

# Governance

The activities undertaken by the Reserve Bank in fulfilment of its responsibilities are overseen by two boards and several key permanent committees.

## Reserve Bank Board

The Reserve Bank Board has responsibility for monetary and banking policy and the Reserve Bank's policy on all other matters except payments system policy, as well as a range of other statutory obligations. The Board comprises nine members: the Governor (Chairman), Deputy Governor (Deputy Chairman), Secretary to the Treasury and six other non-executive members appointed by the Treasurer. Members of the Board during 2012/13 are shown opposite and details of their qualifications and experience are provided on pages 9–13. Jillian Broadbent AO completed her third term on the Board in May 2013; a resolution of the Board on 2 April 2013 is shown on page 14.

The Reserve Bank Board meets 11 times a year, on the first Tuesday of each month except in January. Five members form a quorum at a meeting of the Board. Most Board meetings are held at the Head Office in Sydney. Meetings are held in Reserve Bank offices in other Australian cities twice in most calendar years, once in Melbourne and once in another location.

Following a review of governance arrangements for the Reserve Bank's wholly owned subsidiary, Note Printing Australia Limited (NPA), the Board decided to appoint one of its non-executive members, Heather Ridout AO, to the Board of NPA. Mrs Ridout's term on the NPA Board commenced on 15 November 2012 and is concurrent with her term on the Reserve Bank Board.

The Board has an Audit Committee (see page 6) and a Remuneration Committee (see page 7).

## Payments System Board

The responsibilities of the Payments System Board are set out in the *Reserve Bank Act 1959*. In particular, the Reserve Bank 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:

### Board Meetings in 2012/13 – Attendance by Members

	No of meetings attended	No of meetings eligible to attend
Glenn Stevens (Governor)	11	11
Philip Lowe (Deputy Governor)	11	11
John Akehurst	11	11
Jillian Broadbent <sup>(a)</sup>	8	9
Roger Corbett	11	11
John Edwards	11	11
Kathryn Fagg <sup>(b)</sup>	2	2
Martin Parkinson (Treasury Secretary) <sup>(c)</sup>	10	11
Heather Ridout	11	11
Catherine Tanna	11	11

(a) Jillian Broadbent's term on the Board ended on 6 May 2013

(b) Kathryn Fagg's term on the Board commenced on 7 May 2013

(c) David Gruen (Executive Director (Domestic), Macroeconomic Group, Australian Treasury) attended one meeting in place of Martin Parkinson, in terms of section 22 of the *Reserve Bank Act 1959*

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

The Payments System Board also has responsibility to ensure that the powers and functions of the Reserve Bank under Part 7.3 of the *Corporations Act 2001* (dealing with licensing of clearing and settlement facilities) are exercised in a way that will best contribute to the overall stability of the financial system.

The Payments System Board is distinct from the Reserve Bank Board and 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. Further, members must comply with the general obligations of directors of Commonwealth authorities, including those set out in the *Commonwealth Authorities and Companies Act 1997* (CAC Act). Under the CAC Act members must:

- discharge their duties with care and diligence
- act in good faith in the best interests of the Reserve Bank, and for a proper purpose
- not use their position to benefit themselves or any other person, or to cause detriment to the Reserve Bank or any other person
- not use 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
- declare any material personal interest in a matter that relates to the affairs of the Reserve Bank.

Over and above these statutory requirements, members recognise their responsibility for maintaining a reputation for integrity and propriety on the part of the Board and the Reserve Bank in all respects. Members have adopted a Code of Conduct that provides a number of general principles as a guide for their conduct in fulfilling their duties and responsibilities as members of the Board; a copy of the Code, which was revised in 2012, is on the Bank's website.

## Reserve Bank Board Audit Committee

The primary objective of the Audit Committee of the Reserve Bank Board is to report to the Board on matters relevant to the fulfilment of the Bank's statutory financial reporting and other obligations in terms of the Reserve Bank Act and the CAC Act. The Committee assists the Governor and the Board in fulfilling their obligations relating to financial reporting, risk management, fraud control and regulatory compliance. Its particular responsibilities are to ensure the effectiveness of the Bank's internal control environment.

Following the retirement of Jillian Broadbent AO from the Board, John Akehurst assumed the role of Chairman of the Audit Committee from May 2013. Other members of the Committee are Roger Corbett AO, a member of the Reserve Bank Board, and Michael Coleman and Terry Williamson, both of whom are company directors and former senior audit partners of major accounting firms and have extensive

### Audit Committee Meetings in 2012/13 – Attendance by Members

	No of meetings attended	No of meetings eligible to attend
John Akehurst <sup>(a)</sup>	1	1
Jillian Broadbent <sup>(b)</sup>	5	5
Michael Coleman	6	6
Roger Corbett	5	6
Terry Williamson	6	6

(a) John Akehurst's term on the Audit Committee commenced on 1 May 2013

(b) Jillian Broadbent's term on the Audit Committee ended on 30 April 2013

experience in the finance sector. Consistent with contemporary governance standards, no executive is a member of the Audit Committee, although the Deputy Governor attends all meetings of the Committee as the chief management representative. During 2012/13, the Audit Committee met on six occasions.

At its July 2013 meeting, the Audit Committee considered the draft consolidated financial statements of the Reserve Bank for the year ended 30 June 2013 and agreed that the statements be presented to the Reserve Bank Board with its endorsement. The Committee meets at least annually with the external auditors without management present; in 2013 this occurred immediately following the July 2013 meeting.

## Reserve Bank Board Remuneration Committee

The Remuneration Committee of the Reserve Bank Board was 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 at present comprises Roger Corbett AO (Chairman), John Edwards and Catherine Tanna. John Edwards succeeded Jillian Broadbent AO as a member of the Committee following her retirement from the Board in May 2013. During 2012/13 the Committee met on six occasions.

The offices of Governor and Deputy Governor are Principal Executive Offices in terms of the *Remuneration Tribunal Act 1973*, which provides for the Remuneration Tribunal to determine the applicable remuneration reference rate for these offices. The Remuneration Committee reviews the terms and conditions (including remuneration and allowances) applying to the Governor and Deputy Governor annually and recommends adjustments to the Board for approval, providing that such terms and conditions are consistent with the framework for Principal Executive Offices determined by the Remuneration Tribunal.

The Remuneration Committee is also kept informed of the remuneration arrangements for Reserve Bank staff. The Governor attends meetings of the Committee at the invitation of the Chairman to discuss remuneration matters in the Bank, but not those relating to his own remuneration. The Committee communicates with the Remuneration Tribunal as required.

In accordance with section 21A of the Reserve Bank Act, neither the Governor nor the Deputy Governor takes part in decisions of the Board relating to the determination or application of any terms or conditions on which either of them holds office.

## Remuneration and Allowances

Remuneration and allowances for the non-executive members of the Reserve Bank Board and members of the Audit Committee are determined by the Remuneration Tribunal.

## Induction of Board Members

The induction program assists newly appointed Board members in understanding their role and responsibilities, and provides them with an overview of the Reserve Bank's policy framework and operations. Separate briefing sessions are tailored to meet particular needs or interests.

### Remuneration Committee Meetings in 2012/13 – Attendance by Members

	No of meetings attended	No of meetings eligible to attend
Jillian Broadbent <sup>(a)</sup>	4	5
Roger Corbett	6	6
John Edwards <sup>(b)</sup>	2	2
Catherine Tanna	6	6

(a) Jillian Broadbent's term on the Remuneration Committee ended on 6 May 2013

(b) John Edwards' term on the Remuneration Committee commenced on 2 April 2013

## Executive Committee

The Executive Committee is the key decision-making committee of the Reserve Bank for matters of an administrative and managerial nature. It is a management committee, comprised of the Bank's most senior executives, whose role is to assist and support the Governor in fulfilling his responsibilities under the Reserve Bank Act to manage the Bank. The Committee is chaired by the Governor and meets weekly.

## Risk Management Committee

The Risk Management Committee has responsibility for ensuring that operational and financial risks are identified, assessed and properly managed across the Reserve Bank in accordance with its Risk Management Policy. It is a management committee chaired by the Deputy Governor and comprises senior executives drawn mainly from the operational areas of the Bank. During 2012/13 the Committee met on four occasions and kept the Executive Committee and Reserve Bank Board Audit Committee informed of its activities.

## Values and Ethics

A key governance initiative undertaken during the year in review was the development and launch of a new Code of Conduct articulating the Reserve Bank's core values of promotion of the public interest, integrity, excellence, intelligent enquiry and respect. Building on those values, the Code outlines the conduct the Bank expects of its staff. The new Code of Conduct was developed by a steering committee chaired by the Deputy Governor and assisted by a legal firm. The Governor launched the new Code to staff in November 2012 via an email that included a video interview of him discussing the Bank's values with the Executive Director of the St James Ethics Centre, Dr Simon Longstaff AO. All departments subsequently held discussions led by their senior management to discuss the Bank's values and the new Code. Staff are required to read the Code on an annual basis.

To further develop an understanding of the culture and systems required for an organisation to operate ethically, the Reserve Bank's executive team participated in an Ethical Awareness and Decision-Making workshop facilitated by the St James Ethics Centre. All other staff will be invited to attend an Ethical Awareness workshop during the current financial year.

## Indemnities for Members of Boards and Senior Staff

Members of the Reserve Bank Board and the Payments System Board have been indemnified in accordance with section 27M of the CAC Act against liabilities incurred by reason of their appointment to the relevant Board or by virtue of holding and discharging such office.

Indemnities in accordance with section 27M of the CAC Act have also been provided by the Reserve Bank to other officers of the Bank in relation to liabilities they may incur in the conduct of their duties at the Bank, and to current 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 Innovia Security Pty Ltd (formerly called Securrency International Pty Ltd).

As the Reserve Bank does not take out directors and officers liability insurance in relation to its Board members or other officers, no premiums were paid for any such insurance during 2012/13.

## Other Policy Matters

Over the course of the past year, the Reserve Bank Board reviewed its responsibilities for the Reserve Bank's policy on all matters other than monetary, banking and payments system policy. The Governor subsequently reported to the Board on the process of review and implementation of the relevant policies, including compliance arrangements and any material breaches.