

Reserve Bank of Australia Corporate Plan 2019/20

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Corporate Plan 2019/20



1. Introduction

This corporate plan is prepared for 2019/20 in accordance with section 35(1)(b) of the *Public Governance, Performance and Accountability Act 2013* and covers the reporting periods from 1 July 2019 to 30 June 2023.

The accountable authority of the Reserve Bank of Australia is the Governor.

This corporate plan outlines the key functions and purposes of the Bank and, in relation to each of those functions and purposes, sets out:

- the Bank's assessment of the relevant environment in which those functions and purposes will be carried out
- how the Bank plans to achieve the relevant purposes and how it will measure and assess its performance in the achievement of those purposes
- the key strategies and plans that the Bank proposes to implement with a view to achieving the relevant purposes.

The plan also outlines the Bank's approach to managing and overseeing the main risks it faces. A final section on organisational capacity highlights the important supporting capabilities that assist the Bank in achieving its various functions and purposes.

Reserve Bank of Australia – Summary Measures of Performance 2019/20–2022/23

Performance areas	Performance objectives	Performance measures 2019/20	Performance measures 2020/21–2022/23
Monetary policy	<p>Conduct monetary policy in a way that will best contribute to:</p> <ul style="list-style-type: none"> the stability of the currency the maintenance of full employment the economic prosperity and welfare of the people of Australia 	<p>Flexible medium-term inflation target to achieve consumer price inflation of between 2 and 3 per cent, on average, over time</p> <p>Foster sustainable growth in the economy</p>	As for 2019/20
Financial stability	Support overall financial stability	<p>A stable financial system that is able to support the economy</p> <p>Work with the Council of Financial Regulators (CFR) agencies to identify and appropriately address evolving systemic risks</p> <p>Assess and communicate risks to financial stability, including through the Bank's half-yearly <i>Financial Stability Review</i></p>	As for 2019/20
Financial Market operations	<p>Achieve cash rate target</p> <p>Manage reserves to portfolio benchmarks</p> <p>Intervene in foreign exchange market as appropriate</p>	<p>Overnight cash rate consistent with the target each business day</p> <p>Portfolio managed within small deviations around the asset and duration benchmarks</p> <p>Publish data and explanations of any interventions</p>	<p>As for 2019/20</p> <p>Reserves will continue to be managed to benchmarks, although these benchmarks will be subject to review from time to time</p> <p>As for 2019/20</p>

Performance areas	Performance objectives	Performance measures 2019/20	Performance measures 2020/21–2022/23
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	As for 2019/20
		Monitor the outcomes for consumers and businesses following past reviews of the regulatory framework for card payments	As for 2019/20
		Commence work on a comprehensive review of the regulatory framework for card payments, focusing on promoting competition and low-cost payments	Complete comprehensive review in 2020/21
		Work with industry on plan to modernise payment messaging standards	As for 2019/20
		Work with industry and the Australian Prudential Regulation Authority (APRA) to develop disclosure standards for operational performance	As for 2019/20
		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 (CS) facilities against relevant standards. Establish recommendations and regulatory priorities as appropriate for each high-value payment system and CS facility based on these assessments
		Monitor whether additional FMIs should be subject to supervision or oversight by the Bank	Annual review to determine whether additional FMIs should be supervised
		Develop proposals for enhancements to the FMI regulatory regime, including crisis management powers	As for 2019/20
		Contribute to international policy work on central counterparty resilience and FMI crisis management	As for 2019/20
		Adapt domestic regulatory standards in response to international developments. Support international supervisory cooperation	As for 2019/20
	RITS operational reliability	RITS availability at 99.95 per cent during core hours	As for 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	As for 2019/20
	RITS cyber security	Ongoing investment and regular reviews and testing to support cyber resilience	As for 2019/20

Performance areas	Performance objectives	Performance measures 2019/20	Performance measures 2020/21–2022/23
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	As for 2019/20
	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	As for 2019/20
	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: <ul style="list-style-type: none"> The replacement of the Bank's core account maintenance system using a modern programming language and architecture Continued development of banking services and systems including New Payments Platform (NPP) capabilities Delivery of open and secure integration services via Application Programming Interfaces (API) for agencies 	As for 2019/20, supported by: <ul style="list-style-type: none"> Imbedding and enhancing core account maintenance system functionality Ongoing development of new NPP services Developing and delivering additional services to agencies using API functionality
Banknotes	Maintain the capacity of Australian banknotes to provide a safe, secure and reliable means of payment and store of value, as follows:	Maintained or improved public perceptions of Australian banknotes as measured in the Reserve Bank survey	As for 2019/20
	<ul style="list-style-type: none"> Meet banknote demand 	More than 95 per cent of banknote orders from commercial banks fulfilled by the Reserve Bank within three days of request	As for 2019/20
	<ul style="list-style-type: none"> Increase security of Australian banknotes Ensure high-quality banknotes 	Issuance of new \$20 banknote with upgraded security features as part of Next Generation Banknote program Reserve Bank banknote production orders to be met by Note Printing Australia Limited within agreed quality parameters Maintain quality of banknotes in circulation above the minimum quality standard agreed with industry	Complete Next Generation Banknote program by 2021 As for 2019/20 As for 2019/20

2. Monetary Policy

2.1 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; and
- 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.

2.2 Environment

Global growth has remained reasonable over the past year, but the outlook has been clouded by intensifying trade and technology disputes. Consistent with this, policymakers in the United States and some other economies have eased monetary policy. Labour market conditions remain tight in the major advanced economies, however, with unemployment rates at multi-decade lows. Global interest rates and measures of financial market volatility both remain low compared with historical experience. The future path of global monetary policy and financial conditions more generally remain subject to substantial uncertainty. These global factors significantly influence the environment in which monetary policy in Australia is conducted.

In Australia, wages growth is low, reflecting spare capacity in the labour market as well as some structural factors. The unemployment rate is expected to remain around 5¼ per cent for a time, before declining to around 5 per cent in 2021. Wages growth is expected to remain stable and then increase modestly from 2020. Consumer price inflation is forecast to increase to be a little under 2 per cent over 2020 and a little above 2 per cent over 2021.

Over 2019/20 to 2022/23, the structure of the Australian economy will continue to evolve and economic shocks – which, by definition, are not forecastable – will occur. Movements in asset values and leverage may be more important for economic developments than in the past given the already high levels of debt on household balance sheets. Especially in the context of weak growth in household income, high debt levels could complicate future monetary policy decisions by making the economy less resilient to shocks.

2.3 Performance

The Reserve Bank will seek to ensure that monetary policy is set appropriately to produce consumer price inflation outcomes in Australia that are consistent with the inflation target and to foster sustainable economic growth and financial stability. Inflation outcomes for the period 2019/20 to 2022/23 will be measured by annual percentage changes in the consumer price index. Some variation of inflation from year to year is acceptable; the inflation target does not require that inflation is always between 2 and 3 per cent.

It is less straightforward to assess the extent to which the Reserve Bank succeeds in fostering sustainable growth in the economy, partly because the levels of output and unemployment that are consistent with stable inflation and maintaining financial stability risks at manageable levels cannot be directly observed and must be inferred from other data. Recent international experience has been that the level of unemployment consistent with stable wages growth and inflation could be lower than earlier estimates implied. Estimates of the corresponding level of unemployment in Australia have also declined. Over the short term, monetary policy can affect cyclical deviations of output and unemployment from their equilibrium levels but, over the long term, the Bank's contribution to sustainable growth will come mainly through achieving the inflation target and preserving financial stability. The assessment of financial stability is discussed in section 3.3.

Assessing the conduct of monetary policy will, as always, involve judging whether the policy decisions taken were prudent and consistent with the objectives of monetary policy, based on the information available at the time.

Over the period of this corporate plan, the Reserve Bank will continue to communicate its views on relevant economic developments, the economic outlook and monetary policy decisions in a range of ways, including: the quarterly *Statement on Monetary Policy*; the Governor's statement and the minutes following the monetary policy meetings of the Reserve Bank Board; the Governor's regular appearances before the House of Representatives Standing Committee on Economics; speeches by senior Bank officers; and a range of public access and education initiatives. Communicating in this way supports both the effectiveness of monetary policy, by promoting a better understanding of the Bank's decisions across the community, and the transparency of monetary policy, which facilitates the Bank's accountability for the performance of its monetary policy responsibilities.

2.4 Capability

During 2019/20 to 2022/23, the Reserve Bank will continue to devote appropriate resources to achieving the Bank's monetary policy objectives. The flexible medium-term inflation target is the centrepiece of the monetary policy framework in Australia and has been well established for more than two decades. Since the early 1990s, it has provided the foundation for the Bank to achieve its monetary policy objectives by providing an anchor for inflation expectations. The Bank will remain alert to new developments that may have a bearing on the framework for monetary policy. It will continue to pursue and monitor relevant research and evaluate overseas experience, engaging with other relevant public institutions and the academic community, both domestically and internationally.

3. Financial Stability

3.1 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 Reserve Bank works with other regulatory bodies to foster financial stability. The Governor chairs the Council of Financial Regulators (CFR) – comprising the Reserve 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 Reserve Bank's operations in domestic financial markets, discussed in section 4, and oversight and operational roles in the payments system, discussed in section 5, also contribute to the stability of the financial system.

3.2 Environment

Financial stability in Australia has continued to be supported by the ongoing strong financial performance of the domestic banking system. Australian banks have improved their resilience to future shocks by increasing their capital ratios and they have also strengthened their lending standards, including for their mortgage business. Banks' capital ratios are now generally at the level that APRA has determined would qualify them as 'unquestionably strong'. However, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission) highlighted deficiencies around culture and governance in the financial system, and the implementation of recommendations from its Final Report will contribute to a more resilient financial system.

The Reserve Bank continues to closely monitor developments in residential mortgage lending, the risks arising from the high level of household indebtedness, and credit conditions more broadly. In an environment of heightened risk, both APRA and ASIC have taken measures to reinforce sound residential mortgage lending practices over the past few years. The CFR agencies stand ready to consider further measures in the future should circumstances change.

During 2019/20 to 2022/23, the main risks to domestic financial stability will most likely continue to relate to credit quality. Notably, banks' large exposure to housing loan performance is expected to remain a key issue. In addition, operational risks, especially those related to cyber risk and information technology more broadly, are expected to be a focus of financial institutions and regulators over coming years.

3.3 Performance

The Reserve Bank's performance in promoting overall financial system stability continues to be best assessed by the stability of the financial system itself. The Bank will continue to use its powers, influence and public

communication to mitigate risks to the stability of the Australian financial system. This entails the identification, assessment and, together with the other CFR agencies, management of domestic sources of systemic risk, as well as enhancing the resilience of the financial system to future shocks. The Bank's powers in relation to the payments system and financial market infrastructures (FMI) have a bearing on financial stability outcomes. During a potential financial disruption, the Bank's facilities to provide liquidity would continue to be available as appropriate. Many of the other tools that bear directly on financial stability remain under the control of other agencies.

The Reserve Bank will continue to publish its assessments of financial stability in the half-yearly *Financial Stability Review* and provide other ongoing communication on financial stability matters. This communication ensures that there is transparency about the Bank's thinking and decision-making, which forms the basis of the Bank's accountability for the performance of its financial stability responsibilities.

The Reserve Bank will continue working with the other CFR agencies to support financial stability. In the period ahead, this will be informed by the recommendations from recent reviews and assessments of the financial sector. These include the International Monetary Fund's Financial Sector Assessment Program review of Australia in 2018, the findings and recommendations of the Productivity Commission Inquiry Report on Competition in the Australian Financial System, and the recommendations of the Royal Commission.

3.4 Capability

During 2019/20 to 2022/23, the Reserve Bank will continue to devote appropriate resources to identifying and assessing emerging risks to financial stability and advancing crisis preparedness. It will engage on these matters with the other CFR agencies and internationally. International engagement occurs both bilaterally and through international groups such as the Financial Stability Board, the Basel Committee on Banking Supervision, the Bank for International Settlements (and related committees), the Trans-Tasman Council on Banking Supervision and the Executives' Meeting of East Asia-Pacific Central Banks. Such engagement will ensure Bank staff stay abreast of international developments and thinking on financial stability and related policies and provide input to international responses.

The visibility of risks created by the activities of non-prudentially regulated entities will also be enhanced by additional data collected from lenders that are not authorised deposit-taking institutions, following earlier legislative changes to enhance APRA's collection powers. APRA has also begun to collect a broader range of data on banks' domestic activities as part of the modernised Economic and Financial Statistics collection (managed by APRA on behalf of the Bank and the Australian Bureau of Statistics). These data will enhance the Bank's capacity to measure and monitor the activities of financial institutions over coming years.

4. Financial Market Operations

4.1 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 Reserve 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 section 2 and the stable functioning of the financial system, in particular the payments system.

The Reserve 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 section 6).

4.2 Environment

The general model used by the Reserve Bank to implement monetary policy is well established and understood by market participants. The Bank's financial market operations are influenced by the regulatory regimes that apply to financial markets in which the Bank transacts and/or the counterparties with which it deals, both domestically and internationally. With these regulations having undergone a period of substantial reform, market functioning and structure have evolved significantly, and further evolution is likely over the period of this corporate plan. Low interest rates in some countries may continue to present challenges for the Bank in its management of foreign reserves. The Bank will continue to adapt its processes as required to meet its objectives.

4.3 Performance

As part of its responsibility for monetary policy, the Reserve Bank Board sets a target for the cash rate. The cash rate is the rate at which banks borrow from and lend to each other on an overnight, unsecured basis. That rate is determined by the demand for and supply of exchange settlement balances that commercial banks hold at the Reserve Bank. Through its open market operations, the Bank alters the volume of these balances so as to keep the cash rate as close as possible to the prevailing cash rate target each day. The Bank collects information on each participant's activity in the money market in order to make this assessment and it publishes the cash rate outcome daily.

The Reserve Bank manages its foreign reserves portfolio relative to a benchmark. This benchmark is assessed to be the combination of foreign currencies and foreign currency assets that will maximise the Bank's expected returns over the long run, subject to the Bank's tolerance for risk. Managers' discretionary positions are limited. A measure of performance in managing the portfolio is provided by the close adherence to the asset and duration benchmarks over time.

The Reserve Bank communicates its views and decisions regarding any foreign exchange intervention at the appropriate time in various written publications and speeches. When the Bank's annual report is published each year, intervention data for the year under review are also published on the Bank's website. This facilitates the Bank's accountability for its performance in relation to any foreign exchange market intervention in support of monetary policy objectives over the period of this corporate plan.

4.4 Capability

The Reserve Bank will continue to adapt, where necessary, its processes for financial market operations in response to key developments, including changes to regulatory regimes over the period 2019/20 to 2022/23. The Bank's ability to manage 'system liquidity' is based on its capacity to inject cash into, or withdraw cash from, the interbank settlement system. It does this by undertaking transactions on behalf of the Bank's customers and/or transacting with other financial institutions. The Bank will continue to evaluate its domestic market operations framework and make any adjustments necessary to address growth in payments through the New Payments Platform (NPP).

5. Payments and Infrastructure

5.1 Purpose

There are several distinct aspects to the Reserve Bank's role in the payments system, comprising 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; and
- 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 Reserve 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 Reserve Bank's work in these areas supports its other work, discussed in section 3.1, directed towards fostering overall financial stability.

5.2 Environment

The payments environment is continuing to evolve, with use of cash and cheques declining relative to other payment instruments, while use of electronic payments is increasing rapidly and there is significant innovation in customer-facing technology. User and industry expectations concerning the speed of payments, and the capacity to combine information with payments, have been increasing. These trends have been reflected in strong growth in transactions enabled by the NPP, a recent major upgrade of Australia's retail payments infrastructure that facilitates 24/7 real-time payments between individuals and organisations.

International standards continue to promote enhancements in resilience and crisis management of central counterparties. In part, this is being driven by increased cross-border provision of services by FMI, which, in turn, is increasing the extent of cross-border regulatory and supervisory cooperation.

Globally, there is significant interest in the potential use of technologies such as distributed ledgers as a means of providing new payments, clearing and settlement services. There is also a strong focus on cyber resilience among operators of payments infrastructure globally.

5.3 Performance

The Payments System Board meets quarterly to determine payments system policy in accordance with its statutory responsibilities. The Board's focus over the period of this corporate plan will be on a number of strategic areas, including: promoting competition and reliable, secure, efficient and low-cost electronic payment services; keeping abreast of new technologies and platforms in payments; putting in place a resolution regime for FMI; and ensuring that the framework for oversight of foreign-headquartered FMI remains appropriate. Consistent with the Reserve Bank's longstanding approach, the focus will be on working with industry participants to achieve outcomes that are in the public interest, with regulatory activity contemplated only when an appropriate industry response is not forthcoming. Where the Bank uses its regulatory powers or has formal oversight responsibilities, it seeks views from regulated entities under the Australian Government Regulator Performance Framework regarding regulatory effectiveness and compliance costs.

Policy work over 2019/20 will include the commencement of a major review of the regulatory framework for card payments, which is planned for completion in late 2020. In conjunction with other members of the CFR, the Reserve Bank will complete a comprehensive review of the regulatory framework for stored-value facilities and deliver recommendations to the Government. To promote greater resilience of electronic payments, the Bank will be working with industry and APRA to develop a standard set of operational performance statistics for retail payments to be disclosed by individual institutions. Over the next several years, the Bank will also be working with industry to update messaging standards used in the Australian payments system, including for RITS.

The Reserve Bank will continue to execute its responsibilities as overseer of high-value payment systems and supervisor of Australian-licensed clearing and settlement facilities. As part of this, the Bank will continue to conduct and publish assessments of RITS and licensed clearing and settlement facilities. The Bank will monitor whether additional FMI should be subject to its supervision or oversight. The Bank will continue to contribute to international policy work on central counterparty resilience as well as supervision and crisis management of FMI. The Bank will also support international supervisory cooperation, including implementation and monitoring of international standards, and participating in or establishing cooperative cross-country oversight arrangements for individual operators where appropriate.

The Bank will continue to work with other domestic financial regulators to develop proposals to enhance the regulatory regime for FMI. This includes drafting legislation to underpin a crisis management regime for domestic clearing and settlement facilities as well as developing operational plans to execute powers granted under the regime.

As the owner and operator of RITS, the Reserve Bank seeks to ensure that this system operates with very high levels of reliability and security, while also adapting to the needs of a 24/7 payments world with the launch of RITS FSS. A broad range of operational metrics are tracked in real time and documented. These include measures of system availability, system liquidity, participants' transaction values and volumes, and system throughput and performance. The key targets are for RITS system availability for real-time settlement of payment instructions to be 99.95 per cent during core system hours and for FSS system availability for real-time settlement processing of settlement requests to be 99.995 per cent on a 24/7 basis. FSS is also measured against target settlement response times, with an objective of most transactions being processed in less than one second.

The Reserve Bank ensures that RITS is appropriately protected from cyber attack, taking into account emerging threats and international standards. Security controls are aligned to the *Australian Government Information Security Manual* and the International Organization for Standardization's information security management standards (ISO 27001); the Bank's payments settlements systems have received certification for ISO 27001. Regular reviews will be undertaken to ensure that appropriate security controls are maintained and are appropriately tested.

5.4 Capability

Reflecting the critical importance of RITS to the Australian financial system, the Reserve Bank will continue to invest significantly in its technical and business infrastructure and in operational resourcing. The Bank will also focus on the operation of the FSS, which facilitates 24/7 real-time settlement of NPP payments exchanged by households, businesses and government agencies.

The Reserve Bank is monitoring technology-related innovations in payments and market infrastructures. This includes monitoring developments in electronic payments and also seeking to ensure that the payments industry meets the needs of those households who are still using non-electronic payment methods. An important recent focus has been on the implications of cryptocurrencies and the possible case for the Bank to issue an e-AUD (or digital cash) or to provide a new form of central bank liability to be used to settle a wider range of transactions than those currently settled via exchange settlement accounts. The Bank's assessment is that a case has not yet been established in either instance, but it will keep this assessment under review. More broadly, the Bank is working on potential implications of distributed ledger technology, drawing on collaboration through an internal cross-departmental working group and by undertaking targeted experiments in an internal innovation lab.

6. Banking

6.1 Purpose

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, in competition with other commercial financial institutions, 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.

6.2 Environment

Ongoing development of NPP capabilities will allow the community to embrace new functionality through the delivery of digital services. The Reserve Bank needs to be in a position to respond appropriately to these new possibilities with the delivery of convenient, secure, reliable and cost-effective services.

The Australian Government is seeking to implement more modern electronic payment services. It is expected that the government's banking requirements will continue to develop in response to improvements in payments technology and changes in the way government agencies interact with the public. The Reserve Bank expects that the government and its agencies will require banking services that facilitate a range of options for making and receiving payments on digital platforms that are convenient and cost effective for the public to use.

6.3 Performance

The Reserve Bank will continue to work with the Department of Finance (Finance), the Australian Office of Financial Management (AOFM) and other key stakeholders to maintain and improve the central banking services it provides. The Bank will continue to support Finance with its multi-stage plan to modernise the Australian Government's cash management, including plans by Finance to transition agency funding payments to NPP from 2019/20. Finance is also looking at ways to automate the daily Official Public Account (OPA) bank reconciliation and introduce automated intra-day transfers of agency receipt balances into the OPA seven days a week using the NPP.

The Reserve Bank competes with commercial organisations to provide banking services to Australian Government agencies. It must cost and price these services separately from its other activities as well as meet an externally prescribed minimum rate of return on capital for its transactional banking business over a business cycle. This prescribed minimum rate of return is equivalent to the yield on 10-year Australian Government Securities plus a margin for risk. At present, the return on capital is one of the Bank's measures of financial performance for its transactional banking business. Other measures include the retention of customers, growth and use of the Bank's suite of banking products and services, and the results of biennial surveys that measure the level of customer satisfaction on the range and quality of services. Service availability through the monitoring of core systems infrastructure is another important measure.

The Reserve Bank will continue to work with both industry and government stakeholders as required to extend the capabilities of existing services, including the NPP, and to expand the services that can be accessed via the Bank's new Application Programming Interface Gateway. In addition, Banking will support the Department of Human Services as it progresses through the development and implementation of its Welfare Payment Infrastructure Transformation program over 2019/20 to 2022/23. Overall, this work will ensure that the Bank continues to meet the needs of its government and other official agency customers and, in turn, the public.

6.4 Capability

The Reserve Bank has completed its major project to renovate the systems used to process most government payments and collections including the upgrade to the Bank's core account maintenance system. The final implementation relating to this work was completed in July 2019.

The Reserve Bank will continue to develop its services and systems over 2019/20 to 2022/23, with the intention of accommodating the likely banking needs of its government and other official agency customers, while at the same time meeting the objectives of security, reliability and cost-effectiveness.

7. Banknotes

7.1 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.

7.2 Environment

The proportion of payments made using banknotes is declining. Notwithstanding this, the number and value of banknotes on issue continues to rise, highlighting the importance of banknotes as a store of value as well as a payment mechanism. Counterfeiting in Australia is low by international standards.

7.3 Performance

Public confidence in Australian banknotes is measured directly by a Reserve Bank survey on perceptions of Australian banknotes conducted every two years, with the most recent survey conducted in 2019. This survey asks questions about the public's attitude to, and awareness of, banknotes, including the level of concern about counterfeiting.

The Reserve Bank aims to ensure that the demand for banknotes is met in a timely way. The key performance indicator here is for more than 95 per cent of banknote orders from commercial banks to be met within three days of the request.

The Reserve Bank's key initiative to enhance banknote security is the Next Generation Banknote program for the issuance of a new series of banknotes. The \$5, \$10, and \$50 banknotes have been progressively issued over recent years. The \$20 banknote is scheduled to enter circulation in October 2019 and the \$100 banknote will be issued in 2020. Wide acceptance and distribution of these banknotes over subsequent years will be important to this strategy and the Bank will monitor public perceptions in its biennial survey. The Bank will also monitor counterfeiting rates for the existing and new banknote series, as well as international trends in counterfeiting.

Ensuring that the quality of banknotes in circulation is high supports public confidence in banknotes and makes it easier for the public to detect counterfeits. The Reserve Bank works closely with NPA to ensure that high-quality Australian banknotes are produced that meet the Bank's specifications. The Bank has arrangements in place whereby the private sector is encouraged to return damaged banknotes to the Bank. The Bank will continue to collect information on the quality of banknotes in circulation to ensure that a quality standard in excess of the minimum standard is maintained.

7.4 Capability

The Reserve Bank's strategy for banknotes over 2019/20 to 2022/23 is to continue to develop and issue a new series of banknotes, incorporating improved accessibility and security features.

NPA is supporting the Reserve Bank's strategy by printing sufficient new banknotes to replace the outgoing banknote series. During the period of production of the new banknotes, NPA will operate at close to full capacity, with some, albeit limited, ability to meet orders from export customers that are within the Bank's risk appetite.

As part of its communication strategy to assist with public recognition of the new banknote series, the Bank has conducted extensive discussion with business stakeholders, such as banks, retailers and relevant machine manufacturers. It also has an ongoing public awareness campaign providing information about the new banknotes.

The National Banknote Site, located in Craigieburn, Victoria, has commenced distributing banknotes. The site has been designed to meet Australia's estimated needs for the distribution, processing and storage of banknotes for some decades to come.

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.

8. Risk Oversight and Management

The Reserve Bank's approach to managing its key strategic, financial, people and operational risks is described in its *Risk Appetite Statement*. This is reviewed biennially, or whenever there is a significant change to the Bank's operating environment, and is published on the Bank's website.^[1] All heads of department are responsible for the implementation of risk controls consistent with the Bank's *Risk Appetite Statement*.

8.1 Risk Appetite

The Reserve Bank faces a broad range of risks reflecting its responsibilities as a central bank. These risks include those resulting from its responsibilities in the areas of monetary, financial stability and payments system policy as well as its day-to-day operational activities.

The risks arising from the Reserve Bank's policy and regulatory responsibilities can be significant. These risks are managed through rigorous processes that emphasise the importance of integrity, intelligent inquiry, maintaining high-quality staff and public accountability.

The Reserve Bank faces significant financial risks, largely because it manages Australia's foreign exchange reserves. It accepts that the balance sheet risks are large and manages these risks carefully, but not at the expense of its policy responsibilities. The Bank has a very low appetite for credit risk and manages exposures accordingly.

The Reserve Bank recognises that it is not possible or desirable to eliminate all the risks inherent in its activities. Acceptance of some degree of risk is necessary to foster innovation in business practices. Nonetheless, the Bank has a low appetite for most types of operational risk and makes resources available to limit operational risk to acceptable levels.

8.2 Risk Management Framework

The Reserve Bank's risk management framework establishes a process to manage risk across the Bank.^[2] Managers have a responsibility to evaluate their risk environment, put in place appropriate controls and monitor the effectiveness of those controls. The risk management culture emphasises careful analysis and management of risk in all business processes.

Risks are identified, assessed and managed at both an enterprise level ('top-down') and business level ('bottom-up'). The Risk Management Committee, which is chaired by the Deputy Governor, has oversight of these processes. This committee meets at least six times a year and provides a report on its activities to both the Executive Committee (chaired by the Governor) and the Reserve Bank Board Audit Committee.

The Reserve Bank's Risk and Compliance Department supports the application of the Bank's framework for managing risk. It also monitors and reports on portfolio risks and compliance with respect to the Bank's operations in financial markets. Incident reports are prepared for events not covered by, or which occur other than in accordance with, Bank policies and procedures, and which have (or could have) material undesirable consequences. The Risk Management Committee receives regular reporting on the Bank's performance against its nominated risk tolerances, as well as on incidents and related action plans. There is also further escalation to the Reserve Bank Board Audit Committee and the Reserve Bank Board and/or Payments System Board depending on the nature and severity of an incident.

The Bank seeks to ensure that it holds sufficient capital and reserves to manage the risks to its balance sheet that may be faced over time. In particular, the Bank holds a balance in the Reserve Bank Reserve Fund (RBRF) that is consistent with the target balance for the RBRF set by the Reserve Bank Board. The target balance is based on an assessment of risks on the various assets that the Bank holds.

9. Organisational Capacity

To facilitate achievement of the objectives set out in this corporate plan, the Reserve Bank will continue to rely on a range of supporting capabilities. Several of these capabilities are covered in more detail below, including the Bank's staff and culture, information technology (IT) and property management activities. There is also a range of other services provided by different parts of the Bank that support the achievement of the Bank's objectives.

These services include:

- carrying out independent appraisals of the Bank's internal control framework
- managing the Bank's security
- collecting, storing and managing the Bank's information assets securely and efficiently to support good decision-making and to comply with legal requirements
- preparing the Bank's financial and management accounts
- disseminating the Bank's policy decisions, views and information through online communication, Bank publications, speeches and the media
- supporting the consistent and effective application across the Bank of its framework for managing risk.

The Reserve Bank places considerable importance on attracting, developing and retaining high-quality people. This involves fostering an environment in which all employees are engaged and empowered to contribute to the full extent of their abilities, with a strong focus on values and behaviour. To meet these objectives, during the period of this corporate plan the Bank will:

- continue to deliver leadership development programs for executive and managerial staff, with increased focus on career planning and development
- implement diversity and inclusion initiatives, with the assistance of the Bank's Employee Resource Groups. The Bank is also seeking to raise the proportion of women in management positions and has a target of 35 per cent of management positions to be filled by women by 2020, with a longer-term aim of 50 per cent
- continue to deliver training on mental health and wellbeing for both employees and managers, and provide additional training to staff to reinforce their legal obligations and the importance of meeting very high standards of behaviour in the workplace
- maintain the strong focus on the Bank's core values of promotion of the public interest, integrity, excellence, intelligent inquiry and respect. This focus is led by the Governor, and biennial employee engagement surveys have indicated it is shared by staff at all levels. These surveys will continue to be used to monitor the strength of the core values within the Bank and its risk culture, and to identify any areas requiring additional attention. Recent areas of emphasis have included further encouragement for staff to speak up when they have a different opinion or a concern, and enhancing their understanding of appropriate risk-taking in pursuit of the Bank's objectives.

The Reserve Bank will continue to ensure its IT assets are highly resilient, fit for purpose, appropriately innovative and support workplace efficiency. This includes further enhancing the effectiveness of the business-as-usual IT function to support the technology and operational workloads for the Bank's new 24/7 payments services. Cyber security also remains an area of particular focus. The Bank has been certified as complying to a mature standard with the cyber security strategies recommended by the Australian Signals Directorate for containing cyber threats, and will continuously build on this as these strategies and standards evolve. The Bank has also attained certification of its internet gateway to the ISO 27001 international standards.

Continued investment in capabilities and tools to better manage and govern the Bank's data assets will remain a priority for the Reserve Bank in 2019/20. This is important to optimise policy and operational decision-making

and mitigate data-related risks. Key activities will include: development of data governance policies and procedures; enhancing data management services; improving access to data through automation and end-user training; and ongoing migration of data from legacy systems and spreadsheets to modern strategic data systems.

The Reserve Bank manages its property portfolio to ensure it remains relevant to the purposes of the Bank. An initiative is underway to improve the infrastructure supporting the Bank's two data centres to ensure the ongoing performance and resilience of the Bank's operational systems and applications. The Bank is also planning improvements to its Head Office at 65 Martin Place, Sydney, and the H.C. Coombs Centre for Financial Studies in Kirribilli, Sydney. These initiatives are aimed at upgrading base building infrastructure that is at end of life and ensuring a safe, efficient and effective workplace to meet the long-term needs of the Bank.

The Reserve Bank will continue to strengthen its organisational effectiveness in light of the changing business environment.

Endnotes

[1] See <<https://www.rba.gov.au/about-rba/our-policies/risk-appetite-statement.html>>.

[2] See <<https://www.rba.gov.au/about-rba/our-policies/risk-management-policy.html>>. This policy seeks to ensure the implementation of an effective risk management framework that is consistent with the Bank achieving its policy and operating objectives. In doing so, it follows accepted standards and guidelines for managing risk, particularly those used by public and financial institutions.