domestic markets investments	2,674.0	3,024.2
– Other assets	26.9	39.2
Total	2,700.9	3,063.4
Liabilities[b]		
– Capital & reserves	25.0	25.0
– Deposits	2,663.5	3,023.2
– Other liabilities	12.4	15.2
Total	2,700.9	3,063.4

(a) In accordance with competitive neutrality guidelines, income tax expense has been calculated and transferred to the Commonwealth as a notional part of the Reserve Bank's annual profit distribution
(b) As at 30 June 2020
Source: RBA

Central Banking Services

As part of the central banking services that the Reserve Bank provides to the Australian Government, the Bank manages the consolidation of Australian Government agency account balances. The consolidation of balances requires the movement of agency account balances held with commercial financial institutions and with the Reserve Bank into the Official Public Account. Daily payment instructions from the Department of Finance (Finance) are processed to move funds from the Government's accounts with the Reserve Bank to agency bank accounts to meet their payment obligations. Over the course of the year, the Bank has been working with Finance on its multi-stage plan to modernise the Australian Government's cash management activities. Phase 1 of the project was completed in March 2020 and involved the implementation of New Payments Platform (NPP) capability to facilitate whole-of-government funding payments. As a result, Australian Government agencies are now able to access their funds in near real-time on a 24/7 basis if required.

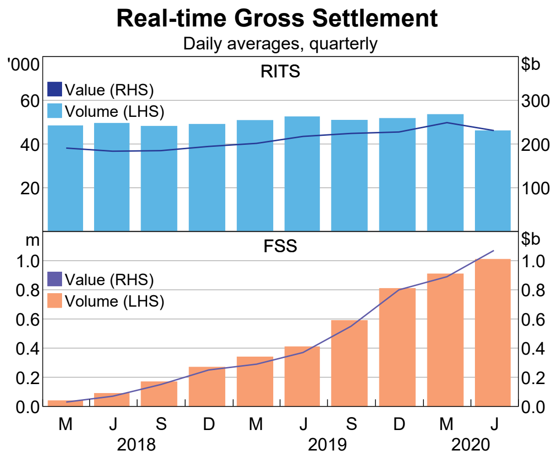
While the Reserve Bank manages the consolidation of the Government's accounts, the Australian Office of Financial Management (AOFM) has responsibility for ensuring there are sufficient cash balances to meet the Government's day-to-day spending commitments and for investing excess funds in approved investments, including term deposits with the Reserve Bank. The Bank also provides a very limited short-term overdraft facility to cater for occasions when there is unexpected demand for government cash balances. This overdraft facility is used infrequently and was drawn upon once in the reporting period.

The Reserve Bank also provides banking to overseas central banks and Registry services to supranational organisations issuing Australian dollar-denominated securities. Eight organisations currently use Registry services, with this number having been relatively steady over recent years.

Settlement Services

The Reserve Bank Information and Transfer System (RITS) infrastructure, which is owned and operated by the Reserve Bank, is critical to the fast and reliable transfer and settlement of payment obligations between financial institutions. Settlements, which result mostly from their customers' transactions, take place through crediting and debiting of Exchange Settlement Accounts (ESAs) held by these institutions at the Bank. Payments that are settled on a real-time gross settlement (RTGS) basis include high-value customer, corporate and institutional payments, wholesale debt and money market transactions and the Australian dollar leg of foreign exchange transactions. In 2019/20, RITS settled an average of 50,600 payments each day, worth $233 billion. RITS also provides a real-time settlement service, known as the Fast Settlement Service (FSS), to support the operation of the New Payments Platform (NPP). The NPP and FSS enable retail and corporate customers to make and receive payments immediately, 24 hours a day by using simple identifiers (PayIDs) such as email addresses, phone numbers or Australian Business Numbers (ABNs). RITS also provides deferred net settlement services for low-value retail payment systems, equity settlements and settlement of property-related transactions.

The onset of the COVID-19 pandemic had a significant impact on settlement activity. Up until early March 2020, the volume and value of daily settlements had been rising modestly, consistent with the pattern of settlement activity in previous financial years. However, volatile conditions in financial markets resulted in wholesale settlement activity in RITS rising sharply to reach a new daily settlement peak value on 18 March 2020 of $375 billion. Since then, as payments activity reduced in response to COVID-19 lockdown measures across the country, settlement activity declined to an average of around 47,500 settlements per day in June 2020, worth $231 billion. This decline was evident for all wholesale transaction types including SWIFT payments, Austraclear settlements and cash transfers in RITS.

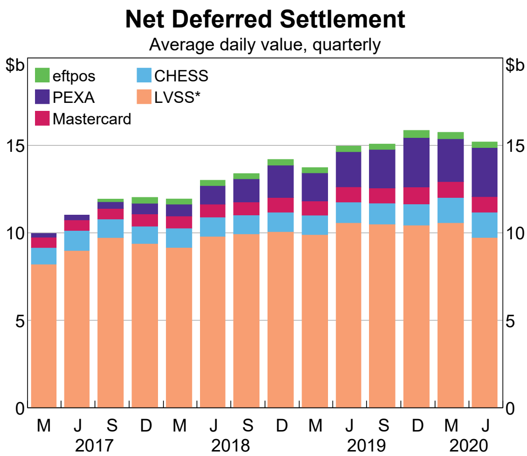


Source: RBA

Transactions settled via the FSS were less obviously affected by COVID-19. Growth in FSS settlement activity picked up sharply in the second half of 2019 as several banks completed their main NPP roll-out activities, and continued to grow throughout the first half of 2020, although at a slower rate. At the end of June 2020, there were over 4.9 million registered NPP PayIDs and 91 institutions offering NPP payments to their customers. In June 2020, the daily average number of interbank payments reached 1.1 million payments, worth around $1.2 billion. In addition to these interbank payments, the FSS also settles some intrabank transactions for which the payer and receiver of the settlement funds are the same institution. From March 2020, this has included some large-value government payments made by the Reserve Bank, which has contributed to strong growth in total values settled in FSS.

Despite continuing growth in the use of the NPP, most retail payments are still settled on a deferred net basis in RITS. In 2019/20, a daily average of around $10.3 billion of these payments were settled in the RITS Low Value Settlement Service (LVSS), which settles obligations arising from the clearing of cheques, some debit and credit cards, BPAY, ATMs and direct entry. Most direct entry transactions are settled in five intraday settlement runs, while other obligations are settled at 9.00 am the next business day. Although growth in LVSS has been strong in previous years, LVSS settlement activity was broadly steady through 2019 and the March quarter 2020, largely due to the migration of some direct entry payments to the NPP. In the June quarter 2020, LVSS settlement value declined by 8 per cent, driven by reduced payment activity associated with the outbreak of COVID-19.

The remaining net deferred settlements, with a daily average value of around $5.1 billion in 2019/20, are externally administered batch arrangements that use the RITS batch feeder facility. These include batches that settle obligations from Mastercard and eftpos transactions, stock market transactions processed by the ASX Clearing House Electronic Sub-register System (CHESS), and electronic property transactions processed by Property Exchange Australia Limited (PEXA) and Sympli Australia Pty Ltd. The card system and equity settlement batches are settled once per day at designated times, while the property batches enable settlement throughout the business day. Similar to LVSS transactions, the average daily value of the eftpos batch declined sharply in the June quarter 2020. The daily average value settled in the Mastercard and CHESS batches also fell slightly in the June quarter. In contrast, the daily average value settled through PEXA grew by around 15 per cent in the June quarter, consistent with strong growth in the use of electronic conveyancing over recent years. The ASX Financial Settlements (ASXFS) batch, as processed by Sympli Australia Pty Ltd, was introduced in late 2019, with limited settlement activity to date.



* RITS Low Value Settlement Service, including cheque, direct entry, ATM and Visa settlements

Source: RBA

In 2019/20, seven institutions were approved as new RITS members. Five of these new members do not hold an ESA but are RITS members for the purpose of dealing with the Reserve Bank in its open market operations. As at 30 June 2020, RITS has 62 members that were active ESA holders, operating their own ESA to settle at least some of their payment obligations. A further 40 institutions were dormant ESA holders, using another ESA holder as a settlement agent to settle their payment obligations. An increased number of institutions expressed interest in, or applied to operate, an ESA during the year that were not authorised deposit-taking institutions (ADIs) compared with the previous year. In the year to 30 June 2020, 12 non-ADIs enquired about the eligibility requirements for operating an ESA, with two of these progressing to applications. These institutions were mostly non-traditional payment service providers, offering a range of services such as foreign currency remittance, prepaid multi-currency accounts or online card acquiring.

The Reserve Bank also offers correspondent banking services to other central banks and official sector institutions overseas to allow for settlement of certain Australian dollar payments, and provides safe custody services to these overseas agencies. The face value of securities held in custody by the Bank in this capacity was around $72 billion at the end of June 2020. The Bank also provides settlement services for banknote lodgements and withdrawals by commercial banks.

There were a number of other strategic developments and initiatives affecting RITS throughout 2019/20. Given the status of RITS as a systemically important payment system, the Reserve Bank carries out an annual assessment of the system against the internationally agreed Principles for Financial Market Infrastructures (PFMIs) developed by the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions. The June 2020 assessment rated RITS as 'observed' on all relevant PFMIs except for operational risk, which was rated as 'broadly observed', given ongoing initiatives as part of the Bank's Technology Stability Improvement Program. This program is aimed at improving the operational stability of RITS practices, including additional resources and training for IT roles supporting RITS and improvements to software patching processes.

In February 2020, the Reserve Bank and the Australian Payments Council (APC) completed a consultation with industry in relation to key strategic decisions required for the Australian high-value payments system to migrate to a new modern and consistent messaging standard (the ISO 20022 message standard). The migration project will involve moving messages currently used in some important parts of the payments system onto the ISO 20022 message standard, with the aim to improve message processing and enable expanded message content to support innovation in payments systems. This includes updates to the messages used to communicate with RITS for settlement of the High Value Clearing System. Australian Payments Network (AusPayNet) is coordinating this industry project and has held the first two meetings of the ISO 20022 Industry Migration Steering Committee. Since the release of the Reserve Bank and APC Conclusions paper, there has been a deferral to the start of migration for the international cross-border migration program. Accordingly, the ISO 20022 Industry Migration Steering Committee deferred the start of the domestic migration to November 2022, with migration at this stage still planned for completion by November 2024. The Bank will work cooperatively with industry in undertaking the migration.

Work is continuing on the Reserve Bank's refresh of the core network and application infrastructure of RITS and related systems, including the Bank's SWIFT infrastructure, with benefits expected to include enhanced security and resilience, and higher processing speeds.

The Reserve Bank also focuses on its continual uplift program for security and resiliency. It continues to enhance the security of external connections to RITS, in line with a strategy developed by the CPMI, and has engaged an external vendor to conduct a risk assessment of the connections between RITS and external parties, and recommend enhancements to current security requirements.[1] In December 2019, the Bank held its first industry cyber table-top exercise to rehearse industry communications, procedures and processes in the event of a cyber attack, and will be working with RITS members on the lessons from this exercise in the next financial year.

With the onset of the COVID-19 pandemic, the Reserve Bank took a number of actions to reduce potential operational risk associated with the altered operational environment for both itself and RITS members. As the majority of the Bank's staff transitioned to working-from-home arrangements, a small number of personnel occupying critical roles remained onsite at each of the Bank's two operating centres to support RITS operations and the Bank's back office settlement operations. Additional personnel were also trained and certified to fill critical roles in the event a large number of Bank staff were infected with or exposed to the virus. The Bank sent RITS Advices to members advising them of the Bank's arrangements and reminding RITS members of their ongoing obligations to satisfy minimum staff requirements to effectively manage their ESA and settlement activities, which are vital to the smooth operation of the payments system. In addition, the Reserve Bank engaged with major RITS feeder systems including SWIFT, Austraclear, ASX and PEXA to discuss contingency arrangements to manage the impact of COVID-19. Despite the potential risks associated with alternate working arrangements and heightened settlement activity in March, both RITS and FSS continued to operate smoothly, with RITS and FSS availability both at 100 per cent in 2019/20.

1 For the CPMI strategy and its operationalisation toolkit see <https://www.bis.org/cpmi/publ/d178.htm> and <https://www.bis.org/cpmi/publ/d188.htm> respectively.

Banknotes

The Reserve Bank is responsible for producing and issuing Australia's banknotes. In this role, the Bank ensures there are sufficient banknotes on issue to meet public demand, that banknotes in circulation are of high quality, and that the threat of counterfeiting is minimised. The new $20 banknote was released in October 2019, with the final denomination in the upgraded series, the new $100 banknote, expected to be released in late 2020. The COVID-19 pandemic presented challenges for the issuance of banknotes when lockdowns to contain the spread of the virus affected transport services across the country. In response, the Bank enacted contingency arrangements for a short period to maintain adequate supply of banknotes to the public. The Bank also drew on its extensive stocks to meet increased public demand for high-denomination banknotes as a store of value and for precautionary purposes, a development that is common during periods of acute economic and financial uncertainty.

Circulation

Banknotes in circulation increased sharply with the outbreak of the COVID-19 pandemic in Australia. From mid March to the end of June 2020, some $7.7 billion in $50 and $100 banknotes were purchased from the Reserve Bank by commercial banks to meet public demand. This equates to over 8 per cent of the total value of banknotes in circulation and three-quarters of the increase in the value of circulating banknotes for the 2019/20 financial year. The increase in high-denomination banknotes in circulation occurred against the backdrop of reduced use of banknotes as a means of payment, implying an increased desire in the community to hold banknotes for precautionary purposes, including as a store of wealth. Similar shifts in demand were evident in other countries and are common during episodes of heightened economic and financial uncertainty as the community seeks to hold extra cash as a precaution. As at the end of June 2020, there were 1.8 billion banknotes in circulation, worth $90.1 billion. The value of banknotes in circulation increased by 12.6 per cent over 2019/20, compared with annual growth of around 5 per cent in recent years.

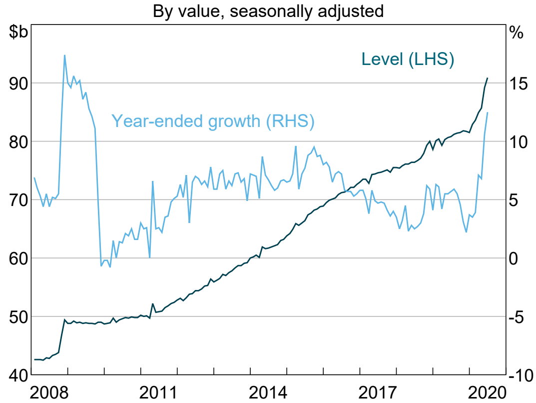
While store-of-value demand for high-denomination banknotes increased the value of banknotes in circulation, the COVID-19 outbreak reduced demand for lower-denomination banknotes, accelerating a decade-long trend away from using cash for making day-to-day payments. The Reserve Bank's 2019 Consumer Payments Survey – which was undertaken prior to the emergence of COVID-19 in Australia – showed that 27 per cent

Banknotes in circulation increased sharply with the outbreak of the COVID-19 pandemic in Australia … some $7.7 billion in $50 and $100 banknotes were purchased from the Reserve Bank by commercial banks to meet public demand

of consumer payments were made with cash, compared with 37 per cent in 2016 and 69 per cent in 2007.[1] From March 2020, transactions using cash fell sharply in favour of electronic payments in response to consumer and merchant concerns about potential transmission of the virus through handling cash. The Bank responded to a number of public enquiries about the potential health risks of using cash, recommending that banknotes be treated like other surfaces and to follow good hand hygiene consistent with Department of Health guidelines.

Banknotes in Circulation

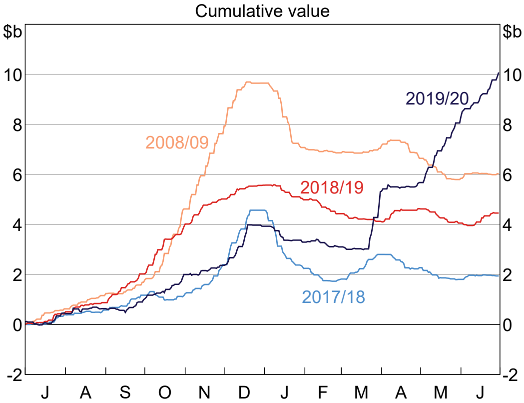
By value, seasonally adjusted



Source: RBA

Net Banknote Issuance*

Cumulative value

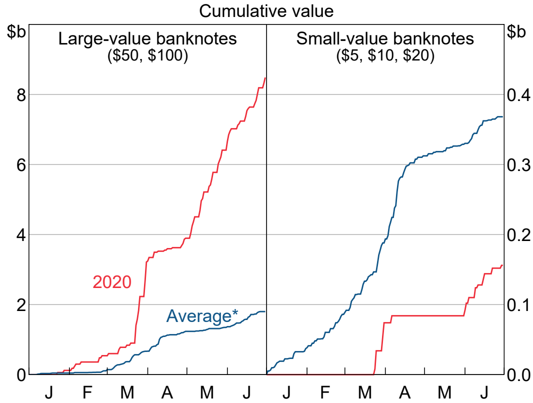


* Net banknote issuance is the difference between banknotes issued and banknotes returned by commercial banks

Source: RBA

Gross Banknote Issuance

Cumulative value



* Average for the years 2017-2019

Source: RBA

1 For additional information see: Caddy J, L Delaney, C Fisher and C Noone (2020), 'Consumer Payment Behaviour in Australia', RBA *Bulletin*, March 2020. Available at: <https://www.rba.gov.au/publications/bulletin/2020/mar/consumer-payment-behaviour-in-australia.html>.

Distribution and Storage

The Reserve Bank operates as a wholesaler of banknotes, issuing banknotes to commercial banks, which, in turn, have arrangements in place to distribute banknotes around the country to meet the demands of their customers. In 2019/20, the Bank issued $14.7 billion worth of banknotes. Of these, $11.6 billion were new and $3.1 billion were banknotes that had previously been in circulation but had since returned to the Bank and were deemed fit for re-issue. As noted above, the bulk of this distribution activity – around $7.9 billion – occurred in the final few months of the financial year following the outbreak of COVID-19.

Since the opening of the Reserve Bank's purpose-built National Banknote Site (NBS) in Victoria, it has become the primary centre for the Bank's processing, distribution and storage of banknotes. The distribution site in Sydney was closed for business-as-usual distribution activities in late 2019, although it retains a holding of banknotes as a contingency in the event that the NBS is unavailable or cannot be easily accessed. The contingency arrangements at the Sydney site were activated for two weeks in late March 2020 in response to heightened demand for banknotes in the face of domestic transport restrictions associated with COVID-19. Concerns about transport eased in early April and the Bank's Sydney site returned to being a contingency-only site for the remainder of 2019/20.

The Reserve Bank aims to maintain a high quality of banknotes in circulation. High-quality banknotes are more readily handled by machines and make it more difficult for counterfeits to be passed. Accordingly, the Bank has arrangements that encourage the commercial banks and the cash-in-transit companies to sort the banknotes they handle to agreed quality standards. Based on this sorting, banknotes that remain fit for circulation get redistributed, while those that are deemed unfit get returned to the Reserve Bank. These unfit banknotes are assessed to confirm their authenticity and quality and are then shredded. In 2019/20, the Bank received $4.1 billion worth of banknotes deemed to be unfit for recirculation.

The Reserve Bank also removes banknotes from circulation through its Damaged Banknotes Facility. The facility is offered to members of the public who unwittingly have come into possession of damaged banknotes or whose banknotes are accidentally damaged. Claims that meet the requirements set out in the Bank's Damaged Banknotes Policy are paid based on their assessed value.

In 2019/20, the Bank processed around 11,500 claims and made $3.4 million in payments. Of these, 34 claims worth around $190,000 were received from members of the public whose banknotes were damaged during the Australian 2019/20 bushfires. To increase awareness of this service with the communities affected by the bushfires, the Bank shared information about how to lodge claims for bushfire-affected banknotes through the banknotes website, social media posts and media interviews. As it may take some time for affected members of the public to lodge a claim, and for commercial banks to deliver them to the Reserve Bank, assessment of claims from the bushfires is likely to continue into 2020/21.

Counterfeiting Rates

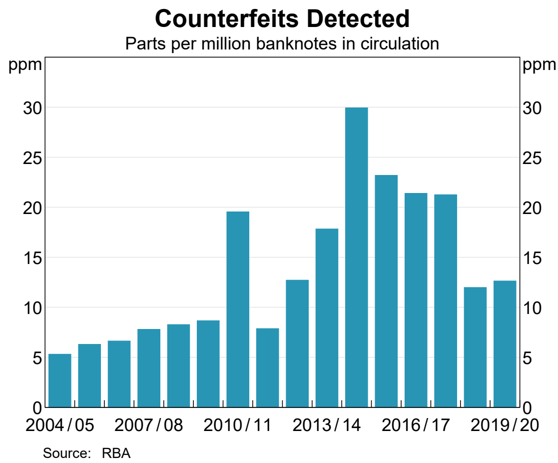
The level of counterfeiting in Australia remains relatively low by international standards. In 2019/20, around 21,000 counterfeits, with a nominal value of $1.6 million, were detected in circulation. This corresponds to around 13 counterfeits detected per million genuine banknotes in circulation.

Law enforcement efforts to investigate and prosecute counterfeiting operations play a significant role in managing the threat of

Counterfeit Banknotes in Australia[(a)]
2019/20

	$5	$10	$20	$50	$100	Total
Number	29	27	244	9,821	11,353	21,474
Nominal value ($)	145	270	4,880	491,050	1,135,300	1,631,645
Parts per million	0.1	0.2	1.4	12.4	29.9	12.6

(a) Figures are preliminary and subject to upward revision because of lags in counterfeit submissions to the RBA
Source: RBA



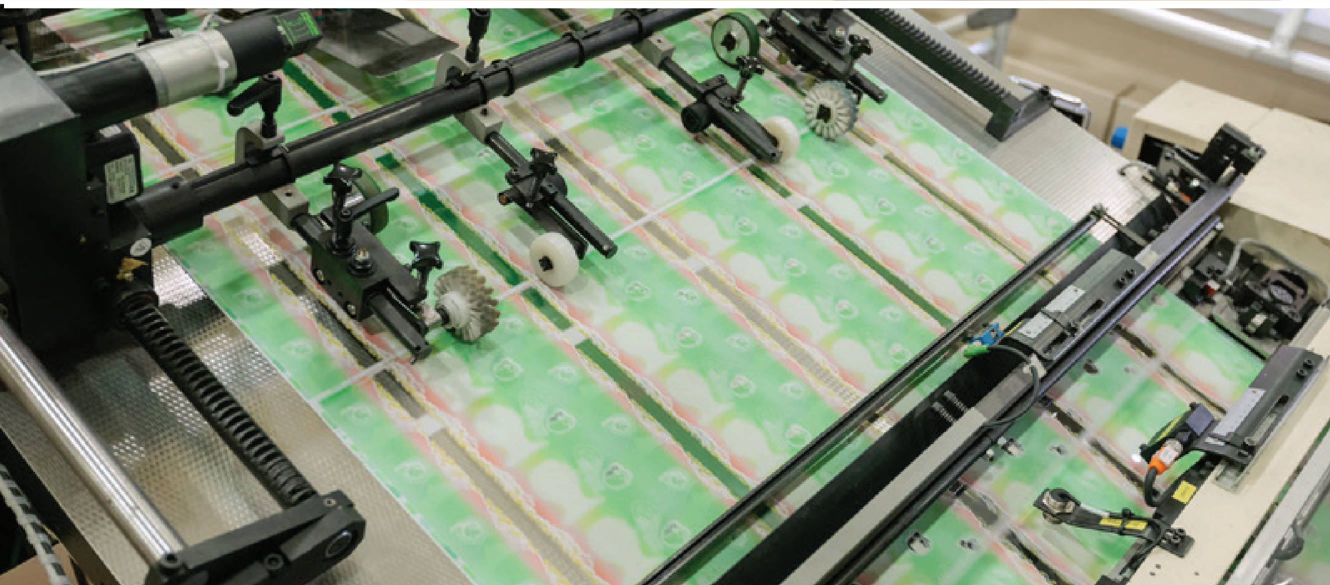
counterfeiting. When counterfeit banknotes are sent to the Reserve Bank's Counterfeit Examination Laboratory, they are assessed by specialised document examiners. Counterfeits that are considered to be made by the same production source are grouped, monitored and referred to the Australian Federal Police (AFP) for investigation. The AFP, state police forces and the Commonwealth Director of Public Prosecutions all work to investigate and prosecute counterfeiting operations, with information and expert witness statements often provided by the Bank. In 2019/20, the Bank completed 207 statements relating to 2,564 counterfeits. In addition, the Bank is aware of 19 prosecutions that occurred during the year relating to the possession, passing and making of counterfeit currency.

At times, police operations are able to prevent counterfeit banknotes from entering into general circulation. In 2019/20, police seizures of counterfeits accounted for 9 per cent of all counterfeits detected, in line with the long-run average.

Next Generation Banknote Program

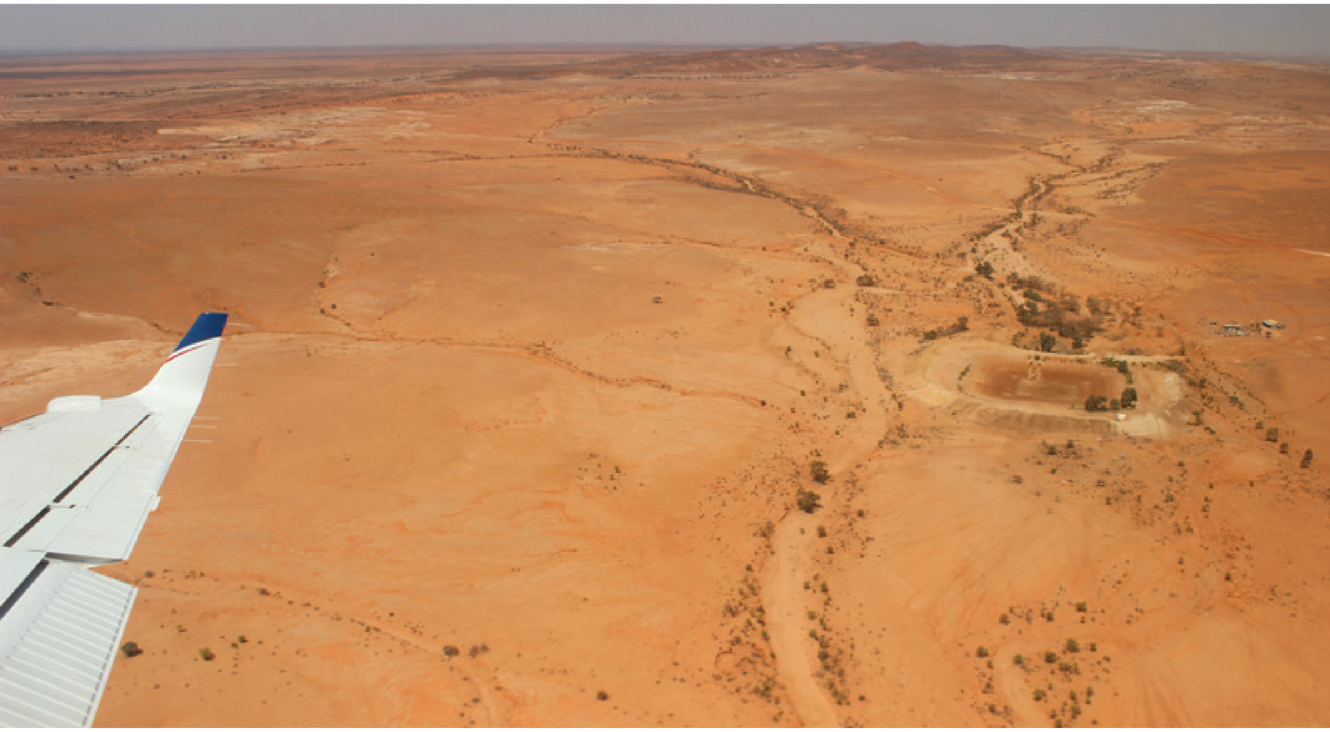
To ensure that Australian banknotes remain secure against counterfeiting, the Reserve Bank has been issuing an upgraded series of banknotes. The new $5 banknote was released in 2016, the new $10 in 2017, the new $20 in 2019, and the new $50 in 2018. The new $20 banknote, released in October 2019, features portraits of Mary Reibey and Reverend John Flynn. Flynn was the founder of an aerial medical service that later became Australia's Royal Flying Doctor Service and which remains the largest and most comprehensive aeromedical emergency and healthcare service in the world. Reibey was a colonial entrepreneur who also became known for her support of charity, religion and education. The microprint on the new $20 features excerpts from Flynn's book, *The Bushman's Companion*, and the names of Reibey's ships.

The remaining denomination, the new $100 banknote, is scheduled to enter general circulation in late 2020. The Reserve Bank revealed the design of the new $100 banknote in February 2020. The new $100 continues to feature Dame Nellie Melba, an internationally renowned soprano, and Sir John Monash, an engineer, soldier and civic



(Top) A sketch of Dame Nellie Melba, who features on the new $100 banknote; (middle) Artist creating a keyline of a portrait of Sir John Monash to be used on the new $100 banknote; (above) The new $100 banknotes being printed

(Top left) Michael Bennett holding the new $100 banknote, which features his great-grandfather, Sir John Monash, February 2020; (top right) Lord Samuel Vestey and Lady Celia Vestey examining the new $100 banknote, which features Lord Vestey's great-grandmother, Dame Nellie Melba, October 2019; (above) Victoria Pymm and Assistant Governor (Business Services) Lindsay Boulton with Vision Australia's Chris Edwards celebrating the launch of the new $20 banknote, Melbourne, October 2019
Photo: Vision Australia



(Top) A Royal Flying Doctor Service plane photographed at a visit to the Broken Hill base in celebration of Reverend John Flynn's inclusion on the new $20 banknote, October 2019; (above) Flying over The Veldt Station, which is featured in the design of the new $20 banknote, October 2019 leader. The issuance of the new $100 banknote will bring the Next Generation Banknote Program to a conclusion; this program has been a feature of the Reserve Bank's work for more than 10 years. By the end of June 2020, approximately 1.4 billion Next Generation Banknotes had been printed.

The new banknotes incorporate a range of new security features that make them considerably more difficult to counterfeit. These features include the top-to-bottom window, which contains optically variable images, including a flying bird and reversing number, as well as an ink patch with a rolling colour effect. The new banknotes also retain many of the key design elements of the first polymer banknote series, including the people portrayed, size and colour palette.

During 2019/20, the Reserve Bank continued to engage with industry and members of the public to increase knowledge about the new and existing banknotes. Some of these events focused on celebrating the contribution of stakeholders who have lent their expertise to the Bank throughout the design process for the new $20 and $100 banknotes, including the Royal Flying Doctor Service and relatives of Melba and Monash. In October 2019, members of the vision-impaired community had an opportunity to explore features of the new $20 banknote at a preview event at Vision Australia in Melbourne.

The Reserve Bank's communication with the cash-handling industry – which includes equipment manufacturers, financial institutions and other high-volume cash handlers, such as retailers and hospitality venues – has been an important component of the Next Generation Banknote Program. The Bank has engaged in regular communication (including via an online central hub of information) to support equipment upgrades and educate cash-handling staff and customers about the new banknote series. The Bank has continued its engagement with manufacturers and owners of banknote-processing machines to help ensure the machines are ready for the launch of the new $100 banknote.

Research and Development

The Reserve Bank has a banknote research and development (R&D) program focused on new banknote security features and detection equipment. The primary aim of this program is to ensure that Australia's banknotes remain secure against counterfeiting and easy to authenticate for a wide variety of users. This is achieved in part through collaboration with domestic and international experts from various external organisations, including universities, public and private companies, research institutes and other central banks. Fundamental to this program is a continuing assessment of the vulnerability of banknotes to different forms of counterfeiting, the mechanisms by which banknotes wear in circulation, production capability, and how the public and banknote-processing machines use and authenticate banknotes.

The Reserve Bank also works closely with its partners and suppliers to evaluate and incorporate new technologies and features into the banknote production process. In 2019/20, the R&D program continued to focus on providing technical advice and expertise as part of the development of

By the end of June 2020, approximately 1.4 billion Next Generation Banknotes had been printed the new series of Australian banknotes. This included assessing new technologies, developing strategies to ensure new features are durable, and developing quality-control systems for banknote examination. The R&D program is complemented by the design and manufacture of new instrumentation for quality assurance and the development of testing methodologies for the assessment of banknotes.

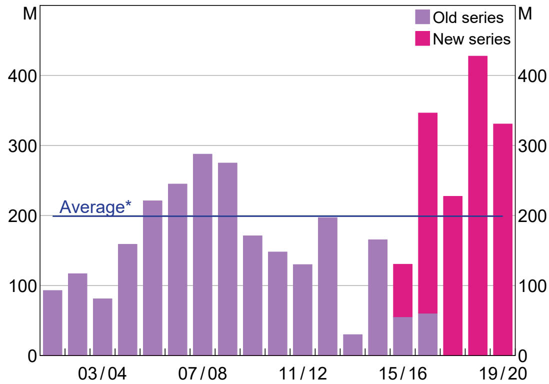
Note Printing Australia Limited (NPA)

NPA is a wholly owned subsidiary of the Reserve Bank that produces banknotes and supplies other related services to the Bank and some other entities. In 2019/20, NPA delivered 331 million Australian banknotes to the Bank, comprising around 221 million new series $50 banknotes, around 43 million new series $20 banknotes and around 67 million new $100 banknotes. In comparison, in 2018/19, 428 million Australian banknotes were delivered to the Bank by NPA.

The aggregate amount paid by the Reserve Bank to NPA in 2019/20 for the supply of banknotes and related services was $90 million, compared with $101 million in the previous year.

In addition, NPA delivered 149 million banknotes under contract to Papua New Guinea, Singapore, Brunei and Malaysia in 2019/20, dealing directly with the respective central banks in those countries. NPA also produced 1.9 million P Series passports for Australia's Department of Foreign Affairs and Trade.

Banknote Purchases



* Average banknote purchases over displayed time period

Source: RBA

International Financial Cooperation

The COVID-19 pandemic has highlighted the need for international cooperation across a range of areas. International forums have stepped up their engagement and revised their priorities to focus on COVID-19-related issues, consistent with their objectives to facilitate cooperation on pressing global and regional issues. Groups in which the Reserve Bank participates have taken steps to mitigate the economic impact of the crisis, address stress in financial markets and foster a sustainable global recovery. Some of these forums have also considered how the regulation, oversight and structure of the global financial system have needed to adapt to facilitate the policy response to the pandemic. While face-to-face international meetings ceased in March 2020, central banks have continued to meet via video- or teleconferences and have increased the frequency of meetings owing to the rapid pace of developments. The timely sharing of information between members has been an important and valuable aspect of the Bank's participation in these international groups.

Group of Twenty (G20)

Purpose

The G20 facilitates international cooperation on economic, financial and other policy issues among 19 country members – including Australia – from all regions of the world, as well as with the European Union, International Monetary Fund (IMF) and other international organisations.

Reserve Bank Involvement

The Reserve Bank is represented at high-level meetings of the G20 by the Governor and Assistant Governor (Economic), while other senior staff participate in select G20 working groups and contribute to the G20's financial regulation reform agenda.

The G20 – chaired by Japan from January to November 2019 and by Saudi Arabia since December 2019 – has served as a key forum for members to cooperate in their responses to the COVID-19 pandemic and to share experiences on policy measures. In April, G20 members committed to use all available policy tools to support the global economy, boost confidence, maintain financial stability and prevent deep and prolonged economic effects from the pandemic. Key G20 policy measures and commitments have been combined into the 'G20 Action Plan – Supporting the Global Economy through the COVID-19 Pandemic'. These include measures to manage the health crisis created by the pandemic and support the economic recovery. While face-to-face meetings ceased in March, the G20 has held a number of regular and extraordinary meetings via video conference facilities.

Reserve Bank Involvement in the G20

Apart from the meetings of the finance ministers and central bank governors and their deputies, Reserve Bank staff participated in two G20 working groups – the Framework Working Group and the Working Group on International Financial Architecture.[1] In recent months, the focus of the first working group was to create and update the G20's Action Plan. This group also progressed Saudi Arabia's key priority of exploring policies that improve access to opportunities for all people. In the wake of the pandemic, the key focus of the Working Group on International Financial Architecture was to facilitate the temporary suspension of official sector bilateral debt repayments by low-income countries. The group also monitored volatility in capital flows in emerging market economies and how these countries have responded to this volatility.

Reserve Bank staff also contributed to the G20's financial regulation reform agenda. This has quickly been re-prioritised to focus on pandemic-related risks for the global financial system, and on the appropriate supervisory and regulatory responses to the crisis. As discussed below, the Financial Stability Board (FSB) took a key role in the G20's response in this area. The G20 and standard-setting bodies encouraged members to use the flexibility within international regulatory standards, as well as regulatory waivers or deferrals, when responding to the financial effects of the pandemic, to ensure that the financial system continued to support the economy. The importance of these activities was emphasised in the April 2020 G20 Action Plan noted earlier. The Reserve Bank, along with other Council of Financial Regulators (CFR) agencies, will continue to work with their overseas counterparts on addressing issues posed by the pandemic for the financial system and also on the broader global financial regulatory reform agenda.

1 The Framework Working Group helps to implement the G20's 'Framework for Strong, Sustainable and Balanced Growth'.

Financial Stability Board (FSB)

Purpose

The FSB promotes international financial stability by coordinating national financial sector authorities and international standard-setting bodies as they work towards developing strong regulatory, supervisory and other financial sector policies. It also plays a central role in assessing new and evolving global trends and risks.

FSB members include representatives from 24 economies as well as the main international financial institutions – including the Bank for

International Settlements (BIS) and the IMF – and standard-setting bodies such as the Basel Committee on Banking Supervision (BCBS).

Reserve Bank Involvement

The decision-making body of the FSB is the Plenary. The Governor is a member of the Plenary, as well as the Steering Committee and the Standing Committee on Assessment of Vulnerabilities. The Governor is also a member of the Regional Consultative Group for Asia.

Senior staff from Financial Stability Department and Payments Policy Department participate in meetings of various FSB groups, including the:

- Analytical Group on Vulnerabilities, which supports the work of the Standing Committee on Assessment of Vulnerabilities
- Financial Innovation Network
- Working Group on Regulatory Issues in Stablecoins.

The FSB was established by the G20 to help coordinate the international financial regulatory response to the global financial crisis. This role was again at the forefront in 2020 as part of the FSB's response to the pandemic. As the effects of the pandemic took hold, the FSB promoted the coordination of financial policy responses in order to maintain global financial stability, keep markets open and functioning, and preserve the financial system's capacity to finance growth. A key element of the FSB's response was to assess the global financial stability risks and vulnerabilities related to the COVID-19 pandemic and related containment policies. This focused initially on the marked stress in financial markets, followed by the ongoing severe impact on the global economy and its cumulative effects on banks, other market participants and the wider financial system. Much of this work was undertaken by the FSB's Standing Committee on Assessment of Vulnerabilities. This committee quickly initiated work on the effects of the pandemic on key aspects of the financial system that are critical for global financial stability. These include the ability of:

- financial institutions and markets to channel funds to households, businesses and governments
- market participants to obtain US dollar funding, including in emerging markets
- financial intermediaries, such as investment funds, to meet liquidity demands (such as redemptions) without forced asset sales
- market participants (including central counterparties (CCPs)) to manage counterparty risks.

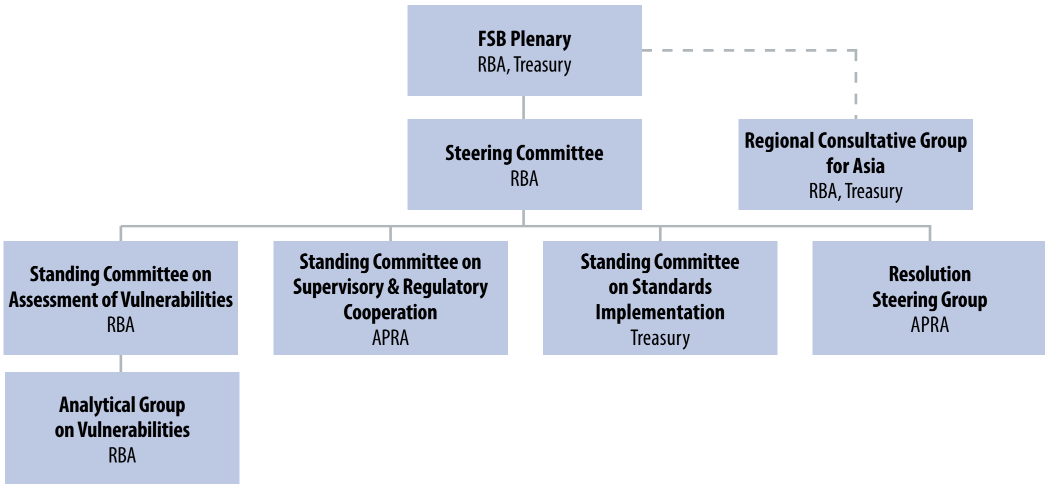
The FSB will closely monitor developments to identify any emerging issues in a timely manner, especially as public support measures begin to be unwound.

While the FSB re-prioritised much of its work to focus on the response to the pandemic, other work progressed during the year, including through a number of groups and committees in which the Bank participates.[2] These included the:

- Non-bank Monitoring Experts Group, which conducts an annual global monitoring exercise to assess trends in non-bank financial intermediation, as well as analysing its potential risks
- Financial Innovation Network, which undertakes analysis of the financial stability implications of financial innovation. Recent topics discussed include: global stablecoin arrangements and crypto-assets; the growth of 'BigTech' in finance; and the use of technology for regulatory and supervisory purposes

2 Further detail on the activities of the FSB is reported in the 'Regulatory Developments' chapter of the Reserve Bank's semi-annual *Financial Stability Review*.

Australian Involvement in Key FSB Committees



- Working Group on Regulatory Issues in Stablecoins, which published a consultative report in April on the regulatory, supervisory and oversight challenges raised by global stablecoin arrangements with associated recommendations. After incorporating feedback from the consultation, the final report will be issued in October 2020
- Cross-border Payments Coordination Group, which has been coordinating among the relevant international organisations and standard-setting bodies the development of a roadmap to enhance cross-border payments. The roadmap is to be submitted to the G20 in October 2020
- Cross-border Crisis Management Group for Financial Market Infrastructures (a subgroup of the Resolution Steering Group) which has been working on resolution arrangements for CCPs, including recently issued draft guidance on financial resources to support CCP resolution and the treatment of equity in resolution
- Official Sector Steering Group, which is progressing reforms of interest rate benchmarks, including coordinating the transition away from the use of London Inter-Bank Offered Rates (LIBOR) by the end of 2021, when official sector support for the benchmark will end. A key focus of this group is to ensure financial markets and institutions are continuing to make preparations for the end of LIBOR after the end of 2021.

Assessing and continuing to respond to the effects of the pandemic will be priorities for the FSB for the immediate period ahead. However, when the health crisis and associated financial stability risks begin to abate and financial markets increasingly normalise, the previously agreed priorities on the G20 financial regulatory agenda will again be likely to be a focus for the FSB. Areas of such work include the full, timely and consistent implementation of the financial sector reforms developed after the global financial crisis (taking into account recent implementation deferrals announced by the standard-setting bodies in response to the pandemic) and further assessments of the effectiveness of the G20's financial sector reforms following the global financial crisis.

Bank for International Settlements (BIS)

Purpose

The BIS and its associated committees play an important role in supporting collaboration among central banks and other financial regulatory bodies. They do so by bringing together officials to exchange information and views about the global economy, vulnerabilities in the global financial system and other issues affecting the operations of central banks.

Reserve Bank Involvement

The Reserve Bank is one of 62 central banks and monetary authorities holding shares in the BIS. The Governor or Deputy Governor participate in the bimonthly meetings of governors and in meetings of the Asian Consultative Council. The Governor chairs the Committee on the Global Financial System, and the Assistant Governor (Financial Markets) is a member of the Markets Committee and the Committee on the Global Financial System.

The Committee on the Global Financial System seeks to identify potential sources of stress in the global financial system and promotes the development of well-functioning and stable financial markets. The Markets Committee considers how economic and other developments, including regulatory reform and technological change, may affect financial markets, particularly central bank operations.

These committees have been monitoring the challenges for financial systems and markets from the pandemic, providing an important means for central banks to share perspectives on the evolving crisis. Areas of focus included the significant stresses in domestic and international funding markets, the capacity of financial intermediaries to meet increased demand for funding and risks posed by high levels of indebtedness. Members also shared their experiences with the policies being undertaken by central banks. From March 2020, these committees met frequently by teleconference.

These committees also carried out work on a number of longer-term topics through the year, many of which took on additional relevance in light of the pandemic. During 2019/20, Reserve Bank staff participated in a number of working groups of the Markets Committee and Committee on the Global Financial System, including:

- a Committee on the Global Financial System working group on the efficacy of unconventional monetary policy tools across countries, including how policies can be sequenced and coordinated and their potential side effects, with the final report published in October 2019
- a Markets Committee working group looking at how large central bank balance sheets affect the functioning of money and bond markets, with the final report published in October 2019
- a Committee on the Global Financial System study group on the domestic and international drivers of property prices across economies, with the final report published in February 2020
- a Committee on the Global Financial System working group on US dollar funding in the international financial system, including the structure of these activities and the vulnerabilities they pose, co-chaired by the Assistant Governor (Financial Markets), with the final report published in June 2020.

Basel Committee on Banking Supervision (BCBS)

Purpose

The BCBS is hosted by the BIS and is the international standard-setting body for the banking sector. It provides a forum for regular cooperation on banking supervisory matters among its 28 member jurisdictions. It seeks to enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide.

Reserve Bank Involvement

The Governor is a member of the Group of Governors and Heads of Supervision, which is the oversight body for the BCBS. The Assistant Governor (Financial System) is a member of the BCBS. A Deputy Head of Financial Stability Department is a member of the Macroprudential Supervision Group.

As the global standard-setter for the banking sector, the BCBS was a key part of the international regulatory response to the pandemic. Under the oversight of the Group of Governors and Heads of Supervision, the BCBS's response entailed several elements. It announced measures to support the financial and operational resilience of banks. These included deferrals in the implementation schedule for key BCBS reforms to allow banks to commit their full resources to respond to the pandemic. Another element was to re-prioritise its own work to focus on the risks (such as increased insolvencies) presented by the crisis for the banking system. With the pandemic preventing physical meetings, the Bank, along with the Australian Prudential Regulation Authority (APRA), took part in several teleconferences to develop and agree on the responses to the crisis.

In addition to focusing on the pandemic, other work undertaken by the BCBS over the year included: an ongoing program of monitoring the implementation of its standards, in particular the Basel III capital and liquidity reforms; progress on a strategic review of its future priorities, structure and processes (the BCBS aims to finalise this review later in 2020); assessing the progress made by banks in preparing for the transition from LIBOR to alternative reference rates; publishing a discussion paper on the design of a prudential treatment for crypto-assets; and work on strengthening the operational resilience of banks. During the year, the BCBS also established a high-level Task Force on Climate-related Financial Risks which published a stocktake report in April on members' regulatory and supervisory initiatives on climate-related financial risks.

The Macroprudential Supervision Group monitors systemic risks arising from the banking sector, especially those posed by global systemically important banks (G-SIBs), and develops policies to address these risks. The group discussed several issues during 2019/20, including the annual G-SIB assessment exercise (which underpins the list of G-SIBs identified by the FSB) and the experience with the Basel III counter-cyclical capital buffer.

Committee on Payments and Market Infrastructures (CPMI)

Purpose

The CPMI is hosted by the BIS, and serves as a forum for central banks to monitor and analyse developments in payment, clearing and settlement infrastructures and sets standards for them. It has 28 member institutions.

Joint working groups of the CPMI and the International Organization of Securities Commissions (IOSCO) bring together members of these two bodies to coordinate policy work on the regulation and oversight of financial market infrastructures.

Reserve Bank Involvement

Staff members from Payments Policy Department are members of the CPMI, CPMI-IOSCO Steering Group, CPMI-IOSCO Implementation Monitoring Standing Group and CPMI-IOSCO Policy Standing Group. The Head of Payments Policy Department is chair of the CPMI's RTGS (Real-time Gross Settlement) Working Group, which includes a staff member from Payments Settlements Department as a participant. Staff members in Payments Policy Department participate in the CPMI's Working Group on Digital Innovations and a Payments Settlements Department staff member participates in a task force on wholesale payments security. The Assistant Governor (Business Services) participates in the CPMI Cross-Border Payments Taskforce (which is assisting the FSB to deliver a roadmap to enhance cross-border payments).

CPMI (and IOSCO) joined other financial policymakers and international standard setters in engaging industry in discussing international policy responses to the COVID-19 pandemic. The CPMI monitored the effects on financial market infrastructures (FMIs) of the pandemic and the market volatility over the first quarter of 2020. The CPMI and the CPMI-IOSCO Steering Group met regularly to discuss these matters and consider the forward-looking work plan to focus on some of the short-term risks and policy implications and reduce lower-priority demands on industry stakeholders.

The CPMI published a number of reports during the year to which Payments Policy Department staff contributed, including:

- a report in December 2019 (together with IOSCO) that outlined ways in which financial authorities cooperate to promote the safety and efficiency of FMIs
- a report in December 2019 that sets out the various criteria for developers and market participants to consider in designing digital tokens for wholesale transactions
- a report in June 2020 (together with IOSCO) on default management auctions processes at CCPs, which identified practices that CCPs could consider in the development and improvement of these auctions.

Staff members also contributed to a number of CPMI-IOSCO implementation monitoring reports that are yet to be published.

Cooperative Oversight Arrangements

Purpose

The Reserve Bank participates in several multilateral and bilateral arrangements to support its oversight of foreign-headquartered FMIs that play an important role in the Australian financial system. These include overseas-based FMIs that hold Australian clearing and settlement facility licences, for which the Reserve Bank has certain regulatory responsibilities under the *Corporations Act 2001*, and an overseas-based payments system that plays an important role in Australia's financial system.

Reserve Bank Involvement

Staff from Payments Policy Department participated in:

- an arrangement led by the Federal Reserve Bank of New York to oversee CLS Bank International, which provides a settlement service for foreign exchange transactions
- a global oversight college and a crisis management group for LCH Limited, both chaired by the Bank of England

- an information-sharing arrangement with the US Commodity Futures Trading Commission, in relation to CME Inc.
- the Society for Worldwide Interbank Financial Telecommunication (SWIFT) Oversight Forum, chaired by the National Bank of Belgium
- discussions hosted by the Swiss Financial Market Supervisory Authority (FINMA) on a payment system licence application made by the Swiss-based Libra Association in respect of the proposed global Libra stablecoin payment system.

International Monetary Fund (IMF)

Purpose

The IMF oversees the stability of the international monetary system via:

- bilateral and multilateral surveillance, which involves monitoring, analysing and providing advice on the economic and financial policies of its 189 members and the linkages between them – Article IV consultations, which are a key means to do this, are conducted for Australia every year
- the provision of financial assistance to member countries experiencing actual or potential balance of payments problems.

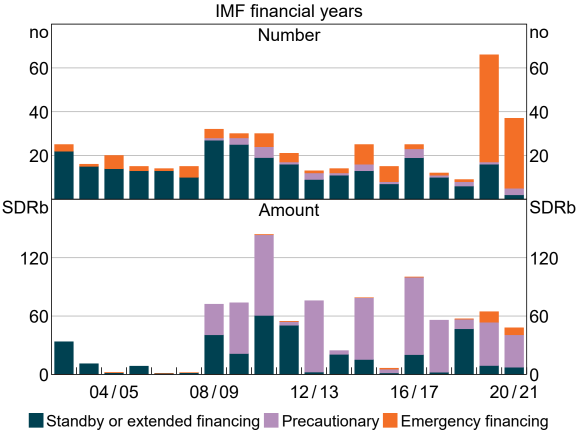
Reserve Bank Involvement

Australia holds a 1.38 per cent quota share in the IMF and is part of the Asia and the Pacific Constituency, which is represented by one of the IMF's 24 Executive Directors. Australia also contributes to the IMF's supplementary borrowed resources. The Reserve Bank supports the Constituency Office at the IMF by seconding an advisor with expertise in economic and financial sector matters. The Bank also works with the Australian Treasury to provide support to the Constituency Office on matters discussed by the IMF's Executive Board.

A key part of the IMF's response to the COVID-19 pandemic has been the provision of financial assistance to member countries. The IMF has received an unprecedented number of requests for assistance via its emergency financing facilities – the Rapid Financing Instrument and Rapid Credit Facility. These emergency arrangements can be quickly disbursed, and do not have conditionality attached once the funds have been lent. From March to June 2020, new emergency financing agreements covering 66 countries were announced, amounting to SDR18 billion; all of these requests were from emerging or developing economies. In the wake of the crisis, the IMF also committed financing through its non-emergency facilities; this included standby or extended financing arrangements for five countries, as well as three precautionary facilities (the latter being lines of credit that can be called on when needed). These new non-emergency lending arrangements had a value of SDR42 billion. Consistent with the increased demand for financial assistance, IMF total credit outstanding increased by around 35 per cent in the 12 months to June 2020; payments to Argentina and Egypt made the largest contribution to the increase in credit outstanding.

The IMF has also expanded its toolkit in response to the COVID-19 pandemic. For example, the Fund has introduced the Short-term Liquidity Line, a facility designed to provide liquidity support for member countries with very strong policies and fundamentals facing potential, moderate and short-term capital flow volatility. This is different from other IMF lines of credit as it is designed to last for a shorter period, is lower cost (when used on a precautionary basis), can be used on a rolling basis and requires no reviews. The IMF also increased the funding limits

IMF New Financing Arrangements Approved*



* IMF financial year runs from May to April; the observation for 2020/21 is for May and June 2020; excludes augmentations of existing arrangements

Sources: IMF; RBA

on its emergency lending facilities, and gained commitments from members that would triple the size of concessional funding available to low income countries; the Australian Government contributed to the increase in concessional funding available by making an in-principle commitment to lend SDR500 million to the IMF's Poverty Reduction and Growth Trust.

As with other IMF members, the Fund periodically undertakes Financial Sector Assessment Program (FSAP) reviews of Australia's financial system and regulatory framework. The Reserve Bank and other CFR agencies continued to implement recommendations made in early 2019 by the Fund following its FSAP review of Australia. The recommendations of direct relevance to the Bank relate to the regulation of FMIs, including recommendations to implement a resolution regime for FMIs and to strengthen supervisory and enforcement powers for clearing and settlement facilities. As joint regulators for clearing and settlement facilities, the Bank and the Australian Securities and Investments Commission worked together in a CFR working group on policy proposals in this area. The CFR issued a consultation paper in November 2019, and finalised policy proposals were provided to the Australian Government in July 2020.

Governor Philip Lowe (left) and IMF Director of the Asia and Pacific Department Changyong Rhee (right) at the IMF/World Bank Annual Meetings, Washington, D.C., October 2019
Photo: International Monetary Fund

Executives' Meeting of East Asia-Pacific Central Banks (EMEAP)

Purpose

EMEAP brings together central banks from 11 economies in the east Asia-Pacific region – Australia, China, Hong Kong SAR, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore and Thailand – to discuss issues relevant to monetary policy, financial markets, financial stability and payments systems in the region.

Reserve Bank Involvement

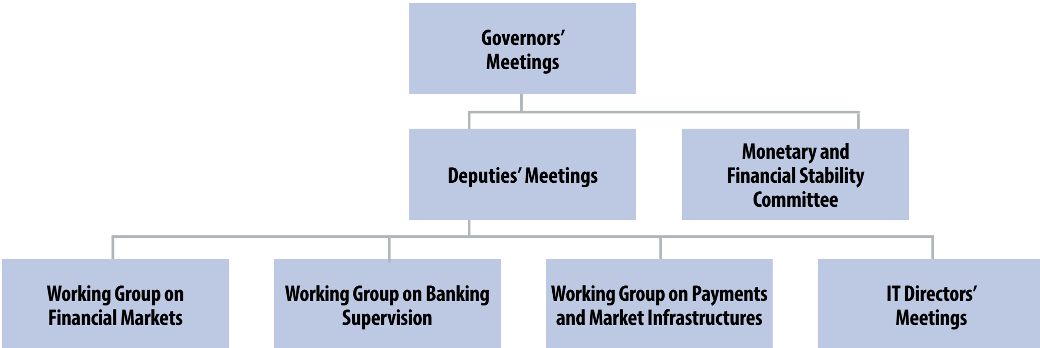
The Reserve Bank participates in EMEAP, including at the Governor and Deputy Governor levels. Staff also participate in the EMEAP Working Groups on Financial Markets, Banking Supervision, and Payments and Market Infrastructures, and in meetings of Information Technology (IT) Directors. These groups also maintain close relationships with international institutions such as the IMF and the BIS, through regular dialogue on topical issues.

EMEAP's Monetary and Financial Stability Committee (MFSC) meetings, which are chaired by the Reserve Bank's Deputy Governor, provide an important forum for the discussion of current economic and financial market issues of direct relevance to EMEAP members. The MFSC met three times in 2019/20, including twice via teleconference. At its meeting in late 2019, the MFSC discussed a range of issues including risks for central banks from environmental change and the implications of digital currencies. The meetings in the latter part of 2019/20 focused on economic and financial market developments arising from the COVID-19 pandemic and associated policy responses. These meetings included discussion of risks to the banking sector, the potential for further bouts of volatility in capital flows, and the longer term implications of current policy measures.

The Working Group on Financial Markets focuses on the analysis and development of foreign exchange, money and bond markets in the region. Every second meeting of this group is held in conjunction with the BIS Financial Markets Forum. During the year, the group continued its

Governor Philip Lowe (fourth from left) with participants at the EMEAP Governors' Meeting, Shenzhen, August 2019
Photo: People's Bank of China

Reserve Bank Involvement in EMEAP



work on developing local currency bond markets, through the Asian Bond Fund Initiative (see the chapter on 'Operations in Financial Markets' for details of the Reserve Bank's investments in the Asian Bond Fund). Areas of focus in 2019/20 also included financial benchmark reform and the development of securities lending in Asia and US dollar funding dynamics in Asia.

The Working Group on Banking Supervision (which also includes representatives of EMEAP members' prudential regulators, including APRA) meets to share experiences about best practices in banking supervision; to discuss regional financial sector issues; and to conduct joint work and analysis on relevant topics. At its meetings over 2019/20, members discussed the use of liquidity buffers during the current challenging environment; their frameworks for emergency liquidity assistance; financial institutions' cyber-security risk management; and climate-related risks faced by banks. The group also has ongoing areas of focus, including the health of banking systems in the region; emerging financial stability risks; and monitoring the implementation of Basel III reforms among members.

The EMEAP Working Group on Payments and Market Infrastructures is a forum for sharing information and experiences relating to the development, oversight and regulation of retail payment systems and FMIs. During 2019/20, members discussed a range of issues, including the development of fast retail payment systems and other efforts to facilitate the shift towards electronic payments; regulatory approaches for addressing risks posed by crypto-assets and global stablecoin arrangements; research into central bank digital currencies; measures to enhance the security and resilience of FMIs; and oversight approaches to FMIs. The group also embarked on a review of developments in cross-border retail payments in the EMEAP region, including to identify any gaps or challenges in the provision of such services.

The IT Directors' Meeting provides a forum for discussions on developments in IT and its implications for central banks. Topics including cybersecurity and digital transformation were discussed during 2019/20.

Network for Greening the Financial System (NGFS)

Purpose

The NGFS is a group of central banks and supervisors whose purpose is to share best practices, contribute to the development of climate and environment-related risk management in the financial sector, and mobilise mainstream finance to support the transition towards a sustainable economy. As at the end of June 2020, the Network had grown to comprise 66 members and 13 observers, across six continents.

Reserve Bank Involvement

The Reserve Bank joined the NGFS in July 2018. The Deputy Governor represents the Bank on the NGFS Plenary, supported by other senior staff. Over 2019/20, the Bank actively participated in two of the NGFS workstreams: the Macrofinancial workstream, which aims to develop an analytical framework for assessing climate-related risks to the economy and financial system, and the monetary policy subgroup of the Scaling up Green Finance workstream, which aims to understand how climate change affects monetary policy frameworks and objectives.

The NGFS produced a series of reports in 2019/20, including a technical supplement to the first comprehensive report outlining the macroeconomic and financial stability risks associated with climate change; a sustainable and responsible investment guide for portfolio management; a guide for supervisors on integrating climate-related and environmental risks into prudential supervision; and the results of a point-in-time survey of how financial institutions are tracking 'green', 'non-green' and 'brown' risk profiles. At the end of June 2020, the NGFS released a set of reference scenarios to support the work of central banks and supervisors in assessing the magnitude and direction of climate-related risks in their own jurisdictions, a short paper outlining the impacts of climate-related risks on the formulation of monetary policy and a list of research priorities.

Global Foreign Exchange Committee (GFXC)

Purpose

The GFXC is a forum that brings together central banks and private sector participants in the wholesale foreign exchange market. The committee aims to promote a robust and liquid market. One means by which it does this is through the maintenance of the FX Global Code as a set of principles of good practice for market participants.

Reserve Bank Involvement

The Deputy Governor has served as Chair of the GFXC since June 2019. The Reserve Bank sponsors the Australian Foreign Exchange Committee (AFXC), one of the 17 regional committees that comprise the membership of the GFXC. The Assistant Governor (Financial Markets) is Chair of the AFXC and the Bank's representative on the GFXC.

During the past year, the GFXC commenced its review of the FX Global Code, a commitment it had made when launching the Code in 2017. Following liaison with market participants, the GFXC established its areas of focus for updating the Code. This included strengthening the role of disclosures and considering whether further guidance is needed on certain trading practices, such as anonymous trading, algorithmic trading and the use of 'pre-hedging' and 'last look'. Fostering greater adherence to the Code among buy-side market participants also remains a priority for the GFXC.

The period following the onset of the COVID-19 pandemic saw greater volatility within foreign exchange markets and created operational challenges for many market participants as working arrangements needed to be altered. Through market notices, the GFXC stressed the relevance of the Code's principles as a means of ensuring that market participants' actions would contribute to the FX market remaining robust and appropriately transparent. The review of the Code was paused for a few months in response to the pandemic and is currently scheduled for completion in mid 2021.

Organisation for Economic Co-operation and Development (OECD)

Purpose

The OECD comprises the governments of 37 countries and provides a forum in which governments can work together to share experiences and seek solutions to common problems, including economic and financial ones.

Reserve Bank Involvement

The Reserve Bank's Chief Representative in Europe participates in the OECD's Committee on Financial Markets and the Advisory Task Force on the OECD Codes of Liberalisation.

The OECD Committee on Financial Markets examines a range of financial market issues and aims to promote efficient, open, stable and sound financial systems. The committee's regular discussions with private sector experts in 2019/20 covered factors that are driving weak productivity growth in advanced countries and the economic consequences of COVID-19 for public and private markets. The committee also continued to review and contribute to the OECD's work on environmental, social and governance investing, blockchain, open banking and digitalisation.

The OECD's Codes of Liberalisation are rules-based frameworks to promote the freedom of cross-border capital movements and financial services. All OECD members adhere to the Codes. The Advisory Task Force on the OECD Codes of Liberalisation meets periodically to address questions and discuss policy issues related to the Codes. It also examines specific measures by individual adherents with relevance to their obligations under the Codes.

Technical Cooperation and Bilateral Relations

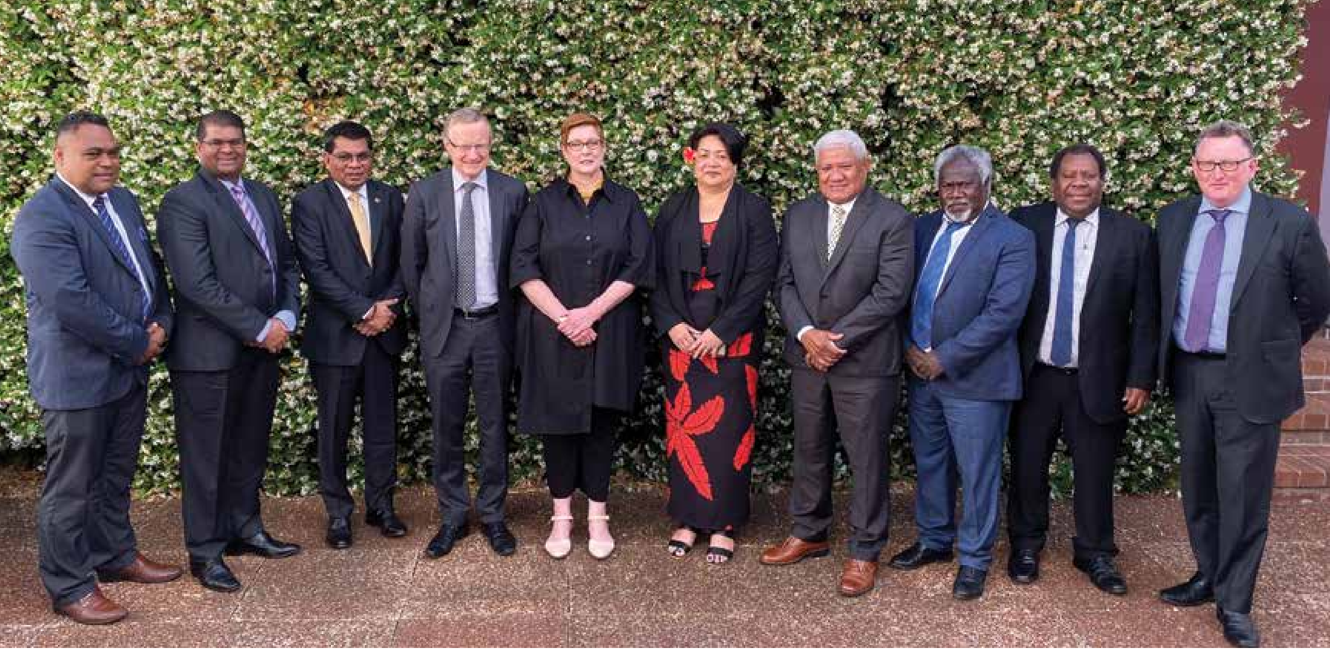
Australia Indonesia Partnership for Economic Development (Prospera)

The Bank participates in the Australian Government's 'Prospera' program, which is aimed at institutional capacity-building in Indonesia. Under the Prospera Program, the Reserve Bank engages with Bank Indonesia on a broad range of activities undertaken by central banks. In 2019/20, a total of 20 Bank Indonesia staff visited the Reserve Bank to discuss issues relating to the payments system and the management of cash in the financial system.

Engagement in the South Pacific

The Reserve Bank fosters close ties with South Pacific countries through participation in high-level meetings, staff exchanges and the provision of technical assistance across a wide range of central banking issues.

In November 2019, the Reserve Bank hosted the annual meeting of the South Pacific Central Bank Governors in Sydney. Discussions were also held with commercial banks operating in the region. The Governors discussed recent economic and financial developments and resolved to jointly develop a framework that would underpin a regional 'Know-Your-Customer' facility. Work on the first stage of this project has been progressing steadily, with the central bank working group on track to make recommendations to Governors in late 2020.



Governor Philip Lowe (fourth from left) and Senator the Hon Marise Payne (fifth from left) with heads of delegation at the 2019 South Pacific Governors' Meeting, Sydney, November 2019

The Bank also hosted a joint meeting of the South Pacific Governors and the Network for Greening the Financial System, which included representatives from insurers, international organisations and academic institutions. In June 2020, the South Pacific Governors spoke via teleconference to discuss recent economic developments and policy responses to the COVID-19 pandemic.

The Reserve Bank also provides financial support for an officer of the Bank of Papua New Guinea to undertake postgraduate studies in economics, finance or computing at an Australian university. This support is provided via the Reserve Bank of Australia Graduate Scholarship, which was first awarded in 1992. The most recent recipient of this scholarship commenced studies at the University of Queensland in July 2018.

International visitors and secondments

As in previous years, the Reserve Bank hosted a number of overseas visitors, predominantly from foreign central banks. The number of visits has been affected by the COVID-19 pandemic: no overseas visitors have been received by the Bank since mid-March 2020 and all visits that had been planned were cancelled. Visits completed prior to mid-March 2020 covered a range of the Bank's activities and included delegations from Indonesia, Papua New Guinea, Saudi Arabia and Tanzania. The Bank also hosted secondees from the Deutsche Bundesbank and the Reserve Bank of New Zealand. A number of Reserve Bank staff were seconded to other central banks and various international organisations, including the BIS, the Bank of Canada, the Bank of England, the IMF and the Reserve Bank of New Zealand. These arrangements facilitate a valuable exchange of skills and expertise between the Bank and the broader global economic and financial policymaking community.

Communication and Community Engagement

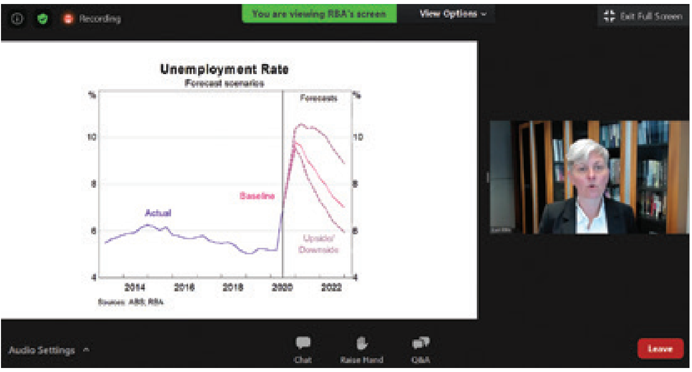
The Reserve Bank is committed to its communication being open, transparent and accountable. The Bank's staff across Australia work to understand community priorities and concerns and, in turn, explain the Bank's policies and decisions. The Bank engages through a regional and industry liaison program, a public education program and consultations. The Bank communicates its policy decisions, and the context in which these are made, through speeches and publications. The Bank participates in parliamentary hearings and responds to public enquiries. It supports academic research, and operates a museum where visitors can discover the history of Australia's banknotes and economic development. The Bank also plays a modest philanthropic role in the community.

Publications and Speeches

The Reserve Bank's communication about its policy decisions, analysis and operations is primarily made through publications and speeches. Announcements about monetary policy decisions are made shortly after each Reserve Bank Board meeting and minutes are released two weeks later. A media release is published following each Payments System Board meeting, outlining issues discussed at the meeting and foreshadowing any forthcoming documents to be released by the Bank.

The Reserve Bank also explains its analysis through a number of regular publications:

- The quarterly *Statement on Monetary Policy* provides information about the Reserve Bank's assessment of current economic and financial conditions, along with the outlook for economic activity and inflation in Australia. To aid a broader understanding of the forces shaping the economic outlook and in light of the extreme uncertainty posed by the outbreak of COVID-19, in May 2020 the Bank presented three possible scenarios, instead of a single central profile. These scenarios differed both in terms of the assumed timing of the easing of restrictions imposed to control the virus and the resilience of demand as these restrictions are lifted.
- The *Financial Stability Review*, published semi-annually, provides a detailed assessment of the condition of Australia's financial system and potential risks to financial stability. In light of the COVID-19 pandemic, in April 2020 the *Review* assessed the evolution of these risks for the financial system. It noted that, while the pandemic had caused significant strains in the global financial system, the Australian financial system was well placed to manage these strains. It also highlighted that regulatory authorities were working closely to minimise the economic harm caused by the pandemic



(Top, from left) Assistant Governor (Financial System) Michele Bullock, Assistant Governor (Economic) Luci Ellis, Governor Philip Lowe and Deputy Governor Guy Debelle appearing before the House of Representatives Standing Committee on Economics in Canberra, August 2019; (above left) Assistant Governor (Economic) Luci Ellis speaking at the Australian Business Economists Lunchtime Briefing by videoconference, August 2020; (right) Assistant Governor (Financial System) Michele Bullock speaking at the ASFA conference in Melbourne, November 2019

During 2019/20, the Governor, Deputy Governor and other senior officers gave 34 public speeches and that, along with the strong starting position of Australia's banking system, the nation's financial system has the ability to absorb, rather than amplify, the effects of the pandemic.

- The Reserve Bank's quarterly *Bulletin* contains analysis of a broad range of economic and financial issues as well as aspects of the Bank's operations. During 2019/20, 33 articles were published in the *Bulletin*.

Public appearances provide an opportunity to communicate the Reserve Bank's analysis of economic and financial developments and how they have influenced monetary policy decisions, as well as respond to questions in a public forum. During 2019/20, the Governor, Deputy Governor and other senior officers gave 34 public speeches on various topics. A number of scheduled events were cancelled or postponed by conference organisers amid the pandemic, while nine speeches were delivered 'virtually'. Senior staff also participated in public panel discussions and parliamentary hearings. More regional centres

Deputy Governor Guy Debelle at The Australian Financial Review Business Summit, March 2020

(Above) Assistant Governor (Financial Markets) Christopher Kent giving an Address to Bloomberg Sydney, July 2019; (right) Governor Philip Lowe addresses the Armidale Business Chamber, September 2019
Photo: Dave Robinson Photography

around Australia were included in the public appearance schedule with questions taken after almost all addresses. In addition to speeches on monetary policy and the Bank's response to COVID-19, there were speeches on the effect of the virus on the economy and financial system. Other speeches by senior officers addressed changes in banking and payments, digital transformation and the future of work. These speeches, the associated question and answer sessions and panel discussions were published on the Bank's website as both audio and text to facilitate transparency and accessibility. In late 2019, the Bank also started providing 'live' audio for speeches by the Governor and Deputy Governor.

The Reserve Bank publishes information in both electronic and hard-copy formats, although access to information is mostly online. During the year, the Bank launched an Instagram account to engage with a younger demographic through visual communication. Followers of the Bank's social media accounts on Twitter, LinkedIn, Facebook and Instagram have grown to number

Governor Philip Lowe speaking at a press conference on Thursday, 19 March 2020

over 126,000, while the number of subscribers to the conventional email alert service is around 11,000. Visitors to the Bank's website also made use of the RSS feeds, which allowed them to receive alerts about data updates, media releases, speeches, research papers and other publications, including those related to Freedom of Information requests.

The Reserve Bank's website has continued to evolve with new and refreshed content. The production process for the *Financial Stability Review* and Chart Pack was made more efficient and the digital version can be accessed in different formats upon publication to facilitate accessibility, as occurs with the *Statement on Monetary Policy*. The Bank has expanded its digital interactive resources following suggestions from teachers. The Banknotes microsite has continued to be used to communicate information about the new banknote series being issued by the Bank, with the new $20 banknote entering general circulation and the design of the new $100 banknote revealed in 2019/20.

Regional and Industry Liaison

Staff in the Reserve Bank's regional and industry liaison team, which operates from four State Offices around Australia and the Bank's Head Office in Sydney, work together to conduct the Bank's liaison program. The State Offices are located in Adelaide, Brisbane, Melbourne and Perth. Staff in the liaison program meet regularly with businesses, associations, governments and community organisations from across the country, including in regional areas. In 2019/20, nearly 1,000 liaison meetings were conducted and liaison staff visited Bunbury, Darwin, the Gold Coast, Hobart, Mount Gambier, Newcastle, Port Macquarie and Townsville.

Timely information provided by liaison contacts helps the Bank monitor trends in the Australian economy and complements data from official sources. Broad messages from liaison inform the Reserve Bank Board's decision-making and are communicated to the public through the Bank's regular statements and reports as well as speeches by senior staff. Liaison information is also regularly drawn upon for articles in the Reserve Bank *Bulletin*; in 2019/20, *Bulletin* article topics included renewable energy investment in Australia and regional variation in economic conditions.

The timeliness of information gathered from liaison was especially valuable in 2019/20 when the Bank needed to assess the effect of the bushfires and the COVID-19 pandemic on the Australian economy. These events had fast-moving effects on economic activity and labour markets, which would not be captured in official data sources for several weeks or months because of publication lags. Liaison information indicated that disruptions to economic activity caused by the bushfires in late 2019 and early 2020 would be temporary in most cases, although regional communities had been disproportionately affected.

Significant disruptions to activity in response to the outbreak of COVID-19 and associated travel restrictions were first reported by contacts in the higher education and tourism sectors in early 2020. As a result of the COVID-19 pandemic and travel restrictions, all liaison meetings were conducted via telephone or videoconference between March and June. The liaison team maintained a high number of meetings over this period, with almost half of all meetings in 2019/20 taking place in the four months to the end of June. With economic conditions changing

In 2019/20, nearly 1,000 liaison meetings were conducted

Senior Representative, Victorian State Office, Gordon Flannigan, presenting an economic update to liaison contacts in Hobart, November 2019

(Above left) Susan Moylan-Coombs (second from left), Philip Gaetjens (second from right), Governor Philip Lowe (right) and representatives of the Rirratjingu Aboriginal Corporation hold the corporation's flag beside a plaque dedicated to the Reserve Bank's first Governor, Dr HC 'Nugget' Coombs, Darwin, July 2019; (above right) Governor Philip Lowe (right) with Banduk Marika AO after the unveiling of the plaque, Darwin, July 2019

rapidly, more frequent meetings with liaison contacts ensured that the Reserve Bank Board received the most relevant information to inform its policy decisions. Summary messages from liaison about the impact of the pandemic on businesses and the effectiveness of monetary and fiscal support measures were also regularly shared with the Bank's senior management and other government agencies.

As restrictions on economic activity in Australia were imposed from March to contain the spread of the virus, reports of considerable falls in demand became widespread. Firms responded to weaker demand and increased economic uncertainty with a variety of measures to preserve liquidity, including deferring or cancelling non-essential planned capital expenditure, reducing staff hours worked or the number of employees, and implementing wage freezes.

Staff from the State Offices also have an important role in the Bank's communication with members of the public, holding discussions with a broad cross-section of the community. In 2019/20, staff members in the State Offices gave around 30 presentations to members of the community, including at schools, business roundtables and regional chambers of commerce. In addition, Bank employees presented summaries of the *Statement on Monetary Policy* during the year to around 300 participants in the liaison program, including virtual presentations following the May 2020 *Statement*.

As noted in the chapter on 'Governance and Accountability', the Reserve Bank Board meets in state capitals other than Sydney on a regular basis. Following these Board meetings, a dinner is held with members of the local community, including representatives and leaders from politics, business, the public sector, and educational and community organisations. The dinners provide an opportunity to strengthen relationships between local communities and the Bank. In 2019/20, community

(Above) Board community dinner, Darwin, July 2019; (right) Board community dinner, Melbourne, October 2019

dinners were held in Darwin in July 2019 and in Melbourne in October 2019. A community dinner scheduled to be held in Hobart in April 2020 was cancelled owing to the COVID-19 pandemic and domestic travel restrictions.

The Reserve Bank also convened its annual Small Business Finance Advisory Panel, which was established in 1993. The panel discusses issues relating to the provision of finance and the broader economic environment for small businesses. Membership of the panel is drawn from a range of industries across the country. The panel provides a valuable source of information on financial and economic conditions faced by small businesses.

Consultations and Public Enquiries

The Reserve Bank maintains engagement with a wide variety of groups to inform its policy and operational activities. Senior Bank staff meet regularly with representatives of various domestic and international official agencies, business groups and financial market participants to discuss economic, financial and industry developments.

As the first stage of a comprehensive Review of Retail Payments Regulation, the Bank published an Issues Paper in late 2019 seeking stakeholder views on a range of policy issues that could be covered by the Review. Staff from Payments

Policy Department began meeting with stakeholders in early 2020. The Bank announced in March that the Review was being put on hold in light of the extraordinary circumstances associated with the COVID-19 pandemic. The Review is expected to be completed in 2021.

In late 2019, the Council of Financial Regulators (CFR) – comprised of the Reserve Bank, the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission and the Australian Treasury – conducted a consultation on proposals for regulatory reforms in relation to financial market infrastructures, including implementation of a crisis management regime for clearing and settlement facilities. Following consideration of the responses received, the CFR agencies developed policy proposals that were provided to the Government in July 2020.

The Reserve Bank held two meetings of its Payments Consultation Group in 2019/20. This group, which was established in 2014, is a structured mechanism for representatives of various users of the payments system (consumers, merchants, other businesses and government agencies) to convey their views on payments system issues as an input to the payments policy formulation process. More details on the activities of this group are provided in the *Payments System Board Annual Report*.

Staff from Payments Settlements Department continued to conduct regular liaison meetings with Reserve Bank Information and Transfer System (RITS) members and industry groups, such as the Australian Payments Network (AusPayNet). Staff also participated in various industry forums, including AusPayNet's High Value Clearing System Management Committee. A senior staff member sits on the board of AusPayNet and another senior staff member sits on the board of New Payments Platform Australia Limited (NPPA), the company established to build and operate the NPP. Staff from Payments Settlements and Banking departments represent the Bank on NPP operating committees. Participation in these groups, and a number of other industry forums, helps the Bank to remain well informed about developments in these areas and contribute to innovations in the banking and payments industry.

The Reserve Bank sponsors and provides the secretariat to the Australian Foreign Exchange Committee (AFXC). Among other things, in 2019/20 the AFXC worked to promote the adoption of the FX Global Code in the Australian wholesale foreign exchange market. The code is maintained by the Global Foreign Exchange Committee, of which the AFXC is a member committee, and the Deputy Governor is the Chair. More details are provided in the chapter on 'International Financial Cooperation'.

During the year, the Bank received approximately 3,100 public enquiries on a broad range of topics, including monetary policy, the economy, financial markets and regulation of the payments system. Responses were provided to the majority of enquiries received by the Bank. Staff from Note Issue Department also continued their engagement with industry and members of the public in relation to the new banknote series, as discussed in the chapter on 'Banknotes'.

During the year, the Bank received approximately 3,100 public enquiries on a broad range of topics

Research

The Reserve Bank publishes the results of longer-term research conducted by staff in the form of Research Discussion Papers (RDPs), which stimulate discussion and comment on policy-relevant issues. The views expressed in RDPs are those of the authors and do not necessarily represent those of the Bank. During 2019/20, 10 RDPs were published on a range of topics in the Bank's areas of interest, including the Australian housing market, consumer spending, Australian banknotes and monetary policy. Reserve Bank staff also published their research in various external journals, including the *Economic Record*.

Research undertaken at the Bank is frequently presented at external conferences and seminars. In 2019/20, Bank staff presented at a number of conferences and institutions in Australia and overseas.

The Reserve Bank holds regular conferences, which foster interaction between academics, central bankers and other economic practitioners on topical policy issues. The Bank's annual conference for 2020 was cancelled owing to the COVID-19 pandemic. There are, however, plans to revisit the topic 'The Long-run Effects of the Short-run' for the 2021 conference and re-engage the participants who had accepted the Bank's invitation to the 2020 conference.

In 2019/20, the Reserve Bank also hosted visits from a number of policymakers from domestic and overseas institutions as well as academics from a range of institutions. These included staff from the Federal Reserve Board, the International Monetary Fund, the Bank of England, the Bank for International Settlements and the Reserve Bank of New Zealand, as well as academics from Seoul National University, Universidad Torcuato Di Tella, University of Texas, Austin and Chicago Booth. During their visits, these visitors presented seminars, taught short courses and participated in research activities at the Bank.

The Bank sponsors economic research in areas that are closely aligned with its primary responsibilities. This sponsorship includes financial support for conferences, workshops, data gathering, journals and special research projects, and encompasses areas of study such as macroeconomics, econometrics and finance. In addition, the Bank provides sponsorship to the Centre for Independent Studies and the Sydney Institute. It is a corporate member of the Lowy Institute for International Policy and The Ethics Centre and an associate member of The South East Asian Central Banks (SEACEN) Research and Training Centre. The Bank is a member organisation of the Committee for Economic Development of Australia (CEDA); the Bank's membership of CEDA includes an annual research contribution.

In 2019/20, the Reserve Bank continued its longstanding contribution towards the cost of a monthly survey of inflation expectations undertaken by the Melbourne Institute of Applied Economic and Social Research at the University of Melbourne. The Bank also maintained its contribution to a quarterly survey of union inflation and wage expectations undertaken by the Australian Council of Trade Unions.

The Bank continued to contribute to funding the *International Journal of Central Banking*, the primary objectives of which are to disseminate first-class, policy-relevant and applied research on central banking and to promote communication among researchers both inside and outside central banks. The Bank also provides financial support for the Group of Thirty's program of research into issues of importance to global financial markets.

The Bank provides financial support for research on population ageing being conducted by the Australian Research Council Centre of Excellence in Population Ageing Research (CEPAR), based at the

University of New South Wales. A senior official of the Bank sits on the Advisory Board of CEPAR.

The Reserve Bank makes a financial contribution to a number of conferences in economics and closely related fields. In 2019/20, these conferences included: the Economic Society of Australia's Women in Economics Network Retreat; the University of New South Wales Australasian Finance and Banking Conference; the University of Technology Sydney's Investment Management Research Program Conference; the PhD Conference in Economics and Business; the Workshop of the Australasian Macroeconomics Society; the Sydney Banking and Financial Stability Conference; the Melbourne Institute Macroeconomic Policy Meetings; and the Australian and New Zealand Econometric Study Group Meeting. The Bank also supports the discussion of economic issues in the community by providing a venue for the Economic Society of Australia's Lunchtime Seminar and Emerging Economist Series.

The Bank commenced a three-year sponsorship with the Economic Society of Australia's Central Council. The sponsorship helps to build and strengthen the profession and the debate on economic issues.

The Bank contributes to the NSW Premier's Teachers Scholarship, which aims to raise awareness of economics as an important field of study, attract a diverse body of students to the field and support excellence in teaching the subject. In conjunction with APRA, the Reserve Bank has continued to sponsor the Brian Gray Scholarship Program, initiated in 2002 in memory of a former senior officer of the Reserve Bank and APRA. One scholarship was awarded under this program in 2020. The cost to the Bank of this scholarship was $7,500.

In 2019, the Economic Society of Australia (Tasmanian Branch) established a scholarship to honour the memory of the late Professor Mardi Dungey, who was a former employee of the Reserve Bank and had been an active member of the Bank's Educators Advisory Panel. A contribution to funding the scholarship was made by the Bank in January 2020.

The total value of support provided for research and education in 2019/20 was $362,535.

Education

Interacting with educators and students remains a key part of the Reserve Bank's community engagement. The Bank has a Public Access & Education team whose role is to support educators and students and coordinate the efforts of staff across the Bank to deliver a public education program. The main focus of the program is economics education at senior high school. This focus was sharpened during the COVID-19 pandemic, and additional resources

The Bank commenced a three-year sponsorship with the Economic Society of Australia's Central Council … to build and strengthen the profession and the debate on economic issues

Two new video series were introduced to support remote learning

were developed for senior high school students and their teachers. However, educational activities are also undertaken for different stages of learning (at both school and university).

The Reserve Bank's commitment to economics education is motivated by the importance of economic literacy in the wider community and its concerns about the falling size and diversity of the economics student population. Nationally, the number of high school students studying economics in Year 12 has fallen by around 70 per cent since the early 1990s. Over the same period, the share of high schools offering economics has also fallen, with this being most pronounced among comprehensive government schools. Furthermore, there have been sharp falls in participation by females and students from schools that are culturally diverse or located in lower-income areas. A similar pattern is evident at university. In response, the Bank is seeking to raise awareness of the relevance of economics and the career opportunities it can provide. It is also providing practical support by creating resources that are aligned with curricula, giving presentations to students and offering professional development opportunities to educators.

Five new Explainers addressing topics of current importance were created in line with needs expressed by educators. They were aimed at both senior high school and undergraduate students. The topics included unconventional monetary policy and recessions, given the major economic contraction associated with the COVID-19 pandemic. The new Explainers also provided foundation knowledge about the role of money, as well as topics described by educators as being particularly difficult for students, such as the balance of payments and how a yield curve is formed.

Prior to March 2020, when the COVID-19 outbreak required suspension of face-to-face engagements, educational talks were delivered in person to nearly 4,500 high school students as well as to around 500 university students. The program was delivered through the Reserve Bank's Ambassador program, through which around 50 Bank staff engage with students and educators. Many talks were given directly in classrooms by the Ambassadors, who also give students the opportunity to meet young economists, learn about their work and be exposed to role models. Economists in the Bank's State Offices participate in the program and help ensure that talks are available to students and educators across the country. Before the suspension of in-person talks, the Bank had made additional effort to visit schools in outer metropolitan areas and delivered talks to schools in Port Macquarie, Wangaratta and Townsville.

With Ambassadors unable to present to students in person since the onset of the pandemic, two new video series were introduced to support remote learning. A short video on current economic conditions was published in May after the *Statement on Monetary Policy*, and is updated on a regular basis. The second video series brought to life the content in the Explainers, providing a video lesson for use by teachers in class or by students for self-directed learning. The first video in this series explored 'The Labour Market and Unemployment'.

(Above) Work experience students with Head of Economic Analysis Department Alexandra Heath (far left) and Deputy Governor Guy Debelle (far right); (left) Governor Phillip Lowe (bottom left) thanks members of the Educators Advisory Panel for their work during the year

A new digital interactive tool in support of remote learning was also released. At teachers' request, the Reserve Bank developed the Snapshot Comparison tool, which allows users to compare snapshots of economic conditions in Australia at specific dates, as well as between major episodes in Australia's economic history (such as recessions or terms of trade booms).[1] In addition to comparing snapshots of economic data, there are interactive graphs and an ability to export data and graphs for use in class.

While there was a concentrated effort to support remote learning during the pandemic, the Reserve Bank also advanced initiatives with a long-term aim of increasing the size and diversity of the economics student body. Key among these was developing resources about economics for teachers of Years 7–10 students. These resources are aligned with the mandatory economics component of the new NSW Commerce Syllabus, but are relevant to other subjects that include aspects of economics. They are intended to assist teachers and engage students so that they might later select economics. Also, a new Work Experience Program to expose students to economics was introduced. Twelve high-performing Year 10 students from across the country spent a week at the Bank, learning from economists and receiving training in the presentation of economic data.

The Reserve Bank continued to provide teachers with professional development activities. Bank staff spoke at seven external events for teacher professional development, and the Bank maintained its Topical Talks series for educators.

1 See <https://www.rba.gov.au/education/resources/digital-interactives/snapshot-comparison/>.

Of the two Topical Talks given during the year, the first was held in person at the Bank's Head Office, while the second, which occurred after suspension of face-to face engagement, was a webinar. This enabled participation by teachers from across the country, including from regional areas. The Bank's annual Teacher Immersion Event – its principal professional development activity – was cancelled because of the COVID-19 outbreak.

Further research was conducted to guide the strategic direction of the public education program. The Reserve Bank collaborated with Ipsos to undertake the 'High School Students' Subject Selection Survey' of Year 10, 11 and 12 students in NSW. The aim of the survey was to investigate why students choose subjects, why they choose to study (or not study) economics and their perceptions of economics. The survey was conducted as an in-class activity, with 51 schools participating and over 4,800 students completing the survey. An analysis of the survey results can be found in the June 2020 issue of the *Bulletin*.[2] The results will inform actions to be taken to help overcome barriers that some students have in choosing economics and encourage participation by a more diverse group of students.

The Educators Advisory Panel – which comprises external education experts who advise on the strategic direction of the Bank's public education program – met twice during the year to review the program's progress.

Museum

The Reserve Bank's Museum showcases a permanent collection of artefacts and hosts additional periodic exhibitions. It also offers regular talks and tours for a wide cross-section of visitors, including students. In the permanent collection, visitors can view the various types of money used in Australia before Federation through to the innovative new series of 'next generation' banknotes. Visitors can trace the evolution of the nation's identity as expressed through its banknotes and learn about the influential women and men depicted on them. They can also see the artwork used in banknote design, learn about how banknotes are made and discover their security features.

The Museum has featured the next generation banknotes in a display called *A New Vision for Banknotes*. In 2019/20, information about the new $20 banknote was added to that for the $50 banknote (released in 2018), the $10 banknote (released in 2017) and the $5 banknote, which launched the new series in 2016. The display has been designed to capture the innovative properties of the new banknotes; it provides details about their design, production and their tactile accessibility feature for people who are vision-impaired. A large multi-touch screen enables visitors to explore the design elements and security features of the new banknotes, along with the rich historical and social context of the imagery and stories that the banknotes contain.

Around 12,400 people visited the Museum during 2019/20. This was well down on the previous year owing to the closure of the Museum during the pandemic. The school holiday program had been expanded prior to the pandemic, with an increase in the variety of public talks given. The number and diversity of high school students visiting the Museum had increased further, consistent with the Reserve Bank's public education initiatives. Senior high school groups were offered talks about the role of the Bank and the economy, which were aligned with the syllabus for both economics and commerce. In addition to these talks, groups of Indigenous students (at high school and

2 Livermore T and M Major (2020), 'Why Study (or Not Study) Economics? A Survey of High School Students', *Bulletin*, June. Available at <https://www.rba.gov.au/publications/bulletin/2020/jun/why-study-or-not-study-economics-a-survey-of-high-school-students.html>.

A visitor to the Museum explores the new $20 banknote using the multi-touch screen

university) received presentations on the history of Indigenous design elements in Australia's banknotes. Talks for students were also available about the Museum exhibits and the new banknotes, with these talks customised for some groups, including those with English as a second language or having accessibility requirements and those undertaking vocational training.

There was active use of the Museum's 'Collection Spotlights' cases, which enable the periodic small-scale display of significant artefacts and archival records held by the Bank. For example, there was a display about the historic Reserve Bank visit to China in 1961, led by its Governor, Dr H. C. 'Nugget' Coombs, before Australia had diplomatic relations with the People's Republic of China. There was also a display of an alternative banknote series produced by the Indigenous artist, Dr Ryan Presley, who re-imagines Australia's currency from the perspective of the First Nations' histories. The alternative banknotes, which closely mirror features of Australia's actual banknotes, were part of a body of work entitled 'Blood Money' that drew on research conducted by Ryan Presley in the Bank's Archives and Museum. The physical Collection Spotlights each had corresponding online exhibitions to provide visitors with more information about the Bank's collections.

In 2019, the Reserve Bank once again participated in Sydney Open – an event designed to give the public access to important or unique buildings. There were around 1,800 visitors to the Bank's public foyer areas and Museum – a record attendance at the Bank – with its Head Office building becoming the fifth most visited building in the Sydney Open program. Visitors attended talks about the architecture and design of the Bank's heritage-listed Head Office building. These talks were complemented by a booklet titled *Unreservedly Modern* and a digital exhibition in the Museum foyer about the public artwork that can be seen when visiting the Head Office building and its buildings in other cities in Australia. The highlight of the Bank's participation in Sydney Open remained the access by smaller groups to the Board suite, where visitors received presentations about the Bank's art collection, which forms part of the cultural legacy of former Governor Dr H. C. Coombs. In 2019/20, small groups were given access to the top floor of the building, with large archival images of views

Curator Guy Betts talks to visitors during Sydney Open about the architecture and design of Reserve Bank's Head Office building, November 2019

from this floor aligned with current views, so the Bank's building could be located in the changing built environment of Sydney.

The Reserve Bank's Museum also became part of the Cultural Kilometre, in which nine cultural institutions – within a short walk from one another – share information about their programs so that general visitors and educators can more easily plan visits to multiple institutions with complementary collections and learning opportunities.

The information in the Museum is accessible on the Museum's website, which also contains supplementary online exhibitions. The Museum website was refreshed during the year to improve the display of this additional information and provide a user experience similar to that of cultural institutions. An interactive map of the Cultural Kilometre was also added to the site.[3]

3 See <https://museum.rba.gov.au/cultural-kilometre/>.

Archives

The Reserve Bank Archives contain records and artefacts that cover over 200 years of Australia's financial, economic and social history, as well as the history of the Bank's operations. During 2019/20, the Bank's Archives team responded to more than 180 requests for information. The majority of requests for archival information were from academics and postgraduate students, from both Australia and overseas. Requests from financial institutions with a historical association with the Bank, along with cultural institutions, authors, architects, numismatists and genealogists were also prominent.

Topics of particular interest to those requesting information from the Archives included: colonial banking records; banking staff who served in the First World War; interwar central bank cooperation; former Reserve Bank branches and buildings; former Bank governors (particularly Dr H.C. Coombs); and correspondence between the Bank and the Hawke Government. In

The Reserve Bank Archives contain records and artefacts that cover over 200 years of Australia's financial, economic and social history, as well as the history of the Bank's operations

addition, the COVID-19 pandemic and its economic effects generated requests about the influenza pandemic of 1918 (known as the Spanish Flu) and the Great Depression of the 1930s. And the release of the new $20 banknote in October 2019 occasioned enquiries about previous banknote series and note designs, and also activities at the Bank's first printing works.

While the COVID-19 outbreak required the closure of the Reserve Bank's Archives repository and public research room, the Archivists were able to support most requests for information remotely by accessing digital versions of records. Digital content was then shared with researchers using the Bank's secure external collaboration tool, RBA Box. These researchers included the Bank's Historian, Associate Professor Selwyn Cornish of the Australian National University, who continues to make considerable progress in the writing of the next volume of the Bank's official history, which has a focus on the 1975–2000 period.

An article about the Reserve Bank's Archives featured in the December 2019 issue of the *Bulletin*. Entitled 'Being Unreserved: About the Reserve Bank Archives' it detailed the history of the Archives, its scope and significance. It also described plans for a digital platform (called Unreserved) to enable the public to have direct access to archival Bank records and allow researchers to conduct independent research on these records. To facilitate this project, the program to digitise the Bank's most significant, interesting or fragile archival records and collection items continues. To date, around two million frames have been digitised.

Once restrictions imposed in response to the COVID-19 outbreak have been lifted, and Unreserved is launched, public access to the Bank's records through the dedicated research room in the Bank's Head Office will resume for those records yet to be digitised. In many instances, the physical form and medium can be integral to interpretation of an archival record. Furthermore, the Bank's Archivists will continue to provide research and advice as a core feature of the public's access to this significant archival collection.

Charitable Activities

During 2019/20, the Reserve Bank made its 18th annual contribution of $50,000 to the Financial Markets Foundation for Children, which is chaired by the Governor. For many years, the Bank has donated a signed uncut banknote sheet to the ASX Refinitiv Charity Foundation for auction, which usually raises over $20,000. The Foundation includes the Financial Markets Foundation for Children in the distribution of auction proceeds. In July 2020, the Governor delivered his fourth address to the Anika Foundation's annual event to raise funds to support research into adolescent depression and suicide. This was the 15th such event supported by the Bank; in this instance, the address was delivered as a webinar.

In March 2020, the Bank made a donation to the Yothu Yindi Foundation to assist with the transportation of Indigenous youth enrolled in educational programs under the auspices of the Dhupuma Foundational Learning program. The project aims to re-engage high school-aged students who are not enrolled in traditional schooling with learning and education activities that take cultural factors into consideration and emphasise the importance of health in the educational process. The donation followed a visit by Governor Philip Lowe and two fellow Reserve Bank Board members to East Arnhem Land to re-establish links formed between the Reserve Bank under the governorship of Dr H.C. 'Nugget' Coombs and the Indigenous community of Nhulunbuy in the late 1960s. The visit, in July 2019, followed a meeting of the Reserve Bank Board and a community dinner hosted by the Governor in Darwin.

The Reserve Bank's modest corporate philanthropy program involves several initiatives, key among which involves dollar-matching staff payroll deductions (totalling $112,500 in 2019/20) organised by the Reserve Bank Benevolent Fund. The Bank also facilitates staff salary sacrificing under a Workplace Giving Program.

Following the devastating bushfires in Australia over December and January, Bank staff raised an amount of $16,339 for the Australian Red Cross Bushfire Appeal in a fundraising initiative organised by the Benevolent Fund. In addition, staff of Note Printing Australia raised $2,393 for the Victorian Bushfire Appeal. The Bank dollar-matched both these donations.

Reserve Bank staff participated in a number of volunteering activities in 2019/20 with The Smith Family, Foodbank Victoria and Foodbank NSW and ACT. A small donation was also made to Orange Sky Australia.

The Reserve Bank's contributions under all these initiatives in 2019/20 totalled $264,642.

Part 3:
Management

‘Once we get beyond the effect of the virus, the Australian economy will be supported by the low level of interest rates, the lower exchange rate, a pick-up in mining investment, sustained spending on infrastructure and an expected recovery in residential construction.’

Deputy Governor Guy Debelle,
The Virus and the Australian Economy,
March 2020

Management of the Reserve Bank

This chapter outlines the management structure of the Reserve Bank and describes the Bank's approach to managing its finances, technology, data and facilities. The subsequent chapters provide further detail on the Bank's people, risk management and earnings. The Bank is managed by the Governor, with assistance from the Executive Committee and the Risk Management Committee. The Bank is committed to the prudent management of its finances and the efficient functioning and security of its systems and facilities. It maintains a strong focus on cost control in discharging its key policy and operational responsibilities, and continues to invest in its technology, data and facilities, which is essential for the Bank to achieve its objectives.

Management Structure

Under the *Reserve Bank Act 1959*, the Bank is managed by the Governor, with the support of two key management committees, the Executive Committee and the Risk Management Committee.

The Executive Committee is the key management committee of the Reserve Bank for matters of strategic or Bank-wide significance. Its role is to assist and support the Governor in managing the Bank. The committee, which is chaired by the Governor and includes the Deputy Governor and the Assistant Governors, meets weekly. Other senior executives attend meetings of the Executive Committee when required to provide specialist advice.

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 2019/20, the Risk Management Committee met on seven occasions and kept the Executive Committee and Reserve Bank Board Audit Committee informed of its activities. Details of the Bank's risk management framework are provided in the chapter on 'Risk Management'.

Financial Management

The Reserve Bank seeks to ensure that its key policy and operational objectives are met, while maintaining a strong focus on cost control. The Bank seeks to achieve value for money from all its spending, and manages its staffing levels carefully. A key component of this accountability is the Reserve Bank's budget, which covers the resourcing and expenditure plans for the financial year. The Executive Committee supports the Governor in overseeing the Bank's budget.

The Reserve Bank has an Investment Committee, chaired by the Deputy Governor, which oversees the Bank's portfolio of project initiatives directed at supporting the Bank to meet its policy and operational responsibilities. The work of the committee is supported by a project governance framework, which includes the submission, review and approval of detailed business cases. These projects are assessed against the priorities of the Bank and within the context of a four-year view of prospective project work. There is senior executive representation and accountability on project steering committees. Projects report at least quarterly to the Bank's Executive Committee on the progress of works and the management of project-related risks.

In their operational capacity, Assistant Governors and Department Heads are responsible for managing expenditure within their approved budgets, with support provided by the Reserve Bank's Finance Department, which reviews and monitors the Bank's financial performance relative to approved budgets on a monthly basis. Performance against the budget, including a forward-looking view of the full-year outcome, is presented to the Executive Committee on a regular basis. There are two formal forecasts of the Bank's costs during the year, which are considered by the Executive Committee in a timeframe that allows the committee to make decisions around the prioritisation of work.

Financial management is also supported by the Bank's expenditure and payment approval policy and its associated processes, which ensures appropriate oversight over the Bank's expenditures to its various suppliers of goods and services. Material spending commitments are approved by senior staff. For its procurement of goods and services, the Reserve Bank follows the principles contained in the Commonwealth Procurement Rules (CPRs) with the objective of ensuring that all goods and services procured by the Bank support its policy and operational responsibilities in an efficient and cost-effective manner, and that probity applies.

The Reserve Bank's costs arise from fulfilling its key policy and operational responsibilities, and from project investment that supports the delivery of these responsibilities. Where appropriate, the Bank seeks to recoup operating costs associated with many of its operational responsibilities through fees and charges. These responsibilities include the transactional banking services provided to clients and for the use of payment systems run by the Bank (such as the Reserve Bank Information and Transfer System (RITS) and the Fast Settlement Service (FSS)). The Bank earned fee income of $373 million in 2019/20 from the provision of the Committed Liquidity Facility to eligible authorised deposit-taking institutions. Operating costs associated with the production, issuance and management of Australia's banknotes are indirectly funded by net interest income (reflecting that holders of 'banknotes on issue' are not paid interest, while the Bank earns interest on the assets it holds). Further details on these services are provided in the chapters on 'Banking and Payment Services', 'Banknotes' and 'Operations in Financial Markets'.

The Reserve Bank's general operating costs were $406.0 million in 2019/20. This was about 1.6 per cent below the budget for 2019/20, in part reflecting the impact of COVID-19 restrictions during the latter part of the financial year, which delayed a number of project initiatives and some non-essential maintenance of Bank premises, and saw the cessation of staff travel from the early stages of the pandemic. These more than offset some additional costs incurred to support staff in the transition to working remotely, including further to enhance the Bank's technology capabilities in this area. Additional information on the Bank's COVID-19 response is contained below.

In comparison with the previous year, general operating costs were 8.8 per cent higher in 2019/20. Staff costs, the largest component of the Bank's general operating costs, grew by 7.1 per

General Operating Costs[a]

$ million

	2015/16	2016/17	2017/18	2018/19	2019/20
Staff costs	212.6	216.2	223.6	227.9	244.1
Technology costs	22.3	28.8	31.2	34.8	41.0
Premises costs	20.8	24.4	25.0	24.8	26.5
Other costs	28.1	34.7	28.6	29.5	29.5
General operating costs (excl. depreciation)	283.8	304.1	308.4	317.0	341.1
Depreciation	25.6	38.4	51.7	56.2	64.9
General operating costs	309.4	342.5	360.1	373.2	406.0
Of which: Cost of projects	33.7	43.5	35.1	23.2	20.1
General operating costs by function[b]					
Policy	79.6	80.8	80.9	82.6	89.7
Business Services	61.6	80.2	95.8	100.1	100.9
Executive and Corporate Support	168.2	181.5	183.4	190.5	215.4

(a) Excluding NPA and banknote management expenses, and costs directly linked with transaction-based revenue. Some prior period costs have been reclassified to align with the current basis of presentation

(b) Costs by function shown above are on a direct rather than an allocated cost basis

Source: RBA

cent, reflecting the salary increases stipulated in the Reserve Bank's Workplace Agreement, and a rise in the average number of staff supporting the Bank's operations (including from the full-year effect of additional staff added during the previous year to support new banking and payment systems and services). Managing resourcing and its associated costs continues to be an area of focus for the Bank. This includes seeking to contain staffing numbers to current levels, while ensuring that staff levels remain appropriate to support the Bank's core operations.

Technology costs rose by 17.8 per cent in 2019/20, reflecting enhanced banking and payments services and infrastructure that require additional licensing, maintenance and vendor support. These systems are required to operate to high standards of availability, especially FSS (99.995 per cent availability) and RITS (99.95 per cent availability). Costs associated with further enhancing the overall resilience and performance of these key technology assets also contributed to the increase in technology expenditure, as did ongoing investment to strengthen further the Bank's cyber security capabilities.

Premises costs rose by 6.9 per cent this year, reflecting the transfer of the remaining aspects of security at the Bank's site at Craigieburn, Victoria, to the Bank (which were formerly managed by Note Printing Australia Limited (NPA)). Under this new arrangement, a large proportion of these security related costs are recovered from site tenants, including NPA, and recorded as revenue.

The increase in depreciation expense, which rose by a further 15.5 per cent in 2019/20, mainly reflects the completion of the Bank's multi-year program to modernise its banking systems and the adoption of revised accounting requirements for leased assets (which resulted in $4.4 million of leased premises and equipment expenditure being reported as depreciation in 2019/20).

Capital expenditure reflects the program of investment aimed at: maintaining the value of the Reserve Bank's buildings and technology assets; supporting the delivery of new capabilities and services; and initiatives that seek to produce

Capital Expenditure[a]
$ million

	2015/16	2016/17	2017/18	2018/19	2019/20
Capital Costs	108.1	100.7	45.7	36.5	43.6
Of which: Cost of major projects[b]	92.8	85.8	39.5	31.7	19.0

(a) Excluding NPA
(b) Projects on the Enterprise Master Schedule
Source: RBA

operational efficiencies. Capital expenditure rose by 19.4 per cent in 2019/20, as the completion of the major project to modernise the Bank's banking systems was more than offset by an uplift in the Bank's ongoing program to upgrade its technology infrastructure. Future investment will focus on continuing to refresh existing assets, including substantial upgrades to the Bank's Head Office in Sydney and its training facility in Kirribilli (refer to the 'Facilities' section below). Improving the efficiency and effectiveness of the Bank's data management practices, and initiatives to further modernise internal systems and processes, especially those supporting staff, will also be a priority.

The Reserve Bank engages consultants from time to time where it lacks specialist expertise or if independent research, review or assessment is required. Spending on consultancies over the past nine years is shown below. The decrease in spending in 2019/20 reflected the completion of a number of consultancies in 2018/19.

Spending on Consultancies[a]
$

2011/12	535,000
2012/13	1,190,000
2013/14	387,000
2014/15	773,000
2015/16	622,520
2016/17	987,388
2017/18	596,157
2018/19	1,113,425
2019/20	485,896

(a) Sum of individual consultancies that cost $10,000 or more
Source: RBA

Workplace Changes in Response to the COVID-19 Pandemic

From early March 2020, measures to protect employees from the spread of coronavirus and ensure the continuity of the Reserve Bank's operations were introduced. This culminated with the decision to establish 'split site' arrangements for the Bank's critical functions and the majority of the Bank's employees (around 95 per cent) working remotely with minimal disruption to day-to-day operations and without any adverse effects on IT security. The 'split-site' strategy involved separately locating employees between the Bank's Head Office and Business Resumption Site to undertake the Bank's most critical operational areas. This has served to protect the Bank's critical functions as well as ensure a safe and healthy workplace.

Employees working in the Beijing Office were repatriated to Australia and the repatriation offer was extended to the families of employees working in the Representative Offices in New York and London as well as employees studying overseas on Bank-funded study awards. The repatriation offer involved arranging flights and accommodation in serviced apartments for the duration of their two-week mandatory isolation. In the event, some of the employees studying overseas and none of the employees' families chose to return to Australia.

A 'split-site' arrangement was implemented at the Bank's banknote production and distribution sites in Craigieburn, Victoria. To the extent possible, the number of employees working in those sites was also reduced to support critical functions only.

The Reserve Bank took a number of other actions in response to the COVID-19 pandemic to ensure the Bank's ongoing resilience. These included:

- identifying critical functions and staff as part of their business continuity plans and ensuring back-up arrangements operate as planned with allocated resources
- assessing the potential disruption to services and functions provided by the Bank and having contingency arrangements in place to ensure the continued operation of critical services and functions
- engaging with external third-party suppliers to ensure their business continuity arrangements were operating effectively and they had contingency arrangements to ensure the continued provision of goods and services.

For more information on the Bank's business continuity arrangements, see the chapter on 'Risk Management'.

In response to COVID-19, the Bank has worked to ensure the Bank's operations and staff have been able to adopt remote working practices, most notably extending video conferencing to enable Bank collaboration and remote computing services for all staff to access Bank systems. Bank systems were also enhanced to support the Bank's policy responses to the pandemic. These included: the Bank's real-time payments and core banking platforms to facilitate large-scale emergency and stimulus payments; implementing increases in FSS pool account limits to accommodate increased Exchange Settlement Account balances; and setting up the Term Funding Facility in the trading and risk management system.

In addition to the actions outlined above, the Bank's technology response to support

Chief Information Officer Gayan Benedict speaking at a virtual town hall for all RBA staff, September 2020

operational readiness during the COVID-19 pandemic has included:

- distributing additional technology equipment to facilitate remote working arrangements
- providing targeted staff training on technology collaboration services, including remote access connectivity and video conferencing
- undertaking periodic and frequent testing of remote working access and critical systems and technology
- monitoring the effectiveness of cyber resilience arrangements given increased numbers of staff working remotely and the increased use of email and video conferencing
- identifying and mitigating COVID-19 technology risks associated with the Bank's people, processes, systems and third-party relationships

- adapting the Bank's security patching and vulnerability scanning processes to accommodate the significant increase in Bank technology services accessed through remotely connected devices.

In the context of these new working arrangements, actions were also taken to manage the health and safety risks associated with the spread of the virus, namely:

- to ensure the safety of employees and visitors to Bank sites, controls were implemented to ensure adherence to Safework Australia guidelines, including workspace management practices, physical distancing, hygiene services and increased cleaning of common areas
- establishing regular communications to staff on the Bank's response to COVID-19 developments and protocols for responding to potential COVID-19 infections
- initiatives were introduced designed to maintain employees' physical and mental wellbeing, and to assist with their engagement and productivity. Given the longevity of the working-from-home arrangements, these included establishing virtual gym classes, weekly engagement challenges, a fitness challenge, and an influenza vaccination program. Employees were also provided with access to assistance through the Bank's Employee Assistance Program (EAP) provider.

As the threat of the virus evolved and restrictions were relaxed in some parts of the country, the Bank arranged for a staged return to the office for staff who were unable to work productively from home. In July, the two Bank officers who had previously been repatriated from the Beijing Office resumed duties in Beijing. The Bank continues to monitor the situation closely and follow government guidelines in managing its response.

Technology

Information Technology (IT) systems and infrastructure play a key role in the Reserve Bank's ongoing operations and form a major component of most of the Bank's strategic projects. The technology environment comprises more than 450 software applications, two highly available data centres and a highly resilient network infrastructure across multiple Bank sites.

Major technology-related projects completed in 2019/20 included the replacement of the Reserve Bank's core transactional banking systems and the establishment of operational real-time integration services into the New Payments Platform (NPP) for government agencies. The upgraded banking systems will ensure that the Bank's banking applications run on modern business technology and are capable of meeting the banking needs of Australian Government agencies. The NPP integration allows the Reserve Bank's government agency customers to access NPP payments directly from agency systems and payments to occur in near real time. This is important new functionality that will enable faster payment of disaster relief and payments to people in personal crisis situations.

Significant progress has also been made in modernising key aspects of the Reserve Bank's technology capabilities, including its network and banking systems infrastructure. These investments are designed to ensure that the Bank's applications run on modern networks with appropriate performance and security capabilities.

Cyber security continues to be a key focus for the Reserve Bank to ensure its cyber security capabilities are maintained and enhanced in response to external developments. Significant effort continues to be invested in ensuring the Bank's systems, testing and technology operations employ appropriate security controls and monitoring. Ongoing threat monitoring and vulnerability assessments inform continuous security improvements, along with information-sharing with industry partners and agencies. During the year, the Bank was assessed by the Australian National Audit Office as having a mature implementation of the cyber security strategies recommended by the Australian Signals Directorate to mitigate cyber security incidents. It will continue to build on its security controls as these strategies and standards evolve. The Bank has also attained certification of its internet gateway and Payment Settlements functions to the ISO 27001 global standard for Information Security Management.

The Bank continues to pursue strategies to drive the efficiency, stability and resilience of its IT assets, including automation of patching and release management, development of a data bunker to provide additional resilience for highly available banking and payments services, and utilising cloud computing and managed services where appropriate.

Data

The Reserve Bank's Enterprise Data Office (EDO) is responsible for the management and governance of the Bank's data as an asset in an external environment that is complex, data rich and rapidly changing. The EDO seeks to manage data risk, optimise the Bank's data management activities to create more capacity for data analysis, and enhance analytical activity through the provision of better tools and methods, including use of 'Big Data' and emerging data science techniques.

In addition to resolving various short-term issues related to data use, the EDO is also responsible for the long-term development and maintenance of the Reserve Bank's systems, processes and capabilities for working with data. This includes defining appropriate data-related roles and responsibilities, embedding best practices in working with the diverse range of data sets across the Bank, and overseeing the further consolidation and enhancement of the Bank's technology for storing, processing and analysing data.

Facilities

The Reserve Bank owns premises in locations where there is a business need to do so. The Bank's facilities include the Head Office in Sydney; the H. C. Coombs Centre for Financial Studies in Kirribilli, Sydney; an office building in Canberra; facilities for the printing, processing, storage and distribution of banknotes at Craigieburn, north of Melbourne; and a Business Resumption Site in north-west Sydney. In addition to the buildings it owns, the Bank leases accommodation for its State Offices in Melbourne, Adelaide, Brisbane and Perth and for its offices in London, New York and Beijing. Independent valuers estimated the value of the Bank's domestic property assets at $538.2 million on 30 June 2020. The total value of the Bank's property portfolio has increased by $24.4 million, reflecting higher property values in Sydney and Melbourne.

Office space in the Reserve Bank's properties that is not required for the Bank's own business purposes is leased to external tenants. Net income from these leases amounted to $6.8 million in 2019/20, compared with $7 million in the previous year. The reduction is a result of the exit of an external tenant from the Bank's Head Office building in Sydney during the period.

During the year in review, the Reserve Bank completed detailed planning for the design of major building works at Head Office and the Coombs Centre. These works will upgrade base building infrastructure that is at end-of-life and ensure a safe, efficient and effective workplace to meet the long-term needs of the Bank, while preserving heritage features. The Head Office building works are subject to the approval of the

Parliamentary Public Works Committee, which was obtained in March 2020. The Bank's Canberra office building was also renovated in this period, and the construction of a new high-security vehicle gatehouse at the Craigieburn site commenced in early 2020, with completion expected by the end of this calendar year. A major upgrade of the electrical infrastructure at Head Office and the Business Resumption Site was completed, providing greater resilience for banking and payments operations. Works have also begun on increasing the Bank's data centre infrastructure efficiency and capacity.

Ecologically Sustainable Development and Environmental Performance

The Reserve Bank is committed to improving the environmental performance of its operations. The Bank has developed policies and practices that are consistent with the principles of ecologically sustainable development as set out in the *Environment Protection and Biodiversity Conservation Act 1999*. They serve to minimise the impact of the Bank's activities on the environment by increasing the use of renewable energy sources, undertaking continuous environmental improvement through more efficient energy utilisation and management of waste streams, and incorporating sustainability and environmental aspects in the Bank's building designs and operations. These principles are captured in the Bank's Environmental Statement.[1]

During the year in review, the Bank implemented a number of practices to improve waste management, including:

- reducing the usage of single-use plastics and increasing diversion of waste from landfill through the increased use of water stations and reusable water bottles
- introducing 'smart' communal waste bins to enable increased recycling and improved waste separation, resulting in the removal of 1,400 'under desk' plastic bins and preventing 30,000 plastic bin liners going to landfill annually.

A number of new and planned improvements to the performance of the infrastructure of the Reserve Bank's buildings were also undertaken in this period, including:

- completion of a 163kW rooftop solar panel installation for the Business Resumption Site
- enhanced demand-based operation for Head Office cooling and air-conditioning systems
- incorporation of building design features in the plans for the Head Office and Coombs Centre building redevelopments to improve their environmental performance and achieve increased National Australian Built Environment Ratings System (NABERS) and Greenstar ratings
- implementation of LED lighting at the Canberra office and Business Resumption Site and improvements to lighting control systems, reducing electricity consumption for lighting needs.

A feasibility study of solar panel installation at the Craigieburn facilities in Victoria is planned for 2020/21.

Electricity consumption at Reserve Bank-operated sites decreased by 2.6 per cent in 2019/20, compared with the preceding year. Gas consumption in 2019/20 was 2 per cent lower compared with the previous year, while water consumption in 2019/20 was 17.5 per cent lower than the previous year. These reductions were due in part to reduced activity on most sites as a result of COVID-19 responses.

1 See <https://www.rba.gov.au/about-rba/our-policies/environmental-statement.html>.

Procurement

The Reserve Bank is a corporate Commonwealth entity 'prescribed' under section 30 of the *Public Governance, Performance and Accountability Rule 2014*, and is therefore required to apply the Commonwealth Procurement Rules (CPRs) when performing duties relating to certain procurements with an expected value exceeding $400,000 for non-construction services and $7.5 million for construction services. The CPRs require public reporting of certain activities on the Commonwealth's AusTender website. For the reporting period, the Reserve Bank notified the award of 32 contracts and eight procurement opportunities. The reported procurement opportunities were for utilities, construction, and IT hardware, software and services.

For other procurements, the Reserve Bank follows the principles contained in the CPRs. Their broad objective is to ensure that all goods and services procured by the Bank support its policy and operational responsibilities in an efficient and cost-effective manner, and that effective process accountability and probity applies.

Our People

The Reserve Bank seeks to attract, develop and retain high-quality people with the technical skills and capabilities to achieve the Bank's strategic objectives, and behaviours that are consistent with the Bank's values. A key focus of the Bank is to support a diverse and inclusive workforce that is reflective of all Australians.[1]

Our Values

The Reserve Bank's values, as set out in its Code of Conduct, help shape the Bank's culture and guide expectations and standards around workplace behaviour and professional conduct. The Bank's values are as follows.

1. Promotion of the public interest

We serve the public interest. We ensure that our efforts are directed to this objective, and not to serving our own interests or the interests of any other person or group.

2. Excellence

We strive for technical and professional excellence.

3. Intelligent inquiry

We think carefully about the work we do and how we undertake it. We encourage debate, ask questions and speak up when we have concerns.

4. Integrity

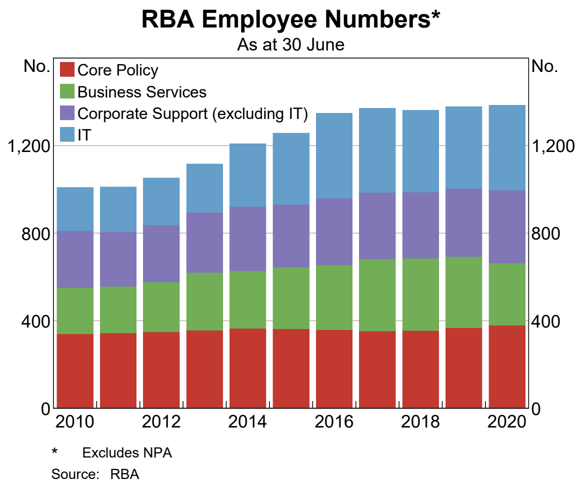
We are honest in our dealings with others within and outside the Bank. We are open and clear in our dealings with our colleagues. We take appropriate action if we are aware of others who are not acting properly.

5. Respect

We treat one another with respect and courtesy. We value one another's views and contributions.

2019/20 Workforce Profile

In June 2020, the Reserve Bank (excluding Note Printing Australia Limited) had 1,384 employees. With 8 per cent of employees working part time, the Bank's workforce comprised 1,348 full-time equivalent (FTE) employees. During the year, the Bank hired 200 employees, of whom 59 per cent were recruited into short-term, temporary positions.



1 This section of the Annual Report constitutes the Reserve Bank's program report for the purposes of section 9 of the *Equal Employment Opportunity (Commonwealth Authorities) Act 1987*.

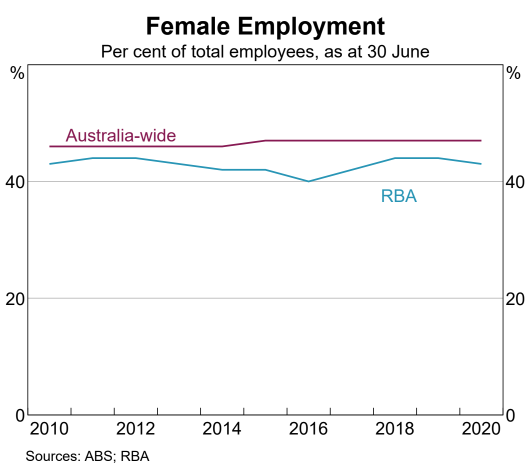
Employees of the Reserve Bank[(a)]

	30 June 2020	30 June 2019
Work practices		
– Full time	1,273	1,268
– Part time	111	110
Gender		
– Women	599	600
– Men	785	778
Location		
– Head Office, Sydney	1,225	1,221
– H. C. Coombs Centre for Financial Studies, Sydney	2	2
– Business Resumption Site, Sydney	39	41
– Note-printing facility and National Banknote Site, Craigieburn	69	69
– Canberra Branch	13	12
– Victorian Office, Melbourne	4	4
– Queensland Office, Brisbane	5	3
– South Australian Office, Adelaide	3	3
– Western Australian Office, Perth	4	3
– New York Representative Office	9	9
– European Representative Office, London	8	8
– China Representative Office, Beijing	3	3
Total	**1,384**	**1,378**

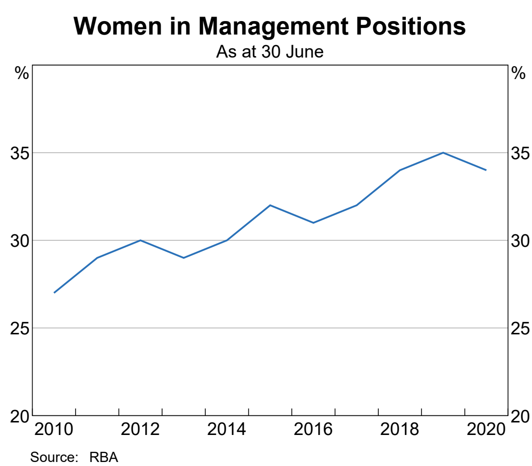
(a) Excludes NPA; these statistics have not been disaggregated by ongoing and non-ongoing employees since the *Public Service Act 1999* definitions of these terms do not directly apply to employees of the Reserve Bank

Source: RBA

The Reserve Bank is committed to achieving gender equity. Women account for 43.3 per cent of the Bank's employees, comparable to the Australia-wide share of employment of 47 per cent.

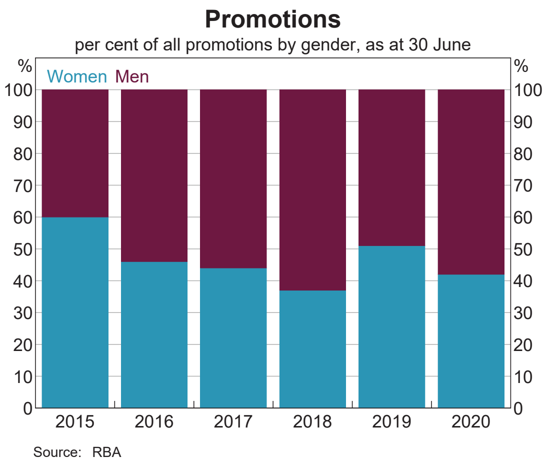


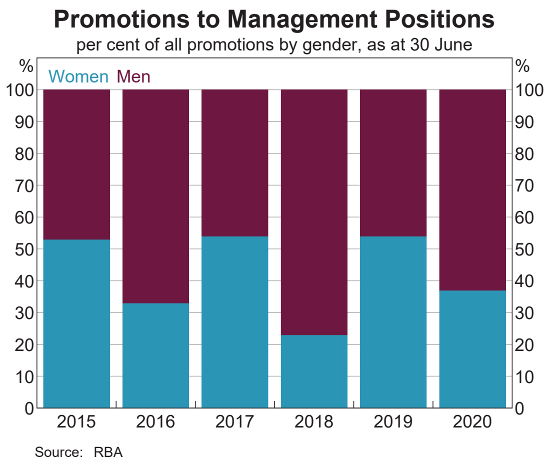
The Bank's longer-term objective is to achieve equal representation of women in management positions. To achieve this, a key focus is equity in recruitment and selection, succession planning and development opportunities. During

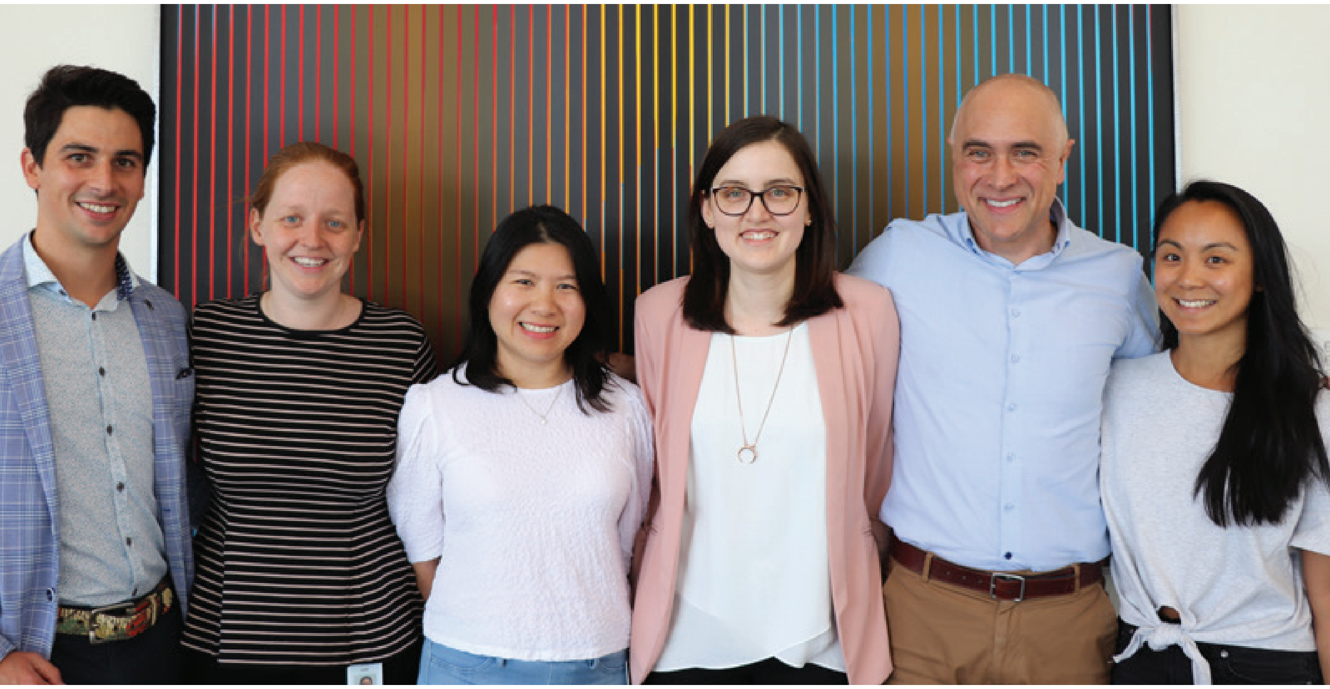


2019/20, 42 per cent of all promotions went to women. Of the 38 employees promoted to management positions, 37 per cent were women. The Bank's current target of 35 per cent women in management positions was achieved in 2019. In 2020, 34 per cent of women held management positions.

During 2019/20, 42 per cent of all promotions went to women







Members of the Gender Equity Employee Resource Group with mental health advocate Wayne Schwass, November 2019

Reserve Bank graduates and trainees outside Head Office, November 2019

Recruitment and Development

The ability to attract high-quality people is essential to the Reserve Bank achieving its strategic objectives. Ensuring that the Bank is seen as an employer of choice and establishing strong recruitment practices and processes based on the principles of transparency, non-discrimination and merit are key elements to achieving this.

The Bank has a well-established, two-year Graduate Development Program. In this program, graduates are provided with structured development opportunities through a balance of on-the-job training, rotations between key departments and structured development activities. From the 706 applications, 32 graduates started the program in 2020, compared with 30 graduates a year earlier.

The Bank also offers an eight-week Internship Program, which provides high-performing university students with work experience and training through the completion of an applied research project. From over 460 applications, 25 places were offered in the 2020 program. To ensure fair and equal assessment of all applicants from across Australia in response to the COVID-19 pandemic, a video interviewing capability was introduced.

The Bank encourages employees to develop their skills continually. This involves providing access to a range of online training tools and regular knowledge-sharing sessions. The Bank also provides financial support to employees for full-time and part-time study in disciplines related to their work including economics, finance, business administration, accounting and information technologies. During 2019/20, the Bank provided support to 34 employees undertaking part-time study and provided support to eight employees undertaking full-time postgraduate study at universities in Australia and overseas.

Rotations and secondments

In partnership with other Australian and international institutions, secondment opportunities are offered to Reserve Bank employees to provide different experiences, assist with capability development and share subject matter expertise and best practice. During 2019/20, these secondment opportunities involved the Australian Prudential Regulatory Authority, the Australian Treasury, the Australian Bureau of Statistics, the Australian Securities and Investment Commission and the Australian Competition and Consumer Commission, as well as a range of international institutions, including the Bank for International Settlements, the International Monetary Fund, the Bank of England, the Bank of France and the Reserve Bank of New Zealand.

Employee Engagement

The Reserve Bank's biennial employee engagement survey was run in 2019, with an 83 per cent participation rate. The survey revealed that the Bank's employees have high sustainable engagement compared with external benchmarks. The results highlighted that our employees are strongly connected to the Bank's purpose and values, that the Bank has a collaborative culture and acknowledged that the Bank is supportive of their mental health and wellbeing. The survey also identified areas for improvement, including the need for improved career and development opportunities, and highlighted the different perspectives of leadership effectiveness across the Bank. These issues will be addressed with the introduction of a new Job Family and Career Development framework and an enterprise-wide Leadership Development Strategy.

Diversity and Inclusion

The People and Culture Strategy actively promotes an inclusive work environment. During 2019/20, the Reserve Bank's Diversity and Inclusion Council and Employee Resource Groups (ERGs) continued to pursue activities and practices supporting the Bank's Diversity and Inclusion Plan, underpinned by a Statement of Commitment.

The Reserve Bank's biennial employee engagement survey … highlighted that our employees are strongly connected to the Bank's purpose and values, that the Bank has a collaborative culture and acknowledged that the Bank is supportive of their mental health and wellbeing

Statement of Commitment

The Reserve Bank's Diversity and Inclusion Statement of Commitment outlines our commitment to:

- providing equal employment opportunities for all current and prospective employees, based on their abilities and performance
- fostering the inclusion of women, various age groups, people with disabilities, people of diverse cultural backgrounds, Indigenous Australians and LGBTI (lesbian, gay, bisexual, transgender and intersex) employees within our workplace
- developing a deep and diverse pool of well-trained potential leaders in order to increase the diversity of people who hold management positions. The Bank has a gender diversity target for 35 per cent of management roles to be held by women by 2020 and 50 per cent in the longer term
- promoting an inclusive and collaborative culture by ensuring employees are treated fairly and equitably in line with the Bank's values
- equitably enacting and applying the Bank's policies, including those in relation to workplace conduct, leave, flexible work management, remuneration, recruitment and selection.

The Bank's Diversity and Inclusion Program is overseen by the Executive Committee, in consultation with the Diversity and Inclusion Council, which is responsible for monitoring the development and implementation of diversity and inclusion initiatives, policies and practices in the Bank.

(From left) Dr Gawaian Bodkin-Andrews, Researcher and Lecturer at University of Technology, Sydney, June Reimer, Deputy CEO of First Peoples Disability Network Australia and Scott Avery, Policy & Research Director at First Peoples Disability Network Australia, December 2019

(Top) RBA employees in purple for Wear it Purple Day, September 2019; (above) Head Office celebrating Diwali, October 2019

Diversity and Inclusion Council

The Diversity and Inclusion Council meets quarterly and is chaired by the Deputy Governor. The Council comprises the Head of Human Resources and the sponsors and chairs of the six Employee Resource Groups (ERGs), which focus on issues of diversity and inclusion in six specific areas: Accessibility, Flexibility, Gender Equity, Indigenous Australians, LGBTI+Allies, and Race and Cultural Identity. Participation in the ERGs is voluntary and over 200 employees are members or associate members of the groups.

In addition to a number of activities designed to increase employee awareness, the Council, in conjunction with the ERGs, promoted a number of important diversity and inclusion initiatives:

- An Accessibility Action Plan was launch in May 2020 as part of Global Accessibility Awareness Day. This two-year Plan outlines the Reserve Bank's commitment towards enhancing accessibility and to reach an aspiration goal of establishing the Bank as a disability employer of choice.
- Participation in the Dr John Yu Fellowship Program on Cultural Diversity and Leadership to invest in culturally diverse leaders and collaborate with other government agencies to share experiences and work together to create a more supportive and inclusive work environment.
- The Bank achieved its commitments outlined in the 2018 Reflect Reconciliation Action Plan. This plan provided the Bank with a strong foundation and framework to engage in the process of reconciliation with Indigenous Australians, and will be continued by the 2020 Innovate Reconciliation Action Plan.

Aboriginal and Torres Strait Islander employment was a key objective of the Bank's Reconciliation Action Plan (RAP). The Bank continues to partner with My Gateway, an apprenticeship and traineeship support organisation. Two trainees from the 2019 cohort graduated with a Certificate III in Business Administration, and have continued in extended traineeships with the Bank. Four new trainees joined the Bank in 2020 to complete a 12-month traineeship. The Bank also provided five students with internships as part of its continuing partnership with CareerTrackers, a non-profit agency supporting organisations to provide work experience for Indigenous Australian university students.

Work Health and Safety, Compensation and Rehabilitation

The Reserve Bank is committed to maintaining and improving the safety, health and wellbeing of its employees. The Reserve Bank Board and the Bank's executives receive regular reports on WHS matters to assist them in exercising their duty of care.

During the year, areas of strategic focus included:

- establishment of evidence-based programs designed to encourage positive behavioural changes to employees' physical, social, and mental health and wellbeing
- the Mental Health and Wellbeing Strategic Plan remained an ongoing initiative, with an emphasis on developing people leadership capability, mental health awareness and peer support
- identification and implementation of a range of initiatives to enhance the Bank's safety culture and consistency in approach to management
- implementation of a range of workplace safety and wellbeing initiatives to respond to the COVID-19 pandemic.

The Reserve Bank continued to implement initiatives to maximise the physical and psychological health of employees, through promotion of positive health outcomes and prevention of potential health risks, including:

- encouraging staff to take two-week blocks of leave
- physical health activities, such as discounted rates at several fitness centres, conducting fitness classes and a nutrition program in Head Office, an annual health challenge, influenza vaccinations and installing a temporary health station to provide employees with baseline health information
- mental health initiatives, such as mental health supportive leadership training, access to the Bank's Employee Assistance Program, and seminars on topics related to mental health and wellbeing

- launching a Domestic and Family Violence Guideline to support employees.

There were 80 WHS incidents reported in 2019/20, 5 per cent fewer than in the previous year. The most common cause of incidents were people slipping/tripping/falling (16 per cent), people bumping or striking objects (14 per cent) and workplace factors such as chemical odour in strongrooms and electrical hazards (14 per cent).

There was one accepted workers' compensation claim in 2019/20, which related to a workplace injury. The Reserve Bank's Lost Time Injury Frequency Rate (number of lost time injuries per million hours worked) decreased in 2019/20 to 0.4 from 1.8 in the previous year.

Nine internal WHS investigations were conducted in 2019/20, relating to incidents that either caused moderate harm or had the potential to cause harm to a staff member. The investigations indicated that there were no systemic issues that would point to deficiencies in the way the Bank manages health and safety.

One investigation was made into the Bank's businesses or undertakings by Comcare during 2019/20, but no improvement, prohibition or non-disturbance notices were issued by Comcare under Part 10 of the *Work Health and Safety Act 2011* (WHS Act).

The Reserve Bank is a Licensed Authority under the *Safety, Rehabilitation and Compensation Act 1988*. This licence requires the Bank to report to the Safety, Rehabilitation and Compensation Commission each year on WHS and workers' compensation and rehabilitation matters as they affect the Bank. Compliance with the relevant legislation – and the conditions of the Bank's licence as a Licensed Authority – was validated during the period by external audits of the Bank's safety, compensation and rehabilitation arrangements. The Safety, Rehabilitation and Compensation Commission subsequently confirmed that the Bank retained the highest rating for its prevention, claims management and rehabilitation practices in each area for 2019/20.

In 2019/20, the Australian Postal Corporation provided claims management and rehabilitation services to the Bank, along with reconsideration services and representation in the Administrative Appeals Tribunal or Federal Court, when necessary.

Employment Arrangements and Remuneration

The positions of Governor and Deputy Governor are designated as Principal Executive Offices in terms of the *Remuneration Tribunal Act 1973*, which provides for the Remuneration Tribunal to

Summary of Notifiable Incidents, Investigations and Notices under the WHS Act

Action	2019/20	2018/19
Death of a person that required notice to Comcare under section 35	0	0
Serious injury or illness of a person that required notice to Comcare under section 35	0	0
Dangerous incident that required notice to Comcare under section 35	1	3
Internal investigations conducted	9	6
Investigations conducted under Part 10 of the WHS Act	0	0
Notices given to RBA under section 90 (provisional improvement notices)	0	0
Notices given to RBA under section 191 (improvement notices)	0	0
Notices given to RBA under section 195 (prohibition notices)	0	0
Directions given to RBA under section 198 (non-disturbance notices)	0	0

Source: RBA

determine the applicable remuneration for these positions. Within the parameters determined by the Remuneration Tribunal, the Reserve Bank Board Remuneration Committee, comprising three non-executive members, makes a recommendation on remuneration for these positions for approval of the Reserve Bank Board, which is the 'employing body' for the positions. In accordance with provisions of the *Reserve Bank Act 1959*, 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.

The employment arrangements that apply to Reserve Bank employees vary according to their occupation and level of seniority. Executive and managerial employees are engaged with the Reserve Bank under Individual Employment Agreements. Non-managerial employees are covered by the Bank's Workplace Agreement, although the majority of these employees also have Individual Employment Agreements. The existing Workplace Agreement nominally expired at the end of March 2020 and the Bank agreed to an approach to remuneration increases for the 2019/20 remuneration review and committed to return to workplace bargaining in 2021. The Bank and the Finance Sector Union of Australia identified the opportunity to work together towards a new modern, more flexible agreement. In the interim, all conditions contained in the existing agreement would continue to apply.

While the specific remuneration arrangements that apply to employees differ according to their employment arrangements with the Reserve Bank, remuneration packages are designed to attract and engage high-calibre employees. The Bank uses surveys such as Financial Institution Remuneration Group and Aon Hewitt for remuneration and benefit benchmarking.

As part of the annual review of remuneration, the Bank monitors differences in the salaries paid to men and women. While the gap between the average full-time equivalent salaries of men and women has declined since 2016, it did not decline during 2019. The gap continued to be explained largely by the fact that women occupy a greater proportion of positions at lower levels and a lower proportion of senior positions compared with men. The Bank has made progress on changing the gender composition of staff across levels and the higher composition of women in management roles helps to continue close the pay gap.

Given the difficult circumstances facing the country in the context of the COVID-19 pandemic, the Bank determined that it would not be appropriate to continue with pay increases on the same schedule as previous years in the 2019/20 remuneration review. While conditions of employment at the Bank are determined by the Governor, it was decided that it was appropriate to follow government guidelines regarding remuneration in the public sector during the pandemic.

For all staff in senior management positions, there were no general salary increases, career increments or performance payments for 2019/20. The general salary increases of 2 per cent for employees below senior management were deferred until March 2021, rather than being paid in September 2020. Lump-sum performance payments and career increment based increases were paid in September 2020, consistent with government guidelines.

The distribution of remuneration paid to Reserve Bank executives and other senior employees on an accrual basis is set out in the tables below. Bonuses paid to senior managers were made in September 2019, based on their performance in 2018/19. The provision of this information is consistent with similar information provided by other Commonwealth entities.

Remuneration of Key Management Personnel

Remuneration received in 2019/20 ($)[(a)]

Name	Position Title	Short-term Benefits			Post-employment Benefits	Other Long-term Benefits		Termination Benefits	Total Remuneration[5,6]
		Base Salary[1]	Bonuses	Other Benefits and Allowances[2]	Superannuation Contributions[3]	Long Service Leave[4]	Other Long-term Benefits		
Reserve Bank Executives									
Philip Lowe	Governor	933,409	–	8,500	120,219	23,335	–	–	1,085,463
Guy Debelle	Deputy Governor	708,671	–	8,500	90,165	23,264	–	–	830,600
Lindsay Boulton	Assistant Governor, Business Services	478,451	9,166	37,507	86,716	11,686	–	–	623,526
Susan Woods	Assistant Governor, Corporate Services	504,643	9,166	37,507	79,196	11,957	–	–	642,469
Luci Ellis	Assistant Governor, Economic	469,456	9,166	37,507	86,716	15,582	–	–	618,427
Christopher Kent	Assistant Governor, Financial Markets	537,209	10,148	36,952	96,643	17,366	–	–	698,318
Michele Bullock	Assistant Governor, Financial System	530,604	10,339	37,507	97,812	16,217	–	–	692,479
Non-Executive Members of the Reserve Bank Board									
Mark Barnaba	Member – Reserve Bank Board	77,833	–	–	3,717	–	–	–	81,550
	Chair – Reserve Bank Board Audit Committee	22,492	–	–	1,074	–	–	–	23,566
Wendy Craik	Member – Reserve Bank Board	77,833	–	–	7,394		–	–	85,227
Philip Gaetjens	Member – Reserve Bank Board[(b),(d)]	–	–	–	–	–	–	–	–
Ian Harper	Member – Reserve Bank Board	77,833	–	–	7,394	–	–	–	85,227
Steven Kennedy	Member – Reserve Bank Board[(c),(d)]	–	–	–	–	–	–	–	–
Allan Moss	Member – Reserve Bank Board	77,833	–	–	7,394	–	–	–	85,227
	Member – Reserve Bank Board Audit Committee	11,251	–	–	1,069	–	–	–	12,320
Carol Schwartz	Member – Reserve Bank Board	77,833	–	–	7,394	–	–	–	85,227
Catherine Tanna	Member – Reserve Bank Board	77,833	–	–	7,394	–	–	–	85,227

Remuneration of Key Management Personnel (continued)

Remuneration received in 2019/20 ($)[(a)]

Name	Position Title	Short-term Benefits			Post-employment Benefits	Other Long-term Benefits		Termination Benefits	Total Remuneration[5,6]
		Base Salary[1]	Bonuses	Other Benefits and Allowances[2]	Superannuation Contributions[3]	Long Service Leave[4]	Other Long-term Benefits		
Non-Executive Members of the Payments System Board									
Wayne Byres	Member – Payments System Board[(d)]	–	–	–	–	–	–	–	–
Gina Cass-Gottlieb	Member – Payments System Board	61,147	–	–	5,809	–	–	–	66,956
Deborah Ralston	Member – Payments System Board	61,147	–	–	5,809	–	–	–	66,956
Greg Storey	Member – Payments System Board	61,147	–	–	5,809	–	–	–	66,956
Catherine Walter	Member – Payments System Board	61,147	–	–	5,809	–	–	–	66,956
Brian Wilson	Member – Payments System Board	61,147	–	–	5,809	–	–	–	66,956
External Appointments to the Reserve Bank Board Audit Committee[(e)]									
Sandra Birkensleigh	Member – Reserve Bank Board Audit Committee	11,251	–	–	1,069	–	–	–	12,320
Rahoul Chowdry	Member – Reserve Bank Board Audit Committee	11,251	–	–	1,069	–	–	–	12,320

(a) Remuneration of Key Management Personnel are in relation to the Reserve Bank of Australia entity only
(b) Retired from the Reserve Bank Board on 1 September 2019
(c) Appointed to the Reserve Bank Board on 2 September 2019
(d) The Secretary to the Treasury, as a member of the Reserve Bank Board, and the Chairman of APRA, as a member of the Payments System Board, are not remunerated
(e) External appointments to the Reserve Bank Board Audit Committee are not Key Management Personnel of the Reserve Bank of Australia but have been included for consistency of disclosure alongside the reported remuneration of Non-Executive Members of the Reserve Bank Board who are also members of the Reserve Bank Board Audit Committee

Notes

1. The 'Base Salary' column is prepared on an accrual basis and includes gross fees or salary earned while working plus annual leave accrued in the case of Reserve Bank Executives.
2. The 'Other Benefits and Allowances' column includes benefits that form part of an individual's remuneration package. This includes, for eligible members of staff, motor vehicle benefits, car parking and health benefits plus the related fringe benefits tax on these benefits.
3. The 'Superannuation Contributions' column is calculated as: contribution amounts for individuals who are eligible for a defined contribution arrangement in a defined contribution scheme; and for individuals who are in a defined benefit arrangement, an amount equal to 15.4 per cent of superannuable salary plus any employer productivity contributions.
4. The 'Long Service Leave' column is calculated as long service leave accrued.
5. Total remuneration does not include the cost of revaluing previously accrued leave entitlements and non-superannuation post-employment benefits, which are included in the reported total remuneration of Key Management Personnel in the notes to the financial statements.
6. Reported total remuneration for the positions of Governor and Deputy Governor differs to the remuneration determined by the Remuneration Tribunal by the net accrual of leave.

Remuneration of Senior Executives

Remuneration received in 2019/20 ($)[(a)]

Total Remuneration Bands	Number of Senior Executives	Short-term Benefits			Post-employment Benefits	Other Long-term Benefits		Termination Benefits	Total Remuneration
		Average Base Salary[1]	Average Bonuses	Average Other Benefits and Allowances[2]	Average Superannuation Contributions[3]	Average Long Service Leave[4]	Average Other Long-term Benefits	Average Termination Benefits	Average Total Remuneration
$0 to $220,000	1	87,689	–	11,656	15,251	2,503	–	–	117,099
$220,001 to $245,000	1	165,015	–	23,586	29,102	3,942	–	–	221,645
$270,001 to $295,000	2	209,953	4,140	21,666	39,590	5,573	–	–	280,922
$295,001 to $320,000	1	225,601	4,441	35,759	42,853	5,772	–	–	314,426
$320,001 to $345,000	5	241,827	5,054	34,369	45,364	6,577	–	–	333,191
$345,001 to $370,000	3	267,437	3,551	35,759	46,313	7,131	–	–	360,191
$370,001 to $395,000	7	281,996	5,175	35,657	51,574	8,598	–	–	383,000
$395,001 to $420,000	5	294,192	13,704	35,548	53,551	8,189	–	–	405,184
$420,001 to $445,000	2	338,452	6,657	31,111	48,322	8,394	–	–	432,936
$445,001 to $470,000	5	296,474	5,230	30,754	54,903	9,666	–	55,770	452,797
$470,001 to $495,000	1	373,274	9,760	35,759	60,050	9,050	–	–	487,893
$495,001 to $520,000	1	378,757	7,314	35,759	69,506	9,367	–	–	500,703
$520,001 to $545,000	5	371,612	7,508	73,224	68,407	11,531	–	–	532,282
$545,001 to $570,000	2	427,859	8,492	30,893	78,598	12,320	–	–	558,162
$595,001 to $620,000	2	416,382	4,531	98,488	77,568	12,016	–	–	608,985
$795,001 to $820,000	1	303,405	5,626	441,784	50,693	6,832	–	–	808,340
$1,170,001 to $1,195,000	1	276,142	6,189	839,072	49,818	6,710	–	–	1,177,931

(a) Each row shows an average figure based on the number of individuals within each remuneration band based on total remuneration earned; a Senior Executive for the purpose of this table is a member of staff holding a position of Head of Department or Deputy Head of Department (or equivalent)

Notes

1. The 'Base Salary' column is prepared on an accrual basis and includes gross salary earned while working plus annual leave accrued.
2. The 'Other Benefits and Allowances' column includes benefits that form part of an individual's remuneration package. This includes, for eligible members of staff, motor vehicle benefits, car parking and health benefits plus the related fringe benefits tax on these benefits. For staff located interstate or overseas, this may also include allowances and accommodation benefits plus the related fringe benefits tax on these benefits.
3. The 'Superannuation Contributions' column is calculated as: contribution amounts for individuals who are eligible for a defined contribution arrangement in a defined contribution scheme; and for individuals who are in a defined benefit arrangement, an amount equal to 15.4 per cent of superannuable salary plus any employer productivity contributions.
4. The 'Long Service Leave' column is calculated as long service leave accrued.

Remuneration of Other Highly Paid Staff

Remuneration received in 2019/20 ($)[(a)]

Total Remuneration Bands	Number of Other Highly Paid Staff	Short-term Benefits			Post-employment Benefits	Other Long-term Benefits		Termination Benefits	Total Remuneration
		Average Base Salary[1]	Average Bonuses	Average Other Benefits and Allowances[2]	Average Superannuation Contributions[3]	Average Long Service Leave[4]	Average Other Long-term Benefits	Average Termination Benefits	Average Total Remuneration
$225,001 to $245,000	44	168,902	4,156	18,084	30,612	4,373	–	8,836	234,963
$245,001 to $270,000	42	178,064	3,665	18,130	34,239	4,711	–	17,568	256,377
$270,001 to $295,000	27	211,855	3,951	20,038	38,269	5,804	–	–	279,917
$295,001 to $320,000	12	220,564	4,158	34,114	39,193	5,929	–	–	303,958
$320,001 to $345,000	8	196,027	3,851	67,496	34,563	4,730	–	28,397	335,064
$345,001 to $370,000	3	169,198	3,721	121,436	64,055	2,303	–	–	360,713
$370,001 to $395,000	4	155,869	2,577	115,738	25,988	3,679	–	81,908	385,759
$395,001 to $420,000	1	102,568	2,090	285,133	18,420	2,481	–	–	410,692
$445,001 to $470,000	1	119,190	2,191	311,050	21,253	3,196	–	–	456,880
$470,001 to $495,000	1	163,725	3,209	282,158	30,362	5,456	–	–	484,910
$570,001 to $595,000	1	196,679	4,620	336,901	33,637	4,529	–	–	576,366
$795,001 to $820,000	1	196,945	4,429	558,106	34,211	4,609	–	–	798,300

(a) Each row shows an average figure based on the number of individuals within each remuneration band based on total remuneration earned

Notes

1. The 'Base Salary' column is prepared on an accrual basis and includes gross salary earned while working plus annual leave accrued.
2. The 'Other Benefits and Allowances' column includes benefits that form part of an individual's remuneration package. This includes, for eligible members of staff, motor vehicle benefits and health benefits plus the related fringe benefits tax on these benefits.
   For staff located inter-state or overseas, this may also include allowances and accommodation benefits plus the related fringe benefits tax on these benefits.
3. The 'Superannuation Contributions' column is calculated as: contribution amounts for individuals who are eligible for a defined contribution arrangement in a defined contribution scheme; and for individuals who are in a defined benefit arrangement, an amount equal to 15.4 per cent of superannuable salary plus any employer productivity contributions.
4. The 'Long Service Leave' column is calculated as long service leave accrued.

Risk Management

Effective risk management is an integral element in the Reserve Bank achieving its strategic objectives and meeting its policy responsibilities. Accordingly, a risk management and control framework is embedded in the culture of the Bank. This framework supports effective decision-making, while allowing enterprise-wide and emerging risks to be identified and managed in a way that is consistent with the Bank's risk appetite. This framework is overseen by the Risk Management Committee.

Objectives and Governance Structure

The Reserve Bank, like any organisation, cannot achieve its objectives without taking on risk. Management of these risks is the responsibility of all staff. In particular, managers have a responsibility to evaluate their risk environment, put in place appropriate controls and ensure that these controls are implemented effectively. The Bank identifies, assesses and manages risk at both an enterprise ('top-down') and business ('bottom-up') level, a process that is subject to ongoing review. These risks are managed to a level that is consistent with the Bank's risk appetite that is articulated by the Bank's management. The Bank supports and promotes the development and maintenance of an active risk management culture that acknowledges the need for careful analysis and management of risk in all business processes.

Oversight of the Reserve Bank's arrangements for risk management is undertaken by the Risk Management Committee. The committee is chaired by the Deputy Governor and comprises: the Assistant Governors for Business Services, Corporate Services and Financial Markets groups; the Chief Financial Officer; the Chief Information Officer; the Heads of the Audit, Human Resources, Information, and Risk and Compliance departments; and the General Counsel. The Risk Management Committee meets at least six times each year and informs the Executive Committee and the Reserve Bank Board Audit Committee of its activities.

The Risk Management Committee is responsible for ensuring the proper assessment and effective management of all the risks the Reserve Bank faces, with the exception of those arising directly from its monetary and financial stability policies and payments policy functions. These risks remain the responsibility of the Governor, the Reserve Bank Board and the Payments System Board. The risks associated with the Bank's ownership of Note Printing Australia Limited (NPA) are overseen by the Reserve Bank Board, while the risks of operating NPA are overseen by the NPA Board and management.

The Risk Management Committee is assisted in its responsibilities by Risk and Compliance Department. The department assists individual business areas manage their risk and compliance environment effectively within a framework that is consistent across the Bank. It monitors risk and performance associated with the Reserve Bank's activities in financial markets. It also supports the business areas by implementing Bank-wide control frameworks covering fraud, bribery and corruption, business continuity, and compliance-related risks. The Head of Risk and Compliance Department reports directly to the Deputy Governor and the Chair of the Reserve Bank Board's Audit Committee.

Audit Department undertakes a risk-based audit program to provide independent assurance that risks are identified and key controls to mitigate these risks are well designed, implemented, and working effectively. The Head of Audit Department reports to the Deputy Governor and the Chair of the Audit Committee. Audit Department's work is governed by the Audit Department Charter, which is approved by the Audit Committee.

Portfolio Risks

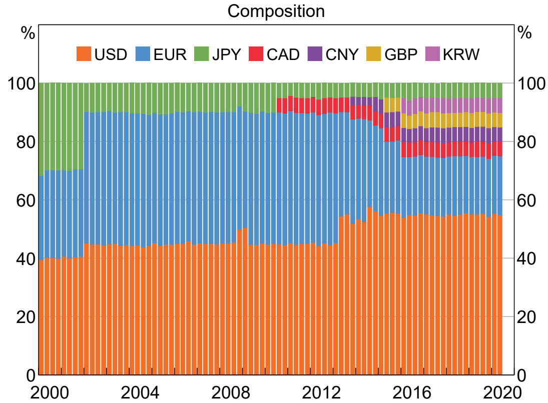
The Reserve Bank holds domestic and foreign currency-denominated financial instruments to support its operations in financial markets in pursuit of its policy objectives. These instruments account for the majority of the Bank's assets and expose its balance sheet to a number of financial risks. The primary responsibility for managing these risks rests with the Financial Markets Group. Risk and Compliance Department monitors these risks and assesses compliance with approved authorities and limits. Compliance with financial management guidelines and developments in portfolio risks are reported to the Risk Management Committee.

Exchange rate risk

The Reserve Bank is exposed to exchange rate risk as a large share of the Bank's assets are denominated in foreign currency, while most of the Bank's liabilities are denominated in Australian dollars. As foreign currency reserve assets are held for policy purposes, the Bank does not seek to eliminate or hedge this exposure. However, the Bank mitigates some of this risk by diversifying these assets across various currencies. The foreign portfolio has target shares of 55 per cent in US dollars, 20 per cent in euros and 5 per cent each in Japanese yen, Canadian dollars, UK pound sterling, Chinese renminbi and South Korean won; these percentages have been stable since 2016. The portfolio composition reflects the Bank's risk appetite and desired liquidity to meet policy objectives. Some limited deviation in actual portfolio shares from the target shares is permitted to minimise transaction costs. The Bank also has holdings of gold, Special Drawing Rights (an international reserve asset created by the International Monetary Fund) and units in the Asian Bond Fund, an investment that is managed externally by the Bank for International Settlements.

Net Foreign Exchange Reserve Assets

Composition

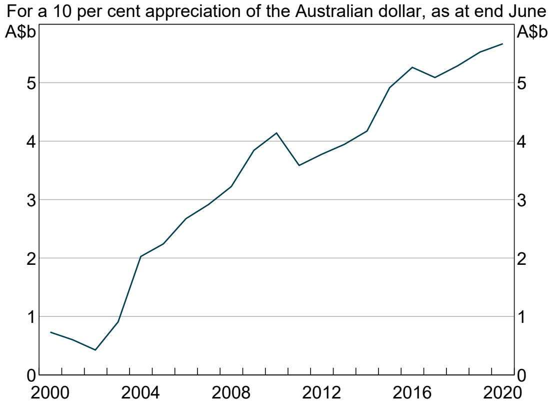


Source: RBA

The Australian dollar value of the Reserve Bank's foreign portfolio increased slightly over 2019/20 owing to a broadly based depreciation of the Australian dollar, but reserves were little changed in foreign currency terms. Based on the level of reserves as at 30 June 2020, a 10 per cent appreciation of the Australian dollar would result in a mark-to-market loss of $5.7 billion. The increase in exchange rate risk over the past two decades mainly reflects the increase in the size of net foreign exchange reserves over that period.

Exchange Rate Risk on RBA Foreign Currency Portfolio

For a 10 per cent appreciation of the Australian dollar, as at end June



Source: RBA

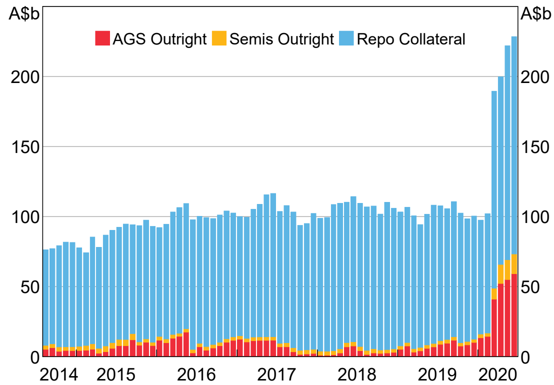
Interest rate risk

The value of the Reserve Bank's financial assets is also exposed to movements in market interest rates.

Total holdings of domestic securities increased by $120.3 billion over 2019/20 to $228.5 billion. Domestic securities held outright increased by $63.9 billion to $73.3 billion, while those held on a temporary basis under repurchase agreements (repos) increased by $56.4 billion to $155.2 billion. The expansion in securities held outright reflected purchases of Australian Government Securities (AGS) and semi-government securities (semis) across the yield curve in the secondary market as part of the Bank's policy to target a 3-year Australian Government bond yield of 0.25 per cent and to address dislocation in the government bond market. Securities are also purchased to manage the liquidity impact of maturing AGS but these typically have a very short term to maturity. The average duration of total outright holdings in the domestic portfolio increased over the year from 15 months to 4¼ years.

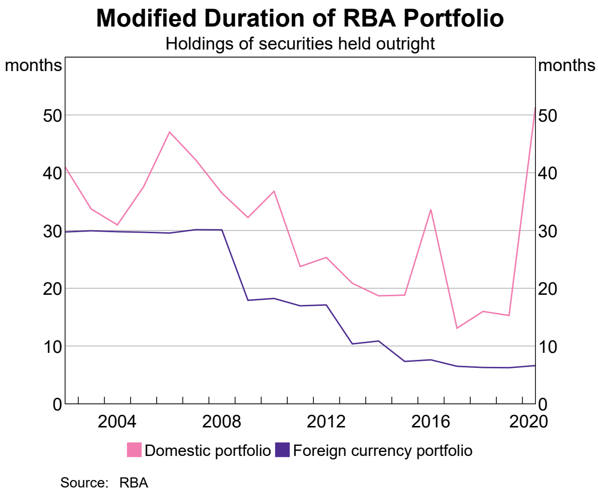
The increase in repos was due to the Bank providing additional liquidity to the financial system through its daily market operations and under the Term Funding Facility (TFF) announced in March 2020. Under the TFF, the Bank offers three-year funding to authorised deposit-taking institutions (ADIs) under repurchase transactions (see the Chapter on 'Operations in Financial Markets'). The average term of repos also increased over the year from 3 weeks to 4.9 months.

Market Value of Domestic Assets Portfolio



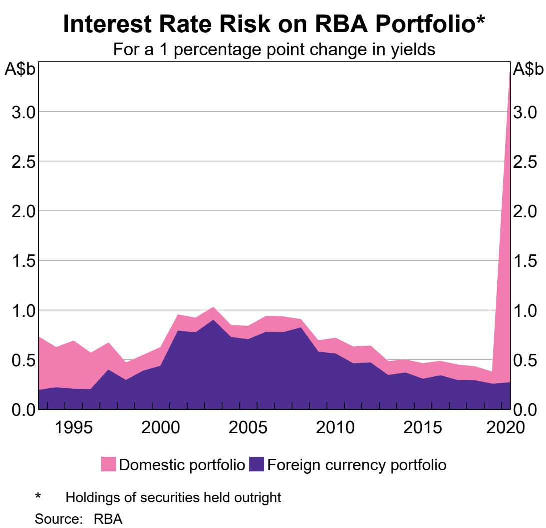
Source: RBA

The Reserve Bank's foreign currency portfolio is comprised of foreign currency assets, which are managed relative to benchmark portfolios in each currency, with duration targets that reflect the Bank's long-term appetite for risk and return. These targets are reviewed periodically. During 2019/20, duration targets were unchanged in all seven asset benchmark portfolios – the duration target for the Chinese and South Korean portfolios is 18 months, for the US, European, and Canadian portfolios it is 6 months, for the UK portfolio it is 3 months and for the Japanese portfolio it is less than 3 months. Some limited variation in actual portfolio duration from the duration targets is permitted to reduce transaction costs and to provide scope to staff to enhance portfolio returns. The weighted-average benchmark duration target for the Bank's total foreign portfolio remained little changed over 2019/20 at around 6¾ months. This is low by historical standards, reflecting the generally low level of interest rates, which offer little compensation for the risk of capital losses should longer-term bond yields increase significantly.



Total interest rate risk on the Reserve Bank's domestic and foreign currency portfolios rose significantly over 2019/20 to a historically high level, reflecting increased interest rate risk in the Bank's domestic portfolio. The Bank would incur a valuation loss of around $3.4 billion if interest rates in Australia and overseas rose uniformly by 1 percentage point across the yield curve.

The Reserve Bank is exposed to little interest rate risk on its balance sheet liabilities. Banknotes on issue account for around 32 per cent of total liabilities and carry no interest cost to the Bank.



Other sizeable obligations include deposits held by the Australian Government and its agencies, and Exchange Settlement Account balances mainly held by ADIs. Interest paid on these deposits reflects domestic short-term interest rates, effectively hedging part of the interest rate exposure of the domestic asset portfolio.

Credit risk

Credit risk is the potential for financial loss arising from the default of a debtor or issuer, or from a decline in asset values following a deterioration in credit quality. The Reserve Bank manages its credit exposure by applying a strict set of eligibility criteria to its holdings of financial assets and to counterparties with which it is willing to transact.

The Bank is exposed to very little issuer credit risk on its outright holdings in the domestic portfolio as it invests only in securities issued by the Australian Government or by state and territory government borrowing authorities. The Bank is exposed to a small amount of counterparty credit risk on domestic assets that are held under repo. The Bank would face a loss only if a counterparty failed to repurchase securities sold to the Bank under repo and the market value of the securities fell below the agreed repurchase amount. The Bank manages this exposure by requiring that these securities meet certain eligibility criteria and by applying an appropriate margin to the securities, which increases with the risk profile of the security. The required margin is maintained throughout the term of the repo through daily two-way margining.

Alongside the establishment of the TFF in March 2020, the Reserve Bank relaxed constraints on certain ADIs posting eligible internal residential mortgage-backed securities (RMBS) as collateral.[1] Previously, only ADIs with access to the Committed

1 An internal RMBS is a bankruptcy-remote trust set up by an ADI which contains mortgages they have written. The Bank accepts the securities issued out of the RMBS (and secured by the mortgages) as collateral.

Liquidity Facility (CLF) were allowed to post internal RMBS as collateral under the Bank's standing facilities. Any eligible internal RMBS can be presented for the TFF. These securities pose risks because they are related to the counterparty presenting them as collateral in a repo, implying that a default by the counterparty may be associated with a decline in the value of the securities held as collateral. However, this risk is mitigated because the issuing trust is bankruptcy remote, the securities must be rated AAA and they attract a relatively high margin. Unlike other types of securities accepted as collateral in the Bank's operations, these securities are not typically traded in the market as they are held solely for the purpose of accessing central bank liquidity. Hence, Risk and Compliance Department values these securities based on a pricing model that references prices in the public RMBS market. When the TFF was established, the Reserve Bank froze prices of eligible self-securitisations for three years for the purpose of valuing collateral accepted under repo. This is to ensure that the modelled prices are not unduly affected by potential volatility in public RMBS arising from the COVID-19 pandemic.

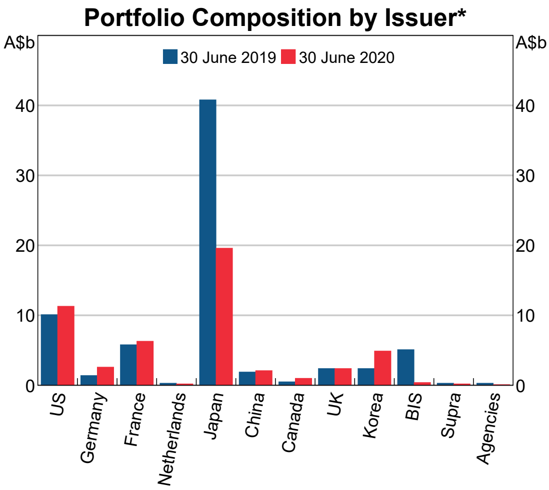
In May 2020, the Reserve Bank also broadened the range of securities that are eligible to be accepted under repo in the Bank's open market operations and standing facilities to include investment-grade corporate debt securities issued by non-ADIs.[2] Investment-grade securities issued by entities established under an Australian Government, state or territory law without an explicit Australian Government guarantee are also now eligible. Previously, these types of securities could be accepted as collateral under repo only if they were rated AAA. Margin ratios applicable to these securities are the same as those applied to eligible investment-grade securities issued by ADIs.

2 Investment grade refers to an average long-term rating of BBB- or above (for securities with a term to maturity at issuance of more than 12 months) or A3 (for securities with a term to maturity at issuance of less than 12 months).

The counterparties with which the Reserve Bank deals in carrying out policy operations in the domestic market must be members of the Reserve Bank Information and Transfer System (RITS), subject to an appropriate level of regulation and be able to settle transactions within the Austraclear system. Repo transactions with the Bank are also governed by a Global Master Repurchase Agreement as part of the RITS Regulations. In June 2020, the Bank clarified its eligibility criteria to exclude Authorised Superannuation Funds and holders of an Australian Financial Services Licence (AFSL) which operate managed investment schemes; Authorised Superannuation Funds that were counterparties prior to 23 September 2019 were grandfathered. In addition, APRA-regulated Non-operating Holding Companies (NOHCs) will be eligible only in exceptional circumstances, and AFSL holders (that do not operate managed investment schemes) must demonstrate a material connection to the bond and/or repo markets to be eligible.

Investments in the Reserve Bank's foreign currency portfolio are typically confined to highly rated and liquid securities, as well as deposits with foreign central banks. The majority of the Bank's outright holdings are securities issued by the national governments of the United States, Germany, France, the Netherlands, Japan, Canada, the United Kingdom, China and South Korea, with modest holdings of securities issued by highly rated supranational institutions and government agencies. Gross holdings of Japanese yen-denominated assets fell by around 50 per cent over the year, but remained the largest share of the Bank's foreign currency issuer exposures; the majority of these assets are funded under short-term foreign exchange swaps. The decline over the year reflected a reduction in outstanding foreign exchange swaps into Japanese yen to manage domestic liquidity (see the chapter on

'Operations in Financial Markets' for more detail). A limit on the size of exposures to individual currencies based on the Bank's capital operates to mitigate concentration risk.

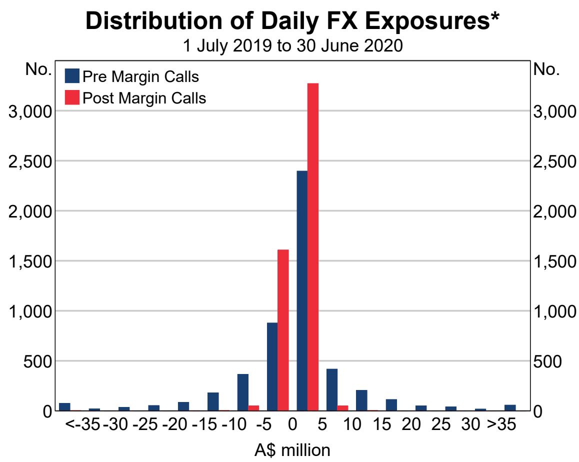


* Includes assets held outright, funded by foreign exchange swaps, and held under repurchase agreements

Source: RBA

The Reserve Bank holds a portion of its foreign currency portfolio in short-term repos. This exposes the Bank to the small amount of residual credit risk that is inherent in repos, as noted above. The Bank manages this risk by requiring 2 per cent over-collateralisation, which is maintained through two-way margining in the local currency, and accepting only high-quality and liquid securities as collateral. Credit exposure on foreign repos is further managed by imposing limits on individual counterparty exposures and requiring execution of a Global Master Repurchase Agreement (or Master Repurchase Agreement where appropriate) with each counterparty.

The Reserve Bank undertakes foreign exchange swaps as part of its policy operations and as a means of enhancing returns on the foreign currency portfolio. The Bank also commenced transacting in gold swaps during the year, whereby gold is lent or borrowed in exchange for Australian dollars or a limited range of foreign currencies held in the Bank's foreign exchange reserves. Credit risk on FX and gold swaps is managed by transacting only with counterparties that meet strict eligibility criteria, including the requirement to have executed with the Bank an International Swaps and Derivatives Association (ISDA) agreement with a credit support annex. Exposures generated by movements in market exchange and interest rates and gold prices are managed through daily two-way margining in Australian dollars. After accounting for margin calls, the Bank's maximum daily exposure to an individual counterparty is generally limited to no more than \$5 million.



* A positive number indicates the RBA has an exposure

Source: RBA

In addition to undertaking gold swaps, the Bank undertakes some limited lending of its gold holdings. The lending is either fully collateralised or the borrower has government support. As at 30 June 2020, 13.2 tonnes of gold valued at \$1.1 billion was on loan.

Operational Risks

The Reserve Bank faces a diverse range of operational risks in its day-to-day activities. They include risks relating to the availability of technology and facilities services, retention of high-quality staff and the unintentional disclosure of confidential and sensitive information.

Generally, the Bank has a low appetite for these types of risk, but recognises that it is neither possible nor necessarily desirable to eliminate some risks inherent in its activities. The acceptance of some risk is often necessary to foster innovation and efficiencies in business practices.

While all parts of the Bank are exposed to operational risks to varying degrees, the most significant risks are those related to:

- transacting in financial markets to implement monetary policy
- maintaining the infrastructure to facilitate real-time interbank payment and settlement services through RITS
- providing banking facilities for a number of government entities, including the Australian Taxation Office, Medicare and Centrelink
- the provision of safe, secure and reliable Australian banknotes.

Any operational failure in these critical activities could have widespread consequences. Financial Markets Group, for example, executed around 51,000 transactions in 2019/20 generating an average daily settlement value of around $47.7 billion, while RITS settles just under $233 billion every day on average. The Bank's risk management framework supports the identification, analysis and management of risks that could adversely affect these operations. These include mechanisms by which emerging risks are identified; processes and systems by which subject matter experts consider these risks; and channels which facilitate these risks being raised with executives. Various metrics are used to highlight to executives how risks are being managed and whether risks are consistent with the Bank's risk appetite. These metrics range, for example, from ensuring that all staff have completed the Bank's Code of Conduct training to all system changes being appropriately authorised before implementation.

Considering these risks in more detail, the Reserve Bank's activities are highly dependent on information technology (IT) systems. The risk management and control framework supports an ongoing focus on managing the risks associated with complex IT systems. The Bank's IT Department collaborates with relevant business areas to facilitate the monitoring, assessment and management of IT-related risks and ensures IT-related initiatives are consistent with the Bank's technology strategy. This work is supported by the continuous evaluation of industry developments in order to ensure that the Bank's systems and procedures remain robust and conform to current IT standards. Assessment of appropriate resourcing, the adequacy of IT process controls and the level of security over information management are all incorporated in the Bank's risk management and control framework.

As part of the Bank's management of the risks associated with technology and operational systems, a significant focus is placed on the security of these systems. The Bank includes cyber resilience as a key operational risk and managing this risk is supported by staff at all levels of the Bank. The Bank is intent on protecting digital assets from cyber security threats while providing a high-quality service to all Australians. The Bank remains committed to alignment with the Australian Signals Directorate Information Security Manual and relevant security standards, introducing innovative security technologies, and hunting for emerging threats in order to continually meet the Bank's strategic cyber resilience objectives. The Bank continues to work with peer central banks, the Australian Government, and industry participants to increase the cyber resilience of both national and international financial systems.

The Reserve Bank invests in significant security controls and risk assurance functions, which are supported by a regular assessment regime. The

Bank receives regular independent assurance of its compliance with security strategies endorsed by the Australian Signals Directorate, and maintains independent certification for the ISO 27001 global standard for Information Security Management. The Auditor-General issued a performance audit report on the Cyber Resilience of Government Business Enterprises and Corporate Commonwealth Entities on 4 July 2019, which concluded that the Reserve Bank had effectively managed cyber security risks.

During the past year, the Reserve Bank continued to direct significant resources towards the delivery or completion of a number of large and complex multi-year projects. These include the renovation of banking applications and systems, the upgrade of Australia's banknotes and the development of infrastructure to facilitate real-time retail payments. Successfully completing and embedding these projects will ensure high-quality services are maintained for the Bank's clients and the Australian public. The risks associated with project work are carefully managed so that adequate resources are available, nominated project deadlines are met and change management is effective. Project steering committees play an important role in overseeing the management of these risks. For more information on the banknote upgrade and the banking and payments systems projects, see the chapters on 'Banknotes' and 'Banking and Payment Services'.

The Reserve Bank has responsibilities in terms of managing the risks related to the handling of confidential and sensitive information and, in particular, ensuring that there are no unintended disclosures. While the primary focus is on ensuring that sufficient controls exist to prevent a data breach occurring, the risk and control framework also seeks to ensure that the Bank would respond appropriately if one was to occur. The Bank is in the final stage in implementing the government's 'Digital Continuity 2020 Policy', issued by the National Archives of Australia, which seeks to ensure that agencies manage their information as an asset, that they transition to digital work processes and that agencies have interoperable information systems and processes. The National Archives of Australia has advised that a new policy will be released to take effect from January 2021.

The Bank does not tolerate dishonest or fraudulent behaviour and is committed to deterring and preventing such behaviour. It takes a very serious approach to cases, or suspected cases, of fraud. All staff involved in financial dealing have well-defined limits to their authority to take risks or otherwise commit the Bank. These arrangements are further enhanced by the separation of front-, back- and middle-office functions, where staff involved in trading, settlement and reconciliation activity remain physically separate and have separate reporting lines. For non-trading activities, several layers of fraud control are in place, including preventative, detective and corrective controls. A clear decision-making hierarchy, separation of duties and physical controls over systems and information have been established and are subject to regular review. Ongoing training and awareness programs are also conducted. The Bank requires all staff to undertake fraud awareness training. The Bank has arrangements in place for staff and members of the public to report concerns anonymously. All concerns are fully investigated. During 2019/20, there were no reported instances of fraud by employees.

The Reserve Bank remains strongly committed to maintaining and strengthening a workplace culture in which employees uphold the highest standards of behaviour. The Code of Conduct sets out requirements of the Bank's employees and others who are involved in its activities. The Bank has arrangements in place for staff to report concerns about breaches of the Code of

Conduct, including channels by which concerns can be reported anonymously. Arrangements are in place to ensure staff are comfortable reporting concerns across a range of issues.

The effective management of compliance risk is central to the Bank's activities. Risk and Compliance Department collaborates with all business areas to ensure this risk is being managed effectively and keeps the Risk Management Committee informed regarding the level of compliance in key areas. Staff complete a number of training modules each year, focusing on areas such as privacy and workplace health and safety.

Notwithstanding these measures, events can occur from time to time that may adversely affect the Reserve Bank's reputation or lead to financial or other costs. Timely reports on any such incidents and 'near misses' are provided to the Risk Management Committee. These reports outline the circumstances, including impact and cause, as well as identify areas where new controls may be needed or where existing controls should be strengthened.

The Reserve Bank continues to act as the administrator of the Guarantee of State and Territory Borrowing. Applications for new guaranteed liabilities under this scheme closed in 2010, although existing liabilities will continue to be guaranteed until maturity, at the latest in 2023. To date, a total of $426 million in fees has been collected for state and territory borrowing since the scheme commenced in 2009, with $2 million collected in 2019/20.

Business continuity

The continuity of critical business functions is a key area of focus for the Reserve Bank. The Bank's policy is to maintain resilient arrangements when responding to incidents that have the potential to adversely affect its people, operations, assets or reputation, or compromise its physical security.

The novel coronavirus was first confirmed in Australia in late January 2020. The Reserve Bank's Pandemic Response Plan and Incident Management Framework enabled the Bank to quickly respond to operational risks and issues arising from the pandemic. The COVID-19 Incident Assessment Team (IAT), a coordinating body comprised of senior executives from different areas of the Bank met regularly to identify and implement short-term responses to support internal operations as well as to develop plans to address longer-term risks and issues. For more information on the changes that the Bank implemented to ensure its ongoing resilience in response to the COVID-19 pandemic, see the chapter on 'Management of the Reserve Bank'.

The Reserve Bank continues to participate in contingency exercises to ensure that staff are well briefed on their roles during the pandemic and that effective internal and external communication arrangements are in place. The Risk Management Committee continuously monitors the effectiveness of each department's business continuity plans and alternative working arrangements.

The Reserve Bank's Pandemic Response Plan and Incident Management Framework enabled the Bank to quickly respond to operational risks and issues arising from the pandemic

Earnings, Distribution and Capital

The Reserve Bank recorded a net profit of $2.5 billion in 2019/20. Earnings available for distribution, as determined by the *Reserve Bank Act 1959*, amounted to $2.6 billion, with the full sum distributed to the Commonwealth. The Reserve Bank remains well capitalised.

The Reserve Bank's Earnings

The Reserve Bank's earnings come from two sources: underlying earnings, including net interest and fee income, less operating costs; and valuation gains or losses. Net interest income arises from the Bank earning interest on almost all of its assets, albeit currently at low rates, while paying no interest on a large portion of its liabilities, namely banknotes on issue, and capital and reserves. Fees paid by authorised deposit-taking institutions in relation to the Committed Liquidity Facility also contribute to underlying earnings.

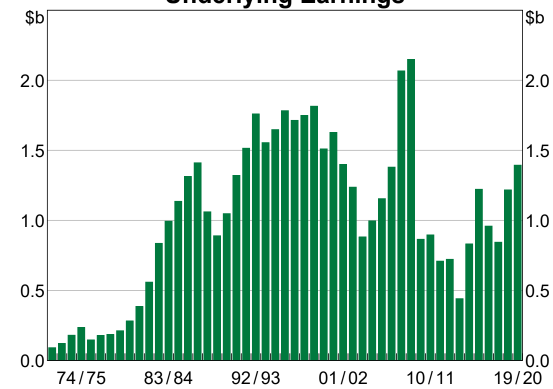
Valuation gains and losses result from fluctuations in the value of the Reserve Bank's assets because of movements in exchange rates or changes in the market yields on securities held outright. A depreciation of the Australian dollar or a decline in market yields results in valuation gains. Conversely, an appreciation of the Australian dollar or a rise in market yields leads to valuation losses. These gains and losses are realised only when the underlying asset is sold or matures. Valuation gains and losses are volatile, as both exchange rates and market interest rates can fluctuate in wide ranges over time. Market risk is managed by the Bank within strict parameters, although it is not completely eliminated given the policy purposes for which the Bank's assets are held.

Management of the Bank's assets is discussed in the chapter on 'Operations in Financial Markets'; the associated risks are outlined in the chapter on 'Risk Management'.

The Reserve Bank reports net profit as income from all sources, in accordance with Australian Accounting Standards, while the distribution of profits is determined by section 30 of the Reserve Bank Act. In terms of the Act, net profit is dealt with in the following way:

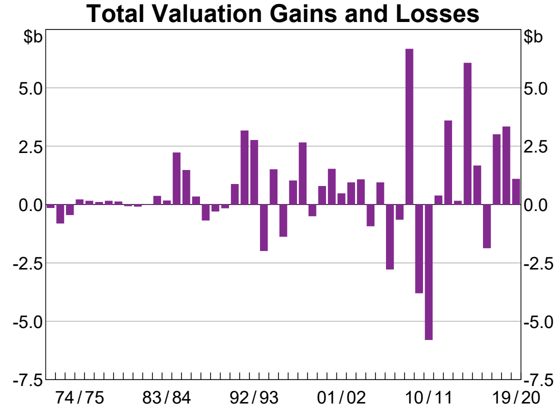
- Unrealised gains (or losses) are not available for distribution and are transferred to (absorbed by) the unrealised profits reserve. The remainder of net profit after this transfer is available for distribution.
- The Treasurer determines, after consulting the Reserve Bank Board, any amounts to be placed from distributable earnings to the credit of the Reserve Bank Reserve Fund (RBRF), the Bank's general reserve.
- The remainder of distributable earnings is payable as a dividend to the Commonwealth.

Underlying Earnings



Source: RBA

Total Valuation Gains and Losses



Source: RBA

In 2019/20, the Reserve Bank recorded a net profit of $2,488 million, comprising:

- underlying earnings of $1,399 million, an increase of $232 million from the previous year. This increase reflects a rise in net interest income, as the fall in market interest rates was more than offset by interest earnings on Australian government bonds purchased as part of the Bank's policy responses to the COVID-19 pandemic introduced from March 2020
- net valuation gains of $1,089 million, primarily from the depreciation of the Australian dollar over the year. Realised gains of $1,168 million were largely the result of sales of foreign exchange in the normal course of managing the portfolio of foreign reserves and to facilitate Australia's commitments under international lending arrangements with the International Monetary Fund.

Earnings available for distribution amounted to $2,567 million, compared with $1,685 million in the previous year.

Capital, Reserves and Distribution

The Reserve Bank maintains capital and reserves for the risks on its balance sheet. These include the Reserve Bank Reserve Fund (RBRF), which is the Reserve Bank's general reserve established under the Reserve Bank Act. It also includes various accounting reserves, such as the unrealised profits reserve, which holds unrealised valuation gains on the Reserve Bank's traded assets, and asset revaluation reserves for non-traded assets. These reserves are detailed below. The Reserve Bank remains in a strong capital position, with total capital and reserves of $30,332 million at 30 June 2020.

Reserve Bank Capital and Reserves
$ million

	30 June 2020	30 June 2019
Reserves		
Reserve Bank Reserve Fund	14,119	14,119
Unrealised profits reserve	8,751	8,830
Asset revaluation reserve	7,335	5,802
Superannuation reserve	87	121
Capital	40	40
Total	**30,332**	**28,912**

Source: RBA

The RBRF is funded from transfers from earnings available for distribution. Its purpose is to provide the capacity for the Bank to absorb losses when it is necessary to do so.

The Reserve Bank Board has a framework for the RBRF that assesses and assigns capital to exposures of different risk. The largest potential for loss from the Reserve Bank's assets comes from market risk, comprising foreign exchange and interest rate risk. The capital assigned to each component of market risk is derived based on the Bank's historical experience of loss as well as stress tests of the balance sheet, which incorporate significant adverse movements in exchange rates and interest rates drawn from historical experience. Since the largest potential for loss is associated with the Bank's unhedged holdings of foreign exchange assets, materially more capital is assigned to exchange rate risk than to interest rate risk.

While the Reserve Bank has no history of loss from credit risk, credit risk is also incorporated into the capital framework. The capital held against credit risk is currently a small amount, reflecting the high quality of assets held by the Bank, the soundness of the counterparties with which it deals, the fact that repurchase agreements and foreign exchange swaps are highly collateralised and that the Bank follows a set of very conservative policies for managing credit risk, consistent with its very low appetite for such risk. Capital, therefore, is held only against the Bank's very small exposures to commercial banks that are not collateralised. This overall approach to credit risk is consistent with the practice of a range of major central banks.

The current balance in the RBRF of $14,119 million is consistent with the Reserve Bank Board's target for 2019/20. The recent purchases of Australian government bonds have resulted in an increase in measured interest rate risk held on the Bank's balance sheet and will see a corresponding increase in the target balance for the RBRF. The Board, however, views the risk of a large rise in bond yields in the period ahead as low, especially given its current approach to monetary policy. Given this and the fact that the Bank's capital position is strong, the Board saw no need to seek a transfer to the RBRF from 2019/20 profits. Consistent with this, the Treasurer determined that all earnings available for distribution in 2019/20, a sum of $2,567 million, would be paid as a dividend to the Commonwealth in 2020/21.

The balance of the unrealised profits reserve stood at $8,751 million at 30 June 2020, a decline of $79 million from the previous year. The balance of this reserve is available either to absorb future valuation losses or to be distributed over time as the gains become realised when relevant assets are sold.

Asset revaluation reserves are held for non-traded assets, such as gold holdings and property. Balances in these reserves represent the difference between the market value of these assets and the cost at which they were acquired. The total balance for these reserves was $7,335 million at 30 June 2020, $1,533 million higher than in the previous financial year, largely reflecting an increase in the Australian dollar value of the Reserve Bank's holdings of gold.

The balance of the superannuation reserve was $87 million at 30 June 2020.

Details of the composition and distribution of the Reserve Bank's profits are contained in the table at the end of this chapter.

The Financial Statements (and accompanying Notes to the Financial Statements) for the 2019/20 financial year were prepared in accordance with Australian Accounting Standards, consistent with the Finance Reporting Rule issued under the *Public Governance, Performance and Accountability Act 2013*.

Composition and Distribution of Reserve Bank Profits

($ million)

	Composition of Profits[a]				Distribution of Profits				Payments to Government		
					Transfer to/from (–)						
	Underlying earnings	Realised gains and losses (–)[b]	Unrealised gains and losses (–)	Accounting profit or loss (–)	Unrealised profits reserves	Asset revaluation reserves	Reserve Bank Reserve Fund	Dividend payable	Payment from previous year's profit	Payment delayed from previous year	Total payment
1997/98	1,750	966	1,687	4,403	1,687	–558	548	2,726	1,700	–	1,700
1998/99	1,816	2,283	–2,773	1,326	–2,349	–1	–	3,676	2,726	–	2,726
1999/00	1,511	–708	1,489	2,292	1,489	–	–	803	3,000	–	3,000
2000/01	1,629	1,200	320	3,149	320	–5	–	2,834	803	676	1,479
2001/02	1,400	479	–11	1,868	–11	–10	–	1,889	2,834	–	2,834
2002/03	1,238	1,157	–222	2,173	–222	–2	133	2,264	1,889	–	1,889
2003/04	882	–188	1,261	1,955	1,261	–	–	694	1,300	–	1,300
2004/05	997	366	–1,289	74	–1,289	–	–	1,363	374	964	1,338
2005/06	1,156	4	933	2,093	933	–17	–	1,177	1,063	320	1,383
2006/07	1,381	72	–2,846	–1,393	–2,475	–3	–	1,085	1,177	300	1,477
2007/08	2,068	614	–1,252	1,430	27	–	–	1,403	1,085	–	1,085
2008/09	2,150	4,404	2,252	8,806	2,252	–	577	5,977	1,403	–	1,403
2009/10	866	–128	–3,666	–2,928	–2,248	–	–680	–	5,227	–	5,227
2010/11	897	–1,135	–4,651	–4,889	–23	–	–4,866	–	–	750	750
2011/12	710	405	–39	1,076	–20	–	596	500	–	–	–
2012/13	723	–135	3,725	4,313	3,725	–	588	–	500	–	500
2013/14	9,242[c]	790	–640	9,392	–640	–3	8,800	1,235	–	–	–
2014/15	832	2,622	3,434	6,888	3,434	–	1,570	1,884	618	–	618
2015/16	1,223	3,389	–1,729	2,883	–1,729	–	1,390	3,222	1,884	618	2,501
2016/17	960	322	–2,179	–897	–2,179	–4	–	1,286	3,222	–	3,222
2017/18	845	–176	3,178	3,847	3,178	–	–	669	1,066	–	1,066
2018/19	1,167	412	2,970	4,549	2,970	–106	–	1,685	669	220	889
2019/20	1,399	1,168	–79	2,488	–79	–	–	2,567	1,685	–	1,685

(a) As originally published
(b) Excludes gains or losses realised from the sale of fixed assets that had been held in asset revaluation reserves
(c) Includes the Commonwealth grant of $8,800 million
Source: RBA

Part 4:

Financial Statements

'… the health crisis has also disrupted aspects of the retail payments system; payment patterns have seen large, sudden shifts as merchants and consumers have changed both their payment preferences and their mode of interaction.'

Assistant Governor (Financial System) Michele Bullock, *Panic, Pandemic and Payment Preferences*, June 2020

Financial Statements

For the year ended 30 June 2020

Statement of Assurance

In the opinion of each of the Governor, as the accountable authority of the Reserve Bank of Australia (RBA), and the Chief Financial Officer, the financial statements for the year ended 30 June 2020 present fairly the Reserve Bank's financial position, financial performance and cash flows, comply with the accounting standards and any other requirements prescribed by the rules made under section 42 of the *Public Governance, Performance and Accountability Act 2013* and have been prepared from properly maintained financial records. These financial statements have been approved by a resolution of the Reserve Bank Board on 1 September 2020.

Philip Lowe
Governor and Chair, Reserve Bank Board

Robert Middleton-Jones
Chief Financial Officer

4 September 2020

Statement of Financial Position – as at 30 June 2020

Reserve Bank of Australia and Controlled Entity

	Note	2020 $M	2019 $M
Assets			
Cash and cash equivalents	6	516	1,251
Australian dollar investments	1(b), 15	211,914	97,850
Foreign currency investments	1(b), 15	58,200	76,204
Gold	1(d), 15	6,615	5,159
Property, plant and equipment	1(e), 8	729	697
Other assets	7	697	647
Total assets		278,671	181,808
Liabilities			
Deposits	1(b), 9	153,541	68,654
Distribution payable to the Commonwealth	1(h), 3	2,567	1,685
Australian banknotes on issue	1(b)	90,102	80,024
Other liabilities	10	2,129	2,533
Total liabilities		248,339	152,896
Net Assets		30,332	28,912
Capital and Reserves			
Reserves:			
Unrealised profits reserve	1(g)	8,751	8,830
Asset revaluation reserves	1(g), 5	7,335	5,802
Superannuation reserve	1(g)	87	121
Reserve Bank Reserve Fund	1(g)	14,119	14,119
Capital	1(g)	40	40
Total Capital and Reserves		30,332	28,912

The above statement should be read in conjunction with the accompanying Notes.

Statement of Comprehensive Income – for the year ended 30 June 2020

Reserve Bank of Australia and Controlled Entity

	Note	2020 $M	2019 $M
Net interest income	2	1,498	1,276
Fees and commission income	2	521	518
Other income	2	44	37
Net gains/(losses) on securities and foreign exchange	2	1,089	3,331
Net gains/(losses) on held for sale assets	2	–	51
General administrative expenses	2	(474)	(460)
Other expenses	2	(190)	(204)
Net Profit/(Loss)		2,488	4,549
Gains/(losses) on items that may be reclassified to profit or loss:			
Gold		1,456	815
		1,456	815
Gains/(losses) on items that will not be reclassified to profit or loss:			
Property		32	41
Superannuation		(34)	(217)
Shares in international and other institutions		45	32
		43	(144)
Other Comprehensive Income		1,499	671
Total Comprehensive Income		3,987	5,220

The above statement should be read in conjunction with the accompanying Notes.

Statement of Distribution – for the year ended 30 June 2020

Reserve Bank of Australia and Controlled Entity

	Note	2020 $M	2019 $M
Net profit/(loss)		2,488	4,549
Transfer (to)/from unrealised profits reserve		79	(2,970)
Transfer from asset revaluation reserves		–	106
Earnings available for distribution		2,567	1,685
Distributed as follows:			
Transfer to Reserve Bank Reserve Fund		–	–
Payable to the Commonwealth	3	2,567	1,685
		2,567	1,685

The above statement should be read in conjunction with the accompanying Notes.

Statement of Changes in Capital and Reserves – for the year ended 30 June 2020

Reserve Bank of Australia and Controlled Entity

	Note	Unrealised profits reserve $M	Asset revaluation reserves $M	Superannuation reserve $M	Earnings available for distribution $M	Reserve Bank Reserve Fund $M	Capital $M	Total capital and reserves $M
Balance as at 30 June 2018		**5,860**	**5,020**	**338**	**–**	**14,119**	**40**	**25,377**
Net Profit/(Loss)	1(h)	2,970			1,579			4,549
Gains/(losses) on:								
Gold	1(d), 5		815					815
Shares in international and other institutions	1(b), 5		32					32
Property	1(e), 5		41					41
Superannuation	1(j)			(217)				(217)
Other comprehensive income			888	(217)				671
Total comprehensive income for 2018/19								**5,220**
Transfer from asset revaluation reserves	1(g)		(106)		106			–
Transfer to Reserve Bank Reserve Fund	1(g), 3				–	–		–
Transfer to distribution payable to the Commonwealth	1(h), 3				(1,685)			(1,685)
Balance as at 30 June 2019		**8,830**	**5,802**	**121**	**–**	**14,119**	**40**	**28,912**
Net Profit/(Loss)	1(h)	(79)			2,567			2,488
Gains/(losses) on:								
Gold	1(d), 5		1,456					1,456
Shares in international and other institutions	1(b), 5		45					45
Property	1(e), 5		32					32
Superannuation	1(j)			(34)				(34)
Other comprehensive income			1,533	(34)				1,499
Total comprehensive income for 2019/20								**3,987**
Transfer to Reserve Bank Reserve Fund	1(g), 3				–	–		–
Transfer to distribution payable to the Commonwealth	1(h), 3				(2,567)			(2,567)
Balance as at 30 June 2020		**8,751**	**7,335**	**87**	**–**	**14,119**	**40**	**30,332**

The above statement should be read in conjunction with the accompanying Notes.

Cash Flow Statement – for the year ended 30 June 2020

Reserve Bank of Australia and Controlled Entity

For the purposes of this statement, cash includes the banknotes and coin held at the RBA and overnight settlement balances due from other banks.

	Note	2020 Inflow/ (outflow) $M	2019 Inflow/ (outflow) $M
Cash flows from operating activities			
Interest received		1,639	2,358
Interest paid		(471)	(1,034)
Net fee income received		424	413
Net payments for investments		(96,150)	9,334
Net cash collateral received/(provided)		1,018	(646)
Other		(437)	(412)
Net cash from operating activities	6	(93,977)	10,013
Cash flows from investment activities			
Net payments for property, plant and equipment		(32)	135
Net payments for computer software		(19)	(20)
Other		10	–
Net cash from investment activities		(41)	115
Cash flows from financing activities			
Distribution to the Commonwealth	3	(1,685)	(889)
Net movement in deposit liabilities		84,887	(12,820)
Net movement in banknotes on issue		10,078	4,459
Other		3	–
Net cash from financing activities		93,283	(9,250)
Net increase/(decrease) in cash		(735)	878
Cash at beginning of financial year		1,251	373
Cash at end of financial year	6	516	1,251

The above statement should be read in conjunction with the accompanying Notes.

Notes to and Forming Part of the Financial Statements – for the year ended 30 June 2020

Reserve Bank of Australia and Controlled Entity

Note

Note 1 – Accounting Policies

The RBA reports its consolidated financial statements in accordance with the *Reserve Bank Act 1959* and the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). These financial statements for the year ended 30 June 2020 are a general purpose financial report prepared under Australian Accounting Standards (AAS) and accounting interpretations issued by the Australian Accounting Standards Board, in accordance with the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*, which is issued pursuant to the PGPA Act. The RBA is classified as a for-profit public sector entity for the purposes of financial disclosure. These financial statements comply with International Financial Reporting Standards. In preparing them, the RBA has not 'early adopted' new accounting standards or amendments to current standards that apply from 1 July 2020.

All amounts in these financial statements are expressed in Australian dollars, the functional and presentational currency of the RBA. All revenues and expenses are brought to account on an accruals basis.

COVID-19 Pandemic

In response to the COVID-19 pandemic, the RBA Board announced a range of policy measures in March 2020 to lower funding costs across the economy, to support the provision of credit to households and businesses, and to ensure the smooth functioning of key financial markets. These measures include:

- a target for the yield on 3-year Australian Government bonds of around 0.25 per cent, with purchases of government bonds in the secondary market to help achieve the yield target and address dislocations in government bond markets. To achieve these objectives, government bonds with a face value of $51.3 billion have been purchased since March. These are reported within Australian dollar securities.
- a Term Funding Facility (TFF) was established to lower borrowing costs and support lending to households and businesses. Under this arrangement, authorised deposit-taking institutions (ADIs) are able to access funding through reverse repurchase agreements with a three-year term and a fixed interest rate of 25 basis points. As at 30 June 2020, reverse repurchase agreements of $13.9 billion had been settled under the TFF. The total allowance available under the TFF was $135.1 billion at 30 June 2020.
- a temporary foreign exchange swap facility with the US Federal Reserve (the Fed) was established to help lessen strains in global US funding markets. Under these swaps, the Fed provides US dollars to the RBA in exchange for Australian dollars. The US dollars are, in turn, made available by the RBA to local market participants under reverse repurchase agreements, in exchange for Australian dollar denominated collateral (and reported within 'foreign currency investments'). The Australian dollars provided to the Fed under the swap are held on deposit with the RBA. On maturity, these swaps are unwound at the same exchange rate as the currencies were exchanged in the first leg. The amount outstanding under this facility was $0.8 billion at 30 June 2020.

Transactions arising from these measures are accounted for under the RBA's existing policies for such financial instruments (see Note 1(b)). Financial risks associated with these instruments are disclosed within Note 15. Further detail is provided in the chapter on 'Operations in Financial Markets'.

Accounting estimates

COVID-19 has increased the uncertainty of some accounting estimates, including assumptions around future salary growth used to value the RBA's provisions for employee benefits (Note 1(i)) and the defined benefit superannuation obligation (Note 14). There is also increased uncertainty around inputs used in the valuation of the RBA's property at 30 June 2020 (Note 16). Assumptions used in the RBA's assessment of expected credit losses on its financial instruments were also updated to reflect this uncertainty, mainly through applying default probabilities associated with historically adverse outcomes (Note 15). Management do not consider that the current uncertainty around these estimates and assumptions has had a material impact on the RBA's overall financial position and performance at 30 June 2020.

(a) Consolidation

The financial statements show information for the economic entity only; this reflects the consolidated results for the parent entity, the RBA, and its wholly owned subsidiary, Note Printing Australia Limited (NPA). The results of the parent entity do not differ materially from the economic entity and have therefore not been separately disclosed.

Note Printing Australia Limited

NPA was incorporated as a wholly owned subsidiary of the RBA on 1 July 1998.

NPA Balance Sheet	2020 $M	2019 $M
Assets	175.0	160.9
Liabilities	46.3	36.0
Equity	128.7	124.9

The assets, liabilities and results of NPA have been consolidated with the accounts of the parent entity in accordance with AASB 10 – *Consolidated Financial Statements*. All internal transactions and balances have been eliminated on consolidation. These transactions include items relating to the purchase of Australian banknotes, lease of premises and the provision of premises and security services.

(b) Financial instruments

A financial instrument is defined as any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. The RBA accounts for its financial instruments in accordance with AASB 9 – *Financial Instruments* and reports these instruments under AASB 7 – *Financial Instruments: Disclosures* and AASB 13 – *Fair Value Measurement*.

The RBA brings its securities and foreign exchange transactions to account on a trade date basis. Deposits, repurchase agreements and gold swaps are brought to account on settlement date.

Financial assets

Australian dollar securities

Australian dollar securities, except those held under reverse repurchase agreements, are measured at fair value through profit or loss, as they are held to implement monetary policy and may be sold or lent, typically for short terms, under repurchase agreements. The securities are valued at market bid prices on balance date; valuation gains or losses are taken to profit. Interest earned on securities is accrued as revenue in the Statement of Comprehensive Income.

Reverse repurchase agreements

In carrying out operations to manage domestic liquidity and foreign reserves, the RBA enters into reverse repurchase agreements in Australian dollar and foreign currency securities. A reverse repurchase agreement involves the purchase of securities with an undertaking to reverse this transaction at an agreed price on an agreed future date. As a reverse repurchase agreement provides the RBA's counterparties with cash for the term of the agreement, the RBA treats it as an asset by recording a cash receivable. Reverse repurchase agreements are measured at amortised cost. Interest earned is accrued over the term of the agreement and recognised as revenue.

RBA open repurchase agreements are provided to assist eligible financial institutions manage their liquidity after normal business hours. An RBA open repurchase agreement is an Australian dollar reverse repurchase agreement without an agreed maturity date. The RBA accrues interest daily on open repurchase agreements at the target cash rate.

Gold borrowed under gold swaps

Gold swaps are available to assist with domestic liquidity management and to enhance the return on the RBA's gold holdings.

Gold swaps involving the purchase of gold include an undertaking to reverse this transaction at an agreed price on an agreed future date. As these gold swaps provide the RBA's counterparty with cash for the term of the agreement, the RBA treats it as an asset by recording a cash receivable. Gold swaps are measured at amortised cost in accordance with AASB 9. The difference in agreed gold prices for the first and second legs is accrued over the term of the swap and recognised as interest income. Gold borrowed under a swap agreement is not recognised on the RBA's balance sheet as the predominant risk and reward of ownership, including exposure to any movement in the market price of gold, remains with the counterparty.

Foreign government securities

Foreign government securities, except those held under reverse repurchase agreements, are measured at fair value through profit or loss, as they are available to be traded in managing the portfolio of foreign exchange reserves. These securities are valued at market bid prices on balance date and valuation gains or losses are taken to profit. Interest earned on securities is accrued as revenue.

Foreign deposits

Some foreign currency reserves are invested in deposits with central banks and the Bank for International Settlements (BIS), while small working balances are also maintained with a small number of commercial banks. Deposits are measured at amortised cost. Interest is accrued over the term of deposits.

Foreign currency swaps

The RBA uses foreign currency swaps to assist domestic liquidity management and in managing foreign reserve assets. A foreign currency swap is the simultaneous purchase and sale of one currency against another currency for a specified maturity. The cash flows are the same as borrowing one currency for a certain period and lending another currency for the same period. The pricing of the swap therefore reflects the interest rates applicable to these money market transactions. Interest rates are implicit in the swap contract but interest itself is not paid or received. Foreign currency swaps are measured at fair value through profit or loss.

Bond futures

The RBA uses bond futures contracts on overseas exchanges to manage interest rate risk on its portfolio of foreign assets. Bond futures positions are measured at fair value through profit or loss with valuation gains or losses taken to net profit. Futures positions are reported within 'Foreign currency investments'.

Asian Bond Fund

The RBA invests in a number of non-Japan Asian debt markets through participation in the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Asian Bond Fund. This investment comprises units in ABF2, which invests in local currency-denominated bonds issued by sovereign and quasi-sovereign issuers in EMEAP markets. ABF2 is measured at fair value through profit or loss and is valued on balance date at the relevant unit price of the fund, with valuation gains or losses taken to profit. ABF2 is reported within 'Foreign currency investments'.

Shareholding in Bank for International Settlements

Shares in the BIS are owned exclusively by the central banks and monetary authorities that are its members, including the RBA. The RBA has made an election to designate its shareholding in the BIS at fair value through other comprehensive income, as permitted under AASB 9. The shareholding is measured at fair value and valuation gains or losses are transferred directly to the revaluation reserve for 'Shares in international and other institutions' (Note 5). An uncalled portion of this shareholding is disclosed as a contingent liability in Note 11. Dividends are recognised as revenue in net profit, when declared.

Financial liabilities

Deposit liabilities

Deposits held with the RBA include both deposits on-demand and term deposits (refer to Note 9). Deposit liabilities are measured at amortised cost. Interest is accrued over the term of deposits and is paid periodically or at maturity. Interest accrued on deposits but not paid is included in Note 10.

Australian banknotes on issue

Banknotes on issue are a financial liability recorded at face value.

The RBA pays interest on working balances of banknotes held by banks under cash distribution arrangements (see Note 4).

Costs related to materials used in the production of banknotes are included in 'Other expenses' in Note 2.

Repurchase agreements

A repurchase agreement involves the sale of securities with an undertaking to repurchase them on an agreed future date at an agreed price. Securities sold and contracted for repurchase under repurchase agreements are retained on the balance sheet and reported within the relevant investment portfolio (refer to 'Australian dollar securities' and 'Foreign government securities', above). The counterpart obligation to repurchase the securities is reported in 'Other liabilities' (Note 10) and measured at amortised cost. The difference between the sale and purchase price is accrued over the term of the agreement and recognised as interest expense.

Gold loaned under gold swaps

Gold swaps involving the sale of gold include an undertaking to reverse this transaction at an agreed price on an agreed future date. Gold sold under gold swaps is retained on the balance sheet and reported within gold holdings (Note 1(d)). The counterpart obligation to repurchase the gold is reported in 'Other liabilities' (Note 10) and measured at amortised cost. The difference in agreed gold prices for each leg is accrued over the term of the swap and recognised as interest expense.

(c) Foreign exchange translation

Assets and liabilities denominated in foreign currency are converted to Australian dollar equivalents at the relevant market exchange rate on balance date in accordance with AASB 121 – *The Effects of Changes in Foreign Exchange Rates*. Valuation gains or losses on foreign currency are taken to net profit. Interest revenue and expenses and revaluation gains and losses on foreign currency securities are converted to Australian dollars using exchange rates on the date they are accrued or recognised.

(d) Gold

Gold holdings (including gold sold under gold swaps or on loan to other institutions) are valued at the Australian dollar equivalent of the 3.00 pm fix in the London gold market on balance date. Valuation gains or losses on gold are transferred to the asset revaluation reserve for gold.

In addition to gold swaps (Note 1(b)), the RBA also lends gold to institutions that participate in the gold market under gold loan agreements. Similar to gold swaps, gold provided under a loan is retained on the balance sheet. Interest is accrued over the term of the loan and is paid at maturity. The interest receivable on gold loans is accounted for in accordance with AASB 9.

(e) Property, plant and equipment

The RBA accounts for property, plant and equipment it owns outright in accordance with AASB 116 – *Property, Plant and Equipment* and AASB 13. Property, plant and equipment held under lease arrangements, including overseas and interstate representative offices and computer hardware, are accounted for under AASB 16 – *Leases*.

Annual expenditure, revaluation adjustments and depreciation of property, plant and equipment, including leased assets, are included in Note 8.

Property

The RBA measures its property at fair value. The RBA's Australian properties are formally valued annually by an independent valuer; overseas properties are independently valued on a triennial basis with the most recent valuation conducted in 2018/19. Reflecting their specialised nature, fair value for the RBA's Business Resumption Site and National Banknote Site is based on depreciated replacement cost. Valuation gains (losses) are generally transferred to (absorbed by) the asset revaluation reserve of each respective property. Any part of a valuation loss that exceeds the balance in the relevant asset revaluation reserve is expensed. Subsequent valuation gains that offset losses that were previously treated as an expense are recognised as income in net profit.

Annual depreciation is calculated on a straight line basis using assessments of the remaining useful life of the relevant building.

Plant and equipment

Plant and equipment is valued at cost less accumulated depreciation. Annual depreciation is calculated on a straight line basis using the RBA's assessment of the remaining useful life of individual assets.

Depreciation rates for each class of depreciable assets are based on the following range of useful lives:

	Years
Buildings	15–50
Fit-out	5–10
Computer hardware	4
Motor vehicles	5
Plant and other equipment	4–20

Leased Assets

Leased assets are measured at cost less accumulated depreciation. Annual depreciation is calculated on a straight line basis using the length of the lease term.

(f) Computer software

Computer software is reported in accordance with AASB 138 – *Intangible Assets*. Computer software is recognised at cost less accumulated amortisation and impairment adjustments, if any (refer to Note 7). Amortisation of computer software is calculated on a straight line basis over the estimated useful life of the relevant asset, usually for a period of between four and six years (refer to Note 2). The useful life of payments systems and core banking software may be for a period of between 10 and 15 years, reflecting the period over which future economic benefits are expected to be realised from these assets.

(g) Capital and reserves

The capital of the Reserve Bank is established by the Reserve Bank Act.

The Reserve Bank Reserve Fund (RBRF) is also established by the Reserve Bank Act and is regarded essentially as capital. The RBRF is a reserve maintained to provide for events that are contingent and not foreseeable, including to cover losses from falls in the market value of the RBA's holdings of Australian dollar and foreign currency investments that cannot be absorbed by its other resources. The RBRF also provides for other risks such as operational risk. In accordance with the Reserve Bank Act, this reserve is funded only by transfers from net profits, as determined by the Treasurer, after consulting the Reserve Bank Board (refer to Note 1(h)). The Board assesses the adequacy of the balance of the RBRF each year. The balance of the RBRF currently stands at a level that the Board regards as appropriate for the risks the RBA holds on its balance sheet.

The RBA's equity also includes a number of other reserves.

Unrealised gains and losses on foreign exchange, foreign securities and Australian dollar securities are recognised in net profit. Such gains or losses are not available for distribution and are transferred to the unrealised profits reserve, where they remain available to absorb future unrealised losses or become available for distribution if gains are realised when assets are sold or mature.

The balance of the Superannuation reserve represents accumulated remeasurement gains or losses on the RBA's defined benefit superannuation obligations (Note 1(j)).

Balances of asset revaluation reserves reflect differences between the fair value of non-traded assets and their cost. These assets are: gold; property held outright; and shares in international and other institutions. Valuation gains on these assets are not distributable unless an asset is sold and these gains are realised.

(h) Net profits

Net profits of the RBA are dealt with in the following terms by section 30 of the Reserve Bank Act:

(1) Subject to subsection (2), the net profits of the Bank in each year shall be dealt with as follows:

(aa) such amount as the Treasurer, after consultation with the Reserve Bank Board, determines is to be set aside for contingencies; and

(a) such amount as the Treasurer, after consultation with the Reserve Bank Board, determines shall be placed to the credit of the Reserve Bank Reserve Fund; and

(b) the remainder shall be paid to the Commonwealth.

(2) If the net profit of the Bank for a year is calculated on a basis that requires the inclusion of unrealised gains on assets during the year, the amount to which subsection (1) applies is to be worked out as follows:

(a) deduct from the net profit an amount equal to the total of all amounts of unrealised gains included in the net profit; and

(b) if an asset in respect of which unrealised gains were included in the net profit for a previous year or years is realised during the year – add to the amount remaining after applying paragraph (a) the total amount of those unrealised gains.

(i) Provisions for employee benefits entitlements

In accordance with AASB 119 – *Employee Benefits*, the RBA records provisions for certain employee benefit entitlements, including accrued annual and long service leave and post-employment health insurance benefits. These provisions reflect the present value of the estimated future cost to meet those entitlements, including any applicable fringe benefit or payroll taxes and, in the case of leave entitlements, superannuation contributions to the extent that any leave is assumed to be taken during service. Leave provisions are calculated using assumptions for length of staff service, leave utilisation and future salary. The provision for post-employment health insurance benefits is estimated using assumptions about the length of staff service, longevity of retired staff and future movements in health insurance costs. This post-employment benefit ceased to be available for new staff appointed after 30 June 2013.

Further detail on employee benefit provisions are included in Note 10.

(j) Superannuation funds

The RBA includes in its Statement of Financial Position an asset or liability representing the position of its defined benefit superannuation funds measured in accordance with AASB 119. Movements in the superannuation asset or liability are reflected in the Statement of Comprehensive Income. Remeasurement gains and losses are transferred to the Superannuation reserve.

Details of the superannuation funds and superannuation expenses are included in Note 14.

(k) Committed Liquidity Facility

The RBA provides a Committed Liquidity Facility (CLF) to eligible ADIs. Fees received from providing the CLF are recognised as fee income in net profit. Additional information on the CLF is provided in Note 11.

(l) Non-current assets held for sale

A non-current asset is classified as being held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This classification requires the asset to be available for immediate sale and for the sale to be highly probable. Held for sale assets are measured at the lower of their carrying amount or fair value less sale costs, in accordance with AASB 5 – *Non-current Assets Held for Sale and Discontinued Operations*.

(m) Revenue from contracts with customers

In the course of its operations, the RBA enters into contracts for the provision of goods and services. These include contracts for the provision of banking and payment services to the Australian Government, overseas central banks and official institutions, the provision of the CLF for participating ADIs (refer to Note 1(k)) and, in the case of the RBA's subsidiary, banknote and security products to overseas central banks.

Revenue is recognised on a gross basis at the point the contracted performance obligation is satisfied, as required by AASB 15 – *Revenue from Contracts with Customers*. In the case of banking and payment services, revenue is recognised upon the completion of the provision of service. Revenue from the sale of banknote and security products is recognised at the point at which the product is accepted and CLF fee income is recognised over the period the facility is provided.

Where the right to consideration for the completion of the performance obligation under the contract becomes unconditional, a receivable is recognised in the Statement of Financial Position; a contract asset is recorded when this right remains conditional (refer to Note 7). Where a performance obligation under a contract remains unsatisfied, but consideration has been received, the RBA reports this as an unearned contract liability (refer to Note 10).

(n) Rounding

Amounts in the financial statements are rounded to the nearest million dollars unless otherwise stated.

(o) Comparative information

Certain comparative information may be reclassified where required for consistency with the current year presentation.

(p) Application of new or revised Australian Accounting Standards

New Australian accounting standards that apply to the RBA's financial statements in the current and future financial years are set out below along with an assessment of the main effects of these standards on the RBA's financial statements.

The RBA has adopted accounting standard AASB 16 using the modified retrospective approach with effect from 1 July 2019. Accordingly, there has been no restatement of comparative information. In adopting the standard, the RBA has elected to apply the practical expedient to not reassess whether an existing contract is, or contains, a lease at the initial date of application. Thus, the requirements of the standard have been applied to contracts that were previously identified as leases under the previous applicable standard, AASB 117 – *Leases*. The RBA has also elected to apply the practical expedient to not apply the requirements of the standard to leases with a remaining lease term of 12 months or less from the initial date of application and to not apply the standard to leases of low value assets based on the value of the underlying asset when new. Lease payments in relation to these leases are expensed on a straight-line basis over the lease term.

Adoption of the new standard has resulted in the recognition of a lease liability and a right-of-use asset, of $12.9 million, in relation to the RBA's lease of property, plant and equipment in the Statement of Financial Position. Lease liabilities were measured at the present value of the remaining lease payments. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. Additional disclosures on the RBA's right-of-use assets and lease liabilities are contained in Note 8 and 10 respectively.

Note 2 – Net Profit

	Note	2020 $M	2019 $M
Net interest income			
Interest income	1(b), 4	1,944	2,310
Interest expense	1(b), 4	(446)	(1,034)
		1,498	1,276
Fees and commissions income			
Committed liquidity facility	1(k), 1(m)	373	368
Banking services	1(m)	115	123
Payment services	1(m)	33	27
		521	518
Other income			
Sales of banknote and security products	1(m)	33	25
Rental of Bank premises		5	6
Dividend revenue	1(b)	–	5
Other		6	1
		44	37
Net gains/(losses) on securities and foreign exchange			
Foreign investments	1(b)	212	166
Australian dollar securities	1(b)	(435)	(17)
Foreign currency	1(b)	1,312	3,182
		1,089	3,331
Net gain on held for sale asset	1(l)	–	51
General administrative expenses			
Staff costs		(246)	(233)
Net gains/(losses) on employee provisions		7	(20)
Superannuation costs	1(j)	(71)	(52)
Depreciation of property, plant and equipment	1(e), 8	(52)	(47)
Amortisation of computer software	1(f), 7	(24)	(21)
Premises and equipment		(73)	(67)
Other		(15)	(20)
		(474)	(460)
Other expenses			
Banking service fees		(97)	(104)
Materials used in banknote and security products		(51)	(57)
Banknote distribution		(2)	(2)
Other		(40)	(41)
		(190)	(204)
Net profit/(loss)		2,488	4,549

Note 3 – Distribution Payable to the Commonwealth

Net profits of the RBA, less amounts transferred to the RBRF, are paid to the Commonwealth as required by section 30 of the Reserve Bank Act (see Note 1(h)). Also under section 30, unrealised profits from foreign exchange, foreign securities and Australian dollar securities are not available for distribution. Instead they are transferred to the unrealised profits reserve where they remain available to absorb future valuation losses or are realised when relevant assets are sold or mature. Unrealised losses are, in the first instance, absorbed within the unrealised profits reserve where they are offset against unrealised profits accumulated from previous years. For purposes of distribution, if such losses exceed the balance of the unrealised profits reserve, the amount by which they do so is initially charged against other components of net profit, and any remaining loss is absorbed by the RBRF.

In 2019/20, the RBA recorded a net profit of $2,488 million. Unrealised losses of $79 million were absorbed within the unrealised profits reserve. Earnings available for distribution therefore amounted to $2,567 million in 2019/20.

As the Board regarded the balance of the RBRF as appropriate for the risks held on the balance sheet, it recommended that no transfer to this reserve be made from net profit in 2019/20. Accordingly, the Treasurer, after consulting the Board, determined that the full sum of earnings available for distribution be paid as a dividend to the Commonwealth. An amount of $1,685 million was paid to the Commonwealth in 2019/20.

	2020 $M	2019 $M
Opening balance	1,685	889
Distribution to the Commonwealth	(1,685)	(889)
Transfer from Statement of Distribution	2,567	1,685
As at 30 June	2,567	1,685

Note 4 – Interest Income and Interest Expense

Analysis for the year ended 30 June 2020

	Average balance $M	Interest $M	Average annual interest rate Per cent
Interest income			
Foreign currency investments	69,718	339	0.5
Australian dollar investments	118,688	1,598	1.3
Overnight settlements	606	3	0.4
Cash collateral provided	434	2	0.4
Gold loans	736	1	0.1
Gold borrowed under gold swaps	60	1	1.7
Loans, advances and other	37	–	0.8
	190,279	1,944	1.0
Interest expense			
Exchange Settlement balances	45,871	205	0.4
Deposits from governments	30,982	203	0.7
Deposits from overseas institutions	1,998	6	0.3
Banknote holdings of banks	4,250	19	0.5
Foreign currency repurchase agreements	838	12	1.4
Australian dollar repurchase agreements	196	1	0.6
Gold loaned under gold swaps	302	(1)	(0.4)
Cash collateral received	173	1	0.7
	84,610	446	0.5
Net interest margin			0.8
Analysis for the year ended 30 June 2019			
Interest income	163,598	2,310	1.4
Interest expense	65,036	1,034	1.6
Net interest margin			0.8

Interest income for 2019/20 includes $736 million calculated using the effective interest method for financial assets not at fair value through profit or loss ($1,646 million in 2018/19). Interest expense for 2019/20 includes $446 million calculated using the effective interest method for financial liabilities not at fair value through profit or loss ($1,034 million in 2018/19).

Note 5 – Asset Revaluation Reserves

The composition of the RBA's asset revaluation reserves (Note 1(g)) is shown below.

	Note	2020 $M	2019 $M
Gold	1(d)	6,488	5,032
Shares in international and other institutions	1(b), 7	474	429
Property	1(e), 8	373	341
As at 30 June		7,335	5,802

Note 6 – Cash and Cash Equivalents

	2020 $M	2019 $M
Cash	39	42
Overnight settlements	477	1,209
As at 30 June	516	1,251

Cash and cash equivalents include net amounts of $477 million owed to the RBA for overnight clearances of financial transactions through the payments system ($1,209 million at 30 June 2019). Other cash and cash equivalents include NPA's bank deposits.

Cash and cash equivalents exclude Australian and foreign short-term investments held to implement monetary policy or as part of Australia's foreign reserve assets. These investments are disclosed as Australian dollar investments and foreign currency investments, respectively; further detail is disclosed in Note 15.

Reconciliation of net cash used in operating activities to Net Profit	Note	2020 $M	2019 $M
Net Profit		2,488	4,549
Net (gain)/loss on overseas investments	2	(212)	(166)
Net (gain)/loss on Australian dollar securities	2	435	17
Net (gain)/loss on foreign currency	2	(1,312)	(3,182)
Depreciation of property, plant and equipment	2	52	47
Amortisation of computer software	2	24	21
Net payments for investments		(96,150)	9,334
(Increase)/decrease in interest receivable		(293)	72
Increase/(decrease) in interest payable		(37)	(24)
Cash collateral received/(provided)		1,018	(646)
Other		10	(9)
Net cash used in operating activities		(93,977)	10,013

Note 7 – Other Assets

	Note	2020 $M	2019 $M
Shareholding in Bank for International Settlements	1(b)	518	473
Computer software	1(f)	92	97
Other		87	77
As at 30 June		697	647

At 30 June 2020, the gross book value of the RBA's computer software amounted to $174.6 million and the accumulated amortisation on these assets was $82.7 million ($156.3 million and $59.1 million, respectively, at 30 June 2019). During 2019/20, there were $18.4 million in net additions to computer software ($16.1 million in 2018/19) and $24.3 million in amortisation expense ($20.5 million in 2018/19). The RBA had contractual commitments of less than $0.1 million as at 30 June 2020 for the acquisition of computer software ($3.5 million at 30 June 2019).

Other assets include receivables of $19.1 million at 30 June 2020 ($31.7 million at 30 June 2019). None of these assets is impaired. There were no contract assets at 30 June 2020 (Note 1(m)).

Note 8 – Property, Plant and Equipment

	Land and buildings $M	Plant and equipment $M	Leased assets $M	Total $M
Gross Book Value as at 30 June 2019	540	321	na	861
Accumulated depreciation	–	(164)	na	(164)
Net Book Value	540	157	na	697
Recognition of Leased Assets on initial application of AASB 16	–	–	13	13
Net Book Value as at 1 July 2019	540	157	13	710
Additions	8	21	12	41
Depreciation expense	(13)	(35)	(4)	(52)
Net gain/(loss) recognised in Other Comprehensive Income	32	–	–	32
Disposals	–	(2)	–	(2)
Net additions to net book value	27	(16)	8	19
Gross Book Value as at 30 June 2020	568	330	25	923
Accumulated depreciation	(1)	(189)	(4)	(194)
Net Book Value	567	141	21	729

The net book value of the RBA's property, plant and equipment includes $25.0 million of work in progress ($19.9 million at 30 June 2019). The carrying amount of leased assets at 30 June 2020 includes $11.9 million in property and $9.0 million in plant and equipment.

As at 30 June 2020, the RBA had contractual commitments of $24.5 million for acquisitions relating to its property, plant and equipment ($6.8 million at 30 June 2019), of which $18.6 million are due within one year ($4.1 million at 30 June 2019).

Note 9 – Deposits

	2020 $M	2019 $M
Exchange Settlement balances	73,497	29,490
Australian Government	76,110	36,525
State governments	544	310
Foreign governments, foreign institutions and international organisations	3,390	2,328
Other depositors	–	1
As at 30 June	153,541	68,654

Note 10 – Other Liabilities

	Note	2020 $M	2019 $M
Provisions			
Provision for annual and other leave		25	22
Provision for long service leave		50	49
Provision for post-employment benefits		100	108
Other		9	9
		184	188
Other			
Securities sold under agreements to repurchase	1(b)	22	350
Payable for unsettled purchases of securities	1(b)	579	1,084
Cash payable for gold loaned under gold swaps	1(b)	884	–
Foreign currency swap liabilities	1(b)	90	592
Interest accrued on deposits	1(b)	12	47
Superannuation liability	1(j), 14	247	177
Other		111	95
		1,945	2,345
Total Other Liabilities as at 30 June		2,129	2,533

The RBA's provision for its post-employment benefits was $7.8 million lower in 2019/20, largely due to a decline in the assumed growth rate for the cost of providing these benefits in future periods. Benefits of $4.7 million were paid out of the provision for post-employment benefits in 2019/20. The balance of the provision for post-employment benefits will change if assumptions about the length of staff service, the longevity of retired staff, future costs of providing benefits, or discount rates vary.

Other provisions include amounts for legal matters, redundancies and workers compensation.

Other liabilities include contract liabilities of $32.1 million relating to unearned revenue from the provision of the CLF (Note 1(m)) and $22.8 million in lease liabilities. Interest on lease liabilities was $0.3 million in 2019/20.

Note 11 – Contingent Assets and Liabilities

Committed Liquidity Facility

Since 1 January 2015, the RBA has provided a CLF to eligible ADIs as part of Australia's implementation of the Basel III liquidity standards. The CLF provides ADIs with a contractual commitment to funding under repurchase agreements with the RBA, subject to certain conditions. It was established to ensure that ADIs are able to meet their liquidity requirements under Basel III. The CLF is made available to ADIs in Australia because the supply of high-quality liquid assets (HQLA) is lower in Australia than is typical in other major economies; in other countries, these liquidity requirements are usually met by banks' HQLAs on their balance sheet. While the RBA administers the CLF, the Australian Prudential Regulation Authority (APRA) determines which institutions have access to the facility and the limits available. Any drawdown must meet certain conditions, including: APRA does not object to the drawdown; and the RBA assesses that the ADI has positive net worth. Accordingly, the potential funding under the CLF is disclosed as a contingent liability; repurchase agreements associated with providing funding are disclosed as a contingent asset. If an ADI drew on the CLF, the funds drawn would be shown as a deposit liability of the RBA, and the counterpart repurchase agreement as an Australian dollar investment.

The aggregate undrawn commitment of the CLF at 30 June 2020 totalled $201 billion for 15 ADIs ($218 billion for 15 ADIs at 30 June 2019).

Bank for International Settlements

The RBA has a contingent liability for the uncalled portion of its shares held in the BIS amounting to $72.4 million at 30 June 2020 ($71.4 million at 30 June 2019).

Securency

In February 2013, the RBA completed the sale of its 50 per cent interest in Securency International Pty Ltd (Securency; now known as CCL Secure Pty Ltd) to a related entity of Innovia Films, a UK-based film manufacturer, which had previously owned the other half of Securency. An amount covering 50 per cent of certain potential liabilities of Securency relating to events prior to the sale was placed in escrow in February 2013. As the escrow period expired in February 2020, the balances which remained in escrow, after relevant claims had been paid or settled, were received by the RBA in February 2020.

Under the sale agreement the RBA also provided the owner of Securency with a number of indemnities in relation to the period during which Securency had been jointly owned by the RBA and Innovia Films. These indemnities expired in February 2020.

Insurance

The RBA carries its own insurance risks except when external insurance cover is considered to be more cost-effective or is required by legislation.

Performance Guarantees

In the course of providing services to its customers, the RBA provides performance guarantees to third parties in relation to customer activities. Such exposure is not material and has not given rise to losses in the past.

Similarly, the RBA has provided a performance guarantee for pension payments to members of the Reserve Bank of Australia UK Pension Scheme in relation to a UK insurer. This exposure is not material. Further detail is provided in Note 14.

Note 12 – Key Management Personnel

The key management personnel of the RBA are the Governor and Deputy Governor, non-executive members of the Reserve Bank Board, non-executive members of the Payments System Board and the Assistant Governors, who are the senior staff responsible for planning, directing and controlling the activities of the RBA. There were 20 of these positions in 2019/20 (unchanged from 2018/19). A total of 21 individuals occupied these positions for all or part of the financial year (22 in the previous year).

The positions of Governor and Deputy Governor are designated as Principal Executive Offices in terms of the *Remuneration Tribunal Act 1973*, which provides for the Remuneration Tribunal to determine the applicable remuneration for these positions. Within the parameters determined by the Remuneration Tribunal, the Reserve Bank Board Remuneration Committee, comprising three non-executive members, makes a recommendation on remuneration for these positions for the approval of the Board, which is the 'employing body' for the positions. In accordance with provisions 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. During 2019/20, the remuneration reference rate for the position of Governor was $1,061,210 (superannuable salary of $774,683) and that for the Deputy Governor was $795,910 (superannuable salary of $581,014). Remuneration of each of the Governor and Deputy Governor in 2019/20 was at the applicable reference rate. No performance payments were made to either the Governor or Deputy Governor in 2019/20.

Fees for non-executive members of the Reserve Bank Board and the Payments System Board are determined by the Remuneration Tribunal. The Governor determines the rates of remuneration of the Assistant Governors. For staff generally, remuneration aims to be market competitive and designed to attract and retain appropriately skilled people. Remuneration levels for employees are externally benchmarked.

The disclosure of key management personnel remuneration is based on AASB 124 – *Related Party Disclosures*, as shown below. The figures are disclosed on an accruals basis and show the full cost to the consolidated entity; they include all leave and fringe benefits tax charges.

	2020 $	2019 $
Short-term employee benefits	5,184,273	5,043,071
Post-employment benefits	853,974	835,716
Other long-term employee benefits	256,536	198,996
Termination benefits	–	–
Total compensation[(a)]	6,294,783	6,077,783

(a) Within the group of key management personnel, 18 individuals (19 in 2018/19) were remunerated and included in this table; the three key management personnel that are not remunerated are the individuals who held the positions of Secretary to the Treasury, as a member of the Reserve Bank Board, and the Chairman of APRA, as a member of the Payments System Board

Short-term benefits include salary and, for relevant executives, lump-sum performance payments and motor vehicle, car parking and health benefits (including any fringe benefits tax on these benefits).

Post-employment benefits include superannuation and, in the case of executives, an estimate of the cost to provide health benefits in retirement. Other long-term employee benefits include long service leave and annual leave, as well as the effect of revaluing previously accrued leave entitlements in accordance with AASB 119 (refer Note 10).

There were no loans or other related party transactions with Board members or other key management personnel during 2019/20 and 2018/19. Transactions with Board member-related entities that occurred in the normal course of the RBA's operations were incidental and conducted on terms no more favourable than similar transactions with other employees or customers; any vendor relationships with such entities were at arm's length and complied with the RBA's procurement policy.

Note 13 – Auditor's Remuneration

	2020 $	2019 $
Fees paid or payable to the statutory auditor (Australian National Audit Office) for audit services	436,091	413,339

KPMG has been contracted by the Australian National Audit Office (ANAO) to provide audit services for the external audit of the RBA and the RBA's subsidiary, NPA.

During 2019/20, KPMG earned additional fees of $91,197 for non-audit services that were separately contracted by the RBA ($23,470 in 2018/19). These fees included advisory services provided to the RBA.

Note 14 – Superannuation Funds

The RBA sponsors two superannuation funds: RB Super and the Reserve Bank of Australia UK Pension Scheme. For RB Super, current and future benefits are funded by member and RBA contributions and the existing assets of the scheme.

RB Super is a hybrid plan, with a mix of defined benefit members, defined contribution members and pensioners. Defined benefit members receive a defined benefit in accordance with RB Super's plan rules. Most members have unitised accumulation balances, which comprise employer contributions and members' personal contributions plus earnings on these contributions. Defined benefit membership was closed to new RBA staff from 1 August 2014. From that date, new staff have been offered defined contribution superannuation. The RBA does not have a role in directly operating or governing RB Super and has no involvement in the appointment of the RB Super Trustees.

The UK Pension Scheme is a closed defined benefit scheme subject to relevant UK regulation. In 2018, the Trustees, with agreement from the RBA, entered into the buy-in side of a bulk purchase annuity (BPA) contract with Aviva Life and Pensions UK Limited (Aviva) to reduce the funding risk in relation to the UK Pension Scheme's pension liabilities. During 2019 and 2020, the Trustees completed their work with Aviva to convert the buy-in policy to a buy-out policy, thereby fully securing members' benefits with Aviva. The Trustees and the RBA have now commenced the wind up of the Scheme. Defined benefit accrual for current members ceased on 30 June 2018. From that date, current and new staff have been offered defined contribution arrangements in a separate fund.

Funding valuation

An independent actuarial valuation of RB Super is conducted every three years. The most recent review was completed for the financial position as at 30 June 2017 using the Attained Age Funding method (the valuation for the financial position as at 30 June 2020 will be completed shortly). Accrued benefits were determined as the value of the future benefits payable to members (allowing for future salary increases), discounted by the expected rate of return on assets held to fund these benefits. At the time of this review, the surplus was $190.1 million. On the same valuation basis, the RB Super surplus as at 30 June 2020 amounted to $270.0 million. The RBA maintained its contribution rate to fund defined benefit obligations at 18.3 per cent of salaries in 2019/20, consistent with the actuary's recommendation.

Accounting valuation

For financial statement purposes, disclosures required by AASB 119 are provided only for RB Super, as the UK Pension Scheme is not material.

Actuarial assumptions

The principal actuarial assumptions for the AASB 119 valuation of RB Super are:

	2020 Per cent	2019 Per cent
Discount rate (gross of tax)[(a)]	3.5	3.4
Future salary growth[(b)]	3.0	3.0
Future pension growth[(b)]	3.0	3.0

(a) Based on highly rated Australian dollar-denominated corporate bond yields
(b) Includes a short-term assumption of 2.0 per cent for the first three years of the projections (2.0 per cent for the first two years in 2019)

Maturity analysis

The weighted average duration of the defined benefit obligation for RB Super is 20 years (20 years at 30 June 2019). The expected maturity profile for defined benefit obligations of RB Super is as follows:

	2020 Per cent	2019 Per cent
Less than 5 years	15	15
Between 5 and 10 years	15	14
Between 10 and 20 years	27	27
Between 20 and 30 years	21	21
Over 30 years	22	23
Total	100	100

Risk exposures

Key risks from the RBA's sponsorship of the RB Super defined benefit plan include investment, interest rate, longevity, salary and pension risks.

Investment risk is the risk that the actual future return on plan assets will be lower than the assumed rate.

Interest rate risk is the exposure of the defined benefit obligations to adverse movements in interest rates. A decrease in interest rates will increase the present value of these obligations.

Longevity risk is the risk that RB Super members live longer, on average, than actuarial estimates of life expectancy.

Salary risk is the risk that higher than assumed salary growth will increase the cost of providing a salary-related pension.

Pension risk is the risk that pensions increase at a faster rate than assumed, thereby increasing the cost of providing them.

The table below shows the estimated change in the defined benefit obligation resulting from movements in key actuarial assumptions. These estimates change each assumption individually, holding other factors constant; they do not incorporate any correlations among these factors.

	2020 $M	2019 $M
Change in defined benefit obligation from an increase of 0.25 percentage points in:		
Discount rate (gross of tax)	(82)	(83)
Future salary growth	17	19
Future pension growth	64	64
Change in defined benefit obligation from a decrease of 0.25 percentage points in:		
Discount rate (gross of tax)	88	89
Future salary growth	(17)	(18)
Future pension growth	(61)	(61)
Change in defined benefit obligation from an increase in life expectancy of one year	45	64

Asset distribution

The distribution of RB Super's assets used to fund members' defined benefits at 30 June is:

	Per cent of fund assets	
	2020	**2019**
Cash and short-term securities	2	2
Fixed interest and indexed securities	8	8
Australian equities	30	32
International equities	26	24
Property	10	11
Private equity	9	8
Infrastructure	10	11
Alternative strategies	5	4
Total	100	100

AASB 119 Reconciliation

The table below contains a reconciliation of the AASB 119 valuation of RB Super. These details are for the defined benefit component only, as the RBA faces no actuarial risk on defined contribution balances and these balances have no effect on the measurement of the financial position of RB Super.

	2020 $M	2019 $M
Opening balances:		
Net market value of assets	1,376	1,270
Accrued benefits	(1,552)	(1,212)
Opening superannuation asset/(liability)	(177)	57
Change in net market value of assets	(51)	106
Change in accrued benefits	(20)	(340)
Change in superannuation asset/(liability)	(70)	(234)
Closing balances:		
Net market value of assets	1,325	1,376
Accrued benefits	(1,572)	(1,552)
Closing superannuation asset/(liability)	(247)	(177)
Interest income	46	55
Benefit payments	(46)	(50)
Return on plan assets	(70)	80
Contributions from RBA to defined benefit schemes	19	21
Change in net market value of assets	(51)	106
Current service cost	(49)	(39)
Interest cost	(53)	(54)
Benefit payments	46	50
Gains/(losses) from change in demographic assumptions	–	–
Gains/(losses) from change in financial assumptions	64	(312)
Gains/(losses) from change in other assumptions	(28)	15
Change in accrued benefits	(20)	(340)
Current service cost	(49)	(39)
Net Interest (expense)/income	(6)	1
Productivity and superannuation guarantee contributions	(10)	(9)
Superannuation (expense)/income included in profit or loss	(66)	(47)
Actuarial remeasurement gain/(loss)	(34)	(217)
Superannuation (expense)/income included in Statement of Comprehensive Income	(100)	(264)

The components of this table may not add due to rounding.

Note 15 – Financial Instruments and Risk

As the central bank in Australia, the RBA is responsible for implementing monetary policy, facilitating the smooth functioning of the payments system and managing Australia's foreign reserve assets. Consequently, the RBA holds a range of financial assets, including government securities, repurchase agreements and foreign currency swaps. As to financial liabilities, the RBA issues Australia's banknotes and takes deposits from its customers, mainly the Australian Government, and eligible financial institutions. The RBA also provides banking services to its customers and operates Australia's high-value payments and interbank settlement systems.

Financial Risk

The RBA is exposed to a range of financial risks that reflect its policy and operational responsibilities. These risks include market risk, credit risk and liquidity risk. The chapters on 'Operations in Financial Markets' and 'Risk Management' provide information on the RBA's management of these financial risks. The RBA's approach to managing financial risk is set out in the Risk Appetite Statement available on the RBA website.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. In the RBA's case, market risk comprises foreign exchange risk and interest rate risk.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or cash flows of the RBA's foreign currency assets and liabilities will fluctuate because of movements in exchange rates. The RBA's net foreign currency exposure as at 30 June 2020 was $55.7 billion ($55.6 billion as at 30 June 2019). An appreciation in the Australian dollar would therefore result in valuation losses, while a depreciation would lead to valuation gains. The overall level of foreign currency exposure is determined by policy considerations. Foreign currency risk can be mitigated to a limited extent by holding assets across a diversified portfolio of currencies. The RBA holds foreign reserves in seven currencies – the US dollar, euro, Japanese yen, Canadian dollar, Chinese renminbi, UK pound sterling and South Korean won.

The RBA also undertakes foreign currency swaps to assist its daily domestic liquidity management and to manage foreign reserve assets. These instruments carry no foreign exchange risk.

Concentration of foreign exchange

The RBA's net holdings of foreign exchange (excluding Special Drawing Rights and Asian Bond Fund 2) were distributed as follows as at 30 June:

	Per cent of foreign exchange	
	2020	**2019**
US dollar	55	55
Euro	20	20
Japanese yen	5	5
Canadian dollar	5	5
Chinese renminbi	5	5
UK pound sterling	5	5
South Korean won	5	5
Total foreign exchange	100	100

Sensitivity to foreign exchange risk

The sensitivity of the RBA's profit and equity to a movement of +/–10 per cent in the value of the Australian dollar exchange rate as at 30 June is shown below. These figures are generally reflective of the RBA's exposure over the financial year.

	2020 $M	2019 $M
Change in profit/equity due to a 10 per cent:		
appreciation in the reserves-weighted value of the A$	(5,066)	(5,057)
depreciation in the reserves-weighted value of the A$	6,192	6,180

Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of financial instruments will fluctuate because of movements in market interest rates. The RBA faces interest rate risk because most of its assets are financial assets that have a fixed income stream, such as Australian dollar and foreign currency securities. The price of such securities rises when market interest rates decline, and it falls if market rates rise. Interest rate risk increases with the maturity of a security. Interest rate risk on foreign assets is controlled through limits on the duration of these portfolios.

Sensitivity to interest rate risk

The figures below show the effect on the RBA's profit and equity of a movement of +/–1 percentage point in interest rates, given the level, composition and modified duration of the RBA's foreign currency and Australian dollar securities as at 30 June. In March 2020, the RBA announced a package of policy measures in response to COVID-19, including a target for the yield on 3-year Australian Government bonds of around 0.25 per cent, with purchases of Australian government and semi-government bonds across the yield curve to help achieve this target and address dislocations in government bond markets. The significant increase in interest rate risk on Australian dollar securities is due to these purchases, which have increased the amount and average duration of the RBA's holdings at 30 June 2020.

	2020 $M	2019 $M
Change in profit/equity due to movements of +/–1 percentage point across yield curves:		
Foreign currency securities	–/+321	–/+294
Australian dollar securities	–/+3,135	–/+120

Liquidity risk

Liquidity risk is the risk that the RBA will not have the resources required at a particular time to meet its obligations to settle its financial liabilities. As the ultimate source of liquidity in Australian dollars, the RBA can create liquidity in unlimited amounts in Australian dollars at any time. A small component of the RBA's liabilities is in foreign currencies, namely foreign repurchase agreements.

Liquidity risk may also be associated with the RBA, in extraordinary circumstances, being forced to sell a financial asset at a price less than its fair value. The RBA manages this risk by holding a diversified portfolio of highly liquid Australian dollar and foreign currency assets.

The analysis of portfolio maturity in the table that follows is based on the RBA's contracted portfolio as reported in the RBA's Statement of Financial Position. All financial instruments are shown at their remaining term to maturity, which is equivalent to the repricing period. Other liabilities include amounts outstanding under repurchase agreements and obligations to repurchase gold sold under gold swap agreements. Foreign currency swaps reflect the gross contracted amount of the RBA's outstanding foreign currency swap positions.

Maturity Analysis – as at 30 June 2020

	Balance sheet total $M	Contracted maturity $M					No specified maturity $M	Weighted average effective rate (%)
		On demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Assets								
Cash and cash equivalents	516	38	477	–	–	–	1	0.09
Australian dollar investments								
Securities sold under repurchase agreements	22	–	–	11	11	–	–	0.27
Securities purchased under repurchase agreements	138,626	–	81,367	15,326	13,922	–	28,011	0.23
Other securities	72,793	–	215	15,643	22,042	34,893	–	0.52
Accrued interest	473	–	178	292	3	–	–	na
	211,914							
Foreign currency investments								
Balance with central banks	16,046	15,245	801	–	–	–	–	(0.01)
Securities sold under repurchase agreements	–	–	–	–	–	–	–	na
Securities purchased under repurchase agreements	3,509	–	3,509	–	–	–	–	(0.01)
Other securities	38,197	–	13,984	10,858	6,133	111	7,111	0.16
Deposits	319	–	319	–	–	–	–	1.69
Cash collateral provided	49	–	49	–	–	–	–	0.14
Accrued interest	80	–	62	18	–	–	–	na
	58,200							
Gold								
Gold holdings on loan	1,096	–	590	506	–	–	–	0.12
Gold holdings	5,519	–	–	–	–	–	5,519	na
	6,615							
Property, plant & equipment	729	–	–	–	–	–	729	na
Other assets	697	–	25	9	4	1	658	na
Total assets	278,671	15,283	101,576	42,663	42,115	35,005	42,029	0.27
Liabilities								
Deposits	153,541	82,032	71,509	–	–	–	–	0.18
Distribution payable to the Commonwealth	2,567	–	2,567	–	–	–	–	na
Cash collateral received	27	–	27	–	–	–	–	0.14
Australian banknotes on issue	90,102	–	–	–	–	–	90,102	–
Other liabilities	2,102	–	1,651	1	10	12	428	(0.05)
Total liabilities	248,339	82,032	75,754	1	10	12	90,530	0.11
Capital and reserves	30,332							
Total balance sheet	278,671							
Swaps								
Australian dollars								
Contractual outflow	(107)	–	(107)	–	–	–	–	
Contractual inflow	988	–	988	–	–	–	–	
	881	–	881	–	–	–	–	
Foreign currency								
Contractual outflow	(20,844)	–	(20,844)	–	–	–	–	
Contractual inflow	19,963	–	19,963	–	–	–	–	
	(881)	–	(881)	–	–	–	–	

Maturity Analysis – as at 30 June 2019

	Balance sheet total $M	Contracted maturity $M					No specified maturity $M	Weighted average effective rate (%)
		On demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Assets								
Cash and cash equivalents	1,251	41	1,209	–	–	–	1	0.99
Australian dollar investments								
Securities sold under repurchase agreements	11	–	–	–	11	–	–	1.19
Securities purchased under repurchase agreements	88,345	–	57,147	3,903	–	–	27,295	1.43
Other securities	9,311	–	37	7,411	893	970	–	1.11
Accrued interest	183	–	127	56	–	–	–	na
	97,850							
Foreign currency investments								
Balance with central banks	25,059	24,274	785	–	–	–	–	0.02
Securities sold under repurchase agreements	339	–	–	339	–	–	–	2.10
Securities purchased under repurchase agreements	2,101	–	2,101	–	–	–	–	1.81
Other securities	43,734	–	20,879	9,870	5,816	291	6,878	0.74
Deposits	3,853	–	3,851	–	–	–	2	0.26
Cash collateral provided	1,040	–	1,040	–	–	–	–	1.25
Accrued interest	78	–	53	25	–	–	–	na
	76,204							
Gold								
Gold holdings on loan	719	–	260	459	–	–	–	0.15
Gold holdings	4,440	–	–	–	–	–	4,440	na
	5,159							
Property, plant & equipment	697	–	–	–	–	–	697	na
Other assets	647	–	31	13	–	1	602	na
Total assets	181,808	24,315	87,520	22,076	6,720	1,262	39,915	0.98
Liabilities								
Deposits	68,654	36,834	31,820	–	–	–	–	1.26
Distribution payable to the Commonwealth	1,685	–	1,685	–	–	–	–	na
Cash collateral received	–	–	–	–	–	–	–	na
Australian banknotes on issue	80,024	–	–	–	–	–	80,024	0.06
Other liabilities	2,533	–	2,174	–	–	–	359	0.33
Total liabilities	152,896	36,834	35,679	–	–	–	80,383	0.60
Capital and reserves	28,912							
Total balance sheet	181,808							
Swaps								
Australian dollars								
Contractual outflow	(337)	–	(337)	–	–	–	–	
Contractual inflow	17,828	–	17,828	–	–	–	–	
	17,491	–	17,491	–	–	–	–	
Foreign currency								
Contractual outflow	(41,910)	–	(39,813)	(2,097)	–	–	–	
Contractual inflow	24,419	–	22,322	2,097	–	–	–	
	(17,491)	–	(17,491)	–	–	–	–	

Credit risk

Credit risk is the potential for financial loss arising from an issuer or counterparty defaulting on its obligations to repay principal, make interest payments due on an asset, or settle a transaction. The RBA's credit exposure is managed within a framework designed to contain risk to a level consistent with its very low appetite for such risk. In particular, credit risk is controlled by holding securities issued by a limited number of highly rated governments, government-guaranteed agencies and supranational organisations and holding high-quality collateral under reverse repurchase agreements.

The RBA held no past due or impaired assets at 30 June 2020 or 30 June 2019.

The RBA's maximum exposure to credit risk for each class of recognised financial assets, other than derivatives, is the carrying amount of those assets as indicated in the balance sheet.

The RBA's maximum credit risk exposure to derivative financial instruments is:

1. ***Foreign exchange swaps*** – As at 30 June 2020, the RBA was under contract to purchase $20.0 billion of foreign currency ($24.4 billion at 30 June 2019) and sell $20.8 billion of foreign currency ($41.9 billion at 30 June 2019). As of that date there was a net unrealised gain of $0.1 billion on these swap positions included in net profit ($0.5 billion unrealised loss at 30 June 2019).

   The RBA has a credit exposure from foreign exchange swaps because of the risk that a counterparty might fail to deliver the second leg of a swap, a sum that would then have to be replaced in the market, potentially at a loss. To manage credit risk on both foreign exchange swaps (excluding swaps with the Fed under the US dollar swap facility) and gold swaps (see *Gold exchanged under gold swap agreements below*), the RBA exchanges collateral with counterparties under terms specified in credit support annexes (CSAs), which cover the potential cost of replacing the swap position in the market if a counterparty fails to deliver. The RBA's CSAs specify that only Australian dollar cash is eligible as collateral. Under CSAs, either party to the agreement may be obliged to deliver collateral with interest paid or received on a monthly basis. At 30 June 2020, the RBA provided less than $0.1 billion of collateral ($1.0 billion of collateral was provided at 30 June 2019).

2. ***Bond Futures*** – As at 30 June 2020, the amount of credit risk on margin accounts associated with bond futures contracts held by the RBA was approximately $2.4 million ($2.2 million at 30 June 2019). As at 30 June 2020, there was an unrealised gain of $1.1 million brought to account on those contracts ($1.6 million unrealised gain at 30 June 2019).

Assessment of expected credit loss under AASB 9

The RBA assesses its financial assets carried at amortised cost, mainly its reverse repurchase agreements, gold swaps and foreign currency-denominated balances held with other central banks, for any deterioration in credit quality which could result in losses being recorded. The RBA's assessment is done on an individual exposure basis and takes account of the counterparties with which balances are held; the collateral, if any, it holds against exposures and the terms upon which collateral is margined; and the remaining terms to maturity of such exposures. Based on the assessment at 30 June 2020, the provision for expected credit losses was immaterial.

Collateral held under reverse repurchase agreements

Cash invested under reverse repurchase agreements in overseas markets is secured against government securities or securities issued by US agencies; the RBA takes and maintains collateral to the value of 102 per cent of the cash invested.

Cash invested under Australian dollar reverse repurchase agreements is secured by securities issued by Australian governments, supranational organisations, banks and various corporate and asset-backed securities. The RBA holds collateral equivalent to the amount invested plus a margin according to the risk profile of the collateral held. If the current value of collateral falls by more than a predetermined amount, the counterparty is required to provide additional collateral to restore this margin; the thresholds are specified in the legal agreement which governs these transactions. The management of collateral and cash associated with tri-party repurchase agreements is conducted through a third party, in this case the Australian Securities Exchange. The terms and requirements of tri-party repurchase agreements are broadly consistent with bilateral agreements and the RBA manages the risk in a similar way. The RBA does not sell or re-pledge securities held as collateral under reverse repurchase agreements.

US dollars borrowed by the RBA under the US dollar swap facility with the Fed (see Note 1) and made available to local market participants under repurchase agreements with the RBA, are collateralised by Australian dollar securities. The margin ratios of eligible securities are set 10 percentage points higher than the ratios used in the RBA's regular open market operations.

Collateral provided under repurchase agreements

At 30 June 2020, the carrying amount of securities sold and contracted for purchase under repurchase agreements was $22 million ($350 million at 30 June 2019). Terms and conditions of repurchase agreements are consistent with those for reverse repurchase agreements disclosed above.

Gold exchanged under gold swap agreements

Credit exposure from gold swaps is managed under CSAs the RBA has established with its swap counterparties, which cover both gold swaps and foreign exchange swaps. Australian dollar cash collateral is exchanged to cover the potential cost of replacing swap positions in the market if a counterparty fails to meet their obligations. The potential cost is assessed as the net costs of replacing all outstanding swap positions covered by the CSA.

As at 30 June 2020, the carrying amount of gold sold and contracted for purchase under gold swap agreements was $0.9 billion (nil at 30 June 2019). There was no gold purchased and contracted for sale under gold swap agreements at 30 June 2020 or 30 June 2019.

Concentration of credit risk

As noted, the RBA operates to minimise its credit risk exposure through comprehensive risk management policy guidelines. The following table indicates the concentration of credit risk in the RBA's investment portfolio at 30 June.

	Risk rating of security/issuer[(a)]	Risk rating of counterparties[(a)]	Per cent of investments 2020	2019
Australian dollar investments				
Holdings of Australian Government Securities	Aaa	na	21.2	3.8
Holdings of semi-government securities	Aaa	na	2.2	0.5
	Aa	na	2.8	0.9
Securities purchased under reverse repurchase agreements	Aaa	Aaa	0.2	0.2
	Aaa	Aa	24.0	27.1
	Aaa	A	9.9	8.1
	Aaa	Baa	1.2	0.9
	Aaa	Other[(b)]	2.2	2.7
	Aa	Aaa	0.2	0.1
	Aa	Aa	5.4	4.3
	Aa	A	3.1	2.7
	Aa	Baa	0.2	0.1
	Aa	Other[(b)]	0.1	0.2
	A	Aa	0.9	0.9
	A	A	2.0	1.1
	A	Baa	0.2	0.1
	Baa	Aa	0.1	0.1
	Baa	A	0.1	–
	Baa	Baa	0.1	–
Foreign investments				
Holdings of securities	Aaa	na	6.5	9.1
	Aa	na	4.3	4.0
	A	na	2.8	10.9
Securities sold under repurchase agreements	Aaa	A	–	0.2
Securities purchased under reverse repurchase agreements	Aaa	Aa	1.0	0.7
	Aaa	A	–	0.5
	Aa	A	0.3	–
Deposits	na	Aaa	0.4	2.6
	na	Aa	0.1	0.1
	na	A	5.4	13.2
Other	Aaa	Aa	0.1	–
	na	Aa	–	0.5
	na	A	–	0.2
Other assets			3.0	4.2
			100.0	100.0

(a) Average of the credit ratings of the three major rating agencies, where available
(b) This category includes counterparties which are not rated

Note 16 – Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date. This is the quoted market price if one is available. The RBA's financial assets measured at fair value include its holdings of Australian dollar securities, foreign government securities, bond futures, foreign currency swap contracts and its shareholding in the BIS. Non-financial assets carried on the balance sheet at fair value include the RBA's property and gold holdings. Other than derivatives, there are no financial liabilities measured at fair value.

AASB 13 requires financial and non-financial assets and liabilities measured at fair value to be disclosed according to their position in the fair value hierarchy. This hierarchy has three levels: valuation for Level 1 assets is based on quoted prices in active markets for identical assets; for Level 2 assets, valuation is based on quoted prices or other observable market data not included in Level 1; Level 3 assets include inputs to valuation other than observable market data.

The table below presents the RBA's assets and liabilities measured and recognised at fair value and their classification within the fair value hierarchy at 30 June 2020.

	Fair Value			Amortised Cost	Total
	Level 1 $M	Level 2 $M	Level 3 $M	$M	$M
As at 30 June 2020					
Financial assets					
At fair value through profit or loss					
Australian dollar securities	72,880	368	–	na	73,248
Foreign government securities	32,263	5,664	–	na	37,927
Foreign currency swaps	–	204	–	na	204
At fair value through other comprehensive income					
Shares in international and other institutions	–	–	521	na	521
At amortised cost	na	na	na	159,273	159,273
	105,143	6,236	521	159,273	271,173
Non-financial assets					
Land and buildings	–	–	567	12	579
Gold holdings	6,614	–	–	na	6,614
Other	–	–	–	305	305
	6,614	–	567	317	7,498
Total assets	111,757	6,236	1,088	159,590	278,671
Financial liabilities					
At fair value through profit or loss					
Foreign currency swaps	3	60	–	na	63
Not at fair value through profit or loss	na	na	na	247,776	247,776
	3	60	–	247,776	247,839
Non-financial liabilities	na	na	na	500	500
Total liabilities	3	60	–	248,276	248,339

	Fair Value			Amortised Cost	Total
	Level 1 $M	Level 2 $M	Level 3 $M	$M	$M
As at 30 June 2019					
Financial assets					
At fair value through profit or loss					
Australian dollar securities	9,347	52	–	na	9,399
Foreign government securities	39,102	4,828	–	na	43,930
Foreign currency swaps	3	112	–	na	115
At fair value through other comprehensive income					
Shares in international and other institutions	–	–	476	na	476
At amortised cost	na	na	na	121,900	121,900
	48,452	4,992	476	121,900	175,820
Non-financial assets					
Land and buildings	–	–	540	na	540
Gold holdings	5,159	–	–	na	5,159
Other	–	–	–	289	289
	5,159	–	540	289	5,988
Total assets	53,611	4,992	1,016	122,189	181,808
Financial liabilities					
At fair value through profit or loss					
Foreign currency swaps	115	477	–	na	592
Not at fair value through profit or loss	na	na	na	151,898	151,898
	115	477	–	151,898	152,490
Non-financial liabilities	na	na	na	406	406
Total liabilities	115	477	–	152,304	152,896

The RBA's Level 2 financial instruments include foreign currency swaps priced with reference to an active market yield or rate, but which have been interpolated to reflect maturity dates. Prices for some Australian dollar and foreign currency-denominated securities are derived from markets that are not considered active.

Level 3 assets include the RBA's shareholding in the BIS and its property (excluding leased property which is recorded at amortised cost). The shareholding in the BIS is valued using the net asset value, as published in annual financial statements of the BIS, less a discount of 30 per cent. The discount applied is based on a Hague Arbitral Tribunal decision on compensation paid to former private shareholders in 2002, which remains the latest repurchase conducted by the BIS. Fair values of the RBA's property incorporate factors such as net market income and capitalisation rates, for property valued using an income capitalisation or a discounted cash flow approach, and depreciation rates for property valued using a depreciable replacement cost methodology.

There were no transfers between levels within the fair value hierarchy during the financial year. Movements in the fair value of the RBA's property during the financial year are detailed in Note 8. Fair value changes in the RBA's shareholdings in international and other institutions solely reflect valuation movements recognised in Other Comprehensive Income.

Note 17 – Subsequent Events

There are no events subsequent to 30 June 2020 to be disclosed.

Auditor-General for Australia

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Treasurer

Opinion

In my opinion, the financial statements of the Reserve Bank of Australia and its subsidiary (together the Consolidated Entity) for the year ended 30 June 2020:

(a) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and

(b) present fairly the financial position of the Consolidated Entity as at 30 June 2020 and its financial performance and cash flows for the year then ended.

The financial statements of the Consolidated Entity, which I have audited, comprise the following as at 30 June 2020 and for the year then ended:

- Statement of Assurance;
- Statement of Financial Position;
- Statement of Comprehensive Income;
- Statement of Distribution;
- Statement of Changes in Capital and Reserves;
- Cash Flow Statement; and
- Notes to and Forming Part of the financial statements comprising a summary of significant accounting policies and other explanatory information.

Basis for opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Consolidated Entity in accordance with the relevant ethical requirements for financial statement audits conducted by me. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

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Key audit matter	How the audit addressed the matter

Accuracy of the liability for the Australian Banknotes
Refer to note 1 'Accounting Policies'
The balance of Australian banknotes on issue represents the value of all banknotes on issue and the liability ($90,102m as at 30 June 2020) is measured at the face value of all Australian banknotes issued less any banknotes withdrawn from circulation.
Australian banknotes on issue relates directly to one of the Reserve Bank of Australia's key roles, the issuance of currency, as defined in the Reserve Bank Act 1959 and is a key audit matter due to:
• high interest to the users of the financial statements;
• the balance is significant relative to the Reserve Bank of Australia's Statement of Financial Position; and
• the accuracy of the liability for Australian banknotes on issue is dependent on the assumption that all Australian banknotes on issue retain their legal tender status. The audit of this assumption requires significant auditor judgement.
	To audit the Australian banknotes on issue, I performed the following audit procedures:
	• tested design and operating effectiveness of key controls relevant to the accurate recording of the issuance and return of banknotes, including information technology general controls (ITGCs) over the Note Control System;
	• agreed the liability for Australian banknotes on issue recorded in the financial statements to the balance recorded in the Note Control System as at 30 June 2020;
	• agreed the opening balance of bank notes on issue to prior year's closing balance;
	• tested a sample of transactions of issuance and return of banknote during the year and transactions occurring after the reporting period using the following procedures:
	  ◦ obtained the amounts recorded in the general ledger and compared against transactional records in the Note Control System and cash movements;
	  ◦ checked that transactions in the Note Control System were appropriately authorised; and
	  ◦ checked that the transaction was recorded in the correct reporting period.

Key audit matter	How the audit addressed the matter
Valuation of Australian dollar and foreign currency investments *Refer to note 1 'Accounting Policies' and note 15 'Financial Instruments and Risk'* Valuation of Australian dollar and foreign currency investments was a key audit matter due to their significant size relative to the Reserve Bank of Australia's statement of financial position ($270,114m as at 30 June 2020) and the complexity inherent in auditing a wide range of investments which use different valuation methodologies. The portfolio of investments primarily comprises Australian dollar securities, foreign currency securities, repurchase agreements, deposits with other central banks, and foreign currency swap contracts. All investments are measured at fair value except for reverse repurchase agreements and deposits which are measured at amortised cost.	To audit the valuation of Australian dollar and foreign currency investments, I performed the following audit procedures: • tested design and operating effectiveness of key relevant controls over the accurate recording of the purchase and sale of investments, including ITGCs on the Reserve Bank of Australia's investment trading system; • tested design and operating effectiveness of key controls relevant to the ongoing monitoring of the collateralisation of repurchase agreements, including those established as part of the Term Funding Facility; and • tested year end valuations of Australian dollar and foreign currency securities using the following procedures: ◦ checked all year end valuations of Australian dollar and foreign government securities and foreign currency swaps against independent

	pricing sources; • tested the year-end valuations of all foreign currency swaps using independent publicly available information; • checked whether all reverse repurchase agreements were appropriately collateralised in line with the Reserve Bank of Australia's policy. As part of this, for a sample of securities held as collateral I agreed valuations to independent pricing sources; and • requested and obtained independent confirmation from other central banks regarding the value of deposits held with them.

Other information

The Accountable Authority is responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020 but does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and accordingly I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Accountable Authority's responsibility for the financial statements

As the Accountable Authority of the Consolidated Entity, the Governor is responsible under the *Public Governance, Performance and Accountability Act 2013* (the Act) for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards and the rules made under the Act. The Governor is also responsible for such internal control as the Governor determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Governor is responsible for assessing the ability of the Consolidated Entity to continue as a going concern, taking into account whether the entity's operations will cease as a result of an administrative restructure or for any other reason. The Governor is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

Auditor's responsibilities for the audit of the financial statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Consolidated Entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;
- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Consolidated Entity to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated Entity to express an opinion on the financial report. I am responsible for the direction, supervision and performance of the Consolidated Entity audit. I remain solely responsible for my audit opinion.

I communicate with the Accountable Authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

From the matters communicated with the Accountable Authority, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Australian National Audit Office

Grant Hehir

Auditor-General

Canberra

4 September 2020

Part 5:

Indexes

‘I would also like to extend our deep gratitude to all those who have worked so tirelessly to control the fires.’

Governor Philip Lowe, *Address to the National Press Club*, February 2020

Statutory Reporting Requirements Index

The Reserve Bank Annual Report 2020 complies with the reporting requirements of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), rules made under the PGPA Act and other applicable legislation.

To assist readers locate this information, the index of statutory reporting requirements identifies where relevant information can be found in this annual report.

PGPA Rule Reference	Part of Report, page number	Description	Requirement
17BE	**Contents of annual report**		
17BE(a)	Governance and Accountability, 9	Details of the legislation establishing the body	Mandatory
17BE(b)(i)	Our Role, 5–8	A summary of the objects and functions of the entity as set out in legislation	Mandatory
17BE(b)(ii)	Annual Performance Statement for 2019/20, 43–62	The purposes of the entity as included in the entity's corporate plan for the reporting period	Mandatory
17BE(c)	Governance and Accountability, 15	The names of the persons holding the position of responsible Minister or responsible Ministers during the reporting period, and the titles of those responsible Ministers	Mandatory
17BE(d)	Governance and Accountability, 18	Directions given to the entity by the Minister under an Act or instrument during the reporting period	If applicable, mandatory
17BE(e)	Governance and Accountability, 18	Any government policy order that applied in relation to the entity during the reporting period under section 22 of the Act	If applicable, mandatory
17BE(f)	Not applicable	Particulars of non-compliance with: (a) a direction given to the entity by the Minister under an Act or instrument during the reporting period; or (b) a government policy order that applied in relation to the entity during the reporting period under section 22 of the Act	If applicable, mandatory
17BE(g)	Annual Performance Statement for 2019/20, 43–62	Annual performance statements in accordance with paragraph 39(1)(b) of the Act and section 16F of the rule	Mandatory

PGPA Rule Reference	Part of Report, page number	Description	Requirement
17BE(h), 17BE(i)	Governance and Accountability, 18	A statement of significant issues reported to the Minister under paragraph 19(1)(e) of the Act that relates to non-compliance with finance law and action taken to remedy non-compliance	If applicable, mandatory
17BE(j)	Reserve Bank Board, 19–20	Information on the accountable authority, or each member of the accountable authority, of the entity during the reporting period	Mandatory
17BE(k)	Operational Structure, 32–39	Outline of the organisational structure of the entity (including any subsidiaries of the entity)	Mandatory
17BE(ka)	Our People, 141	Statistics on the entity's employees on an ongoing and non-ongoing basis, including the following: (a) statistics on full-time employees (b) statistics on part-time employees (c) statistics on gender (d) statistics on staff location	Mandatory
17BE(l)	Management of the Reserve Bank, 137	Outline of the location (whether or not in Australia) of major activities or facilities of the entity	Mandatory
17BE(m)	Governance and Accountability, 9–15	Information relating to the main corporate governance practices used by the entity during the reporting period	Mandatory
17BE(n), 17BE(o)	Governance and Accountability, 18	For transactions with a related Commonwealth entity or related company where the value of the transaction, or if there is more than one transaction, the aggregate of those transactions, is more than $10,000 (inclusive of GST): (a) the decision-making process undertaken by the accountable authority to approve the entity paying for a good or service from, or providing a grant to, the related Commonwealth entity or related company (b) the value of the transaction, or if there is more than one transaction, the number of transactions and the aggregate of value of the transactions	If applicable, mandatory
17BE(p)	Governance and Accountability, 18	Any significant activities and changes that affected the operation or structure of the entity during the reporting period	If applicable, mandatory
17BE(q)	Governance and Accountability, 18	Particulars of judicial decisions or decisions of administrative tribunals that may have a significant effect on the operations of the entity	If applicable, mandatory

PGPA Rule Reference	Part of Report, page number	Description	Requirement
17BE(r)	Governance and Accountability, 16–17	Particulars of any reports on the entity given by: (a) the Auditor-General (other than a report under section 43 of the Act); or (b) a Parliamentary Committee; or (c) the Commonwealth Ombudsman; or (d) the Office of the Australian Information Commissioner	If applicable, mandatory
17BE(s)	Not applicable	An explanation of information not obtained from a subsidiary of the entity and the effect of not having the information on the annual report	If applicable, mandatory
17BE(t)	Governance and Accountability, 15	Details of any indemnity that applied during the reporting period to the accountable authority, any member of the accountable authority or officer of the entity against a liability (including premiums paid, or agreed to be paid, for insurance against the authority, member or officer's liability for legal costs)	If applicable, mandatory
17BE(taa)	Governance and Accountability, 12–14	The following information about the audit committee for the entity: (a) a direct electronic address of the charter determining the functions of the audit committee (b) the name of each member of the audit committee (c) the qualifications, knowledge, skills or experience of each member of the audit committee (d) information about each member's attendance at meetings of the audit committee (e) the remuneration of each member of the audit committee	
17BE(ta)	Our People, 150–153	Information about executive remuneration	Mandatory
17BF	**Disclosure requirements for government business enterprises**		
17BF(1)(a)(i)	Not applicable	An assessment of significant changes in the entity's overall financial structure and financial conditions	If applicable, mandatory
17BF(1)(a)(ii)	Not applicable	An assessment of any events or risks that could cause financial information that is reported not to be indicative of future operations or financial conditions	If applicable, mandatory
17BF(1)(b)	Not applicable	Information on dividends paid or recommended	If applicable, mandatory
17BF(1)(c)	Not applicable	Details of any community service obligations the government business enterprise has including: (a) an outline of actions taken to fulfil those obligations (b) an assessment of the cost of fulfilling those obligations	If applicable, mandatory

PGPA Rule Reference	Part of Report, page number	Description	Requirement
17BF(2)	Not applicable	A statement regarding the exclusion of information on the grounds that the information is commercially sensitive and would be likely to result in unreasonable commercial prejudice to the government business enterprise	If applicable, mandatory

Legislative Reference	Part of Report, page number	Description	Requirement
Public Governance, Performance and Accountability Act 2013			
43(4)	Financial Statements 169–210	Annual Financial Statements and Auditor-General's report	Mandatory
***Work Health and Safety Act 2011* Schedule 2 Part 4**			
4(2)(a)	Our People, 147–148	Health, safety and welfare initiatives	Mandatory
4(2)(b)	Our People, 147–148	Health and safety outcomes	Mandatory
4(2)(c)	Our People, 147–148	Statistics of notifiable incidents	Mandatory
4(2)(d)	Our People, 147–148	Investigations conducted	Mandatory
Environment Protection and Biodiversity Conservation Act 1999			
516A(6)(a)	Management of the Reserve Bank, 138	Report on implementation of ecologically sustainable development principles	Mandatory
516A(6)(b)	Not applicable	Identify how any outcomes specified for the Reserve Bank in an Appropriations Act contribute to ecologically sustainable development	Mandatory
516A(6)(c)	Management of the Reserve Bank, 138	Effect of the Reserve Bank's activities on the environment	Mandatory
516A(6)(d)	Management of the Reserve Bank, 138	Measures to minimise the impact of the Reserve Bank's activities	Mandatory
516A(6)(e)	Management of the Reserve Bank, 138	Mechanisms for reviewing/increasing effectiveness of measures	Mandatory
Equal Employment Opportunity (Commonwealth Authorities) Act 1987			
9	Our People, 140–153	Report on development and implementation of program	Mandatory

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Abbreviations

A glossary of relevant terms is available on the Reserve Bank website.[1]

24/7	24 hours per day, 7 days per week
AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
ABF2	Asian Bond Fund 2
ABN	Australian Business Number
AC	Companion of the Order of Australia
ACCC	Australian Competition and Consumer Commission
ACT	Australian Capital Territory
ADI	authorised deposit-taking institution
AFP	Australian Federal Police
AFSL	Australian Financial Services Licence
AFXC	Australian Foreign Exchange Committee
AGS	Australian Government Securities
AM	Member of the Order of Australia
ANAO	Australian National Audit Office
ANU	Australian National University
AO	Officer of the Order of Australia
AOFM	Australian Office of Financial Management
APC	Australian Payments Council
APEC	Asia-Pacific Economic Cooperation
API	Application Programming Interface
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ASXFS	ASX Financial Settlements
ATM	automated teller machine
ATO	Australian Taxation Office
AusPayNet	Australian Payments Network
BA	Bachelor of Arts
BCBS	Basel Committee on Banking Supervision (of the BIS)
BIS	Bank for International Settlements
BPA	bulk purchase annuity
BRS	Business Resumption Site
CAC Act	*Commonwealth Authorities and Companies Act 1997* (repealed)
CCPs	central counterparties
CEDA	Committee for Economic Development of Australia
CEPAR	Australian Research Council Centre of Excellence in Population Ageing Research
CFR	Council of Financial Regulators
CHESS	Clearing House Electronic Sub-register System
CLF	Committed Liquidity Facility
CME	Chicago Mercantile Exchange Inc.
COVID-19	Coronavirus disease
CPMI	Committee on Payments and Market Infrastructures (of the BIS)
CPRs	Commonwealth Procurement Rules
CS	clearing and settlement
CSA	credit support annex
EAP	Employee Assistance Program
EDO	Enterprise Data Office
EFS	Economic and Financial Statistics
EMEAP	Executives' Meeting of East Asia-Pacific Central Banks
eftpos	electronic funds transfer at point of sale
ERG	Employee Resource Group

1 See <https://www.rba.gov.au/glossary/>.

ES	Exchange Settlement
ESA	Exchange Settlement Account
ESP	Economic Support Payments
FINMA	Swiss Financial Market Supervisory Authority
FMI	financial market infrastructure
FOI	Freedom of Information
FOI Act	*Freedom of Information Act 1982*
FSAP	Financial Sector Assessment Program (of the IMF)
FSB	Financial Stability Board
FSS	Fast Settlement Service (of RITS)
FTE	full-time equivalent
FX	foreign exchange
G20	Group of Twenty
G-SIB	global systemically important bank
GDP	gross domestic product
GFC	Global Financial Crisis
GFXC	Global Foreign Exchange Committee
GST	Goods and Services Tax
HQLA	high-quality liquid assets
IAT	Incident Assessment Team
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IPS	Information Publication Scheme
ISDA	International Swaps and Derivatives Association
ISO	International Organization for Standardisation
IT	information technology
KRW	Korean won
LCR	Liquidity Coverage Ratio
LED	light emitting diode
LGBTI	lesbian, gay, bisexual, transgender and intersex
LIBOR	London Inter-Bank Offered Rate
LLB	Bachelor of Laws
LVSS	RITS Low Value Settlement Service
MBA	Master of Business Administration
MFSC	Monetary and Financial Stability Committee (of EMEAP)
MIT	Massachusetts Institute of Technology
MP	member of parliament
NAB	National Australia Bank
NABERS	National Australian Built Environment Ratings System
NAIDOC	National Aborigines and Islanders Day Observance Committee
NBS	National Banknote Site
NGFS	Network for Greening the Financial System
NPA	Note Printing Australia Limited
NPP	New Payments Platform
NPPA	NPP Australia Limited
NSW	New South Wales
OECD	Organisation for Economic Co-operation and Development
OAM	Medal of the Order of Australia
OMO	open market operations
PEXA	Property Exchange Australia Limited
PFMI	Principles for Financial Market Infrastructures
PGPA Act	*Public Governance, Performance and Accountability Act 2013*
PGPA Rule	*Public Governance, Performance and Accountability Rule 2014*
PhD	Doctor of Philosophy
Prospera	Australia Indonesia Partnership for Economic Development
PSM	Public Service Medal
RAP	Reconciliation Action Plan
RBA	Reserve Bank of Australia
RBRF	Reserve Bank Reserve Fund
RDP	Research Discussion Paper
repo	repurchase agreement
RITS	Reserve Bank Information and Transfer System
RMBS	residential mortgage-backed securities
RTGS	real-time gross settlement
R&D	research and development
SAR	Special Administrative Region (of China)
SDR	Special Drawing Right
SEACEN	South East Asian Central Banks

Semis	semi-government securities (Australian state and territory government securities)
TFF	Term Funding Facility
TTBC	Trans-Tasman Council on Banking Supervision
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UK	United Kingdom
UNSW	University of New South Wales
US	United States
WA	Western Australia
WHS	work health and safety
WHS Act	*Work Health and Safety Act 2011*
WPIT	Welfare Payment Infrastructure Transformation Program (of Services Australia)

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1 Freecall – not available to callers in Sydney. Excludes calls from mobile phones, which are charged at the applicable rate.