

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.

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.



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

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 Birkenleigh	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, Securrency 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

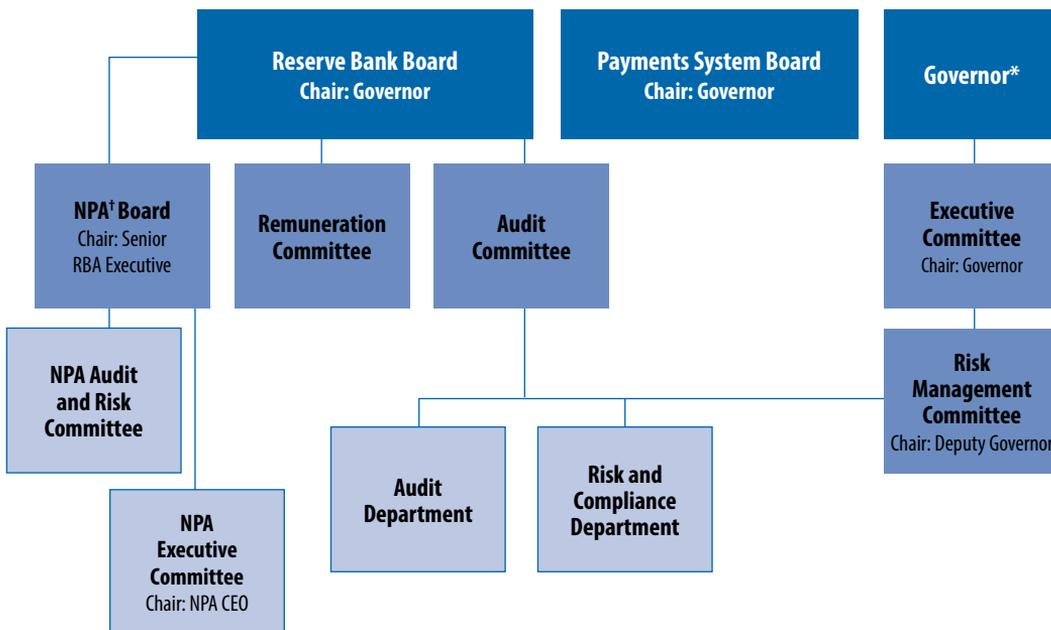
The Governor reports annually to the Board on the process of review and implementation of the key Reserve Bank policies that are determined and managed by the Governor. This report includes information on compliance arrangements. An annual report covering matters relating to work health and safety in 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.