Reserve Bank of Australia
Annual Report

2019

RESERVE BANK OF AUSTRALIA

RESERVE BANK OF AUSTRALIA

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GOVERNOR

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17 September 2019

The Hon Josh Frydenberg MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

RESERVE BANK OF AUSTRALIA ANNUAL REPORT 2019

In accordance with section 46 of the *Public Governance, Performance and Accountability Act 2013*, I am pleased to submit the Reserve Bank's Annual Report for 2019 for presentation to the Parliament.

Yours sincerely

Philip Lowe

Reserve Bank of Australia

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

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

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Governor's Foreword

The past year has seen a continuation of low inflation, low unemployment and low interest rates in much of the world. Global growth has slowed a little and although the outlook remains reasonable, it is clouded by the uncertainties generated by the ongoing disputes about trade and technology. In this environment, it seems probable that interest rates globally will stay low for some time yet.

Against this backdrop, growth in the Australian economy was lower than expected over the past year. Household spending has been affected by ongoing subdued growth in household incomes and a sizeable adjustment in housing prices in our largest cities. At the same time, there has been a large increase in the number of Australians with jobs. This strong demand for labour has not put much upward pressure on wages as it has been matched by more Australians participating in the labour force. Inflation remains low, with less progress having been made towards the medium-term inflation target than was expected this time last year.

Over recent times, it has become increasingly apparent that Australia can achieve a lower rate of unemployment than that experienced in the recent past. With inflation remaining low, the Reserve Bank Board decided to reduce the cash rate in June and July 2019, to a new low of 1 per cent. This easing of monetary policy will help boost jobs growth and support more assured progress towards the medium-term inflation target. A pick-up in wages growth and a further reduction in unemployment would both be welcome. Monetary policy can play a helpful role here, but so too can other arms of public policy.

As an organisation, the Reserve Bank is committed to being transparent and accountable. We seek to explain our decisions clearly in a way that helps the community understand what we are doing and why we are doing it. In addition to the flagship regular publications on monetary policy and financial stability, senior staff gave around 50 public speeches over the past year and met with many business and community groups. We are also continuing to invest considerable resources in our public education program, with a particular focus on economics students and teachers. One aim is to support and encourage the study and understanding of economics in Australia.

Over the past year, the Reserve Bank completed a major upgrade of the technology and business processes supporting the transaction and other banking services provided to the Australian Government and its agencies. This has been a large multi-year project, which has involved a significant investment by the Bank. As the Australian payments system continues to evolve, the new banking systems will benefit all those who receive payments from, or make payments to, the Government.

The Reserve Bank is also continuing to make significant technology investments in the systems that support the core of Australia's payments system. A key priority here is to ensure that the systems that underpin real-time and inter-bank payments in Australia have a very high level of resilience. A new $50 banknote was issued as part of our efforts to keep Australia's banknotes safe and secure and a new $20 banknote will be issued later this year. The Bank is also seeking to promote competition and innovation in Australia's payments system through the work of the Payments System Board.

The number of people who work for the Reserve Bank was little changed over the past year. There was a reduction in project-related staff, but an increase in staff supporting the Bank's payments and banking technology and services. The Bank's general operating costs, excluding depreciation, increased by 2.8 per cent over the year.

The Reserve Bank recorded an accounting profit of $4.5 billion in 2018/19. Earnings were boosted by valuation gains on the foreign reserves as a result of the depreciation of the Australian dollar. Of this profit, $1.7 billion will be paid to the Australian Government. The Bank continues to have a strong balance sheet, with the current level of reserves meeting the Reserve Bank Board's risk-based target. Consistent with this, the Board did not seek a transfer from distributable earnings to the Bank's reserves.

The Reserve Bank's staff share a strong commitment to high standards and serving the public interest. They go about their work with a high degree of professionalism and dedication. The Reserve Bank Board joins me in thanking the staff for their work and for their ongoing service to the Australian community.

Philip Lowe
Governor
4 September 2019

Part 1:
About the Reserve Bank

Swan River, Western Australia

Our Role

In its role as Australia's central bank, the Reserve Bank of Australia determines and implements monetary policy, fosters financial stability, undertakes a range of activities in financial markets, acts as banker to the Australian Government, issues Australia's banknotes and has policy, supervisory and operational roles in the payments system.

The Reserve Bank of Australia is established by statute as Australia's central bank. Its enabling legislation is the *Reserve Bank Act 1959*. Its responsibility for monetary policy is set out in section 10(2) of the Reserve Bank Act, which states:

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

(a) the stability of the currency of Australia;

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

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

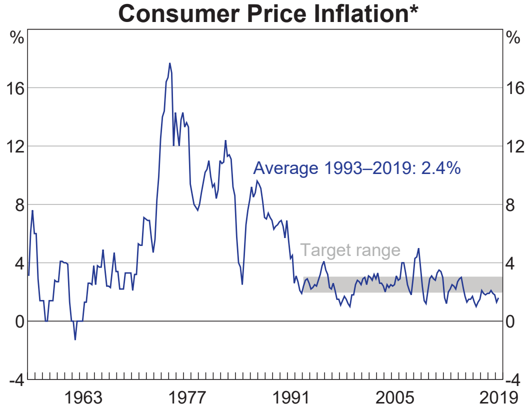
Policies in pursuit of these objectives have found practical expression in a flexible, medium-term inflation target, which has formed the basis of Australia's monetary policy framework since the early 1990s. The policy objective is for consumer price inflation to average between 2 and 3 per cent over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

The seventh *Statement on the Conduct of Monetary Policy*, agreed by the Treasurer and the Governor on 19 September 2016, records the common understanding of the government and the Reserve Bank on key aspects of the monetary policy framework. This update of the statement confirmed the monetary policy framework in Australia, explicitly recognising that it is appropriate for the Reserve Bank Board to take account of financial stability considerations in determining the appropriate setting of monetary policy.

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

The Governor chairs the Council of Financial Regulators (CFR), a non-statutory coordinating

Consumer Price Inflation*



* Excludes interest charges prior to September quarter 1998 and adjusted for the tax changes of 1999–2000

Sources: ABS; RBA

body for Australia's main financial regulatory agencies, whose role is to contribute to the efficiency and effectiveness of regulation and to promote the stability of the Australian financial system. Its members – the Reserve Bank, the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission and the Australian Treasury – share information, discuss regulatory issues and, if the need arises, coordinate responses to potential threats to financial stability. The CFR also advises the Australian Government on Australia's financial regulatory arrangements.

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

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

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

The Reserve Bank also has an operational role in the payments system, as owner and operator of Australia's high-value real-time gross settlement system – the Reserve Bank Information and Transfer System (RITS). The Fast Settlement Service of RITS settles obligations arising from individual payments exchanged on the New Payments Platform in real time on a 24/7 basis. A separate area of the Bank assesses RITS against international standards for such infrastructure on an annual basis.

The Reserve Bank provides specialised banking services to government and foreign official institutions, including payments and collections as well as general account maintenance and reporting.

The Reserve Bank works with its wholly owned subsidiary, Note Printing Australia Limited, to design and produce Australia's banknotes. The Bank issues banknotes with the objective of providing a safe, secure and reliable means of payment and store of value.

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 has two boards: the Reserve Bank Board and the Payments System Board. The Reserve Bank's two boards have operational independence under the Reserve Bank Act to determine and implement the policies of the Bank, as will best contribute to 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'.

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, who succeeded the Hon Scott Morrison MP on 28 August 2018), usually by way of regular discussions. The Governor also meets regularly with the House of Representatives Standing Committee on Economics. The Reserve Bank Act sets out a clear process for managing differences of opinion between the Reserve Bank Board and the government on policy matters.

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 2018/19, the Governor and senior Bank officers attended hearings of this committee for this purpose in Canberra in August 2018 and in Sydney in February 2019. The committee issued its report on the August 2018 hearing – *Review of the Reserve Bank of Australia Annual Report 2017* (Second Report) – on 15 October 2018. The committee's report on the February 2019 hearing – *Review of the Reserve Bank of Australia Annual Report 2018* (First Report) – was issued on 4 April 2019.

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 its 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 for 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 6 August 2019.

No report on the Reserve Bank was issued in 2018/19 by the Commonwealth Ombudsman, the Office of the Australian Information Commissioner or the Auditor-General, apart from that dealing with the audit of the Bank's annual financial statements.

Reserve Bank Board

The Reserve Bank Board comprises the Governor (Chair), Deputy Governor (Deputy Chair), Secretary to the Treasury and six non-executive members appointed by the Treasurer, a total of nine. New appointments to the Board are made by the Treasurer from a register of eminent candidates of the highest integrity maintained by the Secretary to the Treasury and the Governor. Attendance by members at meetings of the Board during

Board Meetings – 2018/19
Attendance by members

	No. of meetings attended	No. of meetings eligible to attend
Philip Lowe (Governor)	11	11
Guy Debelle (Deputy Governor)	11	11
John Fraser (Secretary to the Treasury)[a]	1	1
Philip Gaetjens (Secretary to the Treasury)[b]	10	10
Mark Barnaba	10	11
Wendy Craik	10	11
Ian Harper	10	11
Allan Moss	10	11
Carol Schwartz	11	11
Catherine Tanna	10	11

(a) John Fraser's term on the Board ended on 31 July 2018; Mr Fraser's retirement from the Board was recorded in the 2018 annual report
(b) Philip Gaetjens' term on the Board commenced on 1 August 2018

2018/19 is shown in the table and members' qualifications and experience are provided in the chapter on the 'Reserve Bank Board'.

The Reserve Bank Board meets 11 times a year, on the first Tuesday of each month except in January. Five members form a quorum for a meeting of the Board. 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.

Reserve Bank Board meetings are usually held at the Reserve Bank's Head Office in Sydney. Meetings are held in two other Australian cities each year. The Board met in Perth in September 2018 and in Darwin in July 2019.

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; and

(c) promoting competition in the market for payment services, consistent with the overall stability of the financial system.

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

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

The Payments System Board issues a separate annual report.

Conduct of Reserve Bank Board Members

On appointment to the Reserve Bank Board, each member is required under the Reserve Bank Act to sign a declaration to maintain confidentiality in relation to the affairs of the Board and the Reserve Bank.

Members must comply with the statutory obligations for officials of the Reserve Bank, including those set out in the PGPA Act. Members' obligations under the PGPA Act include, but are not limited to, obligations to exercise their powers and discharge their duties with care and diligence, honestly, in good faith and for a proper purpose. Members must not use their position, or any information obtained by virtue of their position, to benefit themselves or any other person, or to cause detriment to the Reserve Bank or any other person.

In order for members to discuss and decide monetary and financial stability policies, notwithstanding any material personal interest in the outcome, the Reserve Bank Act requires them to furnish a confidential disclosure of material personal interests to the Treasurer annually and, during the year, to notify any substantial change since their most recent annual disclosure. Members must declare to the other members of the Reserve Bank Board any material personal interest they have in a matter relating to the affairs of the

Board other than monetary policy and financial stability. Members may give standing notice to other members outlining the nature and extent of a material personal interest in such matters.

A Code of Conduct for Reserve Bank Board members supplements these statutory requirements and imposes obligations on members that are designed to ensure that members observe the highest possible standards of ethical conduct. The Code of Conduct, which is available on the Reserve Bank's website, addresses a range of matters including conflicts of interest and restrictions on undertaking, or being involved in, financial transactions of certain types at certain times.

Audit Committee

The Audit Committee is constituted as a subcommittee of the Reserve Bank Board. Its primary objective is to assist the Governor and the Board in fulfilling certain obligations in terms of the Reserve Bank Act and the PGPA Act. In particular, the Audit Committee assists the Governor and the Board in relation to:

- preparation of the annual report, including a report of operations, the financial statements and a performance statement
- reviewing the appropriateness of systems of risk oversight and management
- reviewing the appropriateness of systems of internal control.

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 2018/19 is shown below and members' qualifications and experience are provided in the chapter on the 'Reserve Bank Board'.

Consistent with contemporary governance standards, no Reserve Bank executive is a member of the Audit Committee. Representatives of the Bank's internal and external auditors participate in meetings as appropriate at the invitation of the chair. The Deputy Governor attends meetings of the committee on a regular basis as the chief representative of the Bank's management. Other senior Bank executives attend meetings of the committee on a regular basis or as required.

During 2018/19, the Audit Committee met on five occasions. At its July 2019 meeting, the committee considered the draft consolidated financial statements for the Reserve Bank for the year ended 30 June 2019 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 2018/19, this occurred immediately prior to the July 2019 meeting.

Audit Committee Meetings – 2018/19
Attendance by members

	No. of meetings attended	No. of meetings eligible to attend
Mark Barnaba[(a),(b)]	5	5
Sandra Birkensleigh	5	5
Rahoul Chowdry	5	5
Allan Moss[(a)]	5	5

(a) Member of the Reserve Bank Board
(b) Mark Barnaba's term on the Audit Committee commenced on 23 July 2018

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 2018/19, the committee met on three occasions.

The offices of Governor and Deputy Governor are Principal Executive Offices in terms of the *Remuneration Tribunal Act 1973*, which provides for the Remuneration Tribunal to determine the applicable remuneration reference rate for these offices. The Remuneration Committee reviews the terms and conditions (including remuneration) applying to the Governor and Deputy Governor annually and recommends adjustments to the Reserve Bank Board for approval, providing that such terms and conditions are consistent with the framework for Principal Executive Offices determined by the Remuneration Tribunal. In accordance with section 21A of the Reserve Bank Act, neither the Governor nor the Deputy Governor takes part in decisions of the Reserve Bank Board relating to the determination or application of any terms or conditions on which either of them holds office.

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 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.

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 2018, the Reserve Bank Board conducted its annual review of the key risks inherent in the formulation of monetary policy and the monetary policy risk register and control framework. The Board endorsed modest refinements to the risk register and concluded that the monetary policy risk control framework had continued to operate effectively.

At the same time, the Reserve Bank Board conducted its annual review of its own operation

Remuneration Committee Meetings – 2018/19
Attendance by members

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

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 five Reserve Bank executives and an external director with experience in manufacturing: Chris Aylmer (Head of Risk and Compliance Department) as Chair; Michelle McPhee (Head of Banking Department); Robert Middleton-Jones (Chief Financial Officer); Greg Johnston (Head of Payments Settlements Department); Susan Woods (Assistant Governor, Corporate Services) 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. Alan Beckett, a company director and former senior audit partner of a major accounting firm with extensive experience in the corporate sector, including manufacturing, was a member of the NPA Audit Committee until July 2019, when his term ended.

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

Indemnities for Members of Boards and Staff

Members of the Reserve Bank Board and the Payments System Board are indemnified against liabilities incurred by reason of their appointment to the relevant board or by virtue of holding and discharging such office. Indemnities for those members appointed prior to 1 July 2014 were in accordance with section 27M of the *Commonwealth Authorities and Companies Act 1997* (CAC Act), which specified when indemnity for liability and legal costs was not allowed. Indemnities for members appointed after 1 July 2014, when the CAC Act was repealed, have reflected the substance of the previous CAC Act restrictions. A revised form of the indemnity for new members of both boards, which continues to reflect the substance of the precious CAC Act restrictions, was approved by the Reserve Bank Board in March 2017. In December 2017, the Reserve Bank Board approved indemnities being given to members of the Audit Committee who are not also members of the Reserve Bank Board on substantially the same terms as the indemnities given to Board members.

The Reserve Bank has also provided an indemnity in accordance with section 27M of the CAC Act to senior staff of the Bank in relation to liabilities they may incur in the conduct of their duties at the Bank. In relation to events on or after 1 April 2017, the Bank's policy on assistance to staff for legal proceedings applies. This policy applies to all staff, not only senior staff, and is closely based on the rules that apply to the provision of assistance to staff for legal proceedings in non-corporate Commonwealth entities set out in Appendix E to the *Legal Services Directions 2017*.

Certain other indemnities given prior to 1 July 2014 in accordance with section 27M of the CAC Act continue. These indemnities were provided by the Reserve Bank to current and former senior staff and Reserve Bank Board members who, at the request of the Bank, are serving on the board of Note Printing Australia Limited or formerly served on that board or the board of CCL Secure Pty Limited (formerly Innovia Security Pty Ltd and, prior to that, Securency International Pty Ltd).

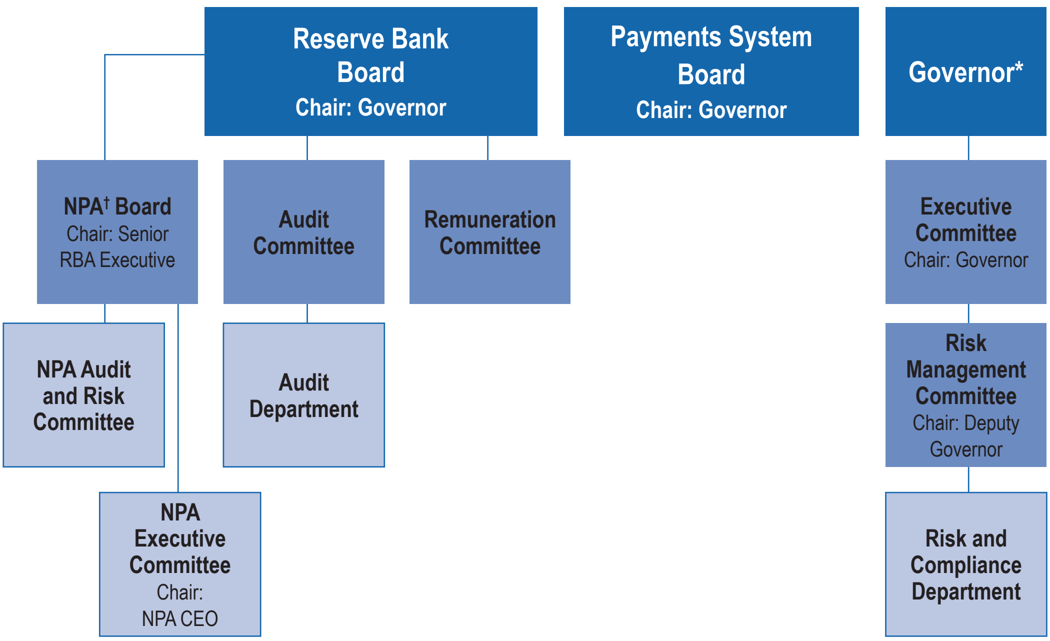
As the Reserve Bank does not take out directors' and officers' insurance in relation to members of its boards or other officers, no premiums were paid for any such insurance in 2018/19.

Other Policy Matters

As part of the governance arrangements to assist the Reserve Bank Board to discharge its obligations in relation to the Reserve Bank's policies other than monetary policy, the Governor reports annually to the Board on the process of review and implementation of the key Reserve Bank policies that are determined and managed by the Governor. This report includes information on compliance arrangements. An annual report covering matters relating to work health and safety in the Bank is also presented to the Board. The reports for 2018/19 were provided to the Board at its August 2019 meeting.

Reserve Bank of Australia Governance Structure

August 2019



† 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*.

Reserve Bank Board

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

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

August 2019

Philip Lowe

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

Governor and Chair

Governor since 18 September 2016
Present term ends 17 September 2023

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

Other roles

Chair – Payments System Board

Chair – Council of Financial Regulators

Chair – Financial Markets Foundation for Children

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

Member – Financial Stability Board

Member – Trans-Tasman Council on Banking Supervision

Director – The Anika Foundation

Guy Debelle

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

Deputy Governor and Deputy Chair

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

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

Other roles

Chair – Reserve Bank Risk Management Committee

Chair – Global Foreign Exchange Committee

Mark Barnaba AM

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

Non-executive member

Member since 31 August 2017
Present term ends 30 August 2022

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

Other roles

Co-Deputy Chair – Fortescue Metals Group Ltd

Chair – Audit and Risk Committee, Fortescue Metals Group Ltd

Chair – Investments Committee, HBF

Chair – The University of Western Australia Business School Board

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

Senior Adviser – EY Oceania

Senior Advisor – Appian Capital Advisory LLP Senior Advisory Board

Reserve Bank Board committee membership

Chair – Audit Committee

Wendy Craik AM

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

Non-executive member

Member since 7 May 2018
Present term ends 6 May 2023

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

Other roles

Chair – Climate Change Authority

Chair – Accountability Panel, The Energy Charter

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

Director – Australian Farm Institute

Member – Advisory Board for the Centre for Strategy and Governance

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

Philip Gaetjens

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

Ex officio member

Secretary to the Treasury
Member since 1 August 2018

Philip Gaetjens was appointed Secretary to the Treasury with effect from 1 August 2018. He has held leadership roles in the Commonwealth and state public sectors, including as Secretary of the New South Wales Treasury between 2011 and 2015, and has served as a senior executive in the Commonwealth Treasury, the Department of the Prime Minister and Cabinet, and the South Australian Department of Treasury and Finance. He was the Chief of Staff to the Treasurer, the Hon Scott Morrison MP, for three years from mid 2015 and Chief of Staff to former Treasurer the Hon Peter Costello AC from March 1997 to December 2007. Mr Gaetjens served as the inaugural Director of the Asia-Pacific Economic Cooperation (APEC) Policy Support Unit in Singapore between 2008 and 2010.

Other roles

Chair – Global Infrastructure Hub

Ex officio Member – Board of Taxation

Ex officio Member – Council of Financial Regulators

Member – Melbourne Institute Advisory Board

Member – Sir Roland Wilson Foundation

Member – Trans-Tasman Council on Banking Supervision

Ian Harper

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

Non-executive member

Member since 31 July 2016
Present term ends 30 July 2021

Ian Harper has extensive experience in public policy development, academia and economic consulting. Professor Harper chaired the Competition Policy Review (Harper Review), served as a member of the Financial System Inquiry (the Wallis Inquiry), and was the inaugural Chairman of the Australian Fair Pay Commission. He spent two decades as a Professor at the University of Melbourne – first as the NAB Professor of Monetary and Financial Economics (1988–92), then as the Ian Potter Professor of International Finance (1992–2002) and the Sidney Myer Professor of Commerce and Business Administration (2002–08) at Melbourne Business School. Professor Harper spent eight years as an economic consultant – first as a director of Access Economics Pty Ltd (2008–11) and then as a partner of Deloitte Touche Tohmatsu (2011–16).

Other roles

Dean and Director – Melbourne Business School Limited

Chair – Stipends Committee, Anglican Diocese of Melbourne

Director – Harper Associates Australia

Director – Mt Eliza Graduate School of Business and Government Ltd

Director – Ridley College Limited

Reserve Bank Board committee membership

Member – Remuneration Committee

Allan Moss AO

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

Non-executive member

Member since 2 December 2015
Present term ends 1 December 2020

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

Other roles

Principal – Allan Moss Investments Pty Ltd

Advisory Board member – Eight Investment Partners Pty Ltd

Reserve Bank Board committee membership

Member – Audit Committee

Carol Schwartz AO

BA, LLB, MBA (Monash)

Non-executive member

Member since 14 February 2017
Present term ends 13 February 2022

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

Other roles

Founding Chair – Women's Leadership Institute Australia

Chair – Our Community

Director – Qualitas Property Partners

Director – Stockland

Director – Trawalla Group

Reserve Bank Board committee membership

Member – Remuneration Committee

Catherine Tanna

LLB (Queensland)

Non-executive member

Member since 30 March 2011
Present term ends 29 March 2021

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

Other roles

Managing Director – EnergyAustralia Holdings Ltd

Board Member – Business Council of Australia

Reserve Bank Board committee membership

Chair – Remuneration Committee

Reserve Bank Board Audit Committee

Membership of the Audit Committee comprises two non-executive members of the Reserve Bank Board, one of whom chairs the committee, and two external members, typically former senior audit partners of major accounting firms with extensive experience in auditing in the finance sector.

Mark Barnaba AM

Chair

Member since 23 July 2018
Term ends 30 August 2022

See above for Mr Barnaba's professional details.

Sandra Birkensleigh

BCom (UNSW)

Member

Member since 9 September 2015
Term ends 8 September 2020

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

Other roles

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

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

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

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

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

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

Rahoul Chowdry

BCom (Hons) (Calcutta)

Member

Member since 14 February 2018
Term ends 13 February 2023

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

Other roles

Partner – MinterEllison

Allan Moss AO

Member

Member since 31 August 2017
Term ends 1 December 2020

See above for Mr Moss's professional details.

Operational Structure

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

Business Services Group

Assistant Governor: Lindsay Boulton

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

Banking Department

Head: Michelle McPhee
Deputy Head: Bipan Arora, Stephanie Connors

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

Note Issue Department

Head: Melissa Hope
Deputy Head: James Holloway

The Reserve Bank is responsible for the issue, reissue and cancellation of Australian banknotes. Its primary purpose in carrying out this role is to maintain the capacity of Australian banknotes to provide a safe, secure and reliable means of payment and store of value. The Bank works with its wholly owned subsidiary, Note Printing Australia Limited (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.

Payments Settlements Department

Head: Greg Johnston
Deputy Head: Keith Drayton, Peter Gallagher

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

Corporate Services Group

Assistant Governor: Susan Woods

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

Information Technology Department

Chief Information Officer: Gayan Benedict
Deputy Head: Julian Israel, David Kricker (Acting)

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

Workplace Department

Head: Bruce Harries
Deputy Head: Ed Jacka

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

Economic Group

Assistant Governor: Luci Ellis

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

Economic Analysis Department

Head: Alexandra Heath
Deputy Head: Lynne Cockerell, Merylin Coombs, Carl Schwartz

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

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

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

Economic Research Department

Head: John Simon
Deputy Head: Vacant

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

Financial Markets Group

Assistant Governor: Christopher Kent

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

Domestic Markets Department

Head: Marion Kohler
Deputy Head: Andrea Brischetto

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

International Department

Head: Bradley Jones
Deputy Head: Matthew Boge, David Jacobs

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

Chief Representative in Europe: Michael Davies
Chief Representative in New York: Michael Plumb

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

The Financial Market Group's Business Support Services area provides project delivery, market data management and operational support services, in conjunction with the Information Technology Department, for the Reserve Bank's investment and trading operations.

Financial System Group

Assistant Governor: Michele Bullock

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

Financial Stability Department

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

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

Payments Policy Department

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

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

Audit Department

Head: Melissa Broadhead (Interim)

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

Finance Department

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

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

Human Resources Department

Head: Michael Andersen

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

Information Department

Head: Jacqui Dwyer

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

Risk and Compliance Department

Head: Chris Aylmer

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

Secretary's Department

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

Secretary's Department provides secretariat and coordination services and advice on governance matters for the Governors, the Reserve Bank Board and its Audit and Remuneration committees, the Payments System Board and the Executive Committee. Secretary's Department is responsible for the Reserve Bank's communication, including preparing and publishing Reserve Bank information, maintaining the Bank's websites and handling enquiries from the media and general public. In addition, the department provides legal services to the Bank through the General Counsel (who reports directly to the Deputy Governor), coordinates a range of contacts with government, the parliament, other central banks and international organisations, and arranges programs for international visitors.

Wholly owned subsidiary: Note Printing Australia Limited (NPA)

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

NPA's prime function is the efficient and cost-effective production of high-quality and secure Australian banknotes, in accordance with specifications and requirements set by the Reserve Bank. NPA also undertakes other activities, including developing and producing passports for the Department of Foreign Affairs and Trade, producing banknotes for other issuing authorities and producing other security products.

NPA's Executive Committee, comprising its Chief Executive Officer and the heads of NPA's nine business areas, is responsible for the operational and administrative management of NPA. As at the end of June 2019, NPA employed 251 permanent staff.

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

Reserve Bank of Australia Operational Structure

August 2019

Governor
Philip Lowe

Deputy Governor
Guy Debelle

Business Services

Assistant Governor
Lindsay Boulton

- **Banking Department**
  - **Head:** *Michelle McPhee*
  - **Deputy Head:** *Bipan Arora*, *Stephanie Connors*
- **Note Issue Department**
  - **Head:** *Melissa Hope*
  - **Deputy Head:** *James Holloway*
- **Payments Settlements Department**
  - **Head:** *Greg Johnston*
  - **Deputy Head:** *Keith Drayton*, *Peter Gallagher*

Corporate Services

Assistant Governor
Susan Woods

- **Workplace Department**
  - **Head:** *Bruce Harries*
  - **Deputy Head:** *Ed Jacka*
- **Information Technology Department**
  - **Chief Information Officer:** *Gayan Benedict*
  - **Deputy Head:** *Julian Israel*, *David Kricker (Acting)*

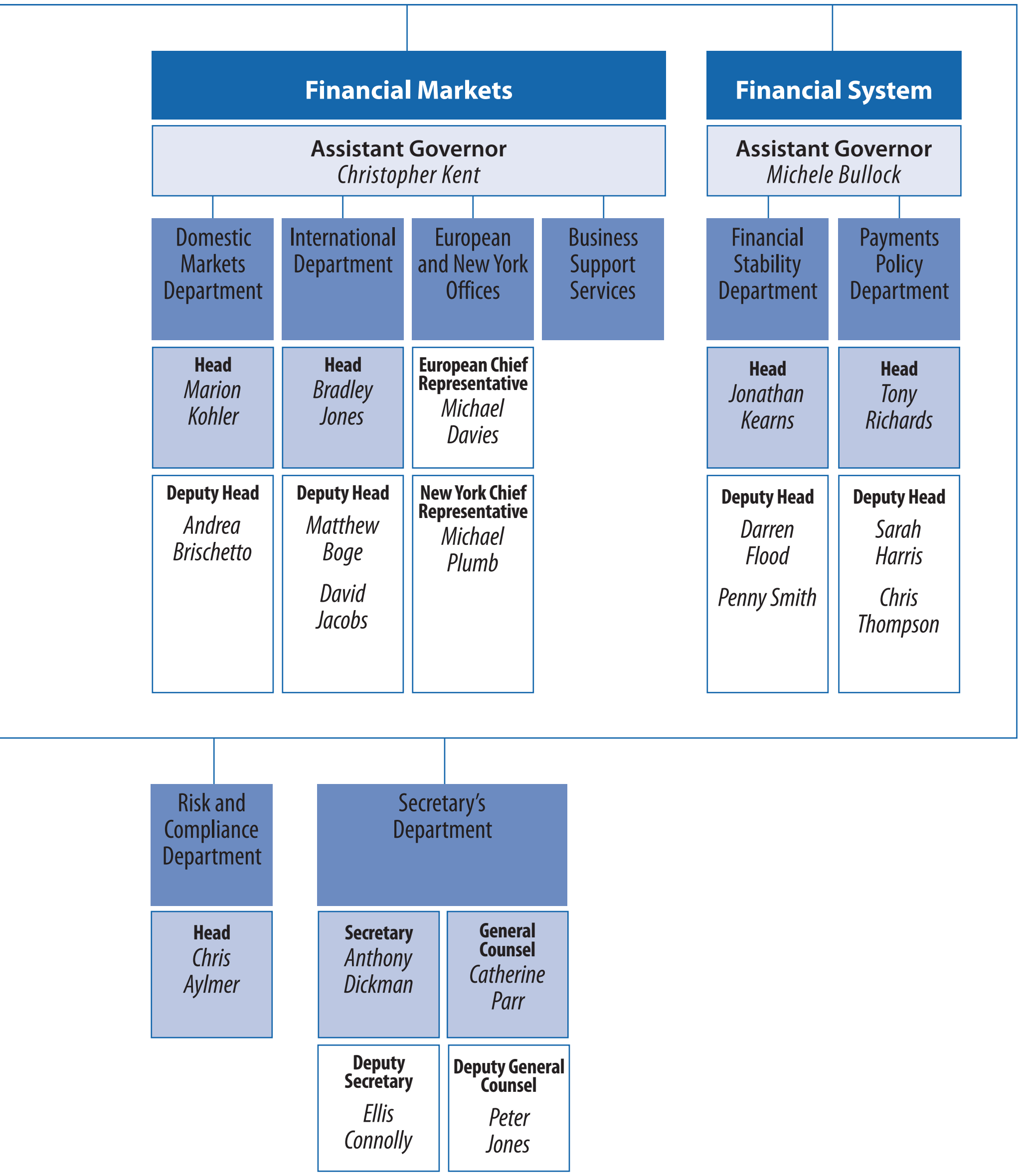
Economic

Assistant Governor
Luci Ellis

- **Economic Analysis Department**
  - **Head:** *Alexandra Heath*
  - **Deputy Head:** *Lynne Cockerell*, *Merylin Coombs*, *Carl Schwartz*
- **Economic Research Department**
  - **Head:** *John Simon*
  - **Deputy Head:** *Vacant*

Other Departments

- **Audit Department**
  - **Head:** *Melissa Broadhead (Interim)*
- **Finance Department**
  - **Chief Financial Officer:** *Robert Middleton-Jones*
  - **Financial Controller:** *Sam Tomaras*
- **Human Resources Department**
  - **Head:** *Michael Andersen*
- **Information Department**
  - **Head:** *Jacqui Dwyer*


Financial Markets
Assistant Governor
Christopher Kent
Domestic Markets Department
Head
Marion Kohler
Deputy Head
Andrea Brischetto
International Department
Head
Bradley Jones
Deputy Head
Matthew Boge
David Jacobs
European and New York Offices
European Chief Representative
Michael Davies
New York Chief Representative
Michael Plumb
Business Support Services
Financial System
Assistant Governor
Michele Bullock
Financial Stability Department
Head
Jonathan Kearns
Deputy Head
Darren Flood
Penny Smith
Payments Policy Department
Head
Tony Richards
Deputy Head
Sarah Harris
Chris Thompson
Risk and Compliance Department
Head
Chris Aylmer
Secretary's Department
Secretary
Anthony Dickman
General Counsel
Catherine Parr
Deputy Secretary
Ellis Connolly
Deputy General Counsel
Peter Jones

Communication and Community Engagement

The Bank seeks to enhance the community's understanding of its responsibilities and policy decisions through a broad communication program. Staff in the Bank's Head Office and State Offices work to help the community understand the Bank's role and, in turn, to understand the community's perspectives, priorities and concerns. The Bank also supports academic research, continues to build its public education program and operates a museum.

Publications and Speeches

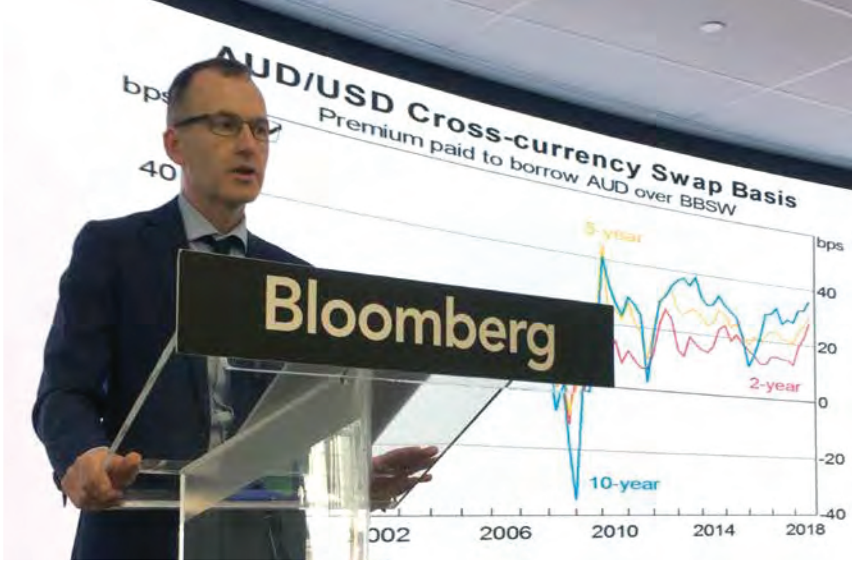
The Reserve Bank communicates its policy decisions, analysis and information about its operations through publications and speeches. Announcements about monetary policy decisions are made shortly after each Reserve Bank Board meeting and minutes are released two weeks later. A media release is published following each Payments System Board meeting, outlining issues discussed at the meeting and foreshadowing any forthcoming documents to be released by the Bank. In December 2018, the Bank, as secretariat to the Council of Financial Regulators, commenced publishing a statement on the Council's website following its quarterly meetings.

The Reserve Bank produces a regular series of reports aligned to its responsibilities. The quarterly *Statement on Monetary Policy* provides information about the Reserve Bank's assessment of current economic and financial conditions, along with the outlook for economic activity and inflation in Australia. To aid broader understanding of the forces shaping the economic outlook, in November 2018 the Bank began including forecasts for a wider set of economic variables in the *Statement* than had previously been the case.

The *Financial Stability Review*, published semi-annually, provides a detailed assessment of the condition of Australia's financial system and potential risks to financial stability. In 2018/19, areas of focus included high household debt in Australia and the slowing housing market, bank culture and operational risk, and risks stemming from global trade tensions. The *Review* also reported that the financial system has become more resilient in recent years owing to significant improvements in housing lending standards and the implementation of changes in financial regulation, and in financial institutions' own policies and practices in the decade since the onset of the financial crisis.

The Reserve Bank's quarterly *Bulletin* contains analysis of a broad range of economic and financial issues as well as aspects of the Bank's operations. During 2018/19, 41 articles were published in the *Bulletin*. As part of the Bank's public education program, five 'Explainers' on key economic concepts and issues were published along with an article for teachers that bridged the gap between the typical textbook

(Top) Governor Philip Lowe speaking at the CEDA Annual Dinner in Melbourne, November 2018; (above left) Deputy Governor Guy Debelle speaking at the Australian Business Economists Annual Dinner in Sydney, December 2018; (above right) Assistant Governor (Economic) Luci Ellis speaking at the HIA Industry Outlook Breakfast, March 2019



(Top left) Assistant Governor (Financial System) Michele Bullock addresses an Ai Group lunch in Albury, NSW, September 2018; (top right) Assistant Governor (Financial Markets) Christopher Kent addressed a Bloomberg conference, December 2018; (above left) Governor Philip Lowe at an Economic Society Lunch, May 2019; (above right) Head of Financial Stability Department Jonathan Kearns speaking in Canberra at the 2019 Property Leaders' Summit, June 2019

Public appearances provide an opportunity to communicate the Reserve Bank's analysis of economic and financial developments

explanation of monetary policy implementation and what the Bank actually does.

Public appearances provide an opportunity to communicate the Reserve Bank's analysis of economic and financial developments and how they have influenced monetary policy decisions, as well as respond to questions in a public forum. During 2018/19, the Governor, Deputy Governor and other senior officers gave around 50 public speeches on various topics. Senior staff also participated in a number of public panel discussions. More regional centres around Australia were included in the public appearance schedule with questions taken after almost all speeches. In addition to speeches on monetary policy, there were speeches on the impact of climate change on the economy, lessons from the global financial crisis, conditions in the household sector and the importance of collaboration in managing payment systems. Senior officers also addressed the journey to a near-cashless payments system, cryptocurrencies and distributed ledger technology, Australian equities and interest rate benchmark reform. Audio and text files of these speeches, the associated question and answer sessions and panel discussions were published on the Bank's website to facilitate transparency and accessibility.

The Reserve Bank publishes information in both electronic and hard-copy formats, although access to information is now mostly

RBA staff with representatives from BHP and BHP Women in Perth (from left) Assistant Governor (Economic) Luci Ellis, Katherin Domansky (Manager Commercial, Petroleum, BHP), Edgar Basto (Asset President, WA Iron Ore, BHP), Chloe Rattray (Specialist Communications, BHP Technology), Emma Vincent (Manager Supply Chain Planning, BHP Iron Ore), Kirsten Rose, (Manager Innovation, Sustainable Operation, BHP), Reserve Bank Board members Wendy Craik AM, Catherine Tanna and Carol Schwartz AO, and Rob Carruthers (Manager Government Relations, BHP), September 2018 online. During the year, a page for the Bank on Facebook was launched to reach and respond to questions from a broader cross-section of the community. Followers of the Bank's social media accounts on Twitter, LinkedIn and Facebook have grown in number to over 75,000, while the number of subscribers to the conventional email alert service is around 10,000. Visitors to the Bank's website also made use of the RSS feeds, which allowed them to receive alerts about updates to selected data, media releases, speeches, research papers and other publications, including those related to Freedom of Information requests.

The Reserve Bank's website has continued to evolve with new and refreshed content. The production process for the *Statement of Monetary Policy* and similar publications was made more efficient; the digital version can be accessed immediately in different formats upon publication. A new website was created for the Council of Financial Regulators, which, in conjunction with the quarterly statements, enhances its transparency. The Banknotes microsite has continued to be used to communicate information about the new banknote series being issued by the Bank, with the new $50 banknote entering general circulation and the design of the new $20 banknote revealed in 2018/19.

Regional and Industry Liaison

Staff in the Reserve Bank's regional and industry liaison team, which operates from four State Offices around Australia and the Bank's Head Office in Sydney, work together to conduct the Bank's liaison program. The State Offices are located in Adelaide, Brisbane, Melbourne and Perth. Staff in the liaison program regularly meet with businesses, associations, governments and community organisations from across the country. In 2018/19, over 750 liaison meetings were conducted. Staff from the State Offices also regularly visit Tasmania, the Northern Territory and regional areas across the country, to gather information on economic conditions beyond Australia's largest cities. In 2018/19, liaison staff visited Ballarat, the Barossa Valley, Bunbury, Geelong, the Gold Coast, the Kimberley, Newcastle, Toowoomba and Wollongong.

Information provided by liaison contacts helps the Bank monitor trends in the Australian economy, as well as the effect of unusual events, such as natural disasters. This information helps to provide a timely reading on the economy and complements data from official sources. Broad messages from liaison are incorporated into the Bank's policy discussions, board material and public communication. Liaison information is also regularly drawn upon for articles in the Reserve Bank *Bulletin*; in 2018/19, *Bulletin* article topics included firms' use of technology and firm-level insights into skills shortages and wages growth.

Staff from the State Offices also have an important role in the Bank's communication with members of the public, holding discussions with a broad cross-section of the community. In 2018/19, staff members in State Offices gave around 40 presentations to members of the community, including at schools, business roundtables and regional chambers of commerce. Bank employees also presented summaries of the *Statement on Monetary Policy* during the year to over 300 participants in the liaison program.

As noted in the chapter on 'Governance and Accountability', the Reserve Bank Board meets in state capitals other than Sydney on a regular basis. Following these Board meetings, a dinner is held with members of the local community, including representatives and leaders from politics, business, the public sector, and educational and community

Deputy Head of Economic Analysis Merylin Coombs spoke at the Kimberley Economic Forum in Broome, October 2018

In 2018/19, over 750 liaison meetings were conducted

organisations. Every few years, a similar dinner is held in Sydney. In 2018/19, community dinners were held in Perth in September 2018 and Sydney in June 2019. These dinners provide an opportunity to strengthen relationships between local communities and the Bank.

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

Consultations and Public Enquiries

In carrying out its various responsibilities, the Reserve Bank consults extensively with interested parties. The Bank maintains ongoing engagement with a wide variety of groups to inform its policy and operational activities. Senior Bank staff meet regularly with representatives of various domestic and international official agencies, business groups and financial market participants to discuss economic and financial developments.

In the first half of 2019, staff from the Payments Policy Department conducted two consultations on policy issues. One was in relation to proposed changes to the Reserve Bank's interchange standards. The other was conducted in conjunction with staff from the Australian

Competition and Consumer Commission and related to access to, and the functionality of, the New Payments Platform (NPP). Reports from these consultations were released in May and June, respectively.

The Reserve Bank held two meetings of its Payments Consultation Group in 2018/19. This group, which was established in 2014, is a structured mechanism for representatives of various users of the payments system (consumers, merchants, other businesses and government agencies) to convey their views on payments system issues as an input to the payments policy formulation process. More details on the activities of this group are provided in the *Payments System Board Annual Report*.

During the year in review, staff members from Payments Policy Department participated in a number of industry conferences and public events discussing payments issues. Topics covered included the provision of least-cost routing for card payments, real-time payments, open banking and developments in the ATM industry. Staff from Payments Settlements Department continued to conduct regular liaison meetings with Reserve Bank Information and Transfer System (RITS) members and industry groups, such as the Australian Payments Network (AusPayNet). Staff also participated in various industry forums, including AusPayNet's High Value Clearing System Management Committee. A senior staff member sits on the board of AusPayNet and another senior staff member sits on the board of NPP Australia Limited, the company established to build and operate the NPP. Staff from Payments Settlements and Banking departments represent the Bank on NPP operating committees. Participation in these groups and a number of other banking and payments industry forums ensures the Bank remains abreast of developments in these areas and can contribute to innovations in the banking and payments industry.

The Reserve Bank sponsors, and its International Department provides the secretariat to, the Australian Foreign Exchange Committee (AFXC). Among other things, in 2018/19 the AFXC worked to promote the adoption of the FX Global Code in the Australian wholesale foreign exchange market. The code is maintained by the Global Foreign Exchange Committee, of which the AFXC is a member committee, and the Deputy Governor is the Chair.

During the year, the Bank received approximately 2,300 public enquiries on a broad range of topics, including monetary policy, the economy and regulation of the payments system. Responses were provided to all enquiries where possible. Staff from Note Issue Department also continued their engagement with industry and members of the public in relation to the new banknote series, as discussed in the chapter on 'Banknotes'.

Research

The Reserve Bank publishes the results of longer-term research conducted by staff in the form of Research Discussion Papers (RDPs). The views expressed in RDPs are those of the authors and do not necessarily represent those of the Bank. During 2018/19, nine RDPs were published on a range of topics in the Bank's areas of interest, including the Australian housing market, low wages growth, monetary spillovers and consumer credit card choices. Reserve Bank staff also published their research in various external journals, including the *Economic Record*, *International Journal of Forecasting*, *Australian Economic Review* and *Studies in Non-Linear Dynamics and Economics*.

Research undertaken at the Reserve Bank is presented at external conferences and seminars. In 2018/19, Bank staff presented at a number of conferences and institutions in Australia and overseas. Of particular note was the engagement of an Economic Research staff member providing technical assistance to the Research and Economics Department of the Bank of Papua New Guinea.

The Reserve Bank hosts conferences to foster interaction between academics, central bankers and other economic practitioners on topical policy issues. The Bank's annual conference for 2019 focused on the possible explanations for, and solutions to, low wage growth. Economic Research staff presented two papers at this conference. Conference papers and discussions were published on the Bank's website in July 2019. The next annual conference is scheduled for the first half of 2020.

In 2018/19, the Reserve Bank also hosted visits from a number of policymakers from domestic and overseas institutions, including the Federal Reserve Bank of St Louis, Norges Bank, the International Monetary Fund, the Bank of Canada, the Bank for International Settlements and the Reserve Bank of New Zealand. Other visitors included academics from a range of institutions, including Boston College, University of California, Warwick University, the Brookings Institution, the University of Columbia and the University of Chicago. During their visits, these visitors presented seminars, taught short courses and participated in research activities at the Bank.

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

In 2018/19, the Reserve Bank continued its longstanding contribution towards the cost of a monthly survey of inflation expectations undertaken by the Melbourne Institute of Applied Economic and Social Research at the University of Melbourne. The Bank also maintained its contribution to a quarterly survey of union inflation and wage expectations undertaken by the Australian Council of Trade Unions.

The Reserve Bank continued to contribute to funding the *International Journal of Central Banking*, the primary objectives of which are to disseminate first-class, policy-relevant and applied research on central banking and to promote communication among researchers both inside and outside central banks.

The Reserve Bank is providing financial support for research on population ageing being conducted by the Australian Research Council Centre of Excellence in Population Ageing Research (CEPAR), based at the University of New South Wales. The Reserve Bank also sits on the Advisory Board of CEPAR.

The Reserve Bank makes a financial contribution to a number of conferences in economics and closely related fields. In 2018/19, these conferences included: the Economic Society of Australia's Australian Conference of Economists; the Economic Society of Australia's Women in Economics Network Retreat; the Melbourne Money and Finance Conference; the University of New South Wales Australasian Finance & Banking Conference; the University of Technology Sydney's Investment Management Research Program Conference; the PhD Conference in

Economics and Business; the Melbourne Institute Macroeconomic Policy Meetings; and the Australian and New Zealand Econometric Study Group Meeting. The Bank also supports the discussion of economic issues in the community by providing a venue for the Economic Society of Australia's Lunchtime Seminar and Emerging Economist Series.

In conjunction with the Australian Prudential Regulation Authority (APRA), the Reserve Bank has continued to sponsor the Brian Gray Scholarship Program, initiated in 2002 in memory of a former senior officer of the Bank and APRA. Two scholarships were awarded under this program in 2019. The cost to the Bank of these scholarships was $15,000.

The Economic Society of Australia (Tasmanian Branch) has established a scholarship to honour the memory of the late Professor Mardi Dungey, who was a former employee of the Reserve Bank. A contribution to funding the scholarship will be made by the Bank.

The total value of support provided for research and education in 2018/19 was $342,669.

Education

Another key part of the Reserve Bank's community engagement is interacting with students and educators. The Bank has a Public Access & Education team, whose role is to support educators and students and coordinate the efforts of staff across the Bank to deliver a public education program. The team's main focus is on economics students and educators at senior high school level (though activities are also undertaken for different stages of learning, both at school and university).

The focus on economics education is motivated by the importance of economic literacy in the wider community. The lives of all Australians are affected by their personal daily economic decisions, and by the quality of economic decision-making by businesses and government. The decline in the study of economics is, therefore, of concern. Nationally, the number of high school students studying economics in Year 12 has fallen by around 70 per cent since the early 1990s. The share of high schools offering economics has also fallen significantly over this period, with the decrease being most pronounced for comprehensive government schools. In addition, female participation has fallen sharply, as has participation by students from schools that are culturally diverse or located in lower-income areas. These trends are even more pronounced at university level. Consequently, the student base for economics is diminishing in both size and diversity. The Reserve Bank is aiming to help redress this by raising awareness of what economics is, its relevance and the career opportunities that economics can provide. To support schools, the Bank is creating resources that are aligned with curricula, providing presentations to students and providing educators with professional development opportunities. These services are available to all school sectors, with efforts to increase access to them by schools outside metropolitan areas.

Over the past year, significant progress was made in the public education program. Reserve Bank staff gave presentations to over 7,000 students, of whom more than 6,000 were high school students, and had a presence in all states. The extent of interaction was made possible by the Bank's Ambassador program, involving around 50 economists who engage with students using presentations aligned with key aspects of the relevant curriculum. The Ambassadors worked closely with staff in the Bank's State Offices, who also participate in educational talks and help ensure that they are available to students

An audience of economics teachers at the Bank's third Teacher Immersion Event, June 2019

Reserve Bank staff gave presentations to over 7,000 students during 2018/19

and educators across the country. To promote equitable access, talks were delivered at Bank premises and at events that multiple schools can attend. In addition, an increasing number of talks were given directly in school classrooms by the Ambassadors, who explain economic concepts and issues while also giving students the opportunity to meet young economists, learn about their work and careers, and be exposed to role models.

A classroom talk was given this year at the Northern Territory School of Distance Education, where an Ambassador gave a 'school of the air' Skype class to Year 12 economics students, whose class spanned students from Darwin to a remote cattle station on the Barkly Tablelands. Another presentation was given in Broome, Western Australia, at a high school offering economics for the first time. Ambassadors also visited high schools in regional centres in most states.

The public education team produced additional resources for students and educators, many of which are also relevant for more general audiences. The resources range from simple one-page explanations of economic concepts and issues (the 'In a Nutshell' series) through to more detailed explanations (the 'Explainer' series). In addition, the team created an interactive resource (the 'Inflation Explorer') that enables users to explore how the prices of individual goods and services, and overall inflation, have changed over time. These curriculum-linked resources can be found in the education section of the Reserve Bank's website, which has proved popular with

(Top) The Educators Advisory Panel met to discuss progress in the Bank's education program, June 2019; (above left) Head of Economic Analysis Alexandra Heath (centre) with students from Fort Street High School at the ABE Forecasting Conference, February 2019; (above right) Governor Philip Lowe at an Economic Society Lunch, May 2019

school students and teachers (with over 300,000 page views and downloads during 2018/19).

The Reserve Bank amplified its efforts to reach a new audience of students by producing materials that help students better understand what economics is, develop an interest in the subject and encourage them to build careers in economics. The 'Explore Economics' content is available physically and online, and was showcased at careers fairs. For the second year, the Bank participated in several major careers fairs and Bank staff had substantive conversations about studying economics with around 1,400 students. The Bank also participated for the first time in an education workshop for students who were unfamiliar with economics. The students spanned junior to senior high school years, and were from regional and rural areas in Victoria.

The Reserve Bank continued to support teachers through professional development activities.

It held its third Teacher Immersion Event for economics teachers in June 2019. The Event is formally accredited for maintaining proficient teaching standards. The 2019 Event included addresses by the Governor and Deputy Governor, presentations from Bank staff on core economic topics, practical sessions on how Bank content could be delivered in the classroom, along with opportunities for teachers to participate in an economics Q&A with senior staff. Teachers from across the country attended, including from regional areas. The Bank also introduced a Topical Talks series, where teachers attended a lecture given by a senior Bank staff member on a topical economic issue relevant to Year 12, and were able to interact with academic and professional economists as well as Bank Ambassadors. Key sessions of Bank-hosted professional development activities were filmed and made available on the Reserve Bank's website for a wider audience. In addition, Bank staff presented at various accredited professional development events hosted by peak national and state teaching bodies, including for the first time one for regional economics teachers in Coffs Harbour, New South Wales. Presentations extended to interactive workshops, which were highly valued by teachers.

In addition to the delivery of the public education program, submissions were made to state education authorities conducting the 'New South Wales Curriculum Review' and the South Australian 'SACE Subject Consultation – Economics Renewal'. The Bank put forward a case for the inclusion of more economics in the curriculum and increasing engagement with the subject.

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

Museum

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

The Museum has been showcasing the new series of 'next generation' banknotes in an additional permanent display called *A New Vision for Banknotes*. In 2018/19, information about the new $50 banknote was added to that for the $10 banknote released in 2017 and the $5 banknote, which launched the new series in 2016. The display has been designed to capture the innovative qualities of the new banknotes and the details of their production, including the tactile accessibility feature for people who are vision-impaired. A large multi-touch screen enables visitors to explore the design elements and security features of the new banknotes, along with the rich historical and social context of the imagery and stories that they contain.

Given the commemoration of the centenary of World War I in the community, the Museum retained its exhibition entitled *Before Sunset: The Bank & World War I* for another year to mark the centenary of the Armistice that concluded the war and the first Anzac Day. The exhibition shows how World War I was associated with the emergence of central banking in Australia. It explains central bank functions, originally performed by a part of the Commonwealth Bank of Australia that later became the Reserve Bank, and it showcases artefacts related to the Bank's involvement in the war – ranging from rare letters sent to the Governor of the day from the battlefields through to items associated with the Bank's role in facilitating housing and employment for the returned servicemen. The physical exhibition was complemented by a digital exhibition in the Museum foyer on *Establishing the Peace*.

Around 17,500 people visited the Museum during 2018/19. This was more than one-third higher than in recent years – when construction works in Martin Place had inhibited access – and marks a return to earlier trends in the growth of visitor numbers. With easier access, there was a significant increase in the range of groups that chose to visit the Museum and the activities offered. A new school holiday program was introduced and there was an increase in the variety of public talks given. The number and diversity of high school students visiting the Museum increased further, consistent with the Reserve Bank's public education initiatives. Senior high school groups were offered talks about the role of the Bank and the economy, which were aligned with the syllabus for economics and commerce. In addition to these talks, groups of Indigenous students (at high school and university) received presentations on the history of Indigenous design elements in Australia's banknotes. Talks were also available about Museum exhibits and the new banknotes, with these talks customised for some groups, including those with English as a second language, accessibility requirements and those undertaking vocational training.

In 2018/19 a 'Collection Spotlights' series was introduced to the Museum to enable the periodic small-scale display of significant artefacts and archival records held by the Bank. For example, during Science Week, there was a spotlight display on how Australian scientific innovation has been represented in the nation's banknotes. To mark the birthday of Sir Charles Kingsford Smith, there was a display of how the history of aviation in Australia has been represented in the nation's banknotes from the early 1950s through to the current $20 banknote.

In 2018, the Reserve Bank once again participated in Sydney Open – an event designed to give the public access to important or unique buildings. There were around 1,300 visitors to the Bank's public foyer areas and Museum. Visitors attended talks about the architecture and design of the Bank's heritage-listed Head Office building. These talks were complemented by a booklet titled *Unreservedly Modern* and a digital exhibition in the Museum foyer on the public artwork that can be seen when visiting the Head Office building and its buildings in other cities. The highlight of the Bank's participation in Sydney Open remained the access by smaller groups to the Board suite, where visitors received presentations about the Bank's art collection, which forms part of the cultural legacy of former Governor H. C. Coombs.

Most of the information in the Museum is depicted on the Museum's website, which also contains supplementary online exhibitions. This included an online exhibition titled *Unreservedly Modern*. It shows how the design of the Bank's Head Office building reflected the principles of innovation and progress that embodied the aspirations of H. C. Coombs for the newly independent central bank. *Collection Spotlight* is another new section on the Museum website that corresponds, in digital form, to the changing topical displays in the Museum, most of which enrich the stories contained in the nation's banknotes. Additional digital displays can be enjoyed on iPad kiosks in the Museum foyer, which were installed during the past year.

(Left) A young visitor to the Museum plays with a banknote jigsaw puzzle, October 2018; (right) Museum staff welcome a visitor to the School Holiday Program, April 2019

Around 17,500 people visited the Museum during 2018/19

Archives

During 2018/19, the Reserve Bank responded to over 220 research requests for information from its archives. The majority of requests were from Australian and overseas academics, postgraduate students, authors, numismatists and genealogists. The diversity of requests reflects the richness of the Bank's Archives, which not only contain records about the Bank's activities, but those of the savings banks that amalgamated with the original Commonwealth Bank of Australia (the Reserve Bank's predecessor), dating from the colonial era. Furthermore, the format of these records range from documents, volumes, photographs, films, advertising material and banknotes through to wartime vouchers. Consequently, researchers have access to unique records of Australia's financial, economic and social history over the past 200 years. During the past year, the varied research topics included: convict bank accounts, the Depressions of the 1890s and 1930s, Chifley's plans to nationalise the banks, the economic history of the interwar period and the production of banknotes in Australia during World War II. There was also interest in the artist Margel Hinder (whose sculpture stands outside the Head Office in Martin Place) for a major retrospective to be held at the Art Gallery of New South Wales, and in photographs of Sydney in 1913–19 (taken from the Bank's extensive glass plate negatives collection).

The Reserve Bank's archivists hosted a number of visitors during the year. These included staff from the Bank of Uganda, who spent a week observing how archival information in all its formats is captured, preserved and managed. A similar visit was arranged for postgraduate students of information management from Charles Sturt University. Descendants of Australia's first banknote printer, T. S. Harrison, visited the Bank to examine items relating to the 1913 series of banknotes, the design, printing and issuing of which Harrison had oversight. In addition, archivists hosted the great grandson of Sir Denison Miller, the first Governor of the Commonwealth Bank, whose World War I records have been of particular interest to researchers over the past five years.

The Reserve Bank's archivists manage the Bank's archival artworks, including a collection of Aboriginal bark paintings and mimi sculptures. With guidance by the Bank's curators, some of these Indigenous works were displayed during National Reconciliation Week and NAIDOC Week, continuing the legacy of H. C. Coombs, the Bank's first Governor. As part of the decommissioning of the Bank's Melbourne building, the Bank's curators and archivists also helped to manage the transfer of the large Sir Sidney Nolan mural, *Eureka Stockade*, from the building's foyer to the Australian National University (ANU). Originally commissioned by H. C. Coombs for the Melbourne branch, the mural's relocation has ensured that this nationally significant artefact could be preserved and remain publicly accessible. The mural's transfer to ANU has enhanced its provenance by residing at the university H. C. Coombs helped to establish.

The program to digitise the Reserve Bank's most significant or fragile archival records continued during the year, with hundreds of thousands of records scanned and many being made available electronically to researchers – including through the new secure external collaboration tool, RBA Box.

The writing of the next volume of the Reserve Bank's history, with a focus on the 1975–2000 period, continues. The Reserve Bank Historian, Professor Selwyn Cornish of the ANU, has made considerable progress and is a regular visitor to the Bank's Archives.

Charitable Activities

During 2018/19, the Reserve Bank made its 17th annual contribution of $50,000 to the Financial Markets Foundation for Children, which is chaired by the Governor. For many years, the Bank has donated a signed uncut banknote sheet to the ASX Refinitiv Charity Foundation for auction, which usually raises over $20,000. The Foundation includes the Financial Markets Foundation for Children in the distribution of auction proceeds. In July 2019, the Governor delivered his third address to the Anika Foundation's annual public event to raise funds to support research into adolescent depression and suicide; this was the 14th such event supported by the Bank in this way.

The Reserve Bank's corporate philanthropy program involves several initiatives, key among which involves dollar-matching staff payroll deductions (totalling $112,500 in 2018/19) organised by the Reserve Bank Benevolent Fund. The Bank also facilitates staff salary sacrificing under a Workplace Giving Program.

In late 2018, a donation of $5,000 was made to the Peter MacCallum Cancer Centre (Peter Mac) in honour of the late Paul Costello, who was a member of the Payments System Board from 2013 to 2018. Peter Mac is an Australian oncology research institute, cancer treatment and professional oncologist training centre located in Melbourne.

Reserve Bank staff participated in a number of volunteering activities in 2018/19 with The Smith Family and Foodbank NSW and ACT.

The Reserve Bank's contributions under all these initiatives in 2018/19 totalled $178,388.

Part 2:
Operations

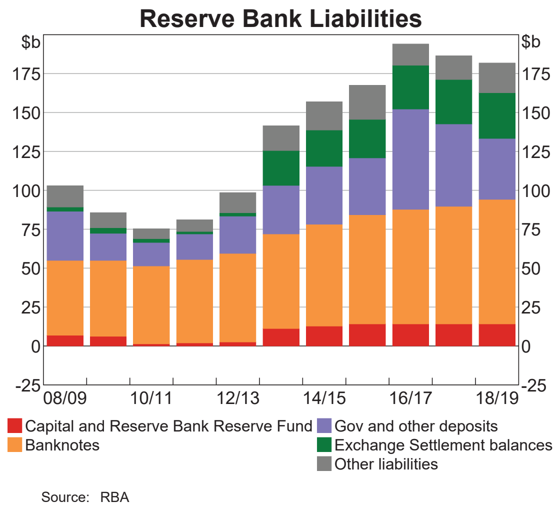
Broken Hill, New South Wales

Operations in Financial Markets

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

Balance Sheet

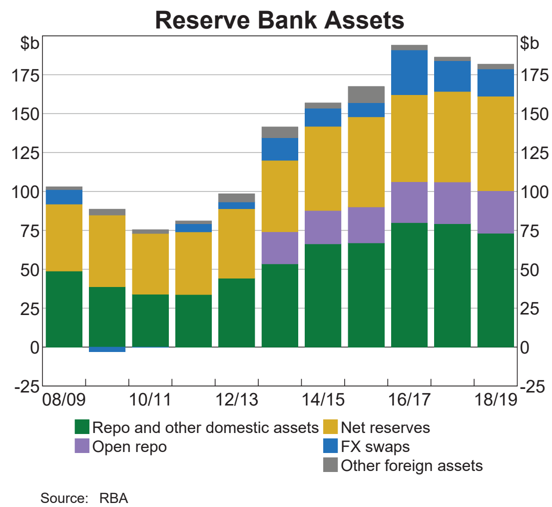
Over the past year, the Reserve Bank's balance sheet decreased by $5 billion and ended the 2018/19 financial year at $182 billion. The decrease in liabilities owed mainly to a decrease in deposits held by the Australian Government with the Bank. These deposits are used by the government to manage the timing of its receipts and outlays and can vary considerably over the course of a year. On the asset side of the balance sheet, the decrease in liabilities was matched by a decrease in foreign exchange swaps and repurchase agreements (repos).[1]



Domestic Market Operations

Monetary policy implementation

The Reserve Bank Board's operational target for monetary policy is the cash rate – the rate at which banks borrow and lend to each other on an overnight, unsecured basis. The Board adjusted the cash rate target once during 2018/19, from 1.50 per cent to 1.25 per cent in June 2019. The cash rate was reduced by a further 25 basis points to 1.00 per cent in July 2019. The daily liquidity



1 A repo involves an agreement to buy and then later sell securities; this is economically similar to a secured loan, with the difference between the purchase and sale price representing the interest earned on the transaction.

management operations of the Reserve Bank were conducted so as to ensure that the cash rate was consistent with the target set by the Board.

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

The bulk of ES balances arise from 'open repos'. These are repos contracted without a maturity date with the Reserve Bank by financial institutions to meet their liquidity needs outside of normal banking hours. As these balances are remunerated at the cash rate target and are held to facilitate the effective operation of the payments system, they have no implications for the implementation of monetary policy. At the end of June 2019, these balances were around $27 billion.

The remainder of ES balances, referred to as surplus ES balances, fluctuated between $2 billion and $3 billion in line with demand during 2018/19. ESA holders are not allowed to have a deficit in their account and any surplus balances are remunerated at an interest rate that is 25 basis points below the cash rate target. Therefore, ESA holders typically aim to maintain a small surplus in their accounts. Day-to-day demand for these surplus ES balances can vary for a number of reasons. In particular, at times, some institutions choose to hold ES balances as high-quality liquid assets (HQLA) to comply with prudential requirements. There can also be increased demand for holding liquid balances at the central bank (in the form of ES balances) at certain times of the year.

As well as ensuring that the cash rate remains consistent with the target, the Reserve Bank is responsible for calculating and publishing the cash rate. The Bank calculates the cash rate directly from market transactions, sourcing individual transaction data from the Reserve Bank Information and Transfer System (RITS). In 2018/19, there was an average of 33 cash market transactions each day, with aggregate daily activity in the cash market averaging around $4 billion.

Open market operations

On a day-to-day basis, the Reserve Bank transacts in domestic markets to ensure that the demand and supply for ES balances remains consistent with attaining the cash rate target set by the Reserve Bank Board. Through these open market operations (OMO), ES balances are supplied in order to offset the effect on the availability of ES balances arising from the payment flows between ESA holders and the Bank (discussed above), and to accommodate changes in aggregate demand for ES balances by financial institutions. The Bank publishes the aggregate results of its OMO dealing rounds on market data services and on its website each day.

Most of the Reserve Bank's transactions in the domestic market are repos contracted as part of its regular morning OMO. Repos involve the purchase of high-quality collateral securities where the Bank acquires the securities for a period of time in return for providing cash (i.e.

funds deposited into an ES account). As a result, there is very little risk of the Bank suffering financial loss in its operations. The securities accepted by the Bank include securities issued by the Australian Government, the Australian states and certain approved international sovereign and supranational issuers. Securities issued by authorised deposit-taking institutions (ADIs), such as bank bills and bonds, and residential mortgage-backed securities (RMBS) are also eligible for repo in the Reserve Bank's OMO.

In conducting its operations, the Reserve Bank takes account of its forecasts of the liquidity needs of the financial system, as well as of the pricing of the bids and offers received in the OMO dealing round. In 2018/19, the repo transactions conducted in these operations had an average maturity at origination of around 37 days and a maximum term of around six months. Reflecting the role that repos play in managing system liquidity, the total amount of cash outstanding that was extended by the Bank under repo (the 'repo book') averaged around $60 billion during the financial year. The Bank lent cash under repo to banks, insurance companies, non-bank securities firms and government institutions.

To ensure that unexpected payment flows during the day do not adversely affect the cash rate, the Reserve Bank has the option of undertaking a second round of market operations in the late afternoon. Such additional rounds were announced, on average, four times per month during 2018/19, with around two-thirds of these operations offering to withdraw additional liquidity from the system. Terms for these operations are typically shorter than the morning operations, with a maximum term of around eight days in 2018/19. In the event of unforeseen liquidity developments in the evening, further dealing rounds can be announced if the need arises, although no such operations were conducted in 2018/19.

On 30 August 2018, routine maintenance of the Reserve Bank's fire control systems caused an interruption of power to the Bank's main data centre, temporarily disrupting some payments systems (see the chapter on 'Risk Management' for more detail). Towards the end of that day, the Bank conducted an additional round of dealing to support liquidity and injected $2.4 billion under repo for an overnight term.

The Reserve Bank also uses foreign exchange swaps when managing system liquidity (swapping Australian dollars for foreign currencies increases the supply of ES balances in the same way as a repo transaction).[2] This is necessary because of the limited capacity of the domestic repo market to absorb sizeable fluctuations in the Bank's positions, such as those associated with large maturities of Australian Government Securities (AGS). Reflecting the role of the Bank's foreign exchange swaps in assisting with short-term liquidity management, these swaps have typically been contracted at maturities of around one month.

The Reserve Bank purchases government securities on an outright basis to assist in the management of large AGS maturities. This reflects the Bank's need to mitigate the liquidity impact on the bond's maturity date of the funds that are paid out of the Australian Government's account at the Bank into ESAs (for the credit of the security holder). These purchases for liquidity management purposes are carried out for near-to-maturity securities (usually less than 12 months). They have no implications for the stance of monetary policy. To offset the liquidity effect of AGS maturities, the Bank purchased $4.3 billion of the October 2018 bond and $7.7 billion of the March 2019 bond prior to their

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

maturity. Given the overall size of these maturities, the Bank also contracted sizeable repos and foreign exchange swaps to offset their impact on ES balances. In recent years, the Australian Office of Financial Management (AOFM) has also been buying back AGS directly in the secondary market prior to the maturity date, but typically ceases to do so around the time that the Bank enters the market to commence its purchases. These buybacks by the AOFM assist the Bank in managing the liquidity impact of a maturity. In preparation for the large AGS maturities scheduled for 2019/20, by the end of June 2019, the Bank had purchased $4.3 billion of the October 2019 bond and $2.6 billion of the April 2020 bond. The Bank's outright holdings of AGS are published monthly on the Bank's website.

The Reserve Bank holds a small amount of longer-term semi-government securities (semis) on an outright basis in its domestic portfolio. These are available to be sold as collateral under repo when the Bank conducts operations to drain liquidity from the overnight money market. At the end of 2018/19, the Bank held around $2 billion of semis on an outright basis. These securities are generally purchased as part of the Bank's daily OMO or separately through outright purchase operations.

The Reserve Bank continues to operate a Securities Lending Facility on behalf of the AOFM. The securities available through the facility comprise all Treasury Bonds and Treasury Indexed Bonds currently on issue. The Bank sells these securities under intraday or open repos to RITS members eligible to participate in the Bank's domestic market operations. The Reserve Bank is also willing to lend securities from its outright portfolio under repo in response to enquiries from eligible counterparties.

Standing facilities

Separate from its OMO, the Reserve Bank also provides certain standing facilities, primarily to support the smooth functioning of the payments system. Through these facilities, eligible counterparties transact with the Bank on pre-arranged terms, with liquidity made available via repos. The most frequently used standing facilities are those for the provision of intraday liquidity to ESA holders. The Bank can also extend overnight funding via repo where an ESA holder faces a shortage in ES balances that cannot be borrowed from another financial institution; such funding is extended at an interest rate of 25 basis points above the cash rate target. During 2018/19, these arrangements were used only occasionally for small values, including for testing purposes.

Open repos are provided under the Reserve Bank's standing facilities for ESA holders that have to settle payment obligations outside normal business hours, such as 'direct-entry' payments and transactions through the New Payments Platform (see the chapter on 'Banking and Payment Services' for more detail). At the end of June 2019, 16 financial institutions had open repo positions with the Bank, valued at around $27 billion. To collateralise these open repos, the Bank has permitted the use of certain related-party assets issued by bankruptcy remote vehicles, such as self-securitised RMBS.

Eligible securities

The eligibility of securities for purchase under repo in the Reserve Bank's domestic operations is determined according to specific criteria.[3] To protect against a decline in the value of the collateral securities should the Bank's counterparty not meet its repurchase obligation, the Bank requires the value of the securities to exceed the cash lent by a certain margin. These margins, which are listed on the Bank's website, are considerably higher for securities that are not issued by governments.[4]

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

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

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

Domestic securities purchased by the Reserve Bank are held in an account that the Bank maintains in Austraclear, the central securities depository operated by the Australian Securities Exchange (ASX). Securities transactions conducted between the Bank and its counterparties are settled in the Austraclear system, mostly on a bilateral basis. The Bank also settles repo transactions contracted in its OMO within ASX Collateral, a collateral management service. During 2018/19, around 36 per cent of the value of securities the Bank purchased under repo was settled within ASX Collateral, up from around 30 per cent in 2017/18. The use of this system reduces the manual processing that would otherwise be required to manage this collateral, including marking it to market and maintaining margins.

Asset-backed securities form a significant share of the collateral securities the Reserve Bank purchases under open repo. Around 95 per cent of the outstanding value of open repos is backed by self-securitised RMBS. Self-securitised RMBS do not have directly observable market prices. As a result, the Bank uses an internal valuation model for self-securitised RMBS based on observed market prices of similarly structured RMBS; this internal model has been reviewed externally.

Asset-backed securities – particularly self-securitised RMBS – are also the major asset provided as collateral for the Committed Liquidity Facility (CLF) (see below). Given the importance of asset-backed securities to the Reserve Bank's operations, the Bank has mandatory reporting requirements for securitisations to remain eligible for repo. In 2018/19, the Bank received around 4,100 data submissions monthly on around

Australian Dollar Securities Held under Repurchase Agreements[(a)]
30 June

	2016		2017		2018		2019	
	$ billion	per cent of total	$ billion	per cent of total	$ billion	per cent of total	$ billion	per cent of total
AGS	32.8	35	43.8	43	49.9	48	36.5	37
Semis	7.4	8	6.2	6	8.7	8	12.7	13
Supranational	3.4	4	3.5	3	3.6	3	2.8	3
Government guaranteed	0.0	0	0.0	0	0.0	0	0.0	0
ADI issued	16.8	18	12.5	12	8.1	8	12.9	13
Asset-backed securities	31.6	34	35.6	35	32.7	32	33.5	34
– Of which for open repo	27.2	29	33.5	33	32.3	31	32.4	33
Other	0.6	1	0.6	1	0.6	1	0.4	0
Total	92.5	100	102.2	100	103.7	100	98.8	100
– Of which for open repo	29.3	32	35.7	35	34.2	33	34.5	35

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

300 asset-backed securities from issuers or their appointed information providers. For eligible RMBS, this covers 1.7 million underlying individual housing loans with a combined balance of around $430 billion, which is around one-quarter of the total value of housing loans in Australia. The required data include key information on the structure of the RMBS and the relationships among counterparties within the RMBS structure; the required data also include anonymised information on each of the residential mortgage loans and the underlying collateral backing the RMBS structures.

Reflecting the Reserve Bank's interest in promoting transparency for investors in asset-backed securities, issuers are also required to make securitisation information available to investors and other permitted users. The data provided to these users are broadly similar to the data provided to the Bank; however, issuers may redact particular fields where the information poses a potential risk to privacy obligations and provide aggregated data instead. The mandatory reporting requirements allow the Bank (and other investors in RMBS) to analyse in detail the underlying risks in asset-backed securities and to price and manage risk for such securities accurately.[5]

Committed Liquidity Facility

Banks subject to the Liquidity Coverage Ratio (LCR) under Basel III prudential standards are required to hold sufficient HQLA (which, in the Australian context, consist of AGS and semis) to meet outflows during a period of stress of 30 days. Given the relatively low levels of government debt outstanding in Australia, there is a shortage of HQLA securities. To address this, the Reserve Bank provides some institutions with a contractual commitment to provide repo funding – the CLF – subject to certain conditions. These conditions include a fee that financial institutions pay on the committed amount. In addition, any bank seeking to use the CLF must have positive net worth. The banks are able to contract these repos using securities eligible in the Bank's domestic market operations. The full terms and conditions of the facility are available on the Bank's website.[6]

The Reserve Bank administers the CLF, while APRA determines which banks have access and the amount available (in aggregate and to each bank). During 2018/19, 15 banks were permitted to access the CLF. The aggregate size of the CLF is the difference between the Australian Prudential Regulation Authority's (APRA's) assessment of banks' overall LCR requirements and the Bank's assessment of the amount of HQLA securities that could reasonably be held by the banking system without unduly affecting market functioning.

In determining the amount of HQLA securities that the banking system can reasonably be expected to hold, the Reserve Bank takes into account factors such as the holdings of other market participants and the impact on the liquidity of HQLA securities in secondary markets. For 2015–19, the Bank assessed that the relevant banks could reasonably hold 25 per cent of the stock of HQLA securities. Over recent years, the volume of HQLA securities has risen and they have become more readily available in bond and repo markets. Given this, the Bank has assessed that the banks can increase their holdings to 30 per cent of the stock. To minimise the effect on market functioning, the increase in the banks' reasonable holdings of HQLA securities will occur at a pace of 1 percentage point per year until 2024, commencing with an increase to 26 per cent in 2020.

5 Analysis of the securitisations data was included in speeches by Christopher Kent, Assistant Governor (Financial Markets), in November 2018 and March 2019. See <https://www.rba.gov.au/speeches/2018/sp-ag-2018-11-26.html> and <https://www.rba.gov.au/speeches/2019/sp-ag-2019-03-19.html>.

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

For 2019, APRA assessed banks' overall LCR requirements to be $468 billion and the Reserve Bank assessed the banks' reasonable holdings of HQLA securities to be $225 billion, such that the total size of the CLF was $243 billion. This was $6 billion lower than the total size of the CLF in 2018, largely reflecting lower projected net cash outflows. For 2020, the Bank has assessed that banks can reasonably hold $242 billion of HQLA securities.

Since the CLF was introduced in 2015, the Reserve Bank has charged a CLF fee of 15 basis points per annum on the commitment to each bank. The fee is set so that the banks face similar financial incentives to meet their liquidity requirements through the CLF or by holding HQLA. Following a review, the Bank assessed that the CLF fee should be increased. To minimise the effect on market functioning, the increase will occur in two steps, with the CLF fee rising to 17 basis points on 1 January 2020 and to 20 basis points on 1 January 2021.[7]

Administration of the cash rate

The Reserve Bank is the administrator of the cash rate, which is the operational target for monetary policy. The cash rate is also a significant financial benchmark referenced in overnight indexed swaps and the ASX's 30-day interbank futures contracts. The Bank publishes the *Cash Rate Procedures Manual*, which sets out in more detail the Bank's arrangements for administering the cash rate and the procedures for handling errors and complaints.[8] In 2019, the Bank made amendments to the *Cash Rate Procedures Manual* to clarify that the Bank is not required by the Australian Securities and Investments Commission (ASIC) to be licensed as a benchmark administrator under Australia's benchmarks regulatory regime. The amendments also provided detailed information about the Bank's use of expert judgement when administering the cash rate, business continuity arrangements and procedures for complaints and whistle-blowing.

Foreign Exchange Operations

The Reserve Bank transacts in the foreign exchange market on almost every business day. The majority of these transactions are associated with providing foreign exchange services to the Bank's clients, the most significant of which is the Australian Government.

The Reserve Bank typically purchases the necessary foreign currency in the spot market. During 2018/19, the Bank bought $10 billion in the spot market to facilitate its customer business. However, the Bank retains the option – especially during periods of market stress – to use its existing stock of foreign currency reserves to fund its customer business, subsequently replenishing those reserves when market conditions have stabilised. Using foreign currency reserves in this manner has not been considered necessary since 2008, at which time global financial market functioning was significantly impaired. Similarly, the Bank has not intervened in the foreign exchange market since 2008. During 2018/19, the Bank's assessment was that trading conditions in the market were sufficiently orderly that it was not necessary to support liquidity in the market through its own transactions. The Bank nevertheless retains the discretion to intervene in the foreign exchange market to address any dysfunction and/or a significant misalignment in the value of the Australian dollar. With each Annual Report, intervention data for the year under review are published on the Bank's website.

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

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

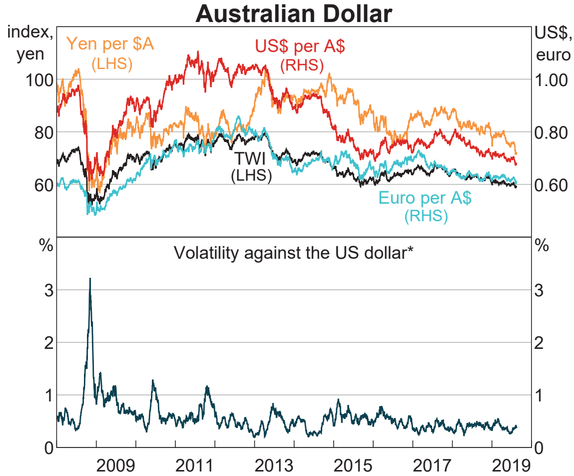
The Reserve Bank also transacts in the foreign exchange market when managing its foreign currency reserves. As discussed below, the relative weightings of foreign currencies in the Bank's portfolio are tightly managed against a benchmark. To maintain the portfolio at these benchmark weights, or to accommodate discrete changes in the weights, the Bank transacts in spot foreign exchange markets. The final settlement of these rebalancing flows may be deferred through the use of foreign exchange swaps, whereby one currency is exchanged for another with a commitment to unwind the exchange at a subsequent date at an agreed (forward) rate. Swaps can also be an efficient way to manage the shorter-term investments within the reserves portfolio. During 2018/19, the Bank generally maintained around $20 billion in swaps for these purposes.

As discussed above, the Reserve Bank also makes use of foreign exchange swaps in its domestic market operations. Swapping Australian dollars for foreign currencies does not affect the exchange rate, but alters the supply of ES balances in the same way as the Bank's repo transactions. Throughout the year, the amount of foreign currency held under swaps against Australian dollars can vary significantly. In 2018/19, the amount held by the Bank ranged between $3 billion and around $25 billion.

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

The Reserve Bank's activities in the foreign exchange market are conducted in a manner consistent with the principles of the FX Global Code. A 'Statement of Commitment to the FX Global Code' has been signed on behalf of the Bank.[9] Further, the Bank only transacts in the foreign exchange market with counterparties that have also signalled their adherence to the code by signing such statements.

Australian Dollar



* Daily absolute percentage change, 22-day rolling average

Sources: RBA; Refinitiv

Reserves management

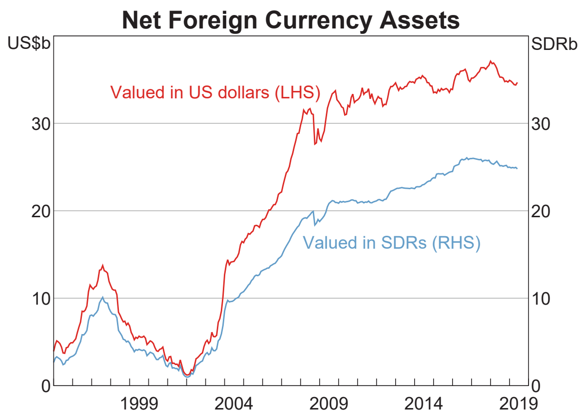
Australia's official reserve assets include foreign currency assets, gold, Special Drawing Rights (SDRs – an international reserve asset created by the International Monetary Fund (IMF)) and Australia's reserve position in the IMF. At 30 June 2019, these assets totalled $77.5 billion. All components of official reserve assets are owned and managed by the Reserve Bank, with the exception of Australia's reserve position in the IMF, which is an asset of the Australian Government.

Official reserve assets are held by the Reserve Bank to facilitate various policy operations, including in the foreign exchange market (described above) and to assist the Australian Government in meeting its commitments to the IMF (discussed below). The Bank's capacity to undertake such operations

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

is best measured by its foreign currency assets net of any forward commitments (such as foreign currency the Bank has obtained from short-term swaps against the Australian dollar). As at 30 June 2019, these net foreign currency assets were SDR24.8 billion or US$34.7 billion. (In Australian dollar terms, net foreign currency assets totalled $49.4 billion, an increase of $1.2 billion since 30 June 2018, reflecting valuation effects.) The amount held represents the level assessed as necessary to meet policy requirements.

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



Source: RBA

Foreign Assets
30 June 2019

	A$m
Official Reserve Assets	77,470
Foreign Currency	64,910
Gold	4,440
SDRs	6,170
Reserve Position in the IMF	1,950
Other Foreign Currency Assets	–53
Net Forward Commitments	–14,694
Foreign currency	–15,412
Gold loans	718
Net Foreign Reserves	62,723
Memo item:	
Net Foreign Currency Assets	49,445

Source: RBA

The composition of the Reserve Bank's net foreign currency assets is managed against an internally constructed benchmark that reflects the Bank's need to maintain effective intervention capacity. Subject to this constraint, and the Bank's overall risk tolerance, the benchmark is assessed to be the combination of foreign currencies and foreign currency assets that maximises the Bank's expected returns over the long run. The structure of the benchmark is reviewed periodically and in response to significant changes in market conditions.

During 2018/19, no changes were made to the currency allocation of the benchmark portfolio. The Reserve Bank maintains the largest allocation to the US dollar at 55 per cent, reflecting the significant liquidity in US dollar currency and asset markets.

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

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

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

Benchmark Foreign Currency Portfolio
30 June 2019

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

Source: RBA

At the end of June 2019, the Reserve Bank's holdings of foreign currency included $17.6 billion of foreign currency held from swaps against Australian dollars. Foreign currency obtained in this manner does not comprise part of the benchmark portfolio but reflects domestic liquidity operations. It is invested to ensure that the Bank's forward commitments to sell foreign currency are hedged against currency and interest rate risk.

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

For the same reason, the Reserve Bank also swaps other currencies in its foreign exchange reserves portfolio against the yen to enhance returns. As a consequence, while the Bank's exposure to changes in the value of the yen remains small (consistent with the yen's 5 per cent allocation in the benchmark), an additional $20 billion of yen was held at the end of June 2019 as a result of swaps against other foreign currencies in the portfolio.

A small component of the Reserve Bank's net foreign currency reserves sits outside the benchmark framework. These assets encompass investments in a number of Asian debt markets through participation in the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP) Asian Bond Fund Initiative. This initiative was established following the Asian currency crisis in the late 1990s to assist in the development of bond markets in the region. At the end of June 2019, the total allocation of the Bank's reserves to these funds was $707 million and the return on these investments in 2018/19 was 7.8 per cent when measured in SDR terms, largely reflecting interest earnings and capital gains on bond holdings.

Measured in SDRs, the overall return on the Reserve Bank's foreign currency assets over 2018/19 was 2.0 per cent. This return was slightly higher than that in each of the previous three years, reflecting a higher average level of yields on short-term securities and a positive effect of exchange rate valuation changes. The average running yield on the benchmark portfolio increased by 0.5 per cent to 1.5 per cent over 2018/19, largely driven by higher average short-term yields for the US dollar portfolio. Yields remained negative and relatively stable for the euro portfolio.

The Reserve Bank's holdings of SDRs at 30 June 2019 amounted to $6.2 billion, $0.6 billion higher than the previous year, mainly owing to the depreciation of the Australian dollar against the SDR. Under voluntary arrangements with the IMF, the Bank is willing to transact in SDRs upon request from other countries or prescribed holders. In these transactions, the Bank will generally either buy or sell SDRs in exchange for foreign currencies (such as euros or US dollars). While such transactions do not alter the level of Australia's reserve assets (only the respective proportions held in SDRs and foreign currency),

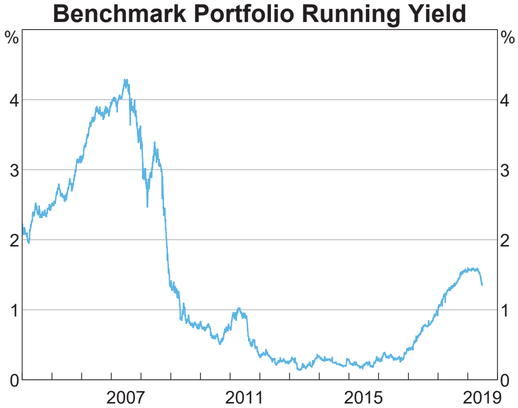
Foreign Currency Assets[(a)]

A$ million, 30 June 2019

Currency	Securities held outright	Securities lent under repurchase agreements	Deposits at official institutions[(b)]	Total (gross)	Forward FX commitments[(c)] Against AUD	Against other currencies	Other	Total (net)
US dollar	9,497	–339	1,298	10,456	159	14,495	1,614	26,724
Euro	2,951	–	3,005	5,957	–21	3,200	487	9,623
Japanese yen	16,531	–	23,830	40,361	–17,737	–20,019	–	2,605
Canadian dollar	533	–	5	539	–	1,946	–	2,484
Chinese renminbi	1,878	–	580	2,458	–	–	–	2,458
UK pound sterling	2,343	–	5	2,348	–2	88	–	2,434
South Korean won	2,323	–	83	2,406	–	–	–	2,406
Total	36,057	–339	28,807	64,525	–17,601	–291	2,101	48,734

(a) Excludes investments in the Asian Bond Fund
(b) Includes deposits at foreign central banks and the Bank for International Settlements
(c) In accordance with IMF guidelines, 'forward commitments' reflect notional values of unsettled spot and forward transactions, converted to Australian dollars at the prevailing forward exchange rate. Other forward commitments largely reflect cash lent under repurchase agreements.
Source: RBA

Benchmark Portfolio Running Yield



Source: RBA

the Bank occasionally chooses to replenish foreign currency sold in exchange for SDRs by purchasing additional foreign currency against Australian dollars in the spot market.

Australia's reserve position in the IMF comprises that part of Australia's quota in the IMF that is paid in foreign currency as well as other credit that Australia has extended to the IMF in support of its lending programs. At the end of June 2019, Australia's reserve position in the IMF was $2.0 billion, $0.6 billion larger than a year earlier, mainly reflecting greater provision of foreign currency to the IMF. As noted above, Australia's reserve position in the IMF is not held on the Reserve Bank's balance sheet. However, the Bank will sell to (or purchase from) the Australian Treasury the foreign currency the Treasury needs to complete its transactions with the IMF. In contrast to other foreign exchange transactions with the Australian Government, the Bank will typically draw on (or add to) its foreign currency reserves when providing (or receiving) foreign currency for IMF-related purposes because these transactions do not alter the level of Australia's reserve assets. Nevertheless, as with SDR transactions, on certain occasions the Bank may decide to offset the impact on foreign currency holdings of these IMF transactions by buying or selling foreign currency in exchange for Australian dollars in the spot market.

… overall return on the Reserve Bank's foreign currency assets … was 2.0 per cent … slightly higher than that in each of the previous three years

Gold holdings (including gold on loan) at the end of June 2019 were around 80 tonnes, unchanged from the previous year. Gold prices rose by 18.8 per cent in Australian dollar terms over 2018/19, increasing the value of the Reserve Bank's holdings of gold by around $0.8 billion to $5.2 billion. At $0.9 million, income from gold loans was slightly higher than the previous year as a result of increased lending. The Bank's activities in the gold market are conducted in a manner consistent with the principles of the Global Precious Metals Code, and a 'Statement of Commitment to the Global Precious Metals Code' has been signed on behalf of the Bank.[10] During the year in review, the Bank audited its gold holdings, including that portion stored at the Bank of England.

Bilateral currency swaps

In December 2018 and March 2019, the Reserve Bank renewed bilateral local currency swap agreements with Bank Indonesia and the Bank of Japan. The agreement with Bank Indonesia allows for the exchange of local currencies between the two central banks of up to A$10 billion or IDR100 trillion, while the agreement with the Bank of Japan allows for the exchange of local currencies between the two central banks of up to A$20 billion or JPY1.6 trillion. These agreements are for a further three years and can be extended by mutual consent. The Reserve Bank has similar agreements with the People's Bank of China and the Bank of Korea. The purpose of these agreements is to allow each central bank to support trade settlement in local currencies, particularly in times of market stress, or to support financial stability.

RBA Bilateral Local Currency Swap Agreements[(a)]
June 2019

	Agreement signed/renewed	Size (A$b)
People's Bank of China	April 2018	40
Bank of Japan	March 2019	20
Bank Indonesia	December 2018	10
Bank of Korea	February 2017	10

(a) All swap agreements have 3-year terms
Source: RBA

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

Banking and Payment Services

The Reserve Bank provides banking and payment services to meet the needs of the Australian Government and to support the efficient and stable functioning of the Australian financial system. During 2018/19, the Bank completed a number of multi-year projects to renovate and strengthen its banking and settlement capabilities. In addition to operating Australia's real-time gross settlement (RTGS) system, the Bank operates new national infrastructure to support the settlement of real-time payments by households and businesses on a 24/7 basis. The Bank also developed services that enable the Australian Government to access 24/7 payment capabilities. These services are consistent with the Bank's strategic goal of providing innovative, high-quality, banking and payment services to the Australian Government and its agencies and, in turn, the Australian public.

Banking

The Reserve Bank aims to deliver secure and efficient banking and payment arrangements to the Australian Government and its agencies. The Bank also provides banking and registry services to a number of overseas central banks and official institutions.

As part of the central banking services that the Reserve Bank provides to the Australian Government, the Bank manages the consolidation of all Australian government agency account balances. This service is provided irrespective of the financial institution that provides transactional banking services to each Australian government agency. Daily payment instructions from the Department of Finance (Finance) are processed to move funds from the government's accounts with the Reserve Bank to agency bank accounts to meet their payment obligations. Over the course of the year, the Reserve Bank has been working with Finance on its multi-stage plan to modernise the government's cash management, including using New Payments Platform (NPP) capability where possible.

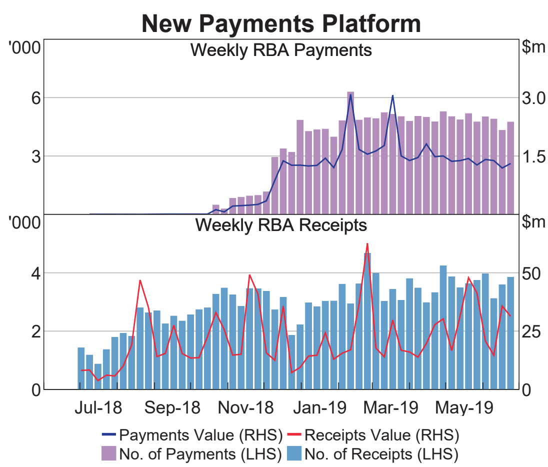
While the Reserve Bank manages the consolidation of the government's accounts, the Australian Office of Financial Management has responsibility for ensuring there are sufficient cash balances to meet the government's day-to-day spending commitments and for investing excess funds in approved investments, including term deposits with the Reserve Bank. The Reserve Bank also provides a very limited short-term overdraft facility to cater for occasions when there is unexpected demand for government cash balances. This overdraft facility is used infrequently and was not drawn upon in the reporting period.

The Reserve Bank has a long history of supporting Australian government agencies through the provision of secure, reliable and cost-effective transactional banking services. While these services cover a broad range of payment and collection activities the bulk of the Australian Government's payments are made via the local low-value direct entry systems both domestically and overseas, and primarily relate to welfare or pension payments made on behalf of the Department of Human Services (DHS). In 2018/19, the Reserve Bank processed around 311 million domestic and 1.1 million international payments, totalling $545 billion and $13 billion respectively. The Australian Government also makes payments using a number of other payment systems, including the RTGS system, cheque, BPAY and prepaid cards. In line with broader industry trends, cheque payment volumes continued to decline, falling by a further 9.5 per cent over the course of 2018/19.

In addition, the Reserve Bank provides government agency customers such as the Australian Taxation Office (ATO) with access to a number of services through which they can collect monies owed from both domestic and international payers. These include direct entry, RTGS, BPAY, cheque, eftpos, cash, card-based services via the internet and phone, and the NPP. The Reserve Bank processed 39 million collections-related transactions for the Australian Government in 2018/19, amounting to $551 billion. Agencies continue actively to encourage customers to use lower-cost electronic payment options, with cheque and cash payments declining by 14 per cent to $4.1 billion and electronic payments representing 99 per cent of all collections-related transactions in 2018/19.

The nature of the transactional banking services offered by the Reserve Bank is evolving rapidly with changes in payments technology and business processes. As this is occurring, the Bank is supporting its government agency customers to embrace new technologies and processes to deliver convenient, reliable and cost effective payment options. An important milestone in this area was the implementation by DHS of a new NPP payment capability in late 2018. The implementation allowed real-time urgent, crisis and disaster relief payments to be made, notably during the Tasmanian bushfire and the Queensland floods. Since then, the number of outward NPP transactions processed by the Bank has averaged around 20,000 per month. NPP collections activity has also grown. The Bank processed around 155,000 NPP collections in 2018/19, totalling $1.1 billion, primarily on behalf of the ATO. The Bank expects that the NPP will gradually affect volumes for its more traditional payment and collection services in coming years, as agencies transition to offering more real-time payment options and other financial institutions expand their NPP services.

The provision of transactional banking services is consistent with the Reserve Bank's responsibilities under the *Reserve Bank Act 1959*, which requires the Bank to provide these services to the Australian Government if required. The Bank provides transactional banking services to over 90 Australian government agencies. A key difference between the Bank's central banking and transactional banking services is that the latter is offered in line with the Australian Government's competitive neutrality guidelines. To deliver such services, the Reserve Bank competes with commercial financial institutions, in most instances bidding for business via tenders conducted by the agencies themselves. The Bank must also



Source: RBA

The Bank processed around 155,000 NPP collections in 2018/19, totalling $1.1 billion

cost and price the services separately from its other activities, including central banking services, and meet a prescribed minimum rate of return.

The Reserve Bank works closely with its transactional banking customers, the Australian Government and the payments industry to ensure that its customers and the public have access to the services that meet their banking needs. Bank staff also contribute to industry initiatives to ensure the interests of the government, as a significant user of payment services, are represented. For some services, the Bank combines its specialist knowledge of the government sector with specific services and products from commercial providers. Responding to the community's increased use of 'wallets' as a payment method, the Bank has been actively working to utilise this payment channel to expand the options available to government agencies for collecting online payments. The Bank has also implemented its Application Programming Interface (API) Gateway, which will facilitate instant, secure, and automated communications between the Bank and its agency customers. The first service via API was delivered for DHS in late 2018/19. The Bank is looking to leverage this capability further to support the expansion of the NPP and other services to benefit the Bank's agency customers. Further use of combined service arrangements with commercial providers will be explored as the government's banking needs evolve.

Registry services are also provided by the Reserve Bank to supranational organisations issuing Australian dollar-denominated securities. Eight organisations currently use these services, with this number having been relatively steady over recent years.

The Reserve Bank has undertaken a significant program of work to upgrade its banking systems since 2012. In 2018/19, the Bank successfully completed the upgrade of the account maintenance system and systems used to process government payments and collections to a more modern programming language and architecture. The Bank has also completed re-engineering a number of related business processes. The final implementation of this program of work was completed during the September quarter 2019.

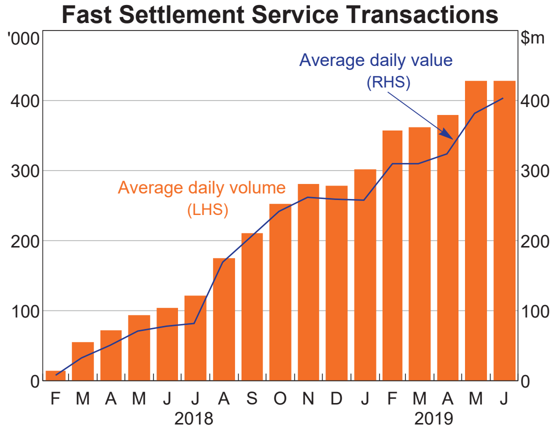
Pro forma business accounts for transactional banking are provided as a separate chapter of this report. After-tax earnings from the Reserve Bank's transactional banking services were $6.3 million in 2018/19, $4.8 million higher than in the previous year.

Settlement Services

The Reserve Bank Information & Transfer System (RITS) is a critical piece of payments infrastructure that sits at the core of the Australian financial system, enabling the fast and reliable transfer and settlement of payment obligations between financial institutions. These institutions hold Exchange Settlement Accounts (ESAs) with the Reserve Bank, which are credited and debited by RITS to finalise settlement of payment obligations arising from transactions undertaken by their customers. Around 90 per cent of the value of payments exchanged between financial institutions in Australia is settled in RITS on an RTGS basis. These payments include large customer, corporate and institutional payments, wholesale debt and money market transactions, and the Australian dollar leg of foreign exchange transactions. In 2018/19, RITS settled on average around 50,100 of these payments each day, with a daily average value of $199 billion. Over the course of a year, this amounts to around 25 times the total value of economic output in Australia.

The Fast Settlement Service (FSS) is a RITS real-time settlement service that supports the operation of the NPP. Since launching in February 2018, NPP and the FSS have provided real-time payment services that allow retail consumers to make and receive payments immediately, 24 hours a day, using simple identifiers (PayIDs), such as email addresses, phone numbers or Australian Business Numbers (ABNs). At the end of June 2019, there were more than 3.1 million registered PayIDs, and more than 80 institutions were offering NPP payments to their customers. Uptake of the new services, however, has been constrained by delays at certain major commercial banks in rolling out NPP functionality to their customers. Some NPP participants have also had problems maintaining the operational stability of their new systems and the number of outages in 2018/19 was higher than other payment channels.

At the end of June 2019, the volume of transactions processed by the FSS reached around 428,000 per day, with an average daily value of $404 million. Most of these payments



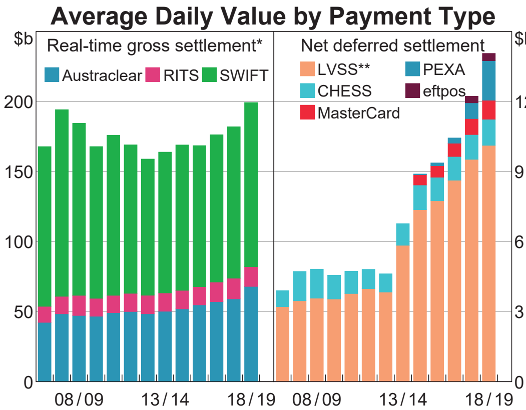
Source: RBA

have migrated from the existing direct entry ('pay anyone') clearing stream, but some may also have moved from traditional payment methods such as cash and cheques. The average value of payments settled in the FSS was around $940 in June 2019, reflecting the predominantly retail nature of the payments currently being processed.

Despite growth in the use of the NPP, most retail payments are still settled on a deferred net basis in RITS. Around $10 billion of these payments are settled in the RITS Low Value Settlement Service (LVSS), which settles obligations arising from the clearing of cheques, some debit and credit cards, BPAY, ATMs and direct entry. For these transactions, RITS combines the bilateral clearing obligations submitted by members into a single settlement at predetermined times. Most direct entry transactions are settled in five intraday

In 2018/19, RITS settled on average around 50,100 … payments each day, with a daily average value of $199 billion

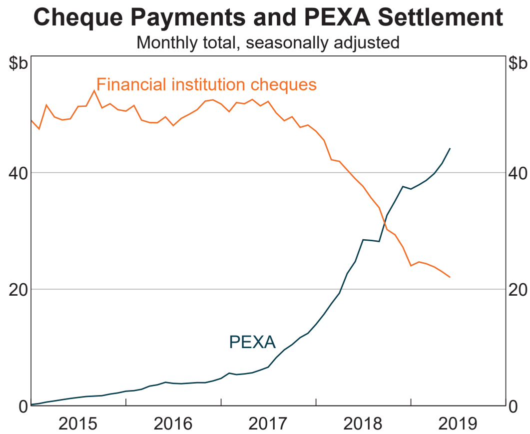
At the end of June 2019, there were more than 3.1 million registered PayIDs



* Excluding FSS transactions

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

Source: RBA



Source: RBA

settlement runs, while other obligations are settled at 9.00 am the next business day. Growth in the value of net settlement through the LVSS has been strong over the past six years, owing to a combination of continuing growth in non-cash payments, some loss of netting efficiency because of the introduction of the intraday settlement runs in 2013, and shifting patterns of settlement processing by LVSS participants.

The remaining net deferred settlements, totalling around $3.9 billion, are externally administered batch arrangements. These include batches that settle obligations for Mastercard and eftpos transactions, stock market transactions processed by the ASX Clearing House Electronic Sub-register System (CHESS), and electronic property transactions processed by Property Exchange Australia Limited (PEXA). Each batch administrator calculates its participants' obligations, which it submits to RITS for simultaneous settlement in a 'batch'. Most batches are settled once per day at designated times, while PEXA batches are settled throughout the day.

The PEXA batch experienced particularly strong growth in 2018/19, partly reflecting mandates coming into effect in Western Australia, Victoria, New South Wales and South Australia for the electronic lodgement of various types of property-related transactions. Over the year to June 2019, both the average daily number and value of PEXA settlements almost doubled, reaching around 2,060 and $1.7 billion respectively. The growth in electronic conveyancing over recent years has been broadly matched by a decline in the value of financial institution cheque settlements. At the end of June 2019, PEXA was the only electronic conveyancing platform settling in RITS, although, in the first half of 2019, ASX Financial Settlements Limited received in-principle approval from the Reserve Bank to administer a new property settlement batch in RITS.

Given its critical role in the payments system, RITS is built to a very high level of resilience, which includes replication of critical components and duplication of systems across two geographically isolated sites. Despite this, on 30 August 2018, RITS and the FSS were affected by a major operational incident that resulted in the loss of power to most of the Reserve Bank's Head Office IT systems. Both RITS and FSS were successfully recovered on the same day and all payments due to settle were completed by the end of the day (see the chapter on 'Risk Management').[1] Consequently, the June 2019 annual assessment of RITS against the *Principles for Financial Market Infrastructures* set by the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) concluded that the Bank had 'broadly observed' operational risk requirements and provided recommendations to ensure the highest standards of resilience are maintained. The Bank is in the process of implementing these recommendations. The Bank is also working with financial institutions to review contingency arrangements that ensure the industry maintains a high level of readiness to deal with extreme scenarios, such as an extended outage of RITS or other key payments system infrastructure.

In April 2019, the Reserve Bank and the Australian Payments Council (APC) released the first in a series of three consultation papers in relation to key strategic decisions required for the Australian high-value payments system to migrate to a new modern and consistent messaging standard (the ISO 20022 message standard). The migration project will involve moving messages currently used in some parts of the payments system onto the ISO 20022 message standard, with the aim to improve message processing and enable expanded message content to support innovation in payments systems. The Payments System Board has identified migration to the ISO 20022 message standard as a key strategic issue for the Australian payments system. The Bank and the APC are expecting to release the summary of the responses from the first consultation paper in the second half of 2019.

1 A small number of property refinancing transactions were deferred until the next day.

Other significant payments projects under way at the Reserve Bank include an upgrade of the core network and application infrastructure of RITS and related systems, including the Bank's SWIFT infrastructure. This is a multi-year program of work due for completion in 2020, with benefits expected to include enhanced security and resilience, higher processing speeds and operational cost savings. The Bank is also working with RITS members to enhance the security of their connections to wholesale payments systems, in line with a strategy developed by the CPMI.

In 2018/19, two institutions were approved as new RITS members to operate their own ESAs to settle their payment obligations. This brought the total number of active ESA holders in RITS at the end of June 2019 to 60. A further 40 institutions are dormant ESA holders, using another ESA holder as a settlement agent to settle their payment obligations. There were also 66 members of RITS that do not hold an ESA, but are members of RITS to satisfy requirements that enable them to deal with the Reserve Bank in its open market operations or administer a settlement batch in RITS. In recent years, interest in applying to operate an ESA in RITS from entities that are not authorised deposit-taking institutions has increased. These entities are generally non-traditional payment service providers, offering a range of services, such as foreign currency remittance, prepaid multi-currency accounts or online card acquiring.

The Reserve Bank offers correspondent banking services to other central banks and official institutions overseas to allow for settlement of certain Australian dollar payments and provides safe custody services to these overseas agencies. The face value of securities held in custody by the Bank in this capacity was around $73 billion at the end of June 2019. The Bank also provides settlement services for banknote lodgements and withdrawals by commercial banks.

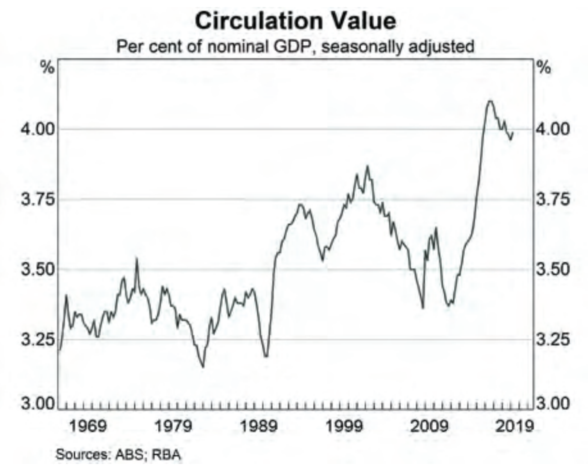
Banknotes

The Reserve Bank is responsible for producing and issuing Australia's banknotes. The Bank seeks to ensure that banknotes in circulation are of high quality and in sufficient volume to meet public demand. Australia has one of the safest and most secure currencies in the world, as reflected in the low level of counterfeiting it experiences. To ensure that this continues to be the case, the Bank researches anti-counterfeiting technologies and developments in banknote design. Based on this work, the Bank has been undertaking a major upgrade of Australia's banknotes, incorporating innovative new security features. Arrangements for storage and distribution of Australia's banknotes have also been upgraded in recent years to allow the Bank readily and cost-effectively to accommodate changing patterns in the demand for banknotes in the community.

Circulation

The value of banknotes in circulation increased by around 6 per cent over 2018/19, with growth in circulation slightly above the long-term average. As at the end of June 2019, there were 1.6 billion banknotes in circulation, worth $80 billion. The number of $5 and $10 banknotes in circulation experienced a short-term boost from the introduction of the Next Generation Banknote series, and have now fallen back towards their previous long-term growth paths. Circulation of the other denominations continued to grow in line with their long-term trends. As at the end of June 2019, new series banknotes made up around 60 per cent of all outstanding $5s and around 50 per cent of outstanding $10s. The new $50, which was released in October 2018, made up 8 per cent of all $50s in circulation.

While consumers have been increasingly using electronic payment alternatives in preference to cash, the value of banknotes in circulation, measured as a per cent of nominal GDP, remains close to historical highs at around 4 per cent, albeit having fallen slightly over recent years. Ongoing growth in circulation appears to reflect growing use of banknotes as a store of value, with Reserve Bank estimates suggesting that roughly half to three-quarters of outstanding banknotes, by value,



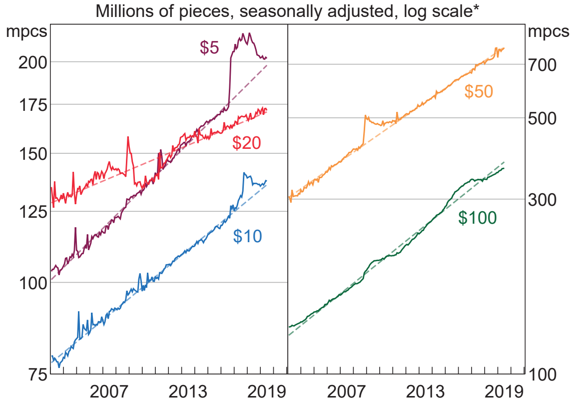
As at the end of June 2019, there were **1.6 billion banknotes** in circulation, worth **$80 billion**

Summary of Banknote Share Estimates
Per cent of total banknotes outstanding, by value

	Estimates range (%)	Central estimate (%)
Transactional stock – legitimate	15–35	25
Hoarded stock	50–75	62.5
Lost banknotes	5–10	7.5
Shadow economy	4–8	5

Source: RBA

Banknotes in Circulation
Millions of pieces, seasonally adjusted, log scale*



* Dashed lines represent the long-term trend
Source: RBA

are used for this purpose.[1] Banknotes can also be used for shadow economy transactions, and can be lost, although Bank estimates suggest that these categories make up a modest share of the overall value of banknotes outstanding.

Despite the overall decline in the use of cash for day-to-day transactions, a core group of Australians still rely on physical currency, with the Bank's 2016 Consumer Payments Survey showing that around 20 per cent of Australians use cash in at least 80 per cent of their transactions in the period of the survey. People in this group tended to be older, have relatively low household income, and reside in more remote communities than the average Australian.

Distribution

The Reserve Bank has established distribution agreements with a number of commercial banks to provide the banks with timely access to banknotes. In 2018/19, the Bank issued banknotes worth $8.5 billion, of which $1.7 billion had been in circulation previously and around $6.8 billion were new.

The Reserve Bank aims to maintain a high quality of banknotes in circulation. High-quality banknotes are more readily handled by machines and make it more difficult for counterfeits to be passed. Accordingly, the Bank has arrangements that encourage the commercial banks and the cash-in-transit companies periodically to sort the banknotes they handle to agreed quality

1 For additional information see: R Finlay, A Staib and M Wakefield (2018), 'Where's the Money?', An Investigation into the Whereabouts and Uses of Australian Banknotes', RBA Research Discussion Paper No 2018-12.

standards. Based on this sorting, banknotes that remain fit for circulation get redistributed, while those that are deemed unfit get returned to the Reserve Bank's processing site in Craigieburn. These unfit banknotes are assessed to confirm their authenticity and quality. In 2018/19, the Bank received $2.9 billion worth of banknotes, and almost all were deemed to be unfit for recirculation.

The Reserve Bank provides an additional service through its Damaged Banknotes Facility. The facility is offered to members of the public who unwittingly have come into possession of damaged banknotes or whose banknotes are accidentally damaged, with the aim of ensuring that they do not face financial hardship. Claims that meet the requirements set out in the Bank's Damaged Banknotes Policy are paid based on their assessed value. The Bank processed 15,009 claims and made $4.2 million in payments in 2018/19.

Storage

The Reserve Bank maintains banknote holdings at its storage facilities. It does this for inventory management purposes – so it can accommodate growth in the number of banknotes in circulation as well as seasonal fluctuations in demand – and to meet contingency needs in the event of systemic shocks and production disruptions.

In 2018, the Reserve Bank completed its program to upgrade its banknote infrastructure. The National Banknote Site (NBS), located at the Reserve Bank's Craigieburn site in Victoria, has been in full operation since August 2018, storing, processing and distributing banknotes. The NBS has in place a range of automation equipment found in modern warehouses to support operational safety, security and efficiency. The site is well placed to manage the Bank's banknote storage, processing and distribution activities for decades to come, and has allowed the Bank to streamline its other banknote infrastructure.

In particular, the banknote storage facility in the Reserve Bank's former building in the Melbourne CBD was officially closed on 23 March 2018, marking the end of a significant chapter in the Bank's history. Banknote distribution from the Bank's Head Office in Sydney will cease at the end of 2019. Since reopening in 2009 for transactions, approximately 1 billion banknotes, worth a combined value of around $40 billion, have been issued from Head Office.

Counterfeiting Rates

The level of counterfeiting in Australia remains relatively low by international standards. In 2018/19, around 18,000 counterfeits, with a nominal value of just over $1 million, were detected in circulation. This corresponds to around 11 counterfeits detected per million genuine banknotes in circulation, a 38 per cent reduction from 2017/18.

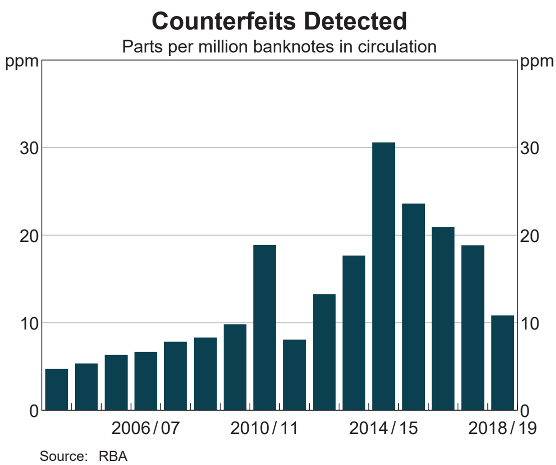
Law enforcement efforts to investigate and prosecute counterfeiting operations play a large role in managing the threat of counterfeiting. When counterfeit banknotes are sent to the Reserve Bank's Counterfeit Examination Laboratory, they are assessed by specialised document examiners. Counterfeits that are considered to be made by the same production source are grouped, monitored and referred to the Australian Federal Police (AFP) for investigation. The AFP, state police forces and the Commonwealth Director of Public Prosecutions all work to investigate and prosecute counterfeiting operations, with information and expert witness statements often provided by the Reserve Bank. In 2018/19, the Bank completed 200 statements relating to 5,221 counterfeits. In addition, the Bank is aware of 32 prosecutions that occurred during the year relating to the possession, passing and making of counterfeit currency.

The level of counterfeiting in Australia remains relatively low by international standards

Counterfeit Banknotes in Australia[(a)]
2018/19

	$5	$10	$20	$50	$100	Total
Number	31	57	518	10,402	6,552	17,560
Nominal value ($)	155	570	10,360	520,100	655,200	1,186,385
Parts per million	0.2	0.4	3.0	13.7	18.4	10.8

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

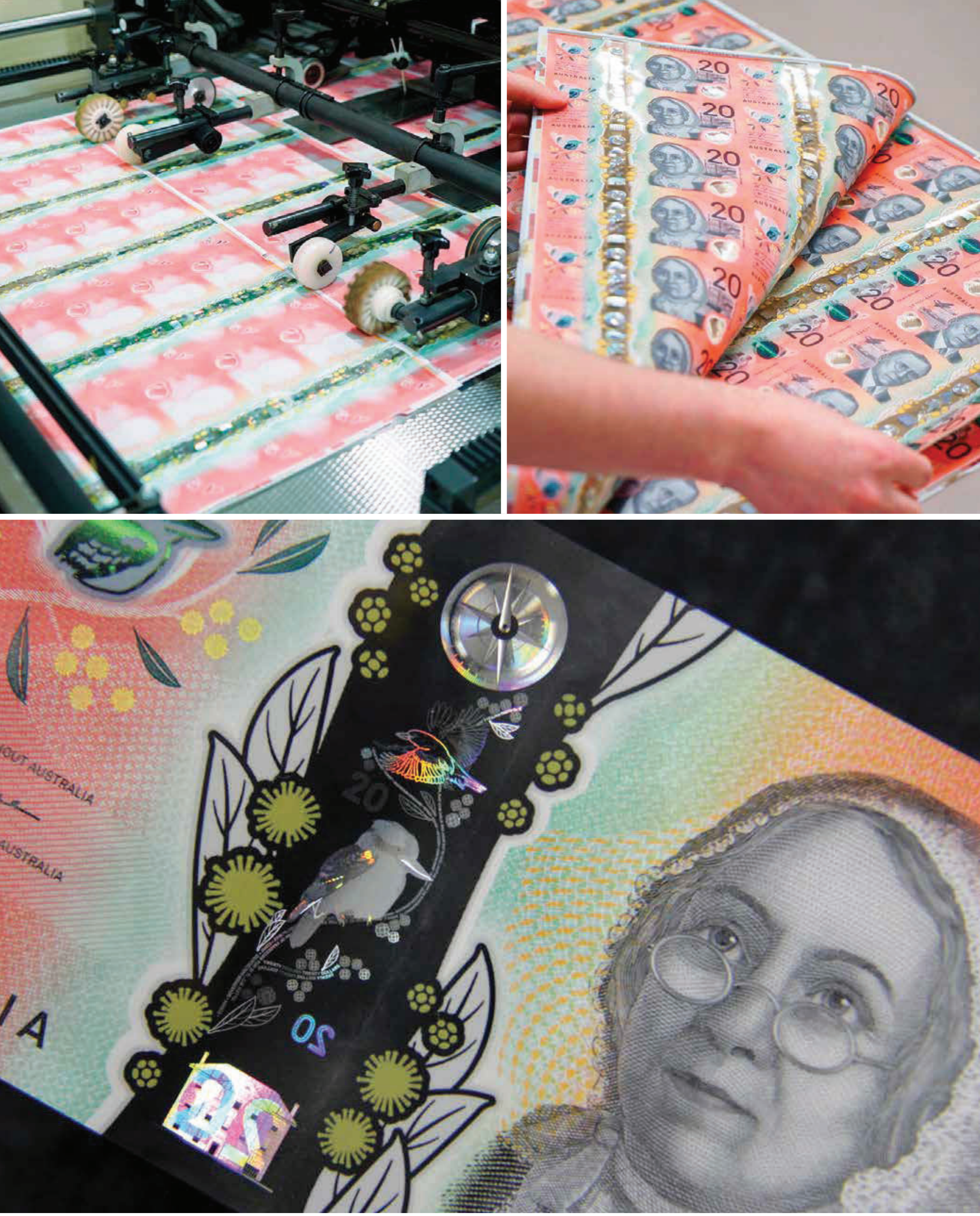


Police seizures of stocks of counterfeits that have not yet been passed prevent these counterfeits from entering circulation. In 2018/19, police seizures accounted for 5 per cent of all counterfeits detected, in line with the long-run average.

Next Generation Banknote Program

To ensure that Australian banknotes remain secure against counterfeiting, the Reserve Bank is issuing an upgraded series of banknotes. The new $5 banknote was released in 2016, the new $10 in 2017 and the new $50 in October 2018. A new $20 banknote is scheduled to enter general circulation in October 2019. The Reserve Bank revealed the design of the new $20 banknote in February 2019. The new $20 continues to celebrate enterprise and ingenuity, with the design featuring the Reverend John Flynn, who founded the Royal Flying Doctor Service, and Mary Reibey, who became a successful businesswoman after arriving in Australia as a convict. The remaining denomination – the $100 – is well advanced in design development and is expected to be issued in late 2020. In mid 2019, the Reserve Bank's printer, Note Printing Australia Limited (NPA), printed the one billionth banknote in the new series.

The new banknotes incorporate new security features such as the top-to-bottom window, which contains optically variable images, including a flying bird and reversing number, as well as an ink patch with a rolling colour effect. The new banknotes also retain many of the key design elements of the first polymer banknote



(Top left) The new $20 banknotes in production, February 2019; (top right) sheets of the new $20 banknotes, February 2019; (above) close-up of the new $20 banknote top-to-bottom window, February 2019

The new $20 banknote continues to celebrate enterprise and ingenuity

series, including the people portrayed, size and colour palette.

The Reserve Bank implemented a communication strategy to ensure that the public was well informed about the new banknotes and could readily identify the new security features. With two denominations already having been issued, a relatively small advertising campaign was run for the new $50, predominantly using digital channels and some radio advertisements.

During 2018/19, the Reserve Bank continued to engage with industry and members of the public to increase knowledge about the new and existing banknotes. Some of these events focused on celebrating the contribution of stakeholders who have lent their expertise to the Bank throughout the design process for the new $50 banknote. This included Aboriginal artist Muriel Van Der Byl (also known as Aunty Muriel and whose artwork features on the banknote) and supporters of Edith Cowan's legacy in Western Australia. In October 2018, members of the vision-impaired community had an opportunity to explore features of the new $50 banknote at a preview event at Vision Australia in Melbourne. At the event, there was positive discussion about the real-life applications of the tactile feature, particularly as the $50 is the most common banknote dispensed by ATMs.

A couple of months after the new $50 banknote was released into general circulation it was noticed that there was a spelling error in the microprint containing the excerpt from Edith Cowan's maiden parliamentary speech. Despite the misspelling, these banknotes remain legal tender and can continue to be used. The error was corrected in the print run that commenced in mid 2019 and the Reserve Bank and NPA have reviewed processes to reduce the likelihood of such an error occurring in the future.

Communication with Industry

Communication with the cash-handling industry – which includes equipment manufacturers, financial institutions and other high-volume cash handlers, such as retailers and hospitality venues – has been an important component of the Next Generation Banknote Program. The Reserve Bank has engaged in regular communication with the cash-handling industry (including via an online central hub of information) to support their equipment upgrades and educate their staff and customers about the new banknote series. Bank staff have also continued to attend industry events and deliver presentations to share information about how to identify the security features of the new banknotes.

It is estimated that there are around half a million pieces of banknote-handling equipment in Australia – including ATMs, self-service checkouts, gaming machines and vending machines – that need to process the new banknotes. The $50 banknote is the most common banknote in circulation and accounts for the vast bulk of banknotes used in ATMs. Accordingly, the release

Head of Note Issue, Melissa Hope, speaks at the Currency Conference, April 2019

of the new $50 banknote has been a significant logistical exercise for some organisations that distribute and/or handle banknotes. The speed at which the new $50 banknote has replaced its predecessor has been slower than that experienced for the $5 and $10 banknotes. This has been due partly to one of the major banks experiencing unexpected problems with dispensing the new $50 banknote from its ATMs; these problems are in the process of being resolved. The Reserve Bank will continue its engagement with manufacturers and owners of banknote-processing machines to help ensure the machines are ready for the launch of the new $20 and $100 banknotes.

Vision Australia CEO Ron Hooton with Assistant Governor (Business Services) Lindsay Boulton holding a new $50 banknote at a Vision Australia event, October 2018

Research and Development

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

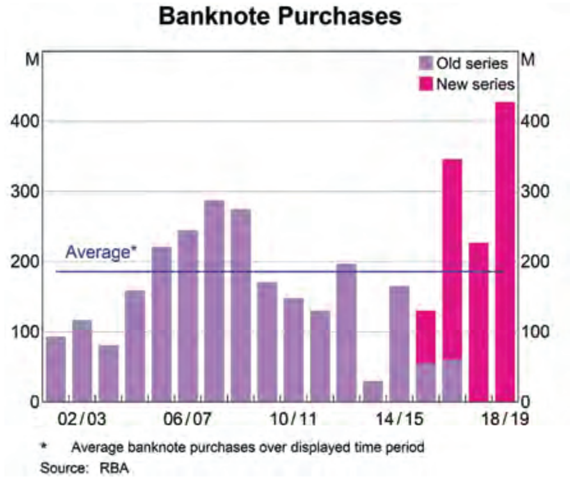
The Reserve Bank also works closely with its partners and suppliers to evaluate and incorporate new technologies and features into the banknote production process. In 2018/19, the R&D program continued to focus on providing technical advice and expertise as part of the development of the new series of Australian banknotes. This included assessing new technologies, developing strategies to ensure new features are durable, and developing quality-control systems for banknote examination. The R&D program is complemented by the design and manufacture of new instrumentation for quality assurance and the development of testing methodologies for the assessment of banknotes.

Note Printing Australia Limited (NPA)

NPA is a wholly owned subsidiary of the Reserve Bank that produces banknotes and supplies other related services to the Bank and some other entities. In 2018/19, NPA delivered 428 million Australian banknotes to the Bank, comprising around 313 million new series $50 banknotes, around 97 million new series $20 banknotes and around 18 million new series $5 banknotes. In comparison, in 2017/18, 227 million Australian banknotes were delivered to the Bank by NPA.

The aggregate amount paid by the Reserve Bank to NPA in 2018/19 for the supply of banknotes and related services was $108 million, compared with $82 million in the previous year.

In addition, NPA delivered 46 million banknotes under contract to Papua New Guinea, Singapore and the Solomon Islands in 2018/19, dealing directly with the respective central banks in those countries. NPA also produced 2.05 million P Series passports for Australia's Department of Foreign Affairs and Trade.



International Financial Cooperation

The Reserve Bank participates in initiatives that seek to address the challenges facing the international economy and improve the global financial architecture. It does so through its membership of global and regional forums and its close bilateral relationships with other central banks.

Group of Twenty (G20)

Purpose

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

Reserve Bank Involvement

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

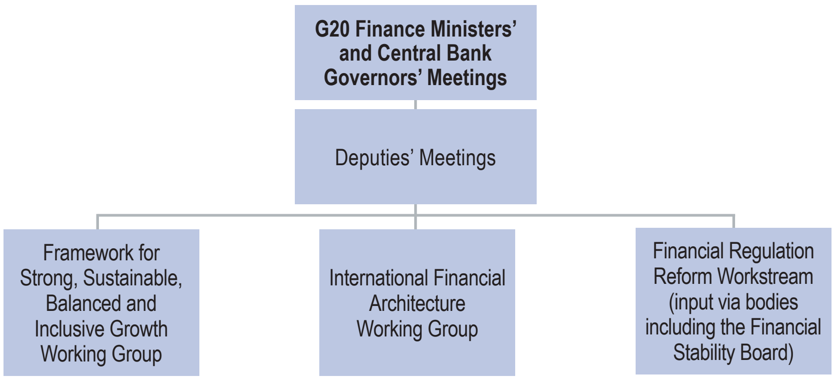
The G20 presidency was held by Argentina from December 2017 to December 2018. In January 2019, the G20 presidency rotated to Japan. A key theme of the Japanese presidency is ageing, with a focus on understanding the macroeconomic implications of demographic change and identifying appropriate policy responses. Another important theme has been monitoring of global imbalances – that is, persistent and excessive current account deficits and surpluses – and identifying possible policy measures to respond to them. Japan has continued the G20's work on promoting private investment in infrastructure, but with a focus on the quality of infrastructure investment. This work was advanced by the G20's Infrastructure Working Group, which is co-chaired by the Australian Treasury.

The G20 has also continued to discuss how to strengthen the international monetary system. This discussion has been aided by a report by the G20 Eminent Persons Group, which was a focus of the G20 Ministers' and Governors' meeting in October 2018. The G20 has reiterated its commitment to a strong, quota-based and adequately resourced IMF at the centre of the global financial system. Accordingly, the G20 has committed to complete a review of the IMF's permanent 'quota' resources by late 2019. The G20 has also continued to monitor the risks stemming from excessive volatility in capital flows, as well as how to promote the transparency and sustainability of sovereign debt.

The G20 continues to pursue the full, timely and consistent implementation of the financial sector reforms developed and agreed after the global financial crisis, such as Basel III (to build resilient financial institutions). With many of these policy reforms now largely implemented,

Governor Philip Lowe (third row, second from right) with participants at the G20 Finance Ministers and Central Bank Governors Meeting, Fukuoka, June 2019
Source: Mr Kazuki Watanabe

Reserve Bank Involvement in the G20



the G20 and Financial Stability Board (FSB) have shifted their focus away from post-crisis policy development and implementation, to assessing the effectiveness of the reforms. This work aims to determine if the reforms are meeting their intended objectives and whether there have been any material adverse consequences. The G20, in conjunction with the FSB and the global standard-setting bodies, also continues to monitor and address current vulnerabilities in the financial system (such as banks' exposures to leveraged loans), as well as medium-term emerging risks. The latter has included monitoring of developments in financial technology ('fintech'), including crypto-assets and, where necessary, responding to the risks posed. The Reserve Bank, along with other Council of Financial Regulators (CFR) agencies, continues to work with overseas counterparts on these and other global regulatory issues.

Financial Stability Board (FSB)

Purpose

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

FSB members include representatives from 24 economies as well as the main international financial institutions – including the Bank for International Settlements (BIS) and the IMF – and standard-setting bodies such as the Basel Committee on Banking Supervision (BCBS).

Reserve Bank Involvement

The main decision-making body of the FSB is the Plenary. The Governor is a member of the Plenary, as well as the Steering Committee and the Standing Committee on Assessment of Vulnerabilities. The Governor also continued to serve as co-Chair of the Regional Consultative Group for Asia until his term ended on 30 June 2019.

Senior staff members of Financial Stability Department participate in meetings of the:

- Analytical Group on Vulnerabilities, which supports the work of the Standing Committee on Assessment of Vulnerabilities
- Resolution Steering Group (until June 2019)
- Financial Innovation Network.

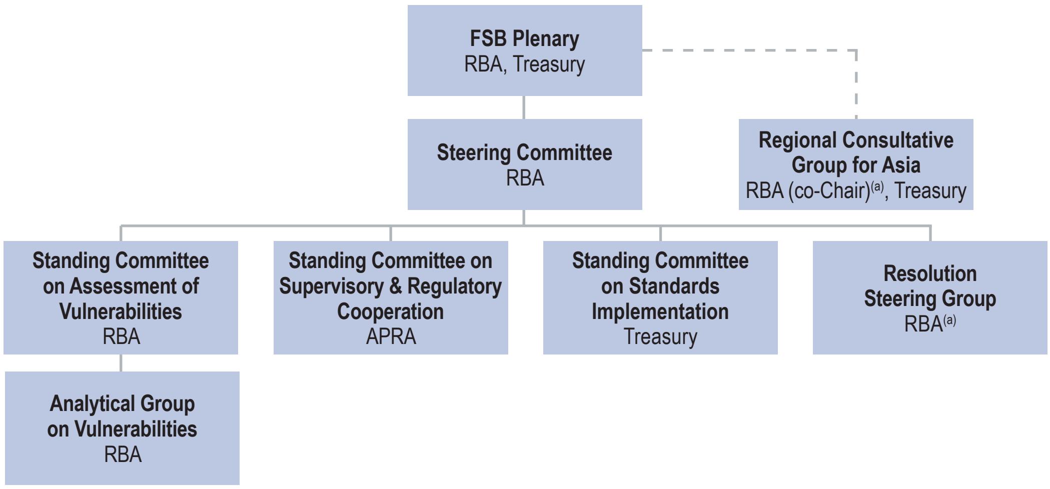
As noted above, while the FSB has continued to pursue regulatory reform of the global financial system, its focus has shifted in recent years from policy design and implementation monitoring, to evaluating the effects of the post-financial crisis reforms.[1] Initial evaluation work examined the effects of reforms on the incentives to centrally clear over-the-counter derivatives, and on infrastructure financing. Further evaluations are under way, looking at the effects of reforms on financing for small and medium-sized enterprises, and the 'too big to fail' reforms. A representative of Financial Stability Department is a member of the 'too big to fail' evaluation team.

The Standing Committee on Assessment of Vulnerabilities is the main FSB body for identifying and assessing risks in the global financial system. Supporting this committee are the Analytical Group on Vulnerabilities and the Financial Innovation Network, which provides input on the financial stability implications of financial innovation (such as fintech and cloud services). Global vulnerabilities recently considered by the Standing Committee have included high private and public debt, elevated asset values and weaker lending standards. It has also examined risks in particular markets and products. This has included highlighting concerns about the extent of financial institutions' exposures to riskier credit instruments, such as leveraged loans, both directly and through collateralised loan obligations. The Standing Committee is currently seeking to develop a clearer framework for the assessment of vulnerabilities. This should support a comprehensive, methodical and disciplined assessment of new and emerging risks to financial stability. The Assistant Governor (Financial System) is leading one of the work streams contributing to the new framework, exploring the features of a well-defined surveillance process.

The FSB has continued its work on addressing the risks posed by non-bank financial intermediation (NBFI) (previously referred to as 'shadow banking'). This refers to credit provision involving entities and activities outside of the regular banking system. A key part of this work is an annual global monitoring exercise, which

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

Australian Involvement in Key FSB Committees



(a) Until June 30 2019

collects data on NBFI sectors within FSB and several non-FSB jurisdictions. The Reserve Bank is represented on the FSB's Non-bank Monitoring Experts Group (previously known as the Shadow Banking Experts Group), which conducts this monitoring exercise and associated risk analysis.

Reserve Bank staff members also took part in a number of other key FSB work areas during 2018/19, including meetings of the:

- Resolution Steering Group, which is progressing the FSB's work on enhancing resolution frameworks in line with international standards. Its recent policy focus has included: the adequacy of resources for central counterparty resolution; the arrangements for external and internal total loss-absorbing capacity at banks; and continuity of access to financial market infrastructures for a bank in resolution. The Resolution Steering Group also serves as an important forum to exchange information about resolution experience. The Australian Prudential Regulation Authority (APRA) took over Australia's membership of this group in June 2019.
- Cross-border Crisis Management Group for Financial Market Infrastructures, a subgroup of the Resolution Steering Group working on resolution arrangements for central counterparties and other financial market infrastructures.
- Official Sector Steering Group, which is progressing reforms of interest rate benchmarks, including coordinating the transition away from LIBOR (the London Inter-Bank Offered Rate) towards alternative interest rate benchmarks.
- Regional Consultative Group for Asia, one of six regional groups established to expand the FSB's outreach activities with non-member economies and to examine issues relevant for the region.

As a member of several FSB committees, the Reserve Bank hosts committee meetings from time to time. It hosted meetings in Sydney of the Regional Consultative Group for Asia (November 2018), and of the Non-bank Monitoring Experts Group (March 2019).

Bank for International Settlements (BIS)

Purpose

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

Reserve Bank Involvement

The Reserve Bank is one of 60 central banks holding shares in the BIS. The Governor or Deputy Governor attends the bimonthly meetings of governors and participates in meetings of the Asian Consultative Council. The Governor chairs the Committee on the Global Financial System, and the Assistant Governor (Financial Markets) is a member of the Markets Committee and the Committee on the Global Financial System.

The Committee on the Global Financial System seeks to identify potential sources of stress in the global financial system and promotes the development of well-functioning and stable financial markets. During 2018/19, the committee's discussions included: global financial vulnerabilities amid downward revisions to the outlook for global growth and risks related to political and trade tensions; the development of resilient capital markets; and financial stability implications of scenarios in which interest rates globally remain low for an extended period or move unexpectedly higher. The Markets Committee considers how economic and other developments, including regulatory reform and technological change, may affect financial markets, particularly central bank operations. Recent topics of discussion have included: changes in how monetary policies have been implemented and how this interacts with financial markets; implications of reforms to benchmark interest rates; and how technological change is affecting the structure of financial markets and central bank operations.

During 2018/19, Reserve Bank staff participated in a number of working groups of the Markets Committee and Committee on the Global Financial System, including:

- a Committee on the Global Financial System working group on establishing viable capital markets, which published its final report in January 2019
- a Committee on the Global Financial System study group on property price dynamics.

Basel Committee on Banking Supervision (BCBS)

Purpose

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

Reserve Bank Involvement

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

Over the year in review, the Group of Governors and Heads of Supervision (GHOS) endorsed revisions to the BCBS market risk framework, which had been a major area of work in the past year, and which take effect from 2022. The BCBS also considered interest-rate benchmark reforms, aspects of the Basel III leverage ratio requirement, banks' exposures to crypto-assets and associated risks, and the results of the annual global systemically important banks (G-SIBs) identification exercise (see below). GHOS also endorsed the BCBS's strategic priorities and work program for 2019, which include: finalising ongoing policy reforms; ensuring full, timely and consistent implementation of the BCBS's post-crisis reforms; evaluating and monitoring the impact of the post-crisis reforms; assessing emerging risks; and promoting strong supervision.

The Macroprudential Supervision Group focuses on policies designed to address systemic risks arising from the banking sector, especially those posed by G-SIBs. The group discussed several issues during 2018/19, including: the annual G-SIB assessment exercise, which underpins the list of G-SIBs identified by the FSB; the next three-year review of the G-SIB identification methodology; and the experience with, and effectiveness of, the Basel III counter-cyclical capital buffer.

Committee on Payments and Market Infrastructures (CPMI)

Purpose

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

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

Reserve Bank Involvement

Staff members from Payments Policy Department are members of the CPMI, CPMI-IOSCO Steering Group, CPMI-IOSCO Implementation Monitoring Standing Group and CPMI-IOSCO Policy Standing Group. The Head of Payments Policy Department is chair of the CPMI's RTGS (Real-time Gross Settlement) Working Group, which includes a staff member from Payments Settlements Department as a participant. Staff members in Payments Policy Department participate in the CPMI's Working Group on Digital Innovations and a Payments Settlements Department staff member participates in a task force on wholesale payments security.

Staff members from Payments Policy Department contributed to a number of CPMI-IOSCO implementation monitoring reports that were published in 2018/19. Staff also contributed to a CPMI-IOSCO Policy Standing Group discussion paper on default management auctions.

Cooperative Oversight Arrangements

Purpose

Several overseas-based financial market infrastructures hold Australian clearing and settlement facility licences, for which the Reserve Bank has certain regulatory responsibilities under the *Corporations Act 2001*. An overseas-based payments system also plays an important role in Australia's financial system. The Reserve Bank participates in several multilateral and bilateral arrangements to support its oversight of these financial market infrastructures, as set out below.

Reserve Bank Involvement

Staff from Payments Policy Department participated in:

- an arrangement led by the Federal Reserve Bank of New York to oversee CLS Bank International, which provides a settlement service for foreign exchange transactions
- a global oversight college and a crisis management group for LCH Limited, both chaired by the Bank of England
- an information-sharing arrangement with the US Commodity Futures Trading Commission, in relation to CME Inc.
- the Society for Worldwide Interbank Financial Telecommunication (SWIFT) Oversight Forum, chaired by the National Bank of Belgium.

International Monetary Fund (IMF)

Purpose

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

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

Reserve Bank Involvement

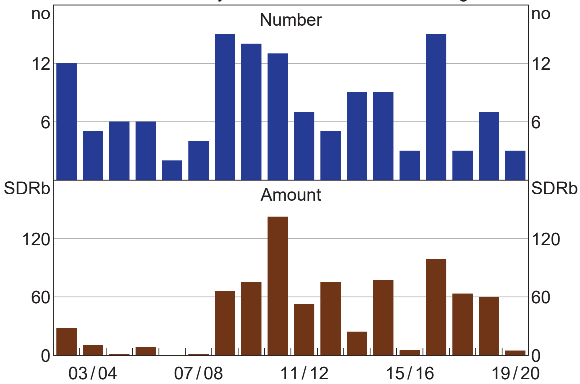
Australia holds a 1.39 per cent quota share in the IMF and is part of the Asia and the Pacific Constituency, which is represented by one of the IMF's 24 Executive Directors. Australia also contributes to the IMF's supplementary borrowed resources. The Reserve Bank supports the Constituency Office at the IMF by seconding an advisor with expertise in economic and financial sector matters. The Bank also works with the Australian Treasury to provide support to the Constituency Office on matters discussed by the IMF's Executive Board.

A core function of the IMF is to provide conditional financial assistance to member countries encountering balance of payments difficulties. During the IMF's 2018/19 financial year (which runs from May to April), the IMF provided seven new lending arrangements (excluding concessional facilities) with a total value of 59 billion Special Drawing Rights (SDRs). This included a three-year SDR35 billion stand-by lending program to Argentina, which was increased to SDR41 billion in September. IMF non-concessional credit outstanding increased by around 40 per cent in the 12 months to July 2019, primarily because of payments to Argentina under its lending arrangement.

The Reserve Bank and other CFR agencies continued to work closely with the IMF during the first half of 2018/19 as the IMF concluded its 2018 Financial Sector Assessment Program (FSAP) review of Australia's financial system and regulatory framework. The IMF focused on assessing financial sector vulnerabilities and the overall framework for systemic risk oversight, as well as Australia's banking regulatory framework and supervisory practices. It reviewed the regulation of financial market infrastructures and the insurance sector, and crisis management arrangements. The FSAP assessment was informed by responses to detailed questionnaires, along with a large number of face-to-face meetings. These included a high-level discussion with agency heads during the September 2018 CFR meeting, as well as more policy related and

IMF New Arrangements*

IMF financial years, non-concessional lending



* IMF financial year runs from May to April; the observation for 19/20 is for May to July 2019; excludes augmentations of existing arrangements

Sources: IMF; RBA

technical meetings with individual CFR agencies, other government bodies and private sector firms, including banks. The key findings of the FSAP review were published in the IMF's *Financial System Stability Assessment* in February 2019.

The IMF's overall assessment was positive, indicating that the Australian financial system is fundamentally sound and has been further strengthened since the IMF's previous assessment in 2012. Nonetheless, the IMF made several recommendations to improve current arrangements. CFR agencies have been considering how best to address the IMF's recommendations.

Over the course of the past year, several Reserve Bank staff were seconded to the IMF as short-term experts. One staff member assisted as a technical expert in the FSAP review of a foreign jurisdiction, while another contributed to a training program on payment system oversight for central banks in developing countries.

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

Purpose

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

Reserve Bank Involvement

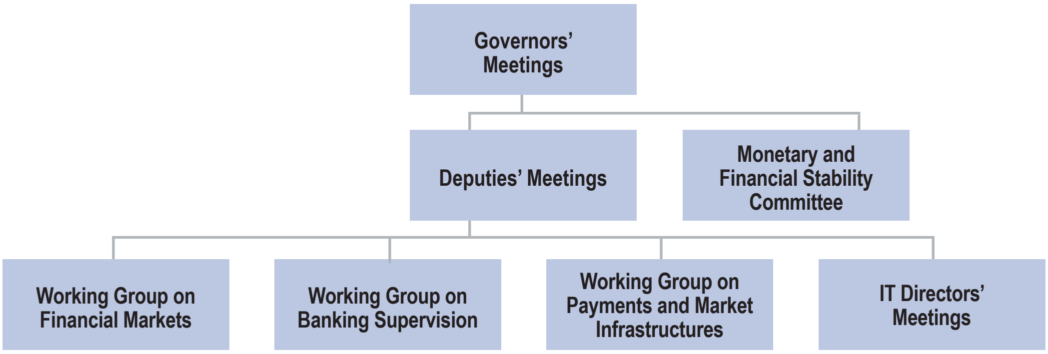
The Reserve Bank participates in EMEAP, including at the Governor and Deputy Governor levels. Staff also participate in the EMEAP Working Groups on Financial Markets, Banking Supervision, and Payments and Market Infrastructures, and in meetings of Information Technology (IT) Directors. These groups also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

The Monetary and Financial Stability Committee meeting, which is chaired by the Deputy Governor, provides an important forum for the discussion of current economic and financial market issues of direct relevance to EMEAP members. The two meetings of the Monetary and Financial Stability Committee in 2018/19 focused on the effect of trade tensions on the EMEAP economies and also considered the application of distributed ledger technology, financial stability issues and cybersecurity. Developments in fintech continued to be a major focus of discussions.

The Working Group on Financial Markets focuses on the analysis and development of foreign exchange, money and bond markets in the region. Every second meeting of this group is held in conjunction with the BIS Financial Markets Forum. The group continued its work on developing local currency bond markets, through the Asian Bond Fund Initiative (see the chapter on 'Operations in Financial Markets' for details of the Reserve Bank's investments in the Asian Bond Fund). Areas of focus in 2018/19 also

Governor Philip Lowe (first from left) with participants at the EMEAP Governors' Meeting, Manila, August 2018
Source: Jason Arlan Raval Bangko Sentral ng Pilipinas

Reserve Bank Involvement in EMEAP



included financial benchmark reform and the development of securities lending in Asia.

The Working Group on Banking Supervision (which also includes representatives of EMEAP members' prudential regulators, including APRA) is a forum to share experiences about best practices in banking supervision and to discuss issues of relevance in the region. During the past year, members discussed the health of banking systems in the region, financial stability risks, and the implementation of Basel III and other post-financial crisis reforms. The group also discussed issues such as bank culture, the future of banking, bank recovery planning and cyber resilience practices.

The EMEAP Working Group on Payments and Market Infrastructures (formerly the Working Group on Payment and Settlement Systems) is a forum for sharing information and experiences relating to the development, oversight and regulation of retail payment systems and financial market infrastructures. The group discussed a range of issues during the year in review, including:

- the development of fast retail payment systems and other efforts to facilitate the shift towards electronic payments
- initiatives to enhance the security and efficiency of cross-border payments
- developments in crypto-asset markets and emerging regulatory approaches for dealing with the risks associated with crypto-assets
- measures to build resilience and enhance the security of financial market infrastructures, including in response to cyber-risks

- the application of new technologies, such as distributed ledger technology, to payment systems and financial market infrastructures.

The IT Directors' Meeting provides a forum for discussions on developments in IT and its implications for central banks. Recent meetings have focused on IT developments in central banks, including the adoption of cloud technology, cyber security and people management strategies.

Network for Greening the Financial System (NGFS)

Purpose

The NGFS is a group of central banks and supervisors whose purpose is to share best practices, contribute to the development of climate and environment-related risk management in the financial sector, and mobilise mainstream finance to support the transition towards a sustainable economy. As at July 2019, the Network had grown to comprise 42 members and eight observers, across six continents.

Reserve Bank Involvement

The Reserve Bank joined the NGFS in July 2018. The Deputy Governor represents the Bank on the NGFS Plenary, supported by other senior staff. The NGFS has divided its work into three workstreams. The Bank is involved in the Macrofinancial workstream, which aims to develop an analytical framework for assessing climate-related risks to the economy and financial system.

The NGFS produced two reports in 2018/19, including its first comprehensive report. The comprehensive report set out a range of recommendations, including for central banks and supervisors, to support a smooth transition towards a low-carbon economy. The focus of the Macrofinancial workstream over the past year was on measuring the effect of climate change and related risks on macroeconomic variables and financial stability, and identifying scenarios and climate risk indicators for use by central banks and supervisors.

Global Foreign Exchange Committee (GFXC)

Purpose

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

Reserve Bank Involvement

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

During the year in review, the GFXC met twice, discussing recent developments in market structure and ongoing efforts to expand adherence to the FX Global Code throughout the industry. The GFXC also published reports on the role that disclosures play within the market and on the trading practices of dealers that seek to avoid market risk when transacting with their clients.

Organisation for Economic Co-operation and Development (OECD)

Purpose

The OECD comprises the governments of 36 countries and provides a forum in which governments can work together to share experiences and seek solutions to common problems, including economic and financial ones.

Reserve Bank Involvement

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

The OECD Committee on Financial Markets examines a range of financial market issues and aims to promote efficient, open, stable and sound financial systems. The committee's regular discussions with private sector experts in 2018/19 covered environmental, social and governance investing, and open banking. The committee has also continued to review and contribute to the OECD's work on fintech and digitalisation.

The OECD's Codes of Liberalisation are rules-based frameworks to promote the freedom of cross-border capital movements and financial services. All OECD members adhere to the codes. The Advisory Task Force on the OECD Codes of Liberalisation meets periodically to address questions and discuss policy issues related to the codes. It also examines specific measures by individual adherents with relevance to their obligations under the codes. During 2018/19, the task force completed its review of the Code of Liberalisation of Capital Movements.

Technical Cooperation and Bilateral Relations

Australia Indonesia Partnership for Economic Development (Prospera)

The Bank participates in the Australian Government's 'Prospera' program, which in 2018/19 brought together the former Government Partnership Fund and the Australia Indonesia Partnership for Economic Governance programs. Under the Prospera Program, the Bank will work with Bank Indonesia, as it did under the Government Partnership Fund program, to promote institutional capacity building. In 2018/19, a range of activities were agreed with Bank Indonesia relating to the payments system, note issue, information technology and statistics. These activities will be undertaken in 2019/20.

Engagement in the South Pacific

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

In November 2018, the Reserve Bank participated in the annual meeting of the South Pacific Central Bank Governors, held in Samoa. A key outcome of the meeting was an agreement among governors to lead the development of a regional 'Know-Your-Customer' utility and associated regionally linked payment and settlement arrangements in response to the decline in correspondent banking in the region. In April 2019, the governors met in New Zealand to advance this work.

The Reserve Bank of Australia Graduate Scholarship for Bank of Papua New Guinea officers to undertake postgraduate studies at an Australian university in the areas of economics, finance and computing was first awarded in 1992. The most recent recipient of this

Assistant Governor (Business Services) Lindsay Boulton (far right) with participants at the 2018 South Pacific Central Bank Governors' Meeting, Samoa, November 2018

scholarship commenced studies at the University of Queensland in July 2018; the previous recipient completed their studies in October 2016.

International visitors and secondments

As in previous years, the Reserve Bank hosted a number of overseas visitors, predominantly from foreign central banks. The visits covered the full range of the Bank's activities and included delegations from China, Finland, Indonesia, Papua New Guinea and South Korea. The Bank also hosted a number of secondees from the Bank of Canada, the Bank of England, the Deutsche Bundesbank and the Reserve Bank of New Zealand. A number of Reserve Bank staff were seconded to other central banks and various international organisations, including the BIS, the Bank of Canada, the Bank of England, the IMF, and the Reserve Bank of New Zealand. These arrangements facilitate a valuable exchange of skills and expertise between the Bank and the broader global economic and financial policymaking community.

Part 3:

Management

Fitzroy Falls, New South Wales

Management of the Reserve Bank

This chapter outlines the management structure of the Reserve Bank and describes the Bank's approach to managing its finances, technology, data and facilities. The subsequent chapters provide further detail on the Bank's people, risk management and earnings. The Bank is managed by the Governor, with assistance from the Executive Committee and the Risk Management Committee. The Bank is committed to the prudent management of its finances and the efficient functioning of its systems and facilities. It maintains a strong focus on cost control in discharging its key policy and operational responsibilities, and continues to invest in the information technology, data and facilities that are essential for the Bank to achieve its objectives. During 2018/19, some of the new capabilities delivered through strategic projects transitioned into business-as-usual information technology operations.

Management Structure

Under the *Reserve Bank Act 1959*, the Bank is managed by the Governor, who is assisted in fulfilling his responsibilities by two key management committees, the Executive Committee and the Risk Management Committee.

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

The Risk Management Committee has responsibility for ensuring that operational and financial risks are identified, assessed and properly managed across the Reserve Bank in accordance with its Risk Management Policy. It is a management committee chaired by the Deputy Governor and comprises senior executives drawn mainly from the operational areas of the Bank. During 2018/19, the Risk Management Committee met on seven occasions and kept the Executive Committee and Reserve Bank Board Audit Committee informed of its activities. Details of the Bank's risk management framework are provided in the chapter on 'Risk Management'.

Financial Management

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

The Reserve Bank has an Investment Committee, which oversees the Bank's portfolio of project work within an agreed pool of funding. The Chair of this committee is the Deputy Governor. The Investment Committee ensures spending is directed to those projects that support the Bank's strategy and generate the most effective outcomes. There is a robust project governance framework, which includes the submission and approval of detailed business cases, and regular reporting to the Bank's senior executive on the progress of projects and the management of project-related risks.

Assistant Governors and Department Heads are responsible for managing expenditure within their approved budgets, with support provided by the Reserve Bank's Finance Department, which reviews and monitors financial performance relative to approved budgets on a monthly basis. Performance against the budget, including a forward-looking view of the likely full-year outcome, is formally presented to the Executive Committee on a quarterly basis. The Bank undertakes two formal forecasts during the year, which are presented to the Executive Committee in a timeframe that allows the committee to make decisions around the prioritisation of work, where it is appropriate to do so. Financial management is also supported by the Bank's expenditure and payment approval policy and processes, which ensure sufficient oversight over spending. Material spending and commitments are approved by appropriately senior staff.

The Reserve Bank's costs arise from its activities associated with its key policy and operational responsibilities, and from its investment in strategic projects to support these responsibilities. Where appropriate, the Bank seeks to recoup operating costs associated with many of its operational responsibilities through fees and charges. These responsibilities include the transactional banking services provided to its clients and for use of payment systems run by the Bank (such as the Reserve Bank Information and Transfer System (RITS) and the Fast Settlement Service (FSS)). The Bank earned fee income of $368 million in 2018/19 from the provision of the Committed Liquidity Facility to eligible authorised deposit-taking institutions. Operating costs associated with the production, issuance and management of Australia's banknotes are indirectly funded by net interest income (reflecting that holders of 'banknotes on issue' are not paid interest, while the Bank earns interest on the corresponding assets it holds). Further details on these services are provided in the chapters on 'Banking and Payment Services', 'Banknotes' and 'Operations in Financial Markets'. Earnings arising from the Bank's investments in financial markets are also detailed in the chapter on 'Earnings, Distribution and Capital'.

The Reserve Bank's general operating costs (excluding depreciation) were in line with its budget for 2018/19, at $317 million. This was an increase of 2.8 per cent on the previous year, largely owing to costs associated with operationalising the strategic payments, banking and banknote-related initiatives delivered over recent years, namely the New Payments Platform (NPP) and FSS (see commentary on Technology below), and the National Banknote Site (NBS). Over recent years, there has been very little growth in the operating costs associated with the Bank's policy functions.

Staff costs are the largest component of the Bank's general operating costs. Growth in this area was 1.9 per cent in 2018/19, reflecting the base salary increase in the Reserve Bank's

Workplace Agreement and little change in the average number of staff during the year. There was a reduction in project staff following the completion and winding down of some major projects that had been under way over recent years. The Bank has also been controlling and prioritising ongoing investment in the Bank's assets and the associated resourcing needed to deliver this. The Bank hired additional staff required to support and effectively operate new technologies and facilities. As a result, staff numbers were a little higher at 30 June 2019 than a year earlier (for more detail, see the chapter on 'Our People'). Managing staffing numbers continues to be an area of focus for the Bank, to ensure that levels remain appropriate to support its core operations. This includes the delivery of new banking and payment systems and services, which will require additional staff to support those services to agreed performance and availability standards. At the same time, the Bank has been seeking to ensure that overall staffing numbers are contained at current levels or lower.

Technology costs rose by 11.3 per cent in 2018/19, reflecting an increase in licensing, maintenance and vendor support costs associated mainly with the delivery of the new strategic initiatives that underpin the Bank's enhanced payments and banking infrastructure. The high standards of availability for these systems, especially FSS (99.995 per cent availability) and RITS (99.95 per cent availability), has required a substantial uplift in technology infrastructure and licences, and ongoing maintenance and updates to these systems. The growing complexity of these systems has also required more specialist vendor support to be procured. Costs associated with further enhancing the overall resilience and performance of these key technology assets also contributed, as did ongoing investment to strengthen further the Bank's cyber security capabilities.

Premises costs were little changed, as the effect on costs from operating the NBS, located at Craigieburn in Victoria, for the full financial year were largely offset by the Reserve Bank's

General Operating Costs[(a)]
$ million

	2014/15	2015/16	2016/17	2017/18	2018/19
Staff costs	195.3	212.6	216.2	223.6	227.9
Technology costs	18.8	22.3	28.8	31.2	34.8
Premises costs	21.6	20.8	24.4	25.0	24.8
Other costs	24.6	28.1	34.7	28.6	29.5
General operating costs (excl. depreciation)	260.2	283.8	304.1	308.4	317.0
Depreciation	23.4	25.6	38.4	51.7	56.2
General operating costs	283.6	309.4	342.5	360.1	373.2
Of which: Cost of projects	26.6	33.7	43.5	35.1	23.2
General operating costs by function[(b)]					
Policy	75.5	79.6	80.8	80.8	82.6
Business Services	54.1	61.6	80.2	95.8	100.1
Executive and Corporate Support	154.0	168.2	181.5	183.4	190.5

(a) Excluding NPA and banknote management expenses, and costs directly linked with transaction-based revenue. Some prior period costs have been reclassified to align with the current basis of presentation.
(b) Costs by function shown above are on a direct rather than an allocated cost basis.
Source: RBA

Capital Expenditure[(a)]
$ million

	2014/15	2015/16	2016/17	2017/18	2018/19
Capital Costs	56.5	108.1	100.7	45.7	36.5
Of which: Cost of major projects[(b)]	42.9	92.8	85.8	39.5	31.7

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

divestment of its office building in Melbourne, which resulted in lower expenditure for the operation of this facility in 2018/19.

The delivery of the new initiatives has led to a notable rise in depreciation, which rose by a further 8.7 per cent in 2018/19. General operating costs, including depreciation, increased by 3.7 per cent in 2018/19 (compared with 5.1 per cent in 2017/18).

Total project-related operating costs declined further during 2018/19, mainly reflecting the completion of a number of strategic initiatives in previous years. The extent of the Reserve Bank's investment during that period is reflected in its capital expenditure, which has also declined over more recent years.

The Reserve Bank has an ongoing program of investment to maintain the value of its buildings and technology assets, to ensure that services remain effective and resilient and that the associated risks are managed appropriately. Investment is also made in projects that support new capabilities and services, and those that seek to produce greater operational efficiencies. Investment in the near term will focus on refreshing existing assets, including substantial upgrades to the Bank's Head Office in Sydney and its training facility in Kirribilli, and technology infrastructure. Investment is also being undertaken to improve the efficiency and effectiveness of the Bank's data management practices and further modernise the Bank's internal systems and processes, especially those supporting staff.

The Reserve Bank engages consultants from time to time where it lacks specialist expertise or if independent research, review or assessment is required. Consultants are typically engaged to: investigate or diagnose a defined issue or problem; carry out defined reviews or evaluations; or provide independent advice or information to assist in the Bank's decision-making. Before engaging consultants, the Bank takes into account the skills and resources required for the task, the skills available internally and the cost-effectiveness of engaging external expertise. Spending on consultancies over the past eight years is shown below. The increase in spending in 2018/19 was driven by work on improving the Bank's data management practices and a review of the technology needed to support the Human Resources Department. As in previous years, there were also consultancies to support the upgrade of Australia's banknotes and banknote-related infrastructure.

Spending on Consultancies[(a)]
$

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

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

Technology

Information Technology (IT) systems and infrastructure play a key role in the Reserve Bank's ongoing operations and forms a major component of most of the Bank's strategic projects. The technology environment comprises more than 200 business applications, two highly available data centres and a highly resilient network infrastructure across multiple Bank sites.

Major technology-related projects completed in 2018/19 included the establishment of operational real-time integration services into the NPP for government agencies. In particular, services were added that allow the Reserve Bank's government agency customers to access NPP payments directly from agency systems, allowing payments to occur in near real-time. This is important new functionality that will enable faster payment of disaster relief and payments to people in personal crisis situations.

Work to replace the Reserve Bank's core transactional banking systems continued through the year and was completed in July 2019. This work ensures that the Bank's banking applications run on modern business technology and are capable of meeting the banking needs of Australian government agencies.

Significant progress has also been made in modernising key aspects of the Reserve Bank's technology capabilities, including its network and banking systems infrastructure. These investments are designed to ensure that the Bank's applications run on modern networks with appropriate performance and security capabilities. The Bank upgraded its desktop computer systems to the current Microsoft Windows 10 operating platform, which ensures that the Bank's desktop systems run on the most secure version of Windows and remain compatible with modern business applications.

Cyber security continues to be a key focus for the Reserve Bank. Significant resources were applied in 2018/19 to continue to strengthen the Bank's cyber security capabilities. The Bank has been independently certified as mature in terms of its application of the cyber security strategies recommended by the Australian Signals Directorate for containing cyber threats, and will continue to build on its security controls as these strategies and standards evolve. The Bank has also attained certification of its internet gateway to the ISO 27001 global standard for Information Security Management. Significant effort has gone into ensuring the Bank's systems, testing and technology operations are adopting appropriate security controls and monitoring. Ongoing threat monitoring and vulnerability assessments inform continuous security improvements, along with information-sharing with industry partners and agencies.

With the majority of the significant IT projects undertaken over recent years now complete, the IT function continues its transition to steady-state operations. This transition has involved an uplift of support and maintenance capacity to accommodate the experience of the first full year of operations for the FSS and NPP, and the ongoing pursuit of strategies to ensure IT assets are highly resilient, fit for purpose, appropriately innovative and support workplace efficiency. In 2018/19, this included the establishment of an Innovation Lab to assess the impact of emerging technologies on the Reserve Bank's policy and operational areas, as well as implementing new capabilities in the areas of cloud computing, enterprise collaboration, enhanced integration and data analysis.

Data

In 2018/19, the Reserve Bank established an Enterprise Data Office (EDO), which is responsible for the management and governance of the Bank's data as an asset in an external environment that is complex, data rich and rapidly changing. The objective of the EDO is to manage data risk, optimise the Bank's data management activities to create more capacity for data analysis, and enhance analytical activity though the provision of better tools and methods, including use of 'Big Data' and artificial intelligence.

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

Facilities

The Reserve Bank owns premises in locations where there is a business need to do so. The Bank's facilities include the Head Office in Sydney; the H. C. Coombs Centre for Financial Studies in Kirribilli, Sydney; an office building in Canberra; the note-printing facility and NBS at Craigieburn, in the north of Melbourne; and the Business Resumption Site in north-west Sydney. In 2018/19, the Bank sold its office building in Collins Street, Melbourne; this facility had been used for the storage and distribution of banknotes and was no longer required following the completion of the NBS. In addition to the buildings it owns, the Bank leases accommodation for its State Offices in Adelaide, Brisbane and Perth and for its offices in London, New York and Beijing. Independent valuers estimated the value of the Bank's domestic property assets in 2018/19 at $513.8 million. The total value of the Bank's property assets declined as a result of the sale of the Melbourne building, although the value of the remainder of the portfolio has increased on a like-for-like basis by $27.4 million, reflecting higher property values in Sydney.

Office space in the Reserve Bank's properties that is not required for the Bank's own business purposes is leased to external tenants. Net income from these leases amounted to $7 million in 2018/19, compared with $12.3 million in the previous year. The reduction is a result of the sale of the Melbourne building in October 2018, which had a large number of external tenants.

During the year in review, as a result of the sale of the building in Collins Street, Melbourne, the Reserve Bank leased premises in Melbourne to accommodate its Victorian State Office, and undertook a new fit-out. Other major projects include planning for significant building works at its Head Office and the H. C. Coombs Centre for Financial Studies. These works will upgrade base building infrastructure that is at end of life and ensure a safe, efficient and effective workplace to meet the long-term needs of the Bank, while preserving heritage features. There was significant progress with a major upgrade to the electrical infrastructure at the Bank's Head Office and Business Resumption Site, which will be completed later in 2019. The upgrade will provide greater resilience for banking and payments operations.

Our People

The Reserve Bank seeks to attract, develop and retain high-quality people, and to foster an environment where there is a strong focus on behaviours consistent with the Bank's values and risk appetite. The emphasis of this work in 2018/19 focused on: developing employee capabilities in leadership and management; providing greater clarity over position requirements and career opportunities; and ensuring that employees work in a safe and productive environment. Consistent with its values, the Bank also emphasises supporting a diverse and inclusive workforce that is both reflective of, and relevant to, all Australians. This is achieved by raising awareness of issues experienced, ensuring employment opportunities are based on merit and providing flexible work arrangements.

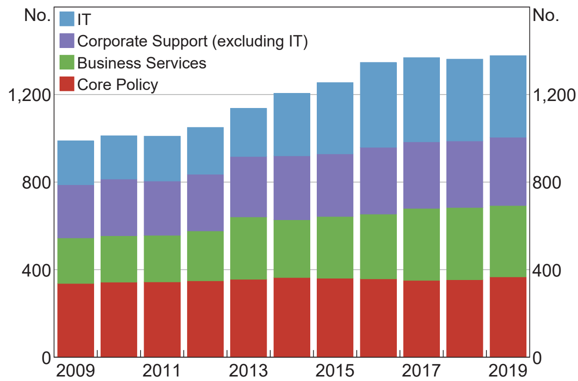
2018/19 Workforce Profile

In June 2019, the Reserve Bank (excluding Note Printing Australia Limited) had 1,378 employees. With 8 per cent of employees working part time, the Bank's workforce comprised 1,343 full-time equivalent (FTE) employees. During 2018/19, there was a decline in project resourcing as a number of large projects were completed, but this was offset by an increase in staff to operate and support the new activities and services resulting from these projects. During the year, the Reserve Bank hired 254 employees, of which 67 per cent were recruited on maximum-term contracts.

The graduate and internship programs continue to be an important recruitment channel, particularly in the policy formulation and implementation areas of the Reserve Bank. In 2018/19, these early career programs were supplemented by a number of mid-career hires. In the year to June 2019, the Reserve Bank hired 32 university graduates and 30 interns. These graduates and interns work in the Bank's policy, business services and corporate support areas and hold degrees in economics, commerce, IT and other professional disciplines.

RBA Employee Numbers*

As at 30 June



* Excludes NPA

Source: RBA

As discussed in more detail in the Reserve Bank's *Equity & Diversity Annual Report*, the Bank emphasises creating a workplace that is inclusive of all people and respects the individual contributions of all employees.

Employees of the Reserve Bank[(a)]

	30 June 2018	30 June 2019
Work practices		
– Full time	1,256	1,268
– Part time	106	110
Gender		
– Women	595	600
– Men	767	778
Location		
– Head Office, Sydney	1,208	1,221
– H. C. Coombs Centre for Financial Studies, Sydney	2	2
– Business Resumption Site, Sydney	36	41
– Note-printing facility and National Banknote Site, Craigieburn	67	69
– Canberra Branch	12	12
– Victorian Office, Melbourne	6	4
– Queensland Office, Brisbane	3	3
– South Australian Office, Adelaide	3	3
– Western Australian Office, Perth	3	3
– New York Representative Office	10	9
– European Representative Office, London	9	8
– China Representative Office, Beijing	3	3
Total	**1,362**	**1,378**

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

Initiatives in 2018/19 included raising awareness and highlighting unconscious biases, ensuring appointments and promotions are based on merit, monitoring and addressing wage inequities, promoting flexible work arrangements and developing guidelines to ensure that the workplace is inclusive of people who require temporary or permanent workplace adjustments.

In terms of the Reserve Bank's demographic profile, the median age of Bank employees is 39 years, with almost two-fifths of employees under the age of 35, and the median tenure of employees is five years.

People and Culture

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

1. Promotion of the public interest

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

2. Excellence

We strive for technical and professional excellence.

3. Intelligent inquiry

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

4. Integrity

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

5. Respect

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

There is a strong focus on these core values in the Reserve Bank, led by the Governor and supported by the Bank's People and Culture Strategy. In 2018/19, three key elements were emphasised to cultivate and empower our employees by:

- developing an integrated approach to employee development
- building a culture of open and constructive communication consistent with our values
- developing solutions that deliver greater productivity and responsiveness to change.

The Reserve Bank will undertake its fourth employee engagement survey in the second half of 2019. The survey is a useful tool for identifying strengths as an organisation as well as opportunities for improvement. The survey will also provide the opportunity to assess the efforts to address issues identified in previous employee engagement surveys, such as improving collaboration, organisational change, decision-making, retention and career opportunities.

Based on the outcomes from the 2017 employee engagement survey, an employee program called 'Speak Up' was initiated, encouraging 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 Reserve Bank's objectives. Another initiative was to develop a 'culture of conversations', to build management capabilities to have productive performance and career conversations with team members, create a culture of accountability and transparency, and to improve communication and collaboration across the Bank.

The Reserve Bank continued its focus on leadership development and talent management during the year. The Bank ran an Engaging Leaders Program for managers to build capability and confidence in core leadership and people management.

The People and Culture Strategy emphasises ensuring that the talents of employees are fully utilised and developed. On-the-job development opportunities are supplemented by formal training and professional development programs, including:

- an eight-week Internship Program, which provides high-performing university students work experience and training through the completion of an applied research project. This program is an important source of early-career professionals for the Reserve Bank's Graduate Development Program
- a two-year Graduate Development Program, consisting of a range of tailored training programs to develop policymaking frameworks, effective business writing, critical thinking, presentation, communication and negotiation skills. A total of 53 graduates participated in the program in 2018/19
- training as required in technical, management and leadership skills, resilience and other general competencies, such as communication skills
- regular training in the Bank's compliance obligations, including in relation to work health and safety, mental health and wellbeing, fraud awareness and anti-money laundering/counter-terrorism financing

- workshops for all staff on appropriate workplace behaviour.

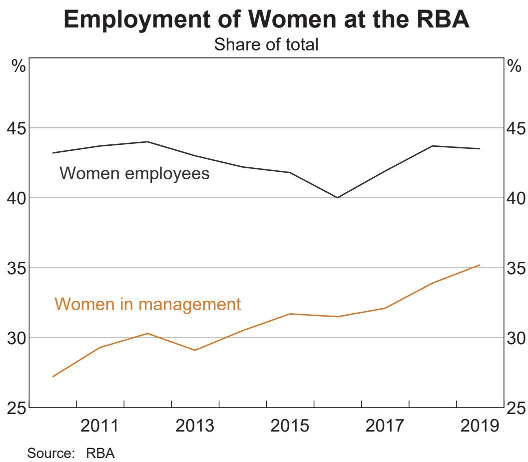
Development opportunities are provided to employees by facilitating internal rotation programs between different areas of the Reserve Bank and external secondments. The Bank also hosts secondees from other institutions to foster corporate networks and share understanding of best practice. In 2018/19, the breadth of secondment activities increased, involving a wide range of Australian institutions, including the Australian Bureau of Statistics, the Australian Competition and Consumer Commission, the Australian Prudential Regulation Authority, the Australian Treasury and the Commonwealth Department of the Prime Minister and Cabinet, as well as a range of international institutions (see the chapter on 'International Financial Cooperation' for details).

The Reserve Bank encourages employees to develop their skills continually and provides financial support to employees for part-time study in disciplines related to their work, with 64 employees benefiting from this support during 2018/19. In addition, the Bank provided support to 13 employees undertaking full-time postgraduate study at universities in Australia and overseas during this period.

The People and Culture Strategy actively promotes an inclusive work environment. The Bank's Diversity and Inclusion Council and Employee Resource Groups (ERGs) continued to pursue activities and practices that support the Bank's Diversity and Inclusion Plan.

The Reserve Bank actively supports flexible work practices, including part-time work and job-share arrangements. The Bank enables flexible ways of working full time, by supporting changes in work patterns or location, including altering start or finish times, working compressed work weeks, and working from home or other locations. In the 2017 employee engagement survey, almost 80 per cent of employees reported that they had worked flexibly in some way in the preceding 12 months.

The Reserve Bank 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. In support of the target, there is a strong focus on talent management at the Bank, including succession and development planning for both women and men, and measures to ensure diversity of candidates in all selection processes. As at June 2019, women occupied 35 per cent of managerial roles, up from 34 per cent in the previous year. During the past year, 45 per cent of managerial vacancies were filled by women, and 45 per cent of roles at the senior manager level and above were filled by women.



The Reserve Bank actively works to promote economics, finance, mathematics and IT as career options for women. The Public Access & Education team is dedicated to providing learning experiences and information to schools, universities and educators about the economy and the role of Australia's central bank (see the chapter on 'Communication and Community Engagement' for details).

As at June 2019, women occupied 35 per cent of managerial roles, up from 34 per cent in the previous year

The Reserve Bank continued to fund an internship for Indigenous Australian university students, with five participants in 2018/19. The internship is facilitated by CareerTrackers, a not-for-profit agency that works with organisations to provide work experience, networking and professional development opportunities for Indigenous Australian university students. The internship involves vacation work at the Bank as well as professional development training.

In 2019, the Reserve Bank continued its partnership with My Gateway, an apprentice and traineeship support organisation. Five trainees joined the program, which provides work experience and a nationally recognised qualification to Indigenous Australians. From the 2018 traineeship program, three trainees graduated with Certificate III in Business Administration, one of whom has secured a full-time position at the Bank.

The Reserve Bank also welcomed two tertiary students with a disability through the Australian Network on Disability's 'Stepping Into' internship program and continues to provide long-term employment for individuals with intellectual disabilities through the JobSupport program.

The Reserve Bank raised employees' awareness and involvement in diversity and work health and safety matters by supporting staff participation in external events and hosting guests at the Bank to speak on diversity, inclusion and health-related topics. Diversity events included speakers on Indigenous Australians, gender and accessibility matters, along with events to mark NAIDOC week, Reconciliation Week, International Day of People with Disability, Harmony Day, Wear It Purple Day, Global Accessibility Awareness Day, National Carers Week and International Women's Day. In addition, the Bank continued to raise awareness about mental health in the workplace, including through RUOK? Day activities, and other initiatives from its newly developed mental health strategy to support the prevention and management of workplace mental health issues.

Remuneration

The positions of Governor and Deputy Governor are designated as Principal Executive Offices in terms of the *Remuneration Tribunal Act 1973*, which provides for the Remuneration Tribunal to determine the applicable remuneration for these positions. Within the parameters determined by the Remuneration Tribunal, the Reserve Bank Board Remuneration Committee, comprising three non-executive members, makes a recommendation on remuneration for these positions for approval of the Reserve Bank Board, which is the 'employing body' for the positions. In accordance with provisions of the *Reserve Bank Act 1959*, neither the Governor nor the Deputy Governor takes part in decisions of the Reserve Bank Board relating to the determination or application of any terms or conditions on which either of them holds office.

The employment arrangements that apply to Reserve Bank employees vary according to their occupation and level of seniority. Executive and managerial employees are engaged with the Reserve Bank under Individual Employment Agreements. Non-managerial employees are covered by the Bank's Workplace Agreement, although the majority of these employees also have Individual Employment Agreements. Employees covered solely by the Workplace Agreement are typically in administrative positions.

While the specific remuneration arrangements that apply to employees differ according to their employment arrangements with the Reserve Bank, remuneration packages are designed to attract and engage high-calibre employees. The Bank uses surveys such as Financial Institution Remuneration Group and Aon Hewitt for remuneration and benefit benchmarking. In reviewing these data, the Bank compares the benchmarked role's fixed remuneration (salary plus superannuation) with the Bank-offered packages. The Bank's remuneration packages consist of salary, superannuation and benefits that can be taken as cash. In addition, subject to a minimum work time period for the performance year, all employees are eligible to receive an additional lump-sum performance-based payment that is distributed from a pool of 2 per cent of salaries.

The Bank monitors differences in the salaries of male and female employees. This work shows that the gap between the average full-time equivalent salaries of men and women has declined from 16.6 per cent to 13.3 per cent over the past two years. The gap continues to be explained largely by the fact that women occupy a greater proportion of positions at lower levels and a lower proportion of senior positions compared with men. In recognition of this, the Bank has worked to increase the number of women in managerial positions (as noted in the 'People and Culture' section above).

Remuneration increases are governed by the Reserve Bank's internal Remuneration Committee, comprising the Deputy Governor, Assistant Governors and the Head of Human Resources. This committee reviews and makes recommendations to the Governor on the proposed annual remuneration review outcomes, whereby salary increases are allocated to individuals on the basis of their performance. For the 2017/18 remuneration review, the budget available for the annual salary component was 2.25 per cent of the total salary bill for those eligible employees. This was based on the Workplace Agreement requiring a 2 per cent increase in the salary ranges and a discretionary 0.25 per cent to allow for high performers to be rewarded.

The distribution of remuneration paid to Reserve Bank executives and other senior employees on an accrual basis is set out in the tables below. The provision of this information is consistent with similar information provided by other Commonwealth entities.

Remuneration of Key Management Personnel

Remuneration received in 2018/19 ($)[a]

Name	Position Title	Short-term Benefits			Post-employment Benefits	Other Long-term Benefits		Termination Benefits	Total Remuneration[5,6]
		Base Salary[1]	Bonuses	Other Benefits and Allowances[2]	Superannuation Contributions[3]	Long Service Leave[4]	Other Long-term Benefits		
Reserve Bank Executives									
Philip Lowe	Governor	911,728	–	8,190	116,962	22,881	–	–	1,059,761
Guy Debelle	Deputy Governor	668,595	–	8,190	87,721	22,813	–	–	787,319
Lindsay Boulton	Assistant Governor, Business Services	449,488	8,994	36,443	84,365	11,457	–	–	590,747
Michele Bullock	Assistant Governor, Financial System	505,260	10,088	36,443	95,159	17,231	–	–	664,181
Luci Ellis	Assistant Governor, Economic	447,856	8,993	36,443	84,365	15,276	–	–	592,933
Christopher Kent	Assistant Governor, Financial Markets	504,037	9,731	35,781	93,462	16,912	–	–	659,923
Susan Woods	Assistant Governor, Corporate Services	456,744	2,396	36,443	75,117	11,457	–	–	582,157
Non-Executive Members of the Reserve Bank Board									
Mark Barnaba AM	Member – Reserve Bank Board Member/Chair – Reserve Bank Board Audit Committee[b]	96,273	–	–	9,146	–	–	–	105,419
Wendy Craik AM	Member – Reserve Bank Board	76,090	–	–	7,229	–	–	–	83,319
John Fraser	Member – Reserve Bank Board[c,i]	–	–	–	–	–	–	–	–
Philip Gaetjens	Member – Reserve Bank Board[d,i]	–	–	–	–	–	–	–	–
Ian Harper	Member – Reserve Bank Board	76,090	–	–	7,229	–	–	–	83,319
Allan Moss AO	Member – Reserve Bank Board Interim Chair/Member – Reserve Bank Board Audit Committee[e]	88,234	–	–	8,382	–	–	–	96,616
Carol Schwartz AO	Member – Reserve Bank Board	76,090	–	–	7,229	–	–	–	83,319
Catherine Tanna	Member – Reserve Bank Board	76,090	–	–	7,229	–	–	–	83,319

Remuneration of Key Management Personnel (continued)

Remuneration received in 2018/19 ($)[(a)]

Name	Position Title	Short-term Benefits			Post-employment Benefits	Other Long-term Benefits		Termination Benefits	Total Remuneration[5,6]
		Base Salary[1]	Bonuses	Other Benefits and Allowances[2]	Superannuation Contributions[3]	Long Service Leave[4]	Other Long-term Benefits		
Non-Executive Members of the Payments System Board									
Wayne Byres	Member – Payments System Board[(i)]	–	–	–	–	–	–	–	–
Gina Cass-Gottlieb	Member – Payments System Board[(f)]	56,996	–	–	5,414	–	–	–	62,410
Paul Costello	Member – Payments System Board[(g)]	2,293	–	–	218	–	–	–	2,511
Deborah Ralston	Member – Payments System Board	59,780	–	–	5,679	–	–	–	65,459
Greg Storey	Member – Payments System Board[(h)]	54,703	–	–	5,197	–	–	–	59,900
Catherine Walter AM	Member – Payments System Board	59,780	–	–	5,679	–	–	–	65,459
Brian Wilson AO	Member – Payments System Board	59,780	–	–	5,679	–	–	–	65,459

(a) Remuneration of Key Management Personnel are in relation to the Reserve Bank of Australia entity only
(b) Appointed to the Reserve Bank Board Audit Committee as a Member on 23 July 2018 and as Chair on 8 August 2018
(c) Retired from the Reserve Bank Board on 31 July 2018
(d) Appointed to the Reserve Bank Board on 1 August 2018
(e) Ceased as Interim Chair of the Reserve Bank Board Audit Committee on 7 August 2018
(f) Retired from the Payments System Board on 14 July 2018, reappointed to the Payments System Board on 1 August 2018
(g) Retired from the Payments System Board on 14 July 2018
(h) Appointed to the Payments System Board on 1 August 2018
(i) The Secretary to the Treasury, as a member of the Reserve Bank Board, and the Chairman of APRA, as a member of the Payments System Board, are not remunerated

Notes

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

Remuneration of Senior Executives

Remuneration received in 2018/19 ($)[(a)]

Total Remuneration Bands	Number of Senior Executives	Short-term Benefits			Post-employment Benefits	Other Long-term Benefits		Termination Benefits	Total Remuneration
		Average Base Salary[1]	Average Bonuses	Average Other Benefits and Allowances[2]	Average Superannuation Contributions[3]	Average Long Service Leave[4]	Average Other Long-term Benefits	Average Termination Benefits	Average Total Remuneration
$0 to $220,000	4	68,378	1,842	13,913	16,318	3,308	–	–	103,759
$220,001 to $245,000	1	141,978	6,425	29,997	46,031	6,416	–	–	230,847
$270,001 to $295,000	2	99,335	6,434	21,129	23,456	5,451	–	131,264	287,069
$295,001 to $320,000	3	225,148	3,995	34,687	41,677	5,634	–	–	311,141
$320,001 to $345,000	5	238,279	5,082	34,687	44,820	6,498	–	–	329,366
$345,001 to $370,000	5	261,168	5,500	34,454	49,846	7,648	–	–	358,616
$370,001 to $395,000	5	279,671	6,743	34,570	50,394	8,228	–	–	379,606
$395,001 to $420,000	2	304,682	6,406	34,687	56,879	8,988	–	–	411,642
$420,001 to $445,000	3	333,520	6,698	34,687	52,794	10,235	–	–	437,934
$445,001 to $470,000	2	352,125	4,180	34,395	59,398	10,010	–	–	460,108
$470,001 to $495,000	3	368,678	7,515	34,687	67,874	10,248	–	–	489,002
$495,001 to $520,000	3	379,200	6,243	34,600	71,354	12,510	–	–	503,907
$520,001 to $545,000	2	396,455	8,241	34,687	75,509	11,948	–	–	526,840
$570,001 to $595,000	2	448,675	10,176	34,395	80,606	10,945	–	–	584,797
$620,001 to $645,000	1	251,008	5,290	316,493	47,473	6,446	–	–	626,710
$695,001 to $720,000	2	264,483	6,663	379,940	49,239	7,873	–	–	708,198
$795,001 to $820,000	1	270,362	7,275	484,765	49,317	6,698	–	–	818,417

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

Notes

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

Remuneration of Other Highly Paid Staff

Remuneration received in 2018/19 ($)[(a)]

Total Remuneration Bands	Number of Other Highly Paid Staff	Short-term Benefits			Post-employment Benefits	Other Long-term Benefits		Termination Benefits	Total Remuneration
		Average Base Salary[1]	Average Bonuses	Average Other Benefits and Allowances[2]	Average Superannuation Contributions[3]	Average Long Service Leave[4]	Average Other Long-term Benefits	Average Termination Benefits	Average Total Remuneration
$220,001 to $245,000	55	168,374	3,923	18,182	31,532	4,346	-	5,489	231,846
$245,001 to $270,000	32	192,303	3,477	18,649	35,069	5,145	-	4,748	259,391
$270,001 to $295,000	24	198,974	3,836	36,842	36,584	5,650	-	-	281,886
$295,001 to $320,000	9	214,492	3,566	38,732	44,326	5,584	-	-	306,700
$320,001 to $345,000	5	176,975	3,843	96,120	32,664	4,933	-	18,807	333,342
$345,001 to $370,000	1	124,111	3,985	13,966	41,672	3,136	-	158,614	345,484
$370,001 to $395,000	1	94,503	1,826	260,530	17,500	2,375	-	-	376,734
$395,001 to $420,000	1	157,685	3,258	202,105	29,951	5,419	-	-	398,418
$470,001 to $495,000	2	164,967	3,660	274,284	30,856	7,507	-	-	481,274
$670,001 to $695,000	1	175,266	5,193	455,660	32,608	4,428	-	-	673,155

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

Notes

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

Risk Management

As the Reserve Bank is exposed to significant risks when carrying out its policy responsibilities, a framework for managing these risks is embedded in the culture of the Bank. The Bank's risk management framework supports effective decision-making, while allowing enterprise-wide and emerging risks to be identified and managed in a way that is consistent with the Bank's risk appetite. This framework is overseen by the Risk Management Committee.

Objectives and Governance Structure

The Reserve Bank, like any organisation, cannot achieve its objectives without taking on risk. Management of these risks is the responsibility of all staff. In particular, managers have a responsibility to evaluate their risk environment, put in place appropriate controls and ensure that these controls are well developed and implemented effectively. The Bank identifies, assesses and manages risk at both an enterprise ('top-down') and business ('bottom-up') level, a process that is subject to ongoing review. These risks are managed to a level that is consistent with the Bank's risk appetite through processes that emphasise the importance of integrity, intelligent inquiry, maintaining high-quality staff and public accountability. Responsibility for articulation of the Bank's risk appetite resides with the management of the Bank. The development and maintenance of an active risk management culture that acknowledges the need for careful analysis and management of risk in all business processes is an important objective of this framework.

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

The Risk Management Committee is responsible for ensuring the proper assessment and effective management of all the risks the Reserve Bank faces, with the exception of those arising directly from its monetary and financial stability policies and payments policy functions. These risks remain the responsibility of the Governor, the Reserve Bank Board and the Payments System Board. The risks associated with the Bank's ownership of Note Printing Australia Limited (NPA) are overseen by the Reserve Bank Board. The NPA Charter, which is reviewed annually by the Reserve Bank Board, defines the scope of NPA's activities and sets out the approach to risk management to be taken by the NPA Board. However, responsibility for the day-to-day activities of NPA rests with the NPA Board and management. The Bank's risk management framework covers the relationships that it has with NPA other than its ownership – for example, the relationships of customer and landlord.

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

The Audit Department undertakes a risk-based audit program to provide assurance that risks are identified and key controls to mitigate these risks are well designed and working effectively. This includes periodic reviews of the Reserve Bank's risk management framework and testing key controls in business areas on a sample basis. The Head of Audit Department reports directly to the Chair of the Reserve Bank Board Audit Committee and the Deputy Governor.

Portfolio Risks

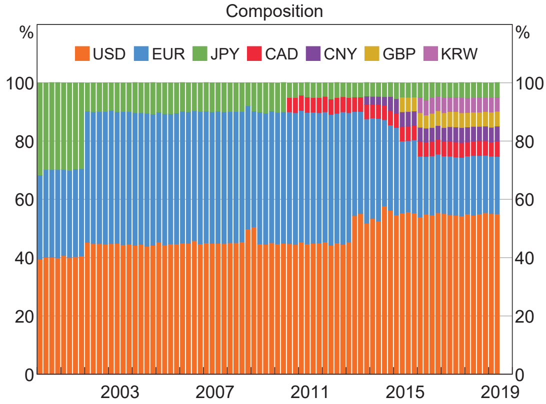
The Reserve Bank holds domestic and foreign currency-denominated financial instruments to support its operations in financial markets in pursuit of its policy objectives. These instruments account for the majority of the Bank's assets and expose its balance sheet to a number of financial risks. The primary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

Exchange rate risk

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

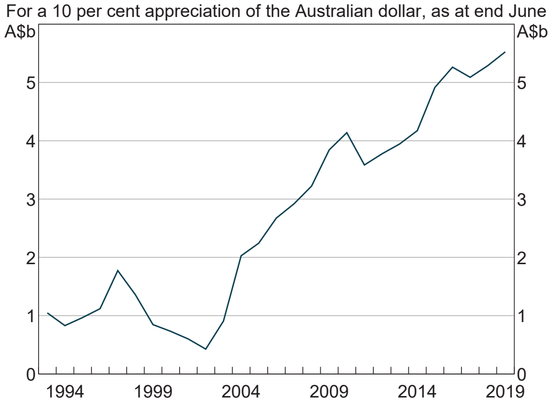
The Australian dollar value of the Reserve Bank's foreign portfolio increased slightly over 2018/19 owing to the broad-based depreciation in the Australian dollar, but was unchanged in foreign currency terms. Based on the level of reserves as at 30 June 2019, a 10 per cent appreciation of the Australian dollar would result in a mark-to-market loss of $5.5 billion. The increase in exchange rate risk over the previous decade and a half mainly reflects the increase in the size of net foreign exchange reserves over that period.

Net Foreign Exchange Reserve Assets



Source: RBA

Exchange Rate Risk on RBA Foreign Currency Portfolio



Source: RBA

Interest rate risk

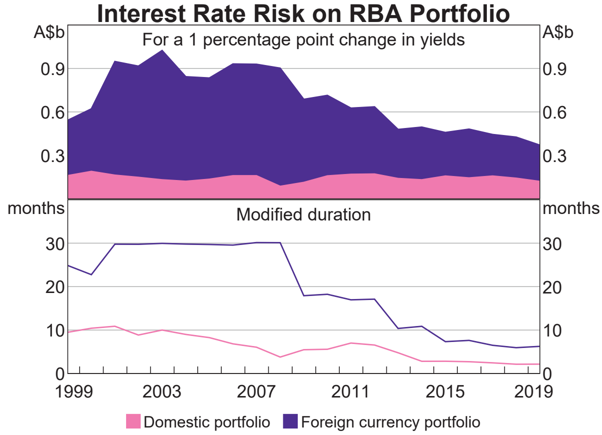
The value of the Reserve Bank's financial assets is also exposed to movements in market interest rates.

Total holdings of domestic securities decreased by $6.1 billion over 2018/19 to $108.2 billion. At 30 June 2019, domestic securities held on a temporary basis under repurchase agreements (repos) accounted for $98.8 billion and securities held outright accounted for $9.4 billion. Interest rate risk faced by the Reserve Bank on its outright holdings of domestic securities declined over 2018/19 owing predominantly to reduced holdings of Australian Government Securities (AGS). These securities are typically purchased to manage the liquidity impact of maturing AGS and have a very short term to maturity.

The Reserve Bank's foreign currency assets are managed relative to benchmark portfolios in each currency, with duration targets that reflect the Bank's long-term appetite for risk and return. These targets are reviewed periodically. During 2018/19, duration targets were unchanged in all seven asset benchmark portfolios – the duration target for the Chinese and South Korean portfolios is 18 months, for the US, European, and Canadian portfolios it is 6 months, for the UK portfolio it is 3 months and for the Japanese portfolio it is less than 3 months. Some limited variation in actual portfolio duration from the duration targets is permitted to reduce transaction costs and to provide scope to staff to enhance portfolio returns. The weighted-average benchmark duration target for the Bank's total foreign portfolio was little changed over 2018/19 at around 6¾ months. This is low by historical standards, reflecting the generally low level of interest rates, which offer little compensation for the risk of capital losses should longer-term bond yields increase significantly.

Total interest rate risk on the Reserve Bank's domestic and foreign financial assets fell over

Interest Rate Risk on RBA Portfolio



Source: RBA

2018/19 to its lowest level in more than 20 years. The Bank would incur a valuation loss of around $371 million if interest rates in Australia and overseas rose uniformly by 1 percentage point across the yield curve.

The Reserve Bank is exposed to very little interest rate risk on its balance sheet liabilities. Banknotes on issue account for about 43 per cent of total liabilities and carry no interest cost to the Bank. Other sizeable obligations include deposits held by the Australian Government and its agencies, and Exchange Settlement Account balances mainly held by authorised deposit-taking institutions. These deposits have short maturities that broadly match the Bank's domestic assets held under repo. Interest paid on these deposits reflects domestic short-term interest rates, effectively hedging part of the interest rate exposure of the domestic asset portfolio.

Credit risk

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

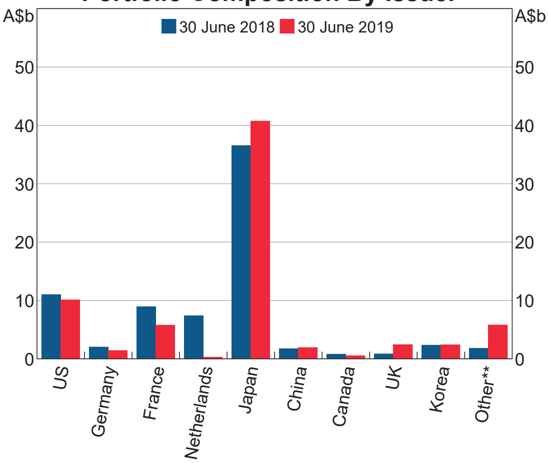
The Reserve Bank is exposed to very little issuer credit risk on its outright holdings in the domestic portfolio as it invests only in securities issued by the Australian Government or by state and territory government borrowing authorities. The Bank is exposed to a small amount of counterparty credit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

The counterparties with which the Reserve Bank deals in carrying out policy operations in the domestic market must be members of the Reserve Bank Information and Transfer System (RITS), subject to an appropriate level of regulation and be able to settle transactions within the Austraclear system. Repo transactions with the Bank are also governed by a Global Master Repurchase Agreement as part of the RITS Regulations.

Investments in the Reserve Bank's foreign currency portfolio are typically confined to highly rated and liquid securities, as well as deposits with foreign central banks. The majority of the Bank's outright holdings are securities issued by the national governments of the United States, Germany, France, the Netherlands, Japan, Canada, the United Kingdom, China and South Korea, with modest holdings of securities issued by highly rated supranational institutions and government agencies. At 30 June 2019, gross holdings of Japanese yen-denominated assets accounted for the largest share of the Bank's foreign currency issuer exposures, with the majority of these assets funded under short-term foreign exchange swaps (see the chapter on 'Operations in Financial Markets' for more detail). A limit on the size of exposures to individual currencies based on the Bank's capital operates to mitigate concentration risk.

The Reserve Bank holds a portion of its foreign currency portfolio in short-term repos. This exposes the Bank to the small amount of residual credit risk that is inherent in repos, as noted above. The Bank manages this risk by requiring 2 per cent over-collateralisation, which is maintained through two-way margining in the local currency, and

Portfolio Composition By Issuer*



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

** Includes supranational securities, government agency securities and investments with the Bank for International Settlements

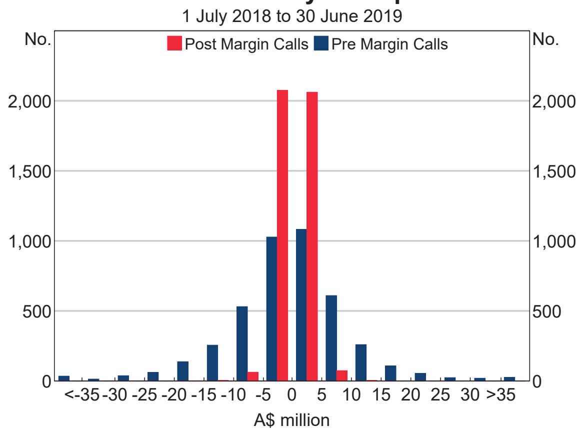
Source: RBA

accepting only high-quality and liquid securities as collateral. Credit exposure on foreign repos is further managed by imposing limits on individual counterparty exposures and requiring execution of a Global Master Repurchase Agreement (or Master Repurchase Agreement where appropriate) with each counterparty.

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

Distribution of Daily FX Exposures*

1 July 2018 to 30 June 2019



* A positive number indicates the RBA has an exposure

Source: RBA

The Reserve Bank undertakes some limited lending of its gold holdings. The lending is either fully collateralised or the borrower has government support. As at 30 June 2019, 11.1 tonnes of gold valued at $718 million was on loan.

Operational Risks

The Reserve Bank faces a diverse range of operational risk in its day-to-day activities. They include risks relating to the availability of technology and facilities services, retention of high-quality staff and the unintentional disclosure of confidential and sensitive information. Generally, the Bank has a low appetite for these types of risk, but recognises that it is neither possible nor necessarily desirable to eliminate some risks inherent in its activities. The acceptance of some risk is often necessary to foster innovation and efficiencies in business practices.

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

- transacting in financial markets to implement monetary policy
- maintaining the infrastructure to facilitate real-time interbank payment and settlement services through RITS

- providing banking facilities for a number of government entities, including the Australian Taxation Office, Medicare and Centrelink
- the provision of safe, secure and reliable Australian banknotes.

Any operational failure in these critical activities could have widespread consequences. Financial Markets Group, for example, executed around 50,000 transactions in 2018/19 generating an average daily settlement value of around $41 billion, while RITS settles just under $200 billion every day on average.

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

As part of the Reserve Bank's management of the risks associated with technology and operational systems, a significant focus is placed on the security of these systems. The Bank invests in significant security controls and risk assurance functions, which are supported by a regular assessment regime. These activities are informed by liaison with the security services, other central banks, the Australian Government and industry participants. The Bank receives regular independent assurance of its compliance with security strategies endorsed by the Australian Signals Directorate, and maintains independent certification for the ISO 27001 global standard for Information Security Management.

The continuity of critical business functions during and after a disruptive event is a key area of focus for the Reserve Bank. In that regard, a power outage on 30 August 2018 led to the loss of power supply to the Bank's Head Office data centre, which caused significant disruption to the activities of the Bank. The root cause was incorrect execution of routine fire control systems testing by an external contractor in the data centre, which led to a loss of power, including uninterruptable power supplies (the fire suppression systems are designed to protect life). The power loss abruptly cut off all technology systems operating from the data centre, resulting in a large-scale loss of internal and external services and affected critical business functions.

Key external impacts of the outage were:

- Delays to all payment settlements for all payment streams on 30 August 2018, although virtually all settlements were completed by the end of the day. The streams included high-value payments, debt securities settlements, electronic property settlements, low-value settlements and ASX settlements.
- Key Reserve Bank online banking services were unavailable for lengthy periods on 30 August 2018. This resulted in delays to payments on behalf of government departments, including Department of Human Services emergency payments to recipients' bank accounts.
- Government departments were unable to process payments and check banking account statements.

- There was a delay in publication of some information, such as exchange rate data, on the Bank's public website.

The disruption to the Reserve Bank's operations was disappointing, in particular, the fact that some critical systems did not failover to the Bank's alternate site as expected. Nevertheless, the Bank was well served by existing business continuity plans in terms of responding to the incident, with all critical services restored by the end of the day of the incident.

Following the incident, the Reserve Bank conducted a full review of its servicing and maintenance arrangements for critical infrastructure, the technology issues encountered on the day, the communications and crisis management protocols and business continuity testing arrangements. As a result of the review and discussions with external organisations, a number of changes have been made. These include: changes to the arrangements for servicing and maintaining critical infrastructure; remediation of the gaps in the Bank's 'high availability' architecture for key systems; revision of the Bank's business continuity testing regime; and improvements in the Bank's communication plans. This is an ongoing process, with the Bank looking to continually improve its arrangements and implement the lessons learnt.

The Reserve Bank has a dedicated Business Resumption Site in north-west Sydney, where permanent staff from some of the Bank's most critical operational areas are located. Departments regularly test their back-up plans, including combined exercises involving multiple areas testing interdependencies and also testing plans to work at alternate locations. Regular workshops are scheduled with critical business areas to discuss response strategies to situations such as technology service disruptions and the unavailability of staff. The Bank continues to participate in contingency exercises with external organisations to ensure that staff are well briefed on their roles during disruptions and that effective internal and external communication arrangements are in place. The results of such exercises are monitored by the Risk Management Committee.

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

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

The Reserve Bank does not tolerate dishonest or fraudulent behaviour and is committed to deterring and preventing such behaviour. It takes a very serious approach to cases, or suspected cases, of fraud. All staff involved in financial dealing have well-defined limits to their authority to take risks or otherwise commit the Bank. These arrangements are further enhanced by the separation of front-, back- and middle-office functions, where staff involved in trading, settlement and reconciliation activity remain physically separate and have separate reporting lines. For non-trading activities, several layers of fraud control are in place, including preventative, detective and corrective controls. A clear decision-making hierarchy, separation of duties and physical controls over systems and information have been established and are subject to regular review. Ongoing training and awareness programs are also conducted. The Bank requires all staff to undertake fraud awareness training. The Bank has arrangements in place for staff and members of the public to report concerns anonymously. All concerns are fully investigated. During 2018/19, there were no reported instances of fraud by employees.

The Reserve Bank remains strongly committed to maintaining and strengthening a workplace culture in which employees uphold the highest standards of behaviour. The Code of Conduct sets out requirements of the Bank's employees and others who are involved in its activities. The Bank has arrangements in place for staff to report concerns about breaches of the Code of Conduct, including channels by which concerns can be reported anonymously. Arrangements are in place to ensure staff are comfortable reporting concerns across a range of issues. During the past year the Risk Management Committee also considered the findings of the Financial Services Royal Commission, including possible lessons for the Bank.

The effective management of compliance risk is central to the Reserve Bank's activities. Risk and Compliance Department collaborates with all business areas to ensure this risk is being managed effectively and keeps the Risk Management Committee informed regarding the level of compliance in key areas. Staff complete a number of training modules each year, focusing on areas such as privacy and workplace health and safety. Work was undertaken over the course of the past year to refresh all modules to help staff better engage with the areas covered and improve learning outcomes.

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

The Reserve Bank continues to act as the administrator of the Guarantee of State and Territory Borrowing. Applications for new guaranteed liabilities under this scheme closed in 2010, although existing liabilities will continue to be guaranteed until maturity, at the latest in 2023. To date, a total of $423 million in fees has been collected for state and territory borrowing since the scheme commenced in 2009, with $6 million collected in 2018/19.

Earnings, Distribution and Capital

The Reserve Bank recorded a net profit of $4.5 billion in 2018/19. In accordance with the *Reserve Bank Act 1959*, unrealised gains are not available for distribution and are transferred to the unrealised profits reserve. Earnings available for distribution amounted to $1.7 billion, with the full sum to be distributed to the Commonwealth. The Reserve Bank remains well capitalised.

The Reserve Bank's Earnings

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

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

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

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

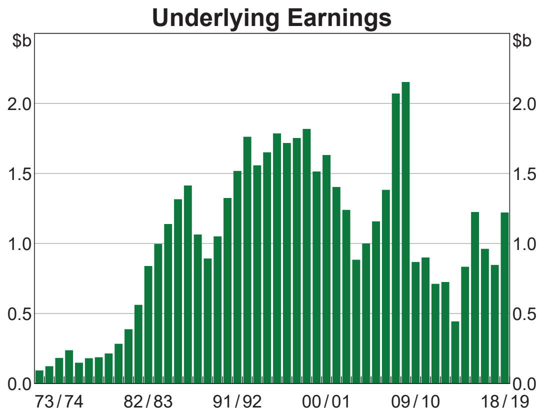
- Unrealised gains (or losses) are not available for distribution and are transferred to (absorbed by) the unrealised profits reserve. The remainder of net profit after this transfer is available for distribution.
- The Treasurer determines, after consulting the Reserve Bank Board, any amounts to be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

In 2018/19, the Reserve Bank recorded a net profit of $4,549 million, comprising:

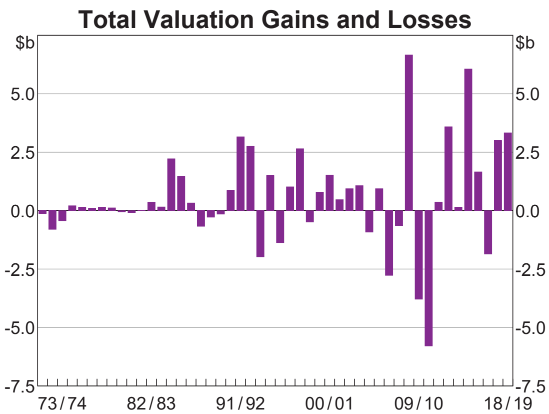
- underlying earnings of $1,167 million, an increase of $322 million from the previous year. The increase in this component of earnings reflected that interest rates earned on short-dated domestic and US dollar assets were, on average, higher than the previous year

- valuation gains of $3,382 million. Unrealised gains of $2,970 million were recorded, primarily from the depreciation of the Australian dollar over the year. Realised gains of $412 million were largely the result of sales of foreign exchange in the normal course of managing the portfolio of foreign reserves.

In addition, a sum of $106 million was transferred to distributable earnings, reflecting accumulated valuation gains on the Bank's office building in Melbourne, which was sold during the year. Earnings available for distribution therefore amounted to $1,685 million, an increase of $1,016 million over the previous year's result.



Source: RBA



Source: RBA

Capital, Reserves and Distribution

The Reserve Bank maintains capital and reserves for the risks on its balance sheet. These include the RBRF, which is the Reserve Bank's general reserve established under the Reserve Bank Act. It also includes various accounting reserves, such as the unrealised profits reserve, which holds unrealised valuation gains on the Reserve Bank's traded assets, and asset revaluation reserves for non-traded assets. These reserves are detailed below. The Reserve Bank remains in a strong capital position, with total capital and reserves of $28,912 million at 30 June 2019.

Reserve Bank Capital and Reserves ($m)
30 June

	2019	2018
Reserves:		
Reserve Bank Reserve Fund	14,119	14,119
Unrealised profits reserve	8,830	5,860
Asset revaluation reserve	5,802	5,020
Superannuation reserve	121	338
Capital	40	40
Total	**28,912**	**25,377**

Source: RBA

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

The Reserve Bank Board has a framework to assess the target balance of the RBRF by assessing and appropriately assigning capital to exposures of different risk. The largest potential for loss from the Reserve Bank's assets comes from market risk, comprising foreign exchange and interest rate risk. The capital assigned to each component of market risk has been derived based on the Bank's historical experience of loss and stress tests of the balance sheet, which incorporated significant adverse movements in exchange rate and interest rates drawn from historical experience. Since the largest potential

Governor Philip Lowe (second from left) signs the Reserve Bank's Financial Statements in the presence of the Auditor-General for Australia Grant Hehir (third from left), Carla Jago, Group Executive Director, Assurance Audit Services Group, Australian National Audit Office (right) and Reserve Bank Chief Financial Officer Robert Middleton-Jones (left)

for loss is associated with the Bank's unhedged holdings of foreign exchange assets, materially more capital is assigned to exchange rate risk than to interest rate risk.

While the Reserve Bank has no history of loss from credit risk, credit risk is also incorporated into the capital framework. The capital held against credit risk is currently a small amount, reflecting the quality of assets held by the Bank, the soundness of counterparties with which it deals, the fact that repurchase agreements and foreign exchange swaps are highly collateralised and that it follows a set of very conservative policies for managing credit risk, consistent with its very low appetite for such risk. Capital, therefore, is held only against the Bank's very small exposures to commercial banks that are not collateralised. This overall approach to credit risk is consistent with the practice of a range of major central banks.

The current balance in the RBRF of $14,119 million met the Reserve Bank Board's target at the end of 2018/19. Accordingly, the Board views the balance sheet as being very strong and members saw no need to seek a transfer to the RBRF from 2018/19 profits. The Treasurer, after consulting the Board, therefore determined that all earnings available for distribution in 2018/19, a sum of $1,685 million, would be paid as a dividend to the Commonwealth in 2019/20.

The balance of the unrealised profits reserve stood at $8,830 million at 30 June 2019, a rise of $2,970 million from the previous year. This movement largely reflects unrealised valuation gains associated with the depreciation of the Australian dollar. The balance of this reserve is available either to absorb future valuation losses or to be distributed over time as the gains become realised when relevant assets are sold.

Asset revaluation reserves are held for non-traded assets, such as gold holdings and property. Balances in these reserves represent the difference between the market value of these assets and the cost at which they were acquired. The total balance for these reserves was $5,802 million at 30 June 2019, $782 million higher than in the previous financial year, largely reflecting an increase in the Australian dollar value of the Reserve Bank's holdings of gold.

The balance of the superannuation reserve was $121 million at 30 June 2019.

Details of the composition and distribution of the Reserve Bank's profits are contained in the table at the end of this chapter.

The Financial Statements (and accompanying Notes to the Financial Statements) for the 2018/19 financial year were prepared in accordance with Australian Accounting Standards, consistent with the Finance Reporting Rule issued under the Public *Governance, Performance and Accountability Act 2013*.

Composition and Distribution of Reserve Bank Profits

($ million)

	Composition of Profits[a]				Distribution of Profits				Payments to Government		
					Transfer to/from (–)						
	Underlying earnings	Realised gains and losses (–)[b]	Unrealised gains and losses (–)	Accounting profit or loss (–)	Unrealised profits reserves	Asset revaluation reserves	Reserve Bank Reserve Fund	Dividend payable	Payment from previous year's profit	Payment delayed from previous year	Total payment
1997/98	1,750	966	1,687	4,403	1,687	–558	548	2,726	1,700	–	1,700
1998/99	1,816	2,283	–2,773	1,326	–2,349	–1	–	3,676	2,726	–	2,726
1999/00	1,511	–708	1,489	2,292	1,489	–	–	803	3,000	–	3,000
2000/01	1,629	1,200	320	3,149	320	–5	–	2,834	803	676	1,479
2001/02	1,400	479	–11	1,868	–11	–10	–	1,889	2,834	–	2,834
2002/03	1,238	1,157	–222	2,173	–222	–2	133	2,264	1,889	–	1,889
2003/04	882	–188	1,261	1,955	1,261	–	–	694	1,300	–	1,300
2004/05	997	366	–1,289	74	–1,289	–	–	1,363	374	964	1,338
2005/06	1,156	4	933	2,093	933	–17	–	1,177	1,063	320	1,383
2006/07	1,381	72	–2,846	–1,393	–2,475	–3	–	1,085	1,177	300	1,477
2007/08	2,068	614	–1,252	1,430	27	–	–	1,403	1,085	–	1,085
2008/09	2,150	4,404	2,252	8,806	2,252	–	577	5,977	1,403	–	1,403
2009/10	866	–128	–3,666	–2,928	–2,248	–	–680	–	5,227	–	5,227
2010/11	897	–1,135	–4,651	–4,889	–23	–	–4,866	–	–	750	750
2011/12	710	405	–39	1,076	–20	–	596	500	–	–	–
2012/13	723	–135	3,725	4,313	3,725	–	588	–	500	–	500
2013/14	9,242[c]	790	–640	9,392	–640	–3	8,800	1,235	–	–	–
2014/15	832	2,622	3,434	6,888	3,434	–	1,570	1,884	618	–	618
2015/16	1,223	3,389	–1,729	2,883	–1,729	–	1,390	3,222	1,884	618	2,501
2016/17	960	322	–2,179	–897	–2,179	–4	–	1,286	3,222	–	3,222
2017/18	845	–176	3,178	3,847	3,178	–	–	669	1,066	–	1,066
2018/19	1,167	412	2,970	4,549	2,970	–106	–	1,685	669	220	889

(a) As originally published
(b) Excludes gains or losses realised from the sale of fixed assets that had been held in asset revaluation reserves
(c) Includes the Commonwealth grant of $8,800 million
Source: RBA
Incorrect numerical values were published in the table Composition and Distribution of Reserve Bank Profits and were corrected on 18 June 2020. At the time of tabling, the value of the transfer to/from the Unrealised profits reserves for 2018/19 was recorded as –$2,970 million and the value of the transfer to/from the Asset revaluation reserves for 2018/19 as $106 million.

Pro Forma Business Accounts

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

Transactional Banking

	2017/18 $ million	2018/19 $ million
Revenue		
– Service fees	104.5	122.8
– Other revenue	2.3	2.7
Total	106.8	125.5
Expenditure		
– Direct costs	105.3	116.9
– Indirect costs	0.0	0.0
Total	105.3	116.9
Net profit/(loss)	1.5	8.6
Net profit/(loss) after taxes[(a)]	1.5	6.3
Assets[(b)]		
– Domestic markets investments	2,183.0	3,024.2
– Other assets	45.2	39.2
Total	2,228.2	3,063.4
Liabilities[(b)]		
– Capital & reserves	25.0	25.0
– Deposits	2,185.4	3,023.2
– Other liabilities	17.8	15.2
Total	2,228.2	3,063.4

(a) In accordance with competitive neutrality guidelines, income tax expense has been calculated and transferred to the Commonwealth as a notional part of the Reserve Bank's annual profit distribution

(b) As at 30 June

Annual Performance Statement for 2018/19

I, as the accountable authority of the Reserve Bank of Australia, present the annual performance statement of the Reserve Bank for 2018/19, prepared under paragraph 39(1)(a) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). In my opinion, this annual performance statement accurately presents the performance of the Reserve Bank in the reporting period and complies with subsection 39(2) of the PGPA Act.

Philip Lowe
Governor, Reserve Bank of Australia
4 September 2019

Introduction

This performance statement outlines the key purposes of the Reserve Bank as set out in the 2018/19 corporate plan and provides the results of the measurement and assessment of the Bank's performance in achieving those purposes for the year ended 30 June 2019. Where necessary, additional context is provided, including an analysis of the significant factors that have contributed to the performance of the Bank in achieving its purposes in 2018/19.

As noted elsewhere in this annual report, the Reserve Bank of Australia is Australia's central bank and it conducts central banking business. The Bank has two boards, the Reserve Bank Board and the Payments System Board. The Reserve Bank Board is responsible for the Bank's monetary and banking policy and the Bank's policy on all other matters, except for payments system policy, for which the Payments System Board is responsible.

Reserve Bank of Australia – Performance Summary 2018/19

Corporate Plan Purpose	Performance Objectives	Summary Performance Measures	Results
Monetary policy	Achieve inflation target	Consumer price inflation averages between 2 and 3 per cent over the medium term	Consumer price inflation has averaged around 2½ per cent over the inflation-targeting period. Over the past four years, however, headline consumer price inflation has mostly been between 1 and 2 per cent, while measures of underlying inflation have ranged between 1½ and 2 per cent for most of this period. Consumer price inflation is forecast to increase gradually to be slightly above 2 per cent over 2021; see the Bank's quarterly *Statement on Monetary Policy* for details

Reserve Bank of Australia – Performance Summary 2018/19

Corporate Plan Purpose	Performance Objectives	Summary Performance Measures	Results
Financial stability	Support overall financial stability	A stable financial system that is able to support the economy	The financial system has continued to support economic activity without disruption
		Work with the Council of Financial Regulators (CFR) agencies to identify and appropriately address evolving systemic risks	The Bank has continued to work productively with the other CFR agencies
		Assess and communicate risks to financial stability, including through the Bank's half-yearly *Financial Stability Review*	The Bank has continued to assess financial stability risks and communicate these through the half-yearly *Financial Stability Review*, *Bulletin* articles and speeches
Financial market operations	Achieve cash rate target	Overnight cash rate consistent with the target each business day	Overnight cash rate was consistent with the target each business day
	Manage reserves to portfolio benchmarks	Portfolio managed within small deviations around the asset and duration benchmarks	Deviations from the reserve portfolio benchmark were small and in line with pre-defined limits
	Intervene in foreign exchange market as appropriate	Publish data and explanations of any interventions	No foreign exchange market intervention was conducted
Payments and infrastructure	Support competition and efficiency in the payments system and financial system stability	Maintain and improve, where possible, the efficiency and competitiveness of the payments system, consistent with financial system stability	The Bank continued to promote efficiency and competitiveness in the retail payments system through various policy initiatives and through its support for industry initiatives. There has also been continued innovation, including by the roll-out of real-time payments through the New Payments Platform (NPP) The Bank has continued to monitor technology-related innovations in payments and market infrastructures, including the implications of cryptocurrencies and related technologies
		Continue to monitor the effect of the card standards introduced in 2016–17 and encourage industry progress in providing least-cost routing functionality	The Bank consulted on a proposal to improve the clarity and operation of the net compensation requirements of the Bank's interchange standards. The variations took effect on 1 July 2019 (see *Payments System Board Annual Report 2019*). The Bank has been actively encouraging the provision of least-cost routing functionality to merchants. A number of financial institutions, including the four major banks, are now making this functionality available

Reserve Bank of Australia – Performance Summary 2018/19

Corporate Plan Purpose	Performance Objectives	Summary Performance Measures	Results
Payments and infrastructure (continued)	Stability in the provision of financial market infrastructure (FMI) services	Stability of FMI service provision. Assess Reserve Bank Information and Transfer System (RITS) and licensed clearing and settlement facilities (CS) against relevant standards. Establish recommendations and regulatory priorities as appropriate for each high-value payment system and CS facility based on these assessments	Assessments of RITS and all licensed clearing and settlement facilities have been completed and published. Where necessary, the Bank has set and monitored the response to regulatory priorities
		Contribute to international policy work on central counterparty resilience and FMI crisis management	Bank staff actively participated in international policy development on crisis management of financial market infrastructures
		Adapt domestic regulatory standards in response to international developments. Support international supervisory cooperation	No change to domestic regulatory standards was required. However, the Bank revised the guidance on its supervisory approach, introducing a more graduated framework that places greater reliance on the home regulator for overseas CS facilities
	RITS operational reliability	RITS availability at 99.95 per cent during core hours	RITS availability was 99.78 per cent during core hours in 2018/19, below the performance target, because of a major operational incident on 30 August 2018
		RITS Fast Settlement Service (FSS) availability at 99.995 per cent on a 24/7 basis, with most transactions processed in less than one second	FSS availability was 99.966 per cent in 2018/19, below the performance target, because of a major operational incident on 30 August 2018. The processing time for 95 per cent of FSS transactions was 103 milliseconds or less
	RITS cyber security	Ongoing investment and regular reviews and testing to support cyber resilience	The Bank's ongoing program of cyber resilience work helped underpin the secure operation of RITS in 2018/19
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	The Bank continued to work with the Department of Finance (Finance) on its multi-stage plan to modernise Commonwealth cash management. This included the implementation of system changes that will enable Finance to make agency funding payments using the NPP from 2019/20
	Satisfy financial performance benchmarks	Minimum return on capital for transactional banking business equivalent to 10-year Australian Government Security rate plus a margin for risk	The Bank's banking services achieved the minimum required return on capital in 2018/19

Reserve Bank of Australia – Performance Summary 2018/19

Corporate Plan Purpose	Performance Objectives	Summary Performance Measures	Results
Banking (continued)	Progress on projects 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: • continued work on replacing the Bank's core account maintenance system • continued development of NPP capabilities • delivery of open and secure integration services via Application Programming Interfaces (API) for agencies	In 2018/19, the Bank: • completed the work required to replace the Bank's core account maintenance system for implementation in July 2019 • continued to work with industry to develop NPP capabilities • assisted the Department of Human Services (DHS) to implement its solution to deliver urgent, crisis and disaster relief payments via the NPP from its core systems • implemented its API Gateway and delivered the first service via API for the Department of Human Services
Banknotes	Maintain the capacity of Australian banknotes to provide a safe, secure and reliable means of payment and store of value, as follows:	Maintain or improve public perceptions of Australian banknotes as measured in the Reserve Bank survey	Over 60 per cent of respondents expressed confidence in the system for removing counterfeits from circulation and were of the view that there was no counterfeiting problem in Australia. These figures were largely unchanged from earlier survey years. In addition, the counterfeiting rate was 11 parts per million in 2018/19, which is lower than in recent history and very low by international standards
	• Meet banknote demand	More than 95 per cent of banknote orders from commercial banks fulfilled by the Reserve Bank within three days of the request	100 per cent of orders were fulfilled on the day requested in 2018/19
	• Increase security of Australian banknotes	Issuance of new $50 banknote with upgraded security features as part of Next Generation Banknote program	The new $50 banknote was released on 18 October 2018 as planned
	• Ensure high-quality banknotes	Reserve Bank banknote production orders to be met by Note Printing Australia Limited within agreed quality parameters	97.1 per cent of orders were met by Note Printing Australia Limited on time and to the required quality standard in 2018/19
		Maintain quality of banknotes in circulation in excess of a minimum quality standard agreed with industry	The quality of banknotes in circulation was broadly unchanged at a high level in 2018/19

Source: RBA

Monetary Policy

Purpose

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

a. the stability of the currency of Australia

b. the maintenance of full employment in Australia

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

In support of the above duties, 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 keeping consumer price inflation between 2 and 3 per cent, on average, over time, consistent with its duties under the *Reserve Bank Act 1959*. Ensuring low and stable inflation preserves the value of money and facilitates strong and sustainable growth in the economy over the longer term. Low inflation assists businesses and households in making sound investment decisions, underpins the creation of jobs and protects the savings of Australians. The *Statement on the Conduct of Monetary Policy* also recognises the importance of financial stability for a stable macroeconomic environment.

Results

Assessing the conduct of monetary policy during 2018/19 involves judging whether the policy decisions taken by the Reserve Bank Board, based on the information available at the time, were consistent with achieving the inflation target and fostering sustainable economic growth in Australia. Because there are lags between changes in the cash rate and their effect on the economy, such an assessment needs to give weight to both actual outcomes and the forecasts for inflation, output and the unemployment rate. These forecasts are published quarterly in the *Statement on Monetary Policy*.

Towards the end of 2018, the Reserve Bank Board reviewed the forecasts and monetary policy decisions it had taken over the previous year, including the reasons behind the forecast errors and what the Bank's staff had learnt about the economy as a result. The review noted that the labour market had improved at a faster rate than had earlier been anticipated. However, this had not translated into faster growth in either wages or consumer prices, suggesting that there was more spare capacity available for any given level of unemployment than had previously been thought. Consumer price inflation has remained somewhat below 2 per cent, in contrast to earlier expectations that it would increase gradually to be at or above 2 per cent throughout 2018/19. GDP growth has also been lower than expected over 2018/19, although this follows a period in early 2018 where growth was much stronger than expected.

Consumer price inflation has averaged around 2½ per cent over the inflation-targeting period. Over the past four years, however, it has mostly been between 1 per cent and 2 per cent. Measures of underlying inflation have ranged between 1½ and 2 per cent for most of this period. A range of factors has contributed to this outcome, including ongoing spare capacity in the economy and unusually slow growth in labour costs. The entry of new competitors with different business models as well as other shifts in the competitive landscape have also contributed to a step-down in the average rate of price inflation for some categories of retail spending relative to outcomes in the previous decade. In addition, inflation in housing-related costs such as rents has been lower than expected, as has the rate of inflation for certain goods and services where prices are significantly influenced by government policies, such as childcare and some types of education. Consumer price inflation was 1.6 per cent over the year to the June quarter 2019, having been significantly affected in recent quarters by movements in fuel prices (in both directions).

GDP growth has been lower than expected in recent quarters and GDP is likely to have increased by about 2¼ per cent in 2018/19. Looking ahead, growth is expected to recover somewhat in the latter part of 2019 and to return to around 3 per cent in 2020/21. This is a little above the Bank's current estimate of the trend rate of growth in productive capacity. The unemployment rate is therefore expected to decline gradually. Consumer price inflation is expected to increase gradually to be a little above 2 per cent over 2021.

After leaving the cash rate unchanged since August 2016, the Reserve Bank Board lowered the cash rate by 25 basis points in both June and July 2019, to 1 per cent. The Board judged that this would help make further inroad into spare capacity in the economy. This will, in turn, assist with faster progress in reducing unemployment and more assured progress towards achieving the inflation target.

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

Analysis

On the global economy, the incoming data and the outlook for economic growth have been significantly affected by intensifying trade and technology disputes. Interest rates have been lowered in the United States and in some other economies. Global interest rates and measures of underlying inflation remain low. Because Australia is a small open economy with a floating exchange rate, shifts in global monetary conditions can affect financial conditions in Australia.

The period of adjustment that has followed the end of the mining investment boom is close to its end. Non-mining investment has been expanding and employment growth has been stronger than growth in the working-age population. The unemployment rate had declined to around 5 per cent in the early part of 2018/19 and remained there for much of the year, although it ticked up to 5.2 per cent in the June quarter 2019.

Over the past year, the Reserve Bank Board has been considering a range of risks to the outlook and their implications for the stance of monetary policy. Escalating trade and technology disputes pose a significant risk to global growth. Other political risks would also affect global growth outcomes if they lead to tighter financial conditions. Domestic stimulus policies have helped support growth in China, but it is uncertain how the policy mix will evolve from here. For the Australian economy, the main source of uncertainty is the outlook for household income and thus consumption. Despite strong employment growth, household income growth has been slow, constrained by slow wages growth and unusually fast growth in tax payments. Further out, the risks are more balanced; the established housing market appears to have stabilised earlier than had been expected, and the combined effect of policy measures and a brighter outlook for the resources sector could add more to growth than is currently forecast.

These risks arise against a background of ongoing low inflation that is likely to persist for some time. Inflation has remained low in a range of advanced economies, despite tight labour markets. This suggests that common factors such as technological change and globalised competition might be at work. In Australia, these more global forces have been accompanied by unusually slow wages growth. Other domestic factors have also weighed on domestic inflation, including changes in the competitive landscape in the retail industry, and the effect of the downturn in the housing market on rents and other housing-related costs. Some administered prices have also been increasing at a slower rate than usual as governments have taken steps to contain cost of living pressures. Since these factors are unlikely to unwind in the near future, they are likely to continue to weigh on domestic inflation outcomes in the period ahead.

Financial Stability

Purpose

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

The Reserve Bank works with other regulatory bodies in Australia 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 contribute to the efficiency and effectiveness of regulation and promote the stability of the financial system. 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 the 'Financial Market Operations' section of this performance statement, and oversight and operational roles in the payments system, discussed in the 'Payments and Infrastructure' section of this performance statement, also contribute to the stability of the financial system.

Results

The financial system has remained stable and has continued to perform its function of supporting economic activity. During 2018/19, the Reserve Bank's assessment was that the Australian financial system remained resilient, although some potential sources of systemic risk were also highlighted. Details were provided in the Bank's *Financial Stability Review* in October 2018 and April 2019 and in several public speeches. Vulnerabilities related to household debt continued to be a focus during the year, as did risks related to commercial property markets. Tighter lending standards resulting from regulatory actions by APRA and ASIC in recent years have enhanced lenders' and borrowers' resilience to risk. Operational risks, including the potential for a disruptive cyber attack on financial institutions or financial market infrastructures (FMIs), will continue to be a focus of financial institutions and regulators over coming years. None of the identified risks, on their own, appears likely to be the source of significant financial instability in the near term, given the improved resilience of banks and the financial system more broadly.

The Bank contributed to work with other CFR agencies on a range of issues during the year. Agencies continued to assess developments in the housing and mortgage markets, with a focus on credit conditions both for households and small businesses. CFR agencies also considered, and are responding to, the recommendations of recent major reviews of the Australian financial sector (including the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission) and the International Monetary Fund's (IMF's) Financial Sector Assessment Program (FSAP) review). Other areas of work included: leverage and risk in the superannuation system; a resolution regime for FMIs; and cyber security.

In 2018/19, the Reserve Bank contributed to work undertaken in relation to financial stability overseen by various international regulatory bodies, including the Financial Stability Board (FSB), the Basel Committee on Banking Supervision and the Trans-Tasman Council on Banking Supervision. The Governor participated as a member of the FSB Plenary (the decision-making body of the FSB), Steering Committee and Standing Committee on Assessment of Vulnerabilities, and served as co-Chair of the FSB Regional Consultative Group for Asia. The Governor also served as Chair of the Committee on the Global Financial System. Other Bank staff participated as members of various committees and working groups. For further information, see the chapter on 'International Financial Cooperation' in this annual report.

Analysis

Financial stability in Australia has coincided with the sustained strong financial performance of the domestic banking system. Australian banks have improved their resilience to future financial and economic shocks by increasing their capital and liquidity ratios over recent years. They have also taken steps to improve the quality of lending and raise lending standards, especially in relation to their residential mortgage business. That said, the Royal Commission highlighted deficiencies around culture and governance in the financial system. Its Final Report laid out a path for fairer financial intermediation, which will contribute to a more resilient financial system.

As noted above, the Reserve Bank, together with other CFR agencies, has continued to monitor developments in residential mortgage lending and household balance sheets. Both APRA and ASIC have taken measures to address risks in this area. As lending standards have strengthened across the industry, APRA removed the temporary benchmarks on growth in investor lending and new interest-only loans. The CFR agencies stand ready to consider further measures in the future should circumstances change. Improvements in lending standards over the past few years mean that household balance sheets will, on average, be more resilient to changes in circumstances.

The performance of the Reserve Bank in the area of financial stability can be assessed not only by its monitoring of risks and input to policy responses, but also by its contribution to ongoing improvements in the overall regulatory structure. In this context, the Bank and other CFR agencies' work on financial stability has been informed by consideration of the recommendations from recent reviews of the resilience of the financial sector, namely the IMF's FSAP review, the Final Report of the Productivity Commission's review of competition in the financial system and the recommendations from the Royal Commission. Further relevant analysis by the Bank is provided in the *Financial Stability Review* and speeches by the Governor and other senior Bank officials.

Financial Market Operations

Purpose

The Reserve Bank has a sizeable balance sheet, which continues to be managed through financial market operations in support of the Bank's policy objectives.[1]

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 the 'Monetary Policy' section of this performance statement 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, they enable the Bank to address any apparent dysfunction in that market and/or a significant misalignment in the value of the currency, consistent with the objectives of monetary policy. Such interventions are rare. Regular transactions in the foreign exchange market are, however, conducted to manage these reserves, to provide foreign exchange services to the Bank's clients (the largest of which is the Australian Government) and to assist in liquidity management in domestic markets.[2]

Results

The cash rate was consistent with the target every day during 2018/19.

The Reserve Bank manages its foreign reserves portfolio relative to a benchmark. During 2018/19, the portfolio was managed so that any deviations around the benchmarks for exchange rate and interest rate risk were small and in line with pre-defined limits.

The Reserve Bank did not intervene in foreign exchange markets during 2018/19.

Analysis

The Reserve Bank's financial markets operations continued to be influenced by monetary policy trends among the major central banks, as well as 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. During 2018/19, the Bank continued to monitor and, where necessary, adjust to the environment where market functioning and structure are evolving significantly following a period of substantial regulatory reform and unusually low interest rates.

Payments and Infrastructure

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.

1 Section 8 of the Reserve Bank Corporate Plan 2018/19 covers the Bank's management of its financial position and capital.

2 The 'Banking' section of this performance statement discusses the Bank's responsibility to act as banker for the Commonwealth.

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

a. controlling risk in the financial system

b. promoting the efficiency of the payments system

c. promoting competition in the market for payment services, consistent with the overall stability of the financial system.

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

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

The Bank's work in these areas supports its other work, discussed in the 'Financial Stability' section of this performance statement, directed towards fostering overall financial stability.

Results

Developments in the Australian payments system are discussed further in the *Payments System Board Annual Report 2019*. The retail payments market continues to offer safe and secure payments and there is significant innovation, in particular involving real-time payments using the New Payments Platform (NPP).

The Bank has continued to monitor the regulatory framework for card payments and the evolution of the market following the comprehensive review completed in June 2016. In February, the Bank consulted on a proposal to improve the clarity and operation of the net compensation requirements of the Bank's interchange standards. The variations have been approved and took effect on 1 July 2019. More broadly, the Bank's standards for interchange and surcharging are helping to contain payment costs in the economy. Average merchant service fees for all debit and credit card payments are now lower than at the time of the conclusion to the comprehensive review.

The Bank has continued to encourage industry progress on providing merchants with the ability to route contactless dual-network debit card transactions to their lowest-cost processing network, known as least-cost routing (LCR). A number of financial institutions, including all of the major banks, are now making this functionality available. The Bank will continue to monitor progress in cases where institutions are not yet making this available to their entire customer base. The introduction of LCR has increased competitive pressure in the debit card market, which is helping to reduce payment costs in the economy.

In support of the Payments System Board's responsibility to promote efficiency in the payments system, the Bank has continued to contribute to the industry project to deliver the NPP, which was publicly launched in February 2018. The NPP is a major enhancement to Australia's retail payments infrastructure and facilitates real-time, data-rich, easily addressed payments on a 24/7 basis for households, businesses and government entities. Transaction volumes through the NPP have continued to grow each month. The Bank's Payments Policy Department has recently completed a consultation, together with the Australian Competition and Consumer Commission, on NPP access and functionality. The report's overall conclusion was that the NPP is enabling payments functionality that largely addresses the gaps identified in the Reserve Bank's 2012 Strategic Review of Innovation. However, it highlighted that the slow and uneven roll-out of NPP services by the major banks has been disappointing and that this has likely slowed the development of new functionality and contributed to stakeholder concerns about access to the NPP. Therefore, the report included a number of recommendations aimed at promoting the timely roll-out of NPP services and development of new functionality. In addition, it made a number of recommendations for NPP Australia Limited to take action in relation to its participation requirements, the required capital contribution for participation and the governance arrangements for assessing the suitability of new participants.

The Reserve Bank published annual assessments of each of the licensed clearing and settlement facilities as part of its ongoing oversight of these facilities. Assessments were published of the ASX clearing and settlement facilities in September 2018, of LCH.Clearnet Limited's SwapClear service in December 2018 and of Chicago Mercantile Exchange Inc. (CME) in March 2019. In these assessments, the Bank judged that all the entities had conducted their affairs in a way that causes or promotes overall stability in the Australian financial system, or had made progress against regulatory priorities set by the Bank. The Bank also set out a series of regulatory priorities for each of the facilities for the subsequent year. The Bank's 2019 assessment of RITS against the *Principles for Financial Market Infrastructures*, which was published in May 2019, concluded that RITS observed all relevant principles other than Operational Risk, which RITS broadly observed. The Bank also provided advice in respect of CME's application to vary its licence to permit clearing of commodity derivatives, energy derivatives and environmental derivatives traded on the market operated by FEX Global Pty Ltd.

In support of the Reserve Bank's oversight approach and of its policy framework, Bank staff also actively participated in international policy development on crisis management of FMIs and monitoring the implementation of international standards. No change was required to domestic regulatory standards in 2018/19 as a result of international developments. However, in June the Bank revised the guidance on its supervisory approach, introducing a more graduated framework to prioritise its supervisory efforts and place greater reliance on the home regulator for overseas clearing and settlement facilities where they are adequately supervised. The Bank also issued guidance on its supervision and oversight of systemically important payment systems.

The Bank, working with other domestic financial regulators, continued to make progress on the detailed design of a resolution regime for FMIs.

As the owner and operator of RITS, the Reserve Bank seeks to ensure that this system operates with extremely high levels of reliability and security, while also adapting to the needs of a 24/7 payments world. For RITS, the system availability target is 99.95 per cent during core system hours, while for the Fast Settlement Service (FSS), the system availability target is 99.995 per cent on a 24/7 basis. Neither system met its system availability target in 2018 because of a major operational incident on 30 August 2018, which affected both RITS and FSS. An incorrectly executed process during a routine test of fire controls resulted in the sudden loss of power to most of the Reserve Bank's IT systems that were running in one of its two data centres. The established automated and manual processes used for failover to backup systems were complicated by a number of factors and it took several hours to complete the orderly recovery of systems. RITS operating hours were extended to allow members to complete settlement of their day's transactions. Largely as a result of this incident, RITS availability was 99.78 per cent during core system hours in 2018/19 and FSS availability was 99.966 per cent over the same period. FSS met its target to complete settlement of transactions in less than one second, with 95 per cent of FSS transactions processed in 103 milliseconds or less.

The Reserve Bank is committed to ensuring that RITS is well protected from cyber attack and has an ongoing program of work to maintain high levels of cyber resilience. The Bank made its second compliance attestation under the new SWIFT Customer Security Controls Framework in December 2018 and, in July 2018, the Bank's payment settlement systems received certification under the International Organization for Standardization (ISO) 27001 standard for Information Security Management.

Analysis

The Reserve Bank's work in the payments area in 2018/19 occurred in an environment that was continuing to change rapidly, with higher expectations of users and the industry concerning the speed of payments and the capacity to combine information with payments. Use of cash and cheques is declining relative to other payment instruments, while use of cards and other electronic forms of payment continues to grow strongly. New technologies, including distributed ledger technology, and other forms of financial technology (fintech), have the potential to change the payments landscape and the operation of FMIs significantly. Bank staff liaise actively with the private sector to better understand trends in these areas and their implications and have participated in a range of domestic and international working groups with other regulators.

Banking

Purpose

Insofar as the Commonwealth 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 Commonwealth and other central banks include payments and collections as well as general account maintenance and reporting.

Results

The Reserve Bank must compete with other organisations to provide banking services to Australian Government agencies. The Bank must cost and price these services separately from its other activities. In addition, the return on providing these services must meet an externally prescribed minimum rate of return on capital over a business cycle. At present, this measure, equivalent to the 10-year yield on Australian Government Securities plus a margin for risk, is the Bank's principal measure of financial performance for its transactional banking business. In 2018/19, the Bank met the prescribed rate. Pro forma accounts for the transactional banking business are published in a separate chapter of this annual report.

As the provider of the Commonwealth's Official Public Account, the Reserve Bank works closely with both the Department of Finance (Finance) and the Australian Office of Financial Management to ensure the central banking services it provides remain fit for purpose. The Bank continued to work with Finance on its multi-stage plan to modernise Commonwealth cash management. The Bank made a number of systems changes that will enable Finance to make agency funding payments using the NPP from 2019/20.

During 2018/19, the Reserve Bank completed the renovation of the account maintenance system and banking systems used to process government payments and collections with new functionality scheduled for implementation in July 2019. The Bank also implemented its new Application Programming Interface (API) Gateway, which will facilitate fast, secure and automated communications between the Bank and its customers. The first service via API was delivered in June for the Department of Human Services (DHS).

The Reserve Bank assisted DHS to roll out its solution for generating NPP payments from its core systems in late 2018. Since then, over 140,000 payments have been made relating to urgent, crisis and disaster relief payments. The Bank has also continued to participate in the ongoing industry work on further developing NPP capabilities. In addition, responding to the community's increased use of 'wallets' as a payment method, the Bank has been actively working to expand the options available to government agency customers for collecting online payments.

Analysis

The banking and payments landscape has continued to evolve, particularly in the area of payment services. The ongoing development of NPP capabilities will allow the community to embrace this new functionality through the delivery of real-time digital services. Reflecting this demand, government agencies continue to push ahead with their own initiatives to improve service delivery and achieve productivity gains. Those initiatives that will affect the Reserve Bank include: the DHS's Welfare Payment Infrastructure Transformation Program; collections and payments programs for the Australian Taxation Office; and Finance's project to modernise Commonwealth cash management. During 2018/19, the Bank continued to ensure that it remained in a position to respond appropriately with convenient, secure, reliable and cost-effective services as the provider of both central banking and transactional banking services to the Australian Government.

Banknotes

Purpose

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

Results

Public confidence in Australian banknotes is measured directly by a Reserve Bank survey on perceptions of Australian banknotes conducted every two years. The most recent survey was conducted in early 2019 and showed that the majority of respondents had confidence in the system for removing counterfeits from circulation, and did not think that there was a counterfeiting problem in Australia.

Fulfilment of banknote orders from commercial banks provides an indication that the public's demand for banknotes is being met. The Reserve Bank aims to fulfil 95 per cent of banknote orders within three days of the request; during 2018/19, 100 per cent of orders were fulfilled on the day requested.

The Reserve Bank's key initiative to enhance banknote security is the release of the new banknote series with upgraded security features. Work on the Next Generation Banknote program continued during 2018/19, with the new $50 banknote entering circulation on 18 October 2018 as planned. The Bank implemented a targeted communication strategy to assist with public recognition of the new banknotes. The new $20 banknote is scheduled to enter circulation in October 2019.

A couple of months after the new $50 banknote was released into general circulation, it was noticed that there was a spelling error in the microprint. Despite the misspelling, these banknotes remain legal tender and can continue to be used. The error was corrected in the print run that commenced in mid 2019 and the Reserve Bank and NPA have reviewed processes to reduce the likelihood of such an error occurring in the future.

The Reserve Bank continued to monitor Australian banknote counterfeiting rates, which remained low by international standards. The estimated counterfeiting rate continued to fall to 11 parts per million in 2018/19, after having peaked at around 30 parts per million in 2014/15. The Bank also continued to monitor international developments in counterfeiting. This was assisted by engagement with other central banks and international organisations.

NPA met 97.1 per cent of the Reserve Bank's orders for new series banknotes, to the required quality standard and as per the agreed delivery schedule. The shortfall of 2.9 per cent in $5 banknotes will be delivered in the 2019/20 banknote order.

The quality of banknotes in circulation, as measured by the Reserve Bank in agreement with commercial banks, was broadly unchanged at a high level in 2018/19.

Analysis

While the proportion of payments made using banknotes is declining relative to electronic payments, the number and value of banknotes on issue continues to rise, highlighting their continued importance as a store of value as well as a payment mechanism. The Reserve Bank has continued to meet demand for banknotes by ensuring orders are fulfilled. The release of the new series of banknotes with upgraded security features is expected to maintain public confidence in banknotes. Australia's level of counterfeiting remains low by international standards.

Statutory Reporting Requirements

The Reserve Bank has a number of statutory reporting requirements that extend beyond its policy objectives and cover areas such as equal employment opportunity, work health and safety, environmental performance, freedom of information and procurement.

The statutory reporting obligations applying to the Reserve Bank, including those that are covered elsewhere in this report, are identified in the 'Statutory Reporting Requirements Index'.

Equal Employment Opportunity

The Reserve Bank is committed to ensuring that all employees are treated with respect and dignity, and experience equal opportunity throughout their careers with the Bank. This commitment is underpinned by a strong emphasis on embedding the Bank's values across all organisational practices and through its Diversity and Inclusion Plan. The Bank's policies and procedures embed equity, diversity and inclusion principles in work practices.

The Reserve Bank's Diversity and Inclusion Program is overseen by the Executive Committee, in consultation with the Diversity and Inclusion Council, which is responsible for monitoring the development and implementation of diversity and inclusion initiatives, policies and practices in the Bank. Full details and outcomes of the 2018/19 Diversity and Inclusion Program are provided in the Bank's *Equity & Diversity Annual Report 2019*, which will be tabled in the Parliament in accordance with the requirement under the *Equal Employment Opportunity (Commonwealth Authorities) Act 1987*.

The Equity & Diversity Annual Report 2018, which reported on the Bank's diversity profile and progress on the diversity program in 2017/18, was tabled in the Parliament on 20 September 2018.

Work Health and Safety, Compensation and Rehabilitation

The Reserve Bank is committed to maintaining and improving the safety, health and wellbeing of its employees. The Bank fosters a safety culture that focuses on the Bank's work health and safety (WHS) risk profile through preventative and proactive due diligence and practices. The Reserve Bank Board and the Bank's executives receive regular reports on WHS matters to assist them in exercising their duty of care.

During the year in review, the Reserve Bank identified several key areas of strategic focus:

- The Bank committed to ensuring its senior leaders, particularly those new to executive roles, received due diligence training on their WHS obligations.
- The Mental Health and Wellbeing Strategic Plan remained an ongoing initiative, with a focus on people leadership capability, mental health awareness and peer support. A range of health and wellbeing programs sought to increase employee awareness

and engagement to support health and wellbeing in the workplace.

- The implementation of a new Risk Management System has facilitated a standardised Bank-wide approach to collating and managing WHS risks and incidents.

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

- physical health activities, such as fitness classes at Head Office, an annual health challenge, encouraging staff to take two-week blocks of leave, influenza vaccinations and health checks for senior managers and executives
- mental health initiatives, such as mental health supportive leadership training, access to the Bank's Employee Assistance Program, awareness-raising activities and seminars on topics related to mental health and wellbeing.

There were 79 WHS incidents reported in 2018/19, 25 per cent lower than in the previous year. The most common cause of incidents were sporting injuries sustained during breaks (15 per cent), incidents involving contractors (13 per cent) and slips, trips and falls (11 per cent).

There were three accepted workers' compensation claims in 2018/19, all of which related to workplace injuries. The Reserve Bank's Lost Time Injury Frequency Rate (number of lost time injuries per million hours worked) decreased in 2018/19 to 1.8 from 2.2 in the previous year, reflecting the lower number of reported incidents.

Six internal WHS investigations were conducted in 2018/19, relating to incidents that either caused moderate harm or had the potential to cause harm to a staff member. The investigations indicated that there were no systemic issues that would point to deficiencies in the way the Bank manages health and safety. Three of these were electrical incidents and were reported to Comcare, which assessed that no investigations were warranted. As a result, no investigations were made into the Bank's businesses or undertakings by Comcare during 2018/19, and no improvement, prohibition or non-disturbance notices were issued by Comcare under Part 10 of the *Work Health and Safety Act 2011* (WHS Act).

The Reserve Bank is a Licensed Authority under the *Safety, Rehabilitation and Compensation Act 1988*. This licence requires the Bank to report to

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

Action	2018/19	2017/18
Death of a person that required notice to Comcare under section 35	0	0
Serious injury or illness of a person that required notice to Comcare under section 35	0	1
Dangerous incident that required notice to Comcare under section 35	3	3
Internal investigations conducted	6	9
Investigations conducted under Part 10	0	0
Notices given to RBA under section 90 (provisional improvement notices)	0	0
Notices given to RBA under section 191 (improvement notices)	0	0
Notices given to RBA under section 195 (prohibition notices)	0	0
Directions given to RBA under section 198 (non-disturbance notices)	0	0

Source: RBA

the Safety, Rehabilitation and Compensation Commission each year on WHS and workers' compensation and rehabilitation matters as they affect the Bank. Compliance with the relevant legislation – and the conditions of the Bank's licence as a Licensed Authority – was validated during the period by external audits of the Bank's safety, compensation and rehabilitation arrangements. The Safety, Rehabilitation and Compensation Commission subsequently confirmed that the Bank retained the highest rating for its prevention, claims management and rehabilitation practices in each area for 2018/19.

In 2018/19, the Australian Postal Corporation provided claims management and rehabilitation services to the Bank, along with reconsideration services and Administrative Appeals Tribunal/Federal Court representation.

Ecologically Sustainable Development and Environmental Performance

The Reserve Bank is committed to improving the environmental performance of its operations. The Bank has developed policies and practices that are consistent with the principles of ecologically sustainable development as set out in the *Environment Protection and Biodiversity Conservation Act 1999*. These policies serve to minimise the impact of the Bank's activities on the environment by:

- increasing the use of renewable energy sources
- creating a culture of continuous environmental improvement, with an initial focus on energy utilisation
- exploring and implementing initiatives to enhance the Bank's sustainability and environmental performance
- incorporating sustainability and environmental aspects in the Bank's building designs and operations
- improving management of waste streams.

Specific improvements to the performance of the infrastructure of the Reserve Bank's buildings in 2018/19 included:

- continued energy data monitoring and analysis to enable energy usage optimisation
- progressive implementation of efficiency improvements to optimise energy usage for data centres at the Bank's Head Office and Business Resumption Site
- ongoing implementation of LED lighting across all sites, reducing electricity consumption for lighting needs.

Electricity consumption at the Reserve Bank-operated sites increased by 1.2 per cent in 2018/19, compared with the preceding year.[1] This reflects higher usage associated with the continued increase in operational loads at the National Banknote Site and the Bank's data centres as a result of new systems coming into operation. Gas consumption in 2018/19 was 2 per cent lower compared with the previous year, as a result of further optimising the heating and domestic hot water systems. Water consumption in 2018/19 was 17 per cent lower than the previous year, reflecting the continuous improvement focus for site operations.

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

1 Melbourne office data have been excluded from the comparisons following the divestment of this property.

the Bank's obligations under the FOI Act and the IPS can be found on the Bank's website.[2]

The Bank received 25 requests for access to documents under the FOI Act in 2018/19. Access was granted in part in relation to three requests, and was denied in relation to two requests. No relevant documents were found in response to seven requests and five requests were withdrawn. Eight requests (all received in June 2019) 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.

One application was received for the internal review of an FOI decision made by the Reserve Bank in 2018/19. In accordance with the FOI Act, a fresh decision was made (affirming the original decision).

The estimated amount of staff time spent dealing with all aspects of FOI requests in 2018/19 was around 212 hours, compared with around 171 hours in 2017/18. The total cost to the Reserve Bank of administering the FOI Act in 2018/19 is estimated to have been about $61,500, compared with $44,800 in the previous year. Processing charges of $150 were received in 2018/19.

Procurement

The Reserve Bank is one of the corporate Commonwealth entities 'prescribed' under section 30 of the Public Governance, Performance and Accountability Rule 2014, and is therefore required to apply the Commonwealth Procurement Rules (CPRs) when performing duties relating to certain procurements with an expected value exceeding $400,000 for non-construction services and $7.5 million for construction services. The CPRs require public reporting of certain activities on the Commonwealth's AusTender website. For the reporting period, the Reserve Bank notified the award of 28 contracts and three procurement opportunities. The reported procurement opportunities were for co-sourced IT audit services, an IT network security application and data centre cabling.

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

The Bank is also subject to new legislation that came into force in 2018/19, namely the *Government Procurement (Judicial Review) Act 2018* and the *Modern Slavery Act 2018*. Relevant policies and procedures have been amended to incorporate the requirements of the new legislation.

Other Statutory Reporting Obligations

Ministerial directions

The Reserve Bank received no directions from its responsible Minister (the Treasurer) or from any other Minister during 2018/19.

Government policy orders

No government policy orders under section 22 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) applied in relation to the Reserve Bank during 2018/19.

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.

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

Transactions with related entities

In accordance with the PGPA Act, the Reserve Bank is required to disclose certain transactions with related entities. During 2018/19, 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 2018/19.

Judicial decisions or decisions of administrative tribunals

There were no judicial decisions or decisions of administrative tribunals made during 2018/19 that have had, or may have, a significant effect on the operations of the Reserve Bank.

Part 4:
Financial Statements

Wisemans Ferry, New South Wales

Financial Statements

For the year ended 30 June 2019

Statement of Assurance

In the opinion of each of the Governor, as the accountable authority of the Reserve Bank of Australia (RBA), and the Chief Financial Officer, the financial statements for the year ended 30 June 2019 present fairly the Reserve Bank's financial position, financial performance and cash flows, comply with the accounting standards and any other requirements prescribed by the rules made under section 42 of the *Public Governance, Performance and Accountability Act 2013* and have been prepared from properly maintained financial records. These financial statements have been approved by a resolution of the Reserve Bank Board on 6 August 2019.

Philip Lowe
Governor and Chair, Reserve Bank Board

Robert Middleton-Jones
Chief Financial Officer

4 September 2019

Statement of Financial Position – as at 30 June 2019

Reserve Bank of Australia and Controlled Entity

	Note	2019 $M	2018 $M
Assets			
Cash and cash equivalents	6	1,251	373
Australian dollar investments	1(b), 15	97,850	104,253
Foreign currency investments	1(b), 15	76,204	75,912
Gold	1(d), 15	5,159	4,344
Property, plant and equipment	1(e), 8	697	679
Other assets	7	647	780
Total assets		181,808	186,341
Liabilities			
Deposits	1(b), 9	68,654	81,474
Distribution payable to the Commonwealth	1(h), 3	1,685	889
Australian banknotes on issue	1(b)	80,024	75,565
Other liabilities	10	2,533	3,036
Total liabilities		152,896	160,964
Net Assets		28,912	25,377
Capital and Reserves			
Reserves:			
Unrealised profits reserve	1(g)	8,830	5,860
Asset revaluation reserves	1(g), 5	5,802	5,020
Superannuation reserve	1(g)	121	338
Reserve Bank Reserve Fund	1(g)	14,119	14,119
Capital	1(g)	40	40
Total Capital and Reserves		28,912	25,377

The above statement should be read in conjunction with the accompanying Notes.

Statement of Comprehensive Income – for the year ended 30 June 2019

Reserve Bank of Australia and Controlled Entity

	Note	2019 $M	2018 $M
Net interest income	2	1,276	901
Fees and commission income	2	518	475
Other income	2	37	57
Net gains/(losses) on securities and foreign exchange	2	3,331	3,002
Net gains/(losses) on held for sale assets	2	51	–
General administrative expenses	2	(460)	(421)
Other expenses	2	(204)	(167)
Net Profit/(Loss)		4,549	3,847
Gains/(losses) on items that may be reclassified to profit or loss:			
Gold		815	197
Shares in international and other institutions		–	28
		815	225
Gains/(losses) on items that will not be reclassified to profit or loss:			
Property		41	74
Superannuation		(217)	137
Shares in international and other institutions		32	–
		(144)	211
Other Comprehensive Income		671	436
Total Comprehensive Income		5,220	4,283

The above statement should be read in conjunction with the accompanying Notes.

Statement of Distribution – for the year ended 30 June 2019

Reserve Bank of Australia and Controlled Entity

	Note	2019 $M	2018 $M
Net profit/(loss)		4,549	3,847
Transfer (to)/from unrealised profits reserve		(2,970)	(3,178)
Transfer from asset revaluation reserves		106	–
Earnings available for distribution		1,685	669
Distributed as follows:			
Transfer to Reserve Bank Reserve Fund		–	–
Payable to the Commonwealth	3	1,685	669
		1,685	669

The above statement should be read in conjunction with the accompanying Notes.

Statement of Changes in Capital and Reserves – for the year ended 30 June 2019

Reserve Bank of Australia and Controlled Entity

	Note	Unrealised profits reserve $M	Asset revaluation reserves $M	Superannuation reserve $M	Earnings available for distribution $M	Reserve Bank Reserve Fund $M	Capital $M	Total capital and reserves $M
Balance as at 30 June 2017		**2,682**	**4,721**	**201**	**–**	**14,119**	**40**	**21,763**
Net Profit/(Loss)	1(h)	3,178			669			3,847
Gains/(losses) on:								
Gold	1(d)		197					197
Shares in international and other institutions	1(b)		28					28
Property	1(e), 5		74					74
Superannuation	1(j)			137				137
Other comprehensive income			299	137				436
Total comprehensive income for 2017/18								**4,283**
Transfer to Reserve Bank Reserve Fund	1(g), 3				–	–		–
Transfer to distribution payable to the Commonwealth	1(h), 3				(669)			(669)
Balance as at 30 June 2018		**5,860**	**5,020**	**338**	**–**	**14,119**	**40**	**25,377**
Net Profit/(Loss)	1(h)	2,970			1,579			4,549
Gains/(losses) on:								
Gold	1(d)		815					815
Shares in international and other institutions	1(b)		32					32
Property	1(e), 5		41					41
Superannuation	1(j)			(217)				(217)
Other comprehensive income			888	(217)				671
Total comprehensive income for 2018/19								**5,220**
Transfer from asset revaluation reserves	1(g)		(106)		106			–
Transfer to Reserve Bank Reserve Fund	1(g), 3				–	–		–
Transfer to distribution payable to the Commonwealth	1(h), 3				(1,685)			(1,685)
Balance as at 30 June 2019		**8,830**	**5,802**	**121**	**–**	**14,119**	**40**	**28,912**

The above statement should be read in conjunction with the accompanying Notes.

Cash Flow Statement – for the year ended 30 June 2019

Reserve Bank of Australia and Controlled Entity

For the purposes of this statement, cash includes the banknotes and coin held at the RBA and overnight settlement balances due from other banks.

	Note	2019 Inflow/ (outflow) $M	2018 Inflow/ (outflow) $M
Cash flows from operating activities			
Interest received		2,358	2,213
Interest paid		(1,034)	(1,203)
Net fee income received		413	390
Net payments for investments		9,334	11,003
Net cash collateral provided		(646)	(1,502)
Other		(412)	(378)
Net cash from operating activities	6	10,013	10,523
Cash flows from investment activities			
Net income/(expenditure) on property, plant and equipment		135	(20)
Net expenditure on computer software		(20)	(32)
Net cash from investment activities		115	(52)
Cash flows from financing activities			
Distribution to the Commonwealth	3	(889)	(1,066)
Net movement in deposit liabilities		(12,820)	(11,195)
Net movement in banknotes on issue		4,459	1,942
Net cash from financing activities		(9,250)	(10,319)
Net increase in cash		878	152
Cash at beginning of financial year		373	221
Cash at end of financial year	6	1,251	373

The above statement should be read in conjunction with the accompanying Notes.

Notes to and Forming Part of the Financial Statements – for the year ended 30 June 2019

Reserve Bank of Australia and Controlled Entity

Note

Note 1 – Accounting Policies

The RBA reports its consolidated financial statements in accordance with the *Reserve Bank Act 1959* and the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). These financial statements for the year ended 30 June 2019 are a general purpose financial report prepared under Australian Accounting Standards (AAS) and accounting interpretations issued by the Australian Accounting Standards Board, in accordance with the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*, which is issued pursuant to the PGPA Act. The RBA is classified as a for-profit public sector entity for the purposes of financial disclosure. These financial statements comply with International Financial Reporting Standards. In preparing them, the RBA has not 'early adopted' new accounting standards or amendments to current standards that apply from 1 July 2019.

All amounts in these financial statements are expressed in Australian dollars, the functional and presentational currency of the RBA. All revenues and expenses are brought to account on an accruals basis.

(a) Consolidation

The financial statements show information for the economic entity only; this reflects the consolidated results for the parent entity, the RBA, and its wholly owned subsidiary, Note Printing Australia Limited (NPA). The results of the parent entity do not differ materially from the economic entity and have therefore not been separately disclosed.

Note Printing Australia Limited

NPA was incorporated as a wholly owned subsidiary of the RBA on 1 July 1998.

NPA Balance Sheet	2019 $M	2018 $M
Assets	160.9	173.9
Liabilities	36.0	35.5
Equity	124.9	138.4

The assets, liabilities and results of NPA have been consolidated with the accounts of the parent entity in accordance with AASB 10 – *Consolidated Financial Statements*. All internal transactions and balances have been eliminated on consolidation. These transactions include items relating to the purchase of Australian banknotes, lease of premises and the provision of general administrative services. In addition, NPA paid a dividend of $12 million to the RBA in June 2019 (no dividend was paid in 2018).

(b) Financial instruments

A financial instrument is defined as any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. The RBA accounts for its financial instruments in accordance with AASB 9 – *Financial Instruments* and reports these instruments under AASB 7 – *Financial Instruments: Disclosures* and AASB 13 – *Fair Value Measurement*.

The RBA brings its securities and foreign exchange transactions to account on a trade date basis. Deposits and repurchase agreements are brought to account on settlement date.

Financial assets

Australian dollar securities

Australian dollar securities, except those held under reverse repurchase agreements, are measured at fair value through profit or loss, as they are held to implement monetary policy and may be sold or lent, typically for short terms, under repurchase agreements. The securities are valued at market bid prices on balance date; valuation gains or losses are taken to profit. Interest earned on securities is accrued as revenue in the Statement of Comprehensive Income.

Reverse repurchase agreements

In carrying out operations to manage domestic liquidity and foreign reserves, the RBA enters into reverse repurchase agreements in Australian dollar and foreign currency securities. A reverse repurchase agreement involves the purchase of securities with an undertaking to reverse this transaction at an agreed price on an agreed future date. As a reverse repurchase agreement provides the RBA's counterparties with cash for the term of the agreement, the RBA treats it as an asset by recording a cash receivable. Reverse repurchase agreements are measured at amortised cost. Interest earned is accrued over the term of the agreement and recognised as revenue.

RBA open repurchase agreements are provided to assist eligible financial institutions manage their liquidity after normal business hours. An RBA open repurchase agreement is an Australian dollar reverse repurchase agreement without an agreed maturity date. The RBA accrues interest daily on open repurchase agreements at the target cash rate.

Foreign government securities

Foreign government securities, except those held under reverse repurchase agreements, are measured at fair value through profit or loss, as they are available to be traded in managing the portfolio of foreign exchange reserves. These securities are valued at market bid prices on balance date and valuation gains or losses are taken to profit. Interest earned on securities is accrued as revenue.

Foreign deposits

Some foreign currency reserves are invested in deposits with central banks and the Bank for International Settlements (BIS), while small working balances are also maintained with a small number of commercial banks. Deposits are measured at amortised cost. Interest is accrued over the term of deposits.

Foreign currency swaps

The RBA uses foreign currency swaps to assist daily domestic liquidity management and in managing foreign reserve assets. A foreign currency swap is the simultaneous purchase and sale of one currency against another currency for a specified maturity. The cash flows are the same as borrowing one currency for a certain period and lending another currency for the same period. The pricing of the swap therefore reflects the interest rates applicable to these money market transactions. Interest rates are implicit in the swap contract but interest itself is not paid or received. Foreign currency swaps are measured at fair value through profit or loss.

Interest rate futures

The RBA uses interest rate futures contracts on overseas exchanges to manage interest rate risk on its portfolio of foreign assets. Interest rate futures positions are measured at fair value through profit or loss with valuation gains or losses taken to net profit. Futures positions are reported within 'Foreign currency investments'.

Asian Bond Fund

The RBA invests in a number of non-Japan Asian debt markets through participation in the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Asian Bond Fund. This investment comprises units in the local currency-denominated fund, ABF2. ABF2 is measured at fair value through profit or loss and is valued on balance date at the relevant unit price of the fund, with valuation gains or losses taken to profit. ABF2 is reported within 'Foreign currency investments'.

Shareholding in Bank for International Settlements

Shares in the BIS are owned exclusively by the central banks and monetary authorities that are its members, including the RBA. The RBA has made an election to designate its shareholding in the BIS at fair value through other comprehensive income, as permitted under AASB 9. The shareholding is measured at fair value and valuation gains or losses are transferred directly to the revaluation reserve for 'Shares in international and other institutions' (Note 5). An uncalled portion of this shareholding is disclosed as a contingent liability in Note 11. Dividends are recognised as revenue in net profit, when declared.

Financial liabilities

Deposit liabilities

Deposits held with the RBA include both deposits on-demand and term deposits (refer to Note 9). Deposit liabilities are measured at amortised cost. Interest is accrued over the term of deposits and is paid periodically or at maturity. Interest accrued on deposits but not paid is included in Note 10.

Australian banknotes on issue

Banknotes on issue are a financial liability recorded at face value.

The RBA pays interest on working balances of banknotes held by banks under cash distribution arrangements. Details of the interest expense are included in Note 4.

Costs related to materials used in the production of banknotes are included in 'Other expenses' in Note 2.

Repurchase agreements

A repurchase agreement involves the sale of securities with an undertaking to repurchase them on an agreed future date at an agreed price. Securities sold and contracted for repurchase under repurchase agreements are retained on the balance sheet and reported within the relevant investment portfolio (refer to 'Australian dollar securities' and 'Foreign government securities', above). The counterpart obligation to repurchase the securities is reported in 'Other liabilities' (Note 10) and measured at amortised cost. The difference between the sale and purchase price is accrued over the term of the agreement and recognised as interest expense.

(c) Foreign exchange translation

Assets and liabilities denominated in foreign currency are converted to Australian dollar equivalents at the relevant market exchange rate on balance date in accordance with AASB 121 – *The Effects of Changes in Foreign Exchange Rates*. Valuation gains or losses on foreign currency are taken to net profit. Interest revenue and expenses and revaluation gains and losses on foreign currency securities are converted to Australian dollars using exchange rates on the date they are accrued or recognised.

(d) Gold

Gold holdings (including gold on loan to other institutions) are valued at the Australian dollar equivalent of the 3.00 pm fix in the London gold market on balance date. Valuation gains or losses on gold are transferred to the asset revaluation reserve for gold.

The RBA lends gold to institutions that participate in the gold market. Gold provided under a loan is retained on the balance sheet. Interest is accrued over the term of the loan and is paid at maturity. The interest receivable on gold loans is accounted for in accordance with AASB 9.

(e) Property, plant and equipment

The RBA accounts for its property, plant and equipment in accordance with AASB 116 – *Property, Plant and Equipment* and AASB 13.

Property

The RBA measures its property at fair value. The RBA's Australian properties are formally valued annually by an independent valuer; overseas properties are independently valued on a triennial basis with the most recent valuation conducted in 2018/19. Reflecting their specialised nature, fair value for the RBA's Business Resumption Site and National Banknote Site is based on depreciated replacement cost. Valuation gains (losses) are generally transferred to (from) the asset revaluation reserve of each respective property. Any part of a valuation loss that exceeds the balance in the relevant asset revaluation reserve is expensed. Subsequent valuation gains that offset losses that were previously treated as an expense are recognised as income in net profit.

Annual depreciation is calculated on a straight line basis using assessments of the remaining useful life of the relevant building.

Plant and equipment

Plant and equipment is valued at cost less accumulated depreciation. Annual depreciation is calculated on a straight line basis using the RBA's assessment of the remaining useful life of individual assets.

Depreciation rates for each class of depreciable assets are based on the following range of useful lives:

	Years
Buildings	15–50
Fit-out	5–10
Computer hardware	4
Motor vehicles	5
Plant and other equipment	4–20

Assets are assessed for impairment at the end of each financial year. If indications of impairment are evident, the asset's recoverable amount is estimated and an impairment adjustment is made if the recoverable amount is less than the asset's carrying amount.

Annual expenditure, revaluation adjustments and depreciation of property, plant and equipment are included in Note 8.

(f) Computer software

Computer software is reported in accordance with AASB 138 – *Intangible Assets*. Computer software is recognised at cost less accumulated amortisation and impairment adjustments, if any (refer to Note 7). Amortisation of computer software is calculated on a straight line basis over the estimated useful life of the relevant asset, usually for a period of between four and six years (refer to Note 2). The useful life of payments settlements and core banking software may be for a period of between 10 and 15 years, reflecting the period over which future economic benefits are expected to be realised from these assets.

(g) Capital and reserves

The capital of the Reserve Bank is established by the Reserve Bank Act.

The Reserve Bank Reserve Fund (RBRF) is also established by the Reserve Bank Act and is regarded essentially as capital. The RBRF is a reserve maintained to provide for events that are contingent and not foreseeable, including to cover losses from falls in the market value of the RBA's holdings of Australian dollar and foreign currency investments that cannot be absorbed by its other resources. The RBRF also provides for other risks such as operational risk. In accordance with the Reserve Bank Act, this reserve is funded only by transfers from net profits, as determined by the Treasurer, after consulting the Reserve Bank Board (refer to Note 1(h)). The Board assesses the adequacy of the balance of the RBRF each year. The balance of the RBRF currently stands at a level that the Board regards as appropriate for the risks the RBA holds on its balance sheet.

The RBA's equity also includes a number of other reserves.

Unrealised gains and losses on foreign exchange, foreign securities and Australian dollar securities are recognised in net profit. Such gains or losses are not available for distribution and are transferred to the unrealised profits reserve, where they remain available to absorb future unrealised losses or become available for distribution if gains are realised when assets are sold or mature.

The balance of the Superannuation reserve represents accumulated remeasurement gains or losses on the RBA's defined benefit superannuation obligations (refer Note 1 (j)).

Balances of asset revaluation reserves reflect differences between the fair value of non-traded assets and their cost. These assets are: gold; property; and shares in international and other institutions. Valuation gains on these assets are not distributable unless an asset is sold and these gains are realised.

(h) Net profits

Net profits of the RBA are dealt with in the following terms by section 30 of the Reserve Bank Act:

> (1) Subject to subsection (2), the net profits of the Bank in each year shall be dealt with as follows:

(aa) such amount as the Treasurer, after consultation with the Reserve Bank Board, determines is to be set aside for contingencies; and

(a) such amount as the Treasurer, after consultation with the Reserve Bank Board, determines shall be placed to the credit of the Reserve Bank Reserve Fund; and

(b) the remainder shall be paid to the Commonwealth.

(2) If the net profit of the Bank for a year is calculated on a basis that requires the inclusion of unrealised gains on assets during the year, the amount to which subsection (1) applies is to be worked out as follows:

(a) deduct from the net profit an amount equal to the total of all amounts of unrealised gains included in the net profit; and

(b) if an asset in respect of which unrealised gains were included in the net profit for a previous year or years is realised during the year – add to the amount remaining after applying paragraph (a) the total amount of those unrealised gains.

(i) Provisions for employee benefits entitlements

In accordance with AASB 119 – *Employee Benefits*, the RBA records provisions for certain employee benefit entitlements, including accrued annual and long service leave and post-employment health insurance benefits. These provisions reflect the present value of the estimated future cost to meet those entitlements, including any applicable fringe benefit or payroll taxes and, in the case of leave entitlements, superannuation contributions to the extent that any leave is assumed to be taken during service. Leave provisions are calculated using assumptions for length of staff service, leave utilisation and future salary. The provision for post-employment health insurance benefits is estimated using assumptions about the length of staff service, longevity of retired staff and future movements in health insurance costs. This post-employment benefit ceased to be available for new staff appointed after 30 June 2013. Further detail on employee benefit provisions are included in Note 10.

(j) Superannuation funds

The RBA includes in its Statement of Financial Position an asset or liability representing the position of its defined benefit superannuation funds measured in accordance with AASB 119. Movements in the superannuation asset or liability are reflected in the Statement of Comprehensive Income. Remeasurement gains and losses are transferred to the Superannuation reserve. Details of the superannuation funds and superannuation expenses are included in Note 14.

(k) Committed Liquidity Facility

The RBA provides a Committed Liquidity Facility (CLF) to eligible authorised deposit-taking institutions (ADIs). Fees received from providing the CLF are recognised as fee income in net profit. Additional information on the CLF is provided in Note 11.

(l) Non-current assets held for sale

A non-current asset is classified as being held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This classification requires the asset to be available for immediate sale and for the sale to be highly probable. Held for sale assets are measured at the lower of their carrying amount or fair value less sale costs, in accordance with AASB 5 – *Non-current Assets Held for Sale and Discontinued Operations*.

(m) Revenue from contracts with customers

In the course of its operations, the RBA enters into contracts for the provision of goods and services. These include contracts for the provision of banking and payment services to the Australian Government, overseas central banks and official institutions, the provision of the CLF for participating ADIs (refer to Note 1(k)) and, in the case of the RBA's subsidiary, banknote and security products to overseas central banks.

Revenue is recognised on a gross basis at the point the contracted performance obligation is satisfied, as required by AASB 15 – *Revenue from Contracts with Customers*. In the case of banking and payment services, revenue is recognised upon the completion of the provision of service. Revenue from the sale of banknote and security products is recognised at the point at which the product is accepted and CLF fee income is recognised over the period the facility is provided.

Where the right to consideration for the completion of the performance obligation under the contract becomes unconditional, a receivable is recognised in the Statement of Financial Position; a contract asset is recorded when this right remains conditional (refer to Note 7). Where a performance obligation under a contract remains unsatisfied, but consideration has been received, the RBA reports this as an unearned contract liability (refer to Note 10).

(n) Rounding

Amounts in the financial statements are rounded to the nearest million dollars unless otherwise stated.

(o) Comparative information

Certain comparative information may be reclassified where required for consistency with the current year presentation.

(p) Application of new or revised Australian Accounting Standards

New Australian accounting standards that apply to the RBA's financial statements in the current and future financial years are set out below along with an assessment of the main effects of these standards on the RBA's financial statements.

AASB 9 – Financial Instruments

The RBA adopted AASB 9 with retrospective cumulative effect from 1 July 2018. The new standard replaces AASB 139 – *Financial Instruments: Recognition and Measurement*. AASB 9 has amended the assessment criteria for the classification of financial assets and introduced a new expected credit loss model for assessing impairments arising from the deterioration in credit quality of financial instruments measured at amortised cost. Adoption of the new standard has not resulted in any change in the recognition or measurement of the RBA's financial instruments. A reconciliation of the RBA's financial assets, under AASB 9 and AASB 139, is provided below. Additional disclosure on the RBA's approach to assessing expected credit losses is contained in Note 15.

	2019 $M	2018 $M
Assets under AASB 9		
Fair value through profit and loss	53,444	59,140
Fair value through other comprehensive income	476	444
Amortised cost	121,900	121,428
Total	175,820	181,012
Assets under AASB 139		
Fair value through profit and loss	53,444	59,140
Available for sale assets	476	444
Loans and receivables	121,900	121,428
Total	175,820	181,012

AASB 15 – Revenue from Contracts with Customers

The RBA adopted AASB 15 with retrospective cumulative effect from 1 July 2018. The new standard contains requirements for the recognition, measurement, classification and disclosure of revenue arising from contracts with customers. AASB 15 provides a principles-based approach for revenue recognition, centred around the satisfaction of performance obligations under a contractual agreement. This differs from the previous requirement under AASB 118 – *Revenue*, where revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

The application of AASB 15 has not had an impact on the recognition and measurement of revenue from the RBA's contracts with its customers. Additional disclosures on revenue from contracts have been made in Note 1(m).

AASB 16 – Leases

AASB 16 contains requirements for the recognition, measurement and classification of leases for both lessees and lessors. The new standard, which will apply to the RBA's financial statements with effect from 1 July 2019, will replace corresponding requirements currently contained in AASB 117 – *Leases*. The new standard will require a number of the RBA's lease obligations, mainly relating to its leased properties, to be recorded in the Statement of Financial Position; however, this is not expected to have a material effect. Additional disclosure on the RBA's lease arrangements will also be required.

Note 2 – Net Profit

	Note	2019 $M	2018 $M
Net interest income			
Interest income	1(b), 4	2,310	2,101
Interest expense	1(b), 4	(1,034)	(1,200)
		1,276	901
Fees and commissions income			
Committed liquidity facility	1(k), 1(m)	368	349
Banking services	1(m)	123	105
Payment services	1(m)	27	21
		518	475
Other income			
Sales of banknote and security products	1(m)	25	42
Rental of Bank premises		6	10
Dividend revenue	1(b)	5	4
Other		1	1
		37	57
Net gains/(losses) on securities and foreign exchange			
Foreign investments	1(b)	166	(99)
Australian dollar securities	1(b)	(17)	(160)
Foreign currency	1(b)	3,182	3,261
		3,331	3,002
Net gain on held for sale asset	1(l)	51	–
General administrative expenses			
Staff costs		(233)	(226)
Net gains/(losses) on employee provisions		(20)	12
Superannuation costs	1(j)	(52)	(58)
Depreciation of property, plant and equipment	1(e), 8	(47)	(47)
Amortisation of computer software	1(f), 7	(21)	(17)
Premises and equipment		(67)	(64)
Other		(20)	(21)
		(460)	(421)
Other expenses			
Banking service fees		(104)	(88)
Materials used in banknote and security products		(57)	(45)
Banknote distribution		(2)	(1)
Other		(41)	(33)
		(204)	(167)
Net profit/(loss)		4,549	3,847

Note 3 – Distribution Payable to the Commonwealth

Net profits of the RBA, less amounts transferred to the RBRF, are paid to the Commonwealth as required by section 30 of the Reserve Bank Act (see Note 1(h)). Also under section 30, unrealised profits from foreign exchange, foreign securities and Australian dollar securities are not available for distribution. Instead they are transferred to the unrealised profits reserve where they remain available to absorb future valuation losses or are realised when relevant assets are sold or mature. Unrealised losses are, in the first instance, absorbed within the unrealised profits reserve where they are offset against unrealised profits accumulated from previous years. For purposes of distribution, if such losses exceed the balance of the unrealised profits reserve, the amount by which they do so is initially charged against other components of net profit, and any remaining loss is absorbed by the RBRF.

In 2018/19, the RBA recorded a net profit of $4,549 million. Unrealised valuation gains of $2,970 million were transferred to the unrealised profits reserve, with the balance of net profit transferred to the Statement of Distribution. In addition, a sum of $106 million was transferred from the asset revaluation reserve to the Statement of Distribution following the sale of the RBA's office building in Melbourne (see Note 7). Earnings available for distribution therefore amounted to $1,685 million in 2018/19.

As the Board regarded the balance of the RBRF as appropriate for the risks held on the balance sheet, it recommended that no transfer to this reserve be made from net profit in 2018/19. Accordingly, the Treasurer, after consulting the Board, determined that the full sum of earnings available for distribution be paid as a dividend to the Commonwealth. An amount of $889 million was paid to the Commonwealth in 2018/19, consisting of $220 million from 2016/17 earnings and $669 million from 2017/18 earnings.

	2019 $M	2018 $M
Opening balance	889	1,286
Distribution to the Commonwealth	(889)	(1,066)
Transfer from Statement of Distribution	1,685	669
As at 30 June	1,685	889

Note 4 – Interest Income and Interest Expense

Analysis for the year ended 30 June 2019

	Average balance $M	Interest $M	Average annual interest rate Per cent
Interest income			
Foreign currency investments	69,430	468	0.7
Australian dollar investments	92,713	1,830	2.0
Overnight settlements	503	6	1.2
Cash collateral provided	296	4	1.4
Gold loans	611	1	0.1
Loans, advances and other	45	1	1.6
	163,598	2,310	1.4
Interest expense			
Exchange Settlement balances	28,274	413	1.5
Deposits from governments	29,258	519	1.8
Deposits from overseas institutions	1,828	22	1.2
Banknote holdings of banks	4,400	54	1.2
Foreign currency repurchase agreements	1,023	23	2.2
Australian dollar repurchase agreements	86	1	1.5
Cash collateral received	164	2	1.5
Other deposits	3	–	0.2
	65,036	1,034	1.6
Net interest income	98,562	1,276	1.3
Analysis for the year ended 30 June 2018			
Interest income	167,961	2,101	1.3
Interest expense	76,004	1,200	1.6
Net interest income	91,957	901	1.0

Interest income for 2018/19 includes $1,646 million calculated using the effective interest method for financial assets not at fair value through profit or loss ($1,501 million in 2017/18). Interest expense for 2018/19 includes $1,034 million calculated using the effective interest method for financial liabilities not at fair value through profit or loss ($1,200 million in 2017/18).

Note 5 – Asset Revaluation Reserves

The composition of the RBA's asset revaluation reserves (Note 1(g)) is shown below.

	Note	2019 $M	2018 $M
Gold	1(d)	5,032	4,217
Shares in international and other institutions	1(b), 7	429	397
Property	1(e), 8	341	300
Held for sale assets	1(l), 7	–	106
As at 30 June		5,802	5,020

Note 6 – Cash and Cash Equivalents

	2019 $M	2018 $M
Cash	42	51
Overnight settlements	1,209	322
As at 30 June	1,251	373

Cash and cash equivalents include net amounts of $1,209 million owed to the RBA for overnight clearances of financial transactions through the payments system ($322 million at 30 June 2018). Other cash and cash equivalents include NPA's bank deposits.

Cash and cash equivalents exclude Australian and foreign short-term investments held to implement monetary policy or as part of Australia's foreign reserve assets. These investments are disclosed as Australian dollar investments and foreign currency investments, respectively; further detail is disclosed in Note 15.

Reconciliation of net cash used in operating activities to Net Profit	Note	2019 $M	2018 $M
Net Profit		4,549	3,847
Decrease in interest payable		(24)	(20)
Net (gain)/loss on overseas investments	2	(166)	99
Net loss on Australian dollar securities	2	17	160
Net gain on foreign currency	2	(3,182)	(3,261)
Decrease in income accrued on investments		72	130
Cash collateral provided		(646)	(1,502)
Depreciation of property, plant and equipment	2	47	47
Amortisation of computer software	2	21	17
Net payments for investments		9,334	11,003
Other		(9)	3
Net cash used in operating activities		10,013	10,523

Note 7 – Other Assets

	Note	2019 $M	2018 $M
Shareholding in Bank for International Settlements	1(b)	473	440
Held for sale asset	1(l)	–	108
Computer software	1(f)	97	98
Superannuation asset	1(j), 14	–	57
Other		77	77
As at 30 June		647	780

At 30 June 2019, the gross book value of the RBA's computer software amounted to $156.3 million and the accumulated amortisation on these assets was $59.1 million ($140.1 million and $42.5 million, respectively, at 30 June 2018). During 2018/19, there were $16.1 million in net additions to computer software ($30.1 million in 2017/18) and $20.5 million in amortisation expense ($16.5 million in 2017/18). The RBA had contractual commitments of $3.5 million as at 30 June 2019 for the acquisition of computer software ($7.2 million at 30 June 2018).

The RBA completed the sale of its office building in Melbourne in 2018/19, having commenced the sale process in 2017/18 following a review of its property assets and operational requirements. The property was recorded as held for sale at 30 June 2018. The sale of the building for $160 million resulted in a gain of $157 million, of which $106 million reflected gains from earlier periods held in the asset revaluation reserve (Note 5); the balance of this gain, a sum of $51 million, was recognised in net profit in 2018/19.

Other assets predominately include receivables of $31.7 million at 30 June 2019 ($23.5 million at 30 June 2018). None of these assets is impaired. There were no contract assets at 30 June 2019 (Note 1(m)).

Note 8 – Property, Plant and Equipment

	Land and Buildings $M	Plant and Equipment $M	Total $M
Gross Book Value as at 30 June 2018	508	307	815
Accumulated depreciation	(2)	(134)	(136)
Net Book Value	506	173	679
Additions	5	20	25
Depreciation expense	(12)	(35)	(47)
Net gain/(loss) recognised in Other Comprehensive Income	41	–	41
Disposals	–	(1)	(1)
Net additions to net book value	34	(16)	18
Gross Book Value as at 30 June 2019	540	321	861
Accumulated depreciation	–	(164)	(164)
Net Book Value	540	157	697

The net book value of the RBA's property, plant and equipment includes $19.9 million of work in progress ($12.0 million at 30 June 2018).

As at 30 June 2019, the RBA had contractual commitments of $6.8 million for the acquisition or development of property, plant and equipment ($5.6 million at 30 June 2018), of which $4.1 million are due within one year ($5.6 million at 30 June 2018).

Note 9 – Deposits

	2019 $M	2018 $M
Exchange Settlement balances	29,490	28,546
Australian Government	36,525	49,012
State governments	310	149
Foreign governments, foreign institutions and international organisations	2,328	3,766
Other depositors	1	1
As at 30 June	68,654	81,474

Note 10 – Other Liabilities

	Note	2019 $M	2018 $M
Provisions			
Provision for annual and other leave		22	21
Provision for long service leave		49	43
Provision for post-employment benefits		108	94
Other		9	5
		188	163
Other			
Securities sold under agreements to repurchase	1(b)	350	1,797
Payable for unsettled purchases of securities	1(b)	1,084	694
Foreign currency swap liabilities	1(b)	592	219
Interest accrued on deposits	1(b)	47	76
Superannuation liability	1(j), 14	177	–
Other		95	87
		2,345	2,873
Total Other Liabilities as at 30 June		2,533	3,036

The RBA's provision for its post-employment benefits was $13.7 million higher in 2018/19, largely due to a decline in the discount rates used to measure the estimated future cost of providing these benefits in present value terms. Benefits of $4.6 million were paid out of the provision for post-employment benefits in 2018/19. The balance of the provision for post-employment benefits will change if assumptions about the length of staff service, the longevity of retired staff, future costs of providing benefits, or discount rates vary.

Other provisions include amounts for workers compensation, redundancies and legal matters.

Other liabilities include contract liabilities of $30.4 million relating to unearned revenue from the provision of the CLF (Note 1(m)).

Note 11 – Contingent Assets and Liabilities

Committed Liquidity Facility

Since 1 January 2015, the RBA has provided a CLF to eligible ADIs as part of Australia's implementation of the Basel III liquidity standards. The CLF provides ADIs with a contractual commitment to funding under repurchase agreements with the RBA, subject to certain conditions. It was established to ensure that ADIs are able to meet their liquidity requirements under Basel III. The CLF is made available to ADIs in Australia because the supply of high-quality liquid assets (HQLA) is lower in Australia than is typical in other major economies; in other countries, these liquidity requirements are usually met by banks' HQLAs on their balance sheet. While the RBA administers the CLF, the Australian Prudential Regulation Authority (APRA) determines which institutions have access to the facility and the limits available. Any drawdown must meet certain conditions, including: APRA does not object to the drawdown; and the RBA assesses that the ADI has positive net worth. Accordingly, the potential funding under the CLF is disclosed as a contingent liability; repurchase agreements associated with providing funding are disclosed as a contingent asset. If an ADI drew on the CLF, the funds drawn would be shown as a deposit liability of the RBA, and the counterpart repurchase agreement as an Australian dollar investment.

The aggregate undrawn commitment of the CLF at 30 June 2019 totalled $218 billion for 15 ADIs ($223 billion for 14 ADIs at 30 June 2018).

Bank for International Settlements

The RBA has a contingent liability for the uncalled portion of its shares held in the BIS amounting to $71.4 million at 30 June 2019 ($68.4 million at 30 June 2018).

Securency

In February 2013, the RBA completed the sale of its 50 per cent interest in Securency International Pty Ltd (Securency; now known as CCL Secure Pty Ltd) to a related entity of Innovia Films, a UK-based film manufacturer, which had previously owned the other half of Securency. An amount covering 50 per cent of certain potential liabilities of Securency relating to events prior to the sale was placed in escrow in February 2013. In February 2020 the RBA will receive the balance then remaining in escrow after relevant claims have been paid, settled or lapse. Where it is not possible to estimate the likelihood of the RBA receiving any payment from the amount held in escrow, this amount is treated as a contingent asset, in accordance with AASB 137.

Under the sale agreement the RBA also provided the owner of Securency with a number of indemnities in relation to the period during which Securency had been jointly owned by the RBA and Innovia Films. The RBA is unable to reliably estimate the potential financial effect of any obligation to make payment under or in connection with the sale agreement. Accordingly, these potential costs are treated as contingent liabilities in accordance with AASB 137.

Insurance

The RBA carries its own insurance risks except when external insurance cover is considered to be more cost-effective or is required by legislation.

Performance Guarantees

In the course of providing services to its customers, the RBA provides performance guarantees to third parties in relation to customer activities. Such exposure is not material and has not given rise to losses in the past.

Similarly, the RBA has provided a performance guarantee for pension payments to members of the Reserve Bank of Australia UK Pension Scheme in relation to a UK insurer. This exposure is not material. Further detail is provided in Note 14.

Note 12 – Key Management Personnel

The key management personnel of the RBA are the Governor and Deputy Governor, non-executive members of the Reserve Bank Board, non-executive members of the Payments System Board and the Assistant Governors, who are the senior staff responsible for planning, directing and controlling the activities of the RBA. There were 20 of these positions in 2018/19 (unchanged from 2017/18). A total of 22 individuals occupied these positions for all or part of the financial year (23 in the previous year).

The positions of Governor and Deputy Governor are designated as Principal Executive Offices in terms of the *Remuneration Tribunal Act 1973*, which provides for the Remuneration Tribunal to determine the applicable remuneration for these positions. Within the parameters determined by the Remuneration Tribunal, the Reserve Bank Board Remuneration Committee, comprising three non-executive members, makes a recommendation on remuneration for these positions for the approval of the Board, which is the 'employing body' for the positions. In accordance with provisions of the Reserve Bank Act, neither the Governor nor the Deputy Governor takes part in decisions of the Reserve Bank Board relating to the determination or application of any terms or conditions on which either of them holds office. During 2018/19, the remuneration reference rate for the position of Governor was $1,040,400 (superannuable salary of $759,492) and that for the Deputy Governor was $780,300 (superannuable salary of $569,619). Remuneration of each of the Governor and Deputy Governor in 2018/19 was at the applicable reference rate. No performance payments were made to either the Governor or Deputy Governor in 2018/19.

Fees for non-executive members of the Reserve Bank Board and the Payments System Board are determined by the Remuneration Tribunal. The Governor determines the rates of remuneration of the Assistant Governors. For staff generally, remuneration aims to be market competitive and designed to attract and retain appropriately skilled people. Remuneration levels for employees are externally benchmarked.

The disclosure of key management personnel remuneration is based on AASB 124 – *Related Party Disclosures*, as shown below. The figures are disclosed on an accruals basis and show the full cost to the consolidated entity; they include all leave and fringe benefits tax charges.

	2019 **$**	**2018** **$**
Short-term employee benefits	5,043,071	4,857,890
Post-employment benefits	835,716	815,019
Other long-term employee benefits	198,996	277,765
Termination benefits	–	–
Total compensation[(a)]	6,077,783	5,950,674

(a) Within the group of key management personnel, 19 individuals (21 in 2017/18) were remunerated and included in this table; the three key management personnel that are not remunerated are the individuals who held the positions of Secretary to the Treasury, as a member of the Reserve Bank Board, and the Chairman of APRA, as a member of the Payments System Board

Short-term benefits include salary and, for relevant executives, lump-sum performance payments and motor vehicle, car parking and health benefits (including any fringe benefits tax on these benefits).

Post-employment benefits include superannuation and, in the case of executives, an estimate of the cost to provide health benefits in retirement. Other long-term employee benefits include long service leave and annual leave, as well as the effect of revaluing previously accrued leave entitlements in accordance with AASB 119 (refer Note 10).

There were no loans or other related party transactions with Board members or other key management personnel during 2018/19 and 2017/18. Transactions with Board member-related entities that occurred in the normal course of the RBA's operations were incidental and conducted on terms no more favourable than similar transactions with other employees or customers; any vendor relationships with such entities were at arm's length and complied with the RBA's procurement policy.

Note 13 – Auditor's Remuneration

	2019 $	2018 $
Fees paid or payable to the statutory auditor (Australian National Audit Office) for audit services	413,339	425,000

KPMG has been contracted by the Australian National Audit Office (ANAO) to provide audit services for the external audit of the RBA and the RBA's subsidiary NPA.

During 2018/19, KPMG earned additional fees of $23,470 for non-audit services that were separately contracted by the RBA ($125,286 in 2017/18). These fees included advisory services provided to the RBA.

Note 14 – Superannuation Funds

The RBA sponsors two superannuation funds: RB Super and the Reserve Bank of Australia UK Pension Scheme. For RB Super, current and future benefits are funded by member and RBA contributions and the existing assets of the scheme.

RB Super is a hybrid plan, with a mix of defined benefit members, defined contribution members and pensioners. Defined benefit members receive a defined benefit in accordance with RB Super's plan rules. Most members have unitised accumulation balances, which comprise employer contributions and members' personal contributions plus earnings on these contributions. Defined benefit membership was closed to new RBA staff from 1 August 2014. From that date, new staff have been offered defined contribution superannuation. The RBA does not have a role in directly operating or governing RB Super and has no involvement in the appointment of the RB Super Trustees.

The UK Pension Scheme is a closed defined benefit scheme subject to relevant UK regulation. The Trustees, with agreement from the RBA, have entered into a bulk purchase annuity (BPA) contract with a UK insurer to reduce the funding risk in relation to the UK Pension Scheme's pension liabilities. Defined benefit accrual for current members ceased on 30 June 2018. From that date, current and new staff have been offered defined contribution arrangements in a separate fund.

Funding valuation

Independent actuarial valuations of RB Super and the UK Pension Scheme are conducted every three years.

The triennial actuarial valuation for RB Super was completed for the financial position as at 30 June 2017 using the Attained Age Funding method. Accrued benefits were determined as the value of the future benefits payable to members (allowing for future salary increases), discounted by the expected rate of return on assets held to fund these benefits. At the time of this review, the surplus was $190.1 million. On the same valuation basis, the RB Super surplus as at 30 June 2019 amounted to $358.0 million. The RBA maintained its contribution rate to fund defined benefit obligations at 18.3 per cent of salaries in 2018/19, consistent with the actuary's recommendation.

The latest funding valuation for the UK Pension Scheme was at 1 July 2016 and was also based on the Attained Age Funding method. At the time of this review, the UK Pension Scheme was in a small surplus with assets of $25.6 million compared with accrued benefits of $25.5 million. The bulk of the UK Pension Scheme's assets are currently invested in the BPA, with the balance invested in unit trusts that hold short-term money market securities and UK government bonds. The purchase of the BPA has significantly reduced funding risk for the UK Pension Scheme. Once a full due diligence is completed, the trustees will make a balancing payment to the UK insurer to finalise the BPA. Currently, this amount is unknown. To the extent the assets in the UK Pension Scheme are not sufficient to fund the BPA balancing payment and any other operating costs of the UK Pension Scheme, the RBA would cover any shortfall. The balancing payment is expected to be made in 2019/20.

Accounting valuation

For financial statement purposes, the financial positions of RB Super and the UK Pension Scheme are valued in accordance with AASB 119. Disclosures required by AASB 119 are provided only for RB Super, as the UK Pension Scheme is not material.

Actuarial assumptions

The principal actuarial assumptions for the AASB 119 valuation of RB Super are:

	2019 Per cent	2018 Per cent
Discount rate (gross of tax)[(a)]	3.4	4.4
Future salary growth[(b)]	3.0	3.0
Future pension growth[(b)]	3.0	3.0

(a) Based on highly rated Australian dollar-denominated corporate bond yields
(b) Includes a short-term assumption of 2.0 per cent for the first two years of the projections (2.0 per cent for the first three years in 2018)

Maturity analysis

The weighted average duration of the defined benefit obligation for RB Super is 20 years (18 years at 30 June 2018). The expected maturity profile for defined benefit obligations of RB Super is as follows:

	2019 Per cent	2018 Per cent
Less than 5 years	15	17
Between 5 and 10 years	14	16
Between 10 and 20 years	27	28
Between 20 and 30 years	21	20
Over 30 years	23	19
Total	100	100

Risk exposures

Key risks from the RBA's sponsorship of the RB Super defined benefit plan include investment, interest rate, longevity, salary and pension risks.

Investment risk is the risk that the actual future return on plan assets will be lower than the assumed rate.

Interest rate risk is the exposure of the defined benefit obligations to adverse movements in interest rates. A decrease in interest rates will increase the present value of these obligations.

Longevity risk is the risk that RB Super members live longer, on average, than actuarial estimates of life expectancy.

Salary risk is the risk that higher than assumed salary growth will increase the cost of providing a salary-related pension.

Pension risk is the risk that pensions increase at a faster rate than assumed, thereby increasing the cost of providing them.

The table below shows the estimated change in the defined benefit obligation resulting from movements in key actuarial assumptions. These estimates change each assumption individually, holding other factors constant; they do not incorporate any correlations among these factors.

	2019 $M	2018 $M
Change in defined benefit obligation from an increase of 0.25 percentage points in:		
Discount rate (gross of tax)	(83)	(61)
Future salary growth	19	14
Future pension growth	64	47
Change in defined benefit obligation from a decrease of 0.25 percentage points in:		
Discount rate (gross of tax)	89	65
Future salary growth	(18)	(14)
Future pension growth	(61)	(45)
Change in defined benefit obligation from an increase in life expectancy of one year	64	48

Asset distribution

The distribution of RB Super's assets used to fund members' defined benefits at 30 June is:

	Per cent of fund assets	
	2019	2018
Cash and short-term securities	2	2
Fixed interest and indexed securities	8	8
Australian equities	32	34
International equities	24	23
Property	11	12
Private equity	8	6
Infrastructure	11	12
Hedge funds	4	3
Total	100	100

AASB 119 Reconciliation

The table below contains a reconciliation of the AASB 119 valuation of RB Super. These details are for the defined benefit component only, as the RBA faces no actuarial risk on defined contribution balances and these balances have no effect on the measurement of the financial position of RB Super.

	2019 $M	2018 $M
Opening balances:		
Net market value of assets	1,270	1,157
Accrued benefits	(1,212)	(1,213)
Opening superannuation asset/(liability)	57	(56)
Change in net market value of assets	106	113
Change in accrued benefits	(340)	–
Change in superannuation asset/(liability)	(234)	113
Closing balances:		
Net market value of assets	1,376	1,270
Accrued benefits	(1,552)	(1,212)
Closing superannuation asset/(liability)	(177)	57
Interest income	55	52
Benefit payments	(50)	(49)
Return on plan assets	80	88
Contributions from RBA to defined benefit schemes	21	22
Change in net market value of assets	106	113
Current service cost	(39)	(43)
Interest cost	(54)	(55)
Benefit payments	50	49
Gains/(losses) from change in demographic assumptions	–	42
Gains/(losses) from change in financial assumptions	(312)	(40)
Gains/(losses) from change in other assumptions	15	46
Change in accrued benefits	(340)	–
Current service cost	(39)	(43)
Net Interest (expense)/income	1	(3)
Productivity and superannuation guarantee contributions	(9)	(8)
Superannuation (expense)/income included in profit or loss	(47)	(54)
Actuarial remeasurement gain/(loss)	(217)	137
Superannuation (expense)/income included in Statement of Comprehensive Income	(264)	83

The components of this table may not add due to rounding.

Note 15 – Financial Instruments and Risk

As the central bank in Australia, the RBA is responsible for implementing monetary policy, facilitating the smooth functioning of the payment system and managing Australia's foreign reserve assets. Consequently, the RBA holds a range of financial assets, including government securities, repurchase agreements and foreign currency swaps. As to financial liabilities, the RBA issues Australia's banknotes and takes deposits from its customers, mainly the Australian Government, and eligible financial institutions. The RBA also provides banking services to its customers and operates Australia's high-value payments and interbank settlement systems.

Financial Risk

The RBA is exposed to a range of financial risks that reflect its policy and operational responsibilities. These risks include market risk, credit risk and liquidity risk. The chapters on 'Operations in Financial Markets' and 'Risk Management' provide information on the RBA's management of these financial risks. The RBA's approach to managing financial risk is set out in the Risk Appetite Statement available on the RBA website.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. In the RBA's case, market risk comprises foreign exchange risk and interest rate risk.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or cash flows of the RBA's foreign currency assets and liabilities will fluctuate because of movements in exchange rates. The RBA's net foreign currency exposure as at 30 June 2019 was $55.6 billion ($53.8 billion as at 30 June 2018). An appreciation in the Australian dollar would therefore result in valuation losses, while a depreciation would lead to valuation gains. The overall level of foreign currency exposure is determined by policy considerations. Foreign currency risk can be mitigated to a limited extent by holding assets across a diversified portfolio of currencies. The RBA holds foreign reserves in seven currencies – the US dollar, euro, Japanese yen, Canadian dollar, Chinese renminbi, UK pound sterling and South Korean won.

The RBA also undertakes foreign currency swaps to assist its daily domestic liquidity management and to manage foreign reserve assets. These instruments carry no foreign exchange risk.

Concentration of foreign exchange

The RBA's net holdings of foreign exchange (excluding Special Drawing Rights and Asian Bond Fund 2) were distributed as follows as at 30 June:

	Per cent of foreign exchange	
	2019	**2018**
US dollar	55	55
Euro	20	20
Japanese yen	5	5
Canadian dollar	5	5
Chinese renminbi	5	5
UK pound sterling	5	5
South Korean won	5	5
Total foreign exchange	100	100

Sensitivity to foreign exchange risk

The sensitivity of the RBA's profit and equity to a movement of +/–10 per cent in the value of the Australian dollar exchange rate as at 30 June is shown below. These figures are generally reflective of the RBA's exposure over the financial year.

	2019 $M	2018 $M
Change in profit/equity due to a 10 per cent:		
appreciation in the reserves-weighted value of the A$	(5,057)	(4,896)
depreciation in the reserves-weighted value of the A$	6,180	5,984

Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of financial instruments will fluctuate because of movements in market interest rates. The RBA faces interest rate risk because most of its assets are financial assets that have a fixed income stream, such as Australian dollar and foreign currency securities. The price of such securities rises when market interest rates decline, and it falls if market rates rise. Interest rate risk increases with the maturity of a security. Interest rate risk on foreign assets is controlled through limits on the duration of these portfolios. Interest rate risk on Australian dollar assets is relatively lower as most of the portfolio is held in short-term reverse repurchase agreements.

Sensitivity to interest rate risk

The figures below show the effect on the RBA's profit and equity of a movement of +/–1 percentage point in interest rates, given the level, composition and modified duration of the RBA's foreign currency and Australian dollar securities as at 30 June.

	2019 $M	2018 $M
Change in profit/equity due to movements of +/–1 percentage point across yield curves:		
Foreign currency securities	–/+294	–/+284
Australian dollar securities	–/+120	–/+142

Liquidity risk

Liquidity risk is the risk that the RBA will not have the resources required at a particular time to meet its obligations to settle its financial liabilities. As the ultimate source of liquidity in Australian dollars, the RBA can create liquidity in unlimited amounts in Australian dollars at any time. A small component of the RBA's liabilities is in foreign currencies, namely foreign repurchase agreements.

Liquidity risk may also be associated with the RBA, in extraordinary circumstances, being forced to sell a financial asset at a price less than its fair value. The RBA manages this risk by holding a diversified portfolio of highly liquid Australian dollar and foreign currency assets.

The analysis of portfolio maturity in the table that follows is based on the RBA's contracted portfolio as reported in the RBA's Statement of Financial Position. All financial instruments are shown at their remaining term to maturity, which is equivalent to the repricing period. Other liabilities include amounts outstanding under repurchase agreements. Foreign currency swaps reflect the gross contracted amount of the RBA's outstanding foreign currency swap positions.

Maturity Analysis – as at 30 June 2019

	Balance sheet total $M	Contracted maturity $M					No specified maturity $M	Weighted average effective rate (%)
		On demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Assets								
Cash and cash equivalents	1,251	41	1,209	–	–	–	1	0.99
Australian dollar investments								
Securities sold under repurchase agreements	11	–	–	–	11	–	–	1.19
Securities purchased under repurchase agreements	88,345	–	57,147	3,903	–	–	27,295	1.43
Other securities	9,311	–	37	7,411	893	970	–	1.11
Accrued interest	183	–	127	56	–	–	–	na
	97,850							
Foreign currency investments								
Balances with central banks	25,059	24,274	785	–	–	–	–	0.02
Securities sold under repurchase agreements	339	–	–	339	–	–	–	2.10
Securities purchased under repurchase agreements	2,101	–	2,101	–	–	–	–	1.81
Other securities	43,734	–	20,879	9,870	5,816	291	6,878	0.74
Deposits	3,853	–	3,851	–	–	–	2	0.26
Cash collateral provided	1,040	–	1,040	–	–	–	–	1.25
Accrued interest	78	–	53	25	–	–	–	na
	76,204							
Gold								
Gold holdings on loan	719	–	260	459	–	–	–	0.15
Gold holdings	4,440	–	–	–	–	–	4,440	na
	5,159							
Property, plant & equipment	697	–	–	–	–	–	697	na
Other assets	647	–	31	13	–	1	602	na
Total assets	181,808	24,315	87,520	22,076	6,720	1,262	39,915	0.98
Liabilities								
Deposits	68,654	36,834	31,820	–	–	–	–	1.26
Distribution payable to the Commonwealth	1,685	–	1,685	–	–	–	–	na
Cash collateral received	–	–	–	–	–	–	–	na
Australian banknotes on issue	80,024	–	–	–	–	–	80,024	0.06
Other liabilities	2,533	–	2,174	–	–	–	359	0.33
Total liabilities	152,896	36,834	35,679	–	–	–	80,383	0.60
Capital and reserves	28,912							
Total balance sheet	181,808							
Swaps								
Australian dollars								
Contractual outflow	(337)	–	(337)	–	–	–	–	
Contractual inflow	17,828	–	17,828	–	–	–	–	
	17,491	–	17,491	–	–	–	–	
Foreign currency								
Contractual outflow	(41,910)	–	(39,813)	(2,097)	–	–	–	
Contractual inflow	24,419	–	22,322	2,097	–	–	–	
	(17,491)	–	(17,491)	–	–	–	–	

Maturity Analysis – as at 30 June 2018

	Balance sheet total $M	Contracted maturity $M					No specified maturity $M	Weighted average effective rate (%)
		On demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Assets								
Cash and cash equivalents	373	50	322	–	–	–	1	1.25
Australian dollar investments								
Securities purchased under repurchase agreements	93,503	–	66,832	–	–	–	26,671	1.85
Securities sold under repurchase agreements	780	–	–	780	–	–	–	1.92
Other securities	9,729	–	3	7,350	1,454	922	–	2.05
Accrued interest	241	–	210	31	–	–	–	na
	104,253							
Foreign currency investments								
Balance with central banks	23,164	22,420	744	–	–	–	–	0.05
Securities purchased under repurchase agreements	2,834	–	2,834	–	–	–	–	1.26
Securities sold under repurchase agreements	996	–	471	79	446	–	–	0.80
Other securities	47,813	–	25,311	10,046	6,049	220	6,187	0.70
Deposits	602	–	601	–	–	–	1	3.50
Cash collateral provided	411	–	411	–	–	–	–	1.50
Accrued interest	92	–	71	21	–	–	–	na
	75,912							
Gold								
Gold holdings on loan	605	–	219	386	–	–	–	0.15
Gold holdings	3,739	–	–	–	–	–	3,739	na
	4,344							
Property, plant & equipment	679	–	–	–	–	–	679	na
Other assets	780	–	23	8	6	1	742	na
Total assets	186,341	22,470	98,052	18,701	7,955	1,143	38,020	1.27
Liabilities								
Deposits	81,474	34,966	46,508	–	–	–	–	1.63
Distribution payable to the Commonwealth	889	–	605	284	–	–	–	na
Australian banknotes on issue	75,565	–	–	–	–	–	75,565	0.04
Cash collateral received	17	–	17	–	–	–	–	1.50
Other liabilities	3,019	–	2,860	–	–	–	159	0.46
Total liabilities	160,964	34,966	49,990	284	–	–	75,724	0.86
Capital and reserves	25,377							
Total balance sheet	186,341							
Swaps								
Australian dollars								
Contractual outflow	(246)	–	(246)	–	–	–	–	
Contractual inflow	19,995	–	19,995	–	–	–	–	
	19,749	–	19,749	–	–	–	–	
Foreign currency								
Contractual outflow	(41,077)	–	(41,077)	–	–	–	–	
Contractual inflow	21,328	–	21,328	–	–	–	–	
	(19,749)	–	(19,749)	–	–	–	–	

Credit risk

Credit risk is the potential for financial loss arising from an issuer or counterparty defaulting on its obligations to repay principal, make interest payments due on an asset, or settle a transaction. The RBA's credit exposure is managed within a framework designed to contain risk to a level consistent with its very low appetite for such risk. In particular, credit risk is controlled by holding securities issued by a limited number of highly rated governments, government-guaranteed agencies and supranational organisations and holding high-quality collateral under reverse repurchase agreements.

The RBA's maximum exposure to credit risk for each class of recognised financial assets, other than derivatives, is the carrying amount of those assets as indicated in the balance sheet.

The RBA's maximum credit risk exposure to derivative financial instruments is.

1. ***Foreign exchange swaps*** – As at 30 June 2019, the RBA was under contract to purchase $24.4 billion of foreign currency ($21.3 billion at 30 June 2018) and sell $41.9 billion of foreign currency ($41.1 billion at 30 June 2018). As of that date there was a net unrealised loss of $0.5 billion on these swap positions included in net profit ($0.1 billion unrealised gain at 30 June 2018).

   The RBA has a credit exposure from foreign exchange swaps because of the risk that a counterparty might fail to deliver the second leg of a swap, a sum that would then have to be replaced in the market, potentially at a loss. To manage credit risk on swaps, the RBA exchanges collateral with counterparties under terms specified in credit support annexes (CSAs), which cover the potential cost of replacing the swap position in the market if a counterparty fails to deliver. The RBA's CSAs specify that only Australian dollar cash is eligible as collateral. Under CSAs, either party to the agreement may be obliged to deliver collateral with interest paid or received on a monthly basis. At 30 June 2019, the RBA provided $1.0 billion of collateral ($0.4 billion of collateral was provided at 30 June 2018).

2. ***Interest rate futures*** – As at 30 June 2019, the amount of credit risk on margin accounts associated with interest rate futures contracts held by the RBA was approximately $2.2 million ($0.9 million at 30 June 2018). As at 30 June 2019, there was an unrealised gain of $1.6 million brought to account on those contracts ($0.5 million unrealised loss at 30 June 2018).

The RBA held no past due or impaired assets at 30 June 2019 or 30 June 2018.

Assessment of expected credit loss under AASB 9

The RBA assesses its financial assets carried at amortised cost, mainly its reverse repurchase agreements and foreign currency-denominated balances held with other central banks, for any deterioration in credit quality which could result in losses being recorded. The RBA's assessment is done on an individual exposure basis and takes account of the counterparties with which balances are held; the collateral, if any, it holds against exposures and the terms upon which collateral is margined; and the remaining terms to maturity of such exposures. Based on its assessment at 30 June 2019, the RBA did not expect to incur any credit losses over the coming 12 month period and a nil loss allowance was recognised.

Collateral held under reverse repurchase agreements

Cash invested under reverse repurchase agreements in overseas markets is secured against government securities or securities issued by US agencies; the RBA takes and maintains collateral to the value of 102 per cent of the cash invested. Cash invested under Australian dollar reverse repurchase agreements is secured by securities issued by Australian governments, supranational organisations, banks and various corporate and asset-backed securities. The RBA holds collateral equivalent to the amount invested plus a margin according to the risk profile of the collateral held. If the current value of collateral falls by more than a predetermined amount, the counterparty is required to provide additional collateral to restore this margin; the thresholds are specified in the legal agreement which governs these transactions. The management of collateral and cash associated with tri-party repurchase agreements is conducted through a third party, in this case the Australian Securities Exchange. The terms and requirements of tri-party repurchase agreements are broadly consistent with bilateral agreements and the RBA manages the risk in a similar way. The RBA does not sell or re-pledge securities held as collateral under reverse repurchase agreements.

Collateral provided under repurchase agreements

At 30 June 2019, the carrying amount of securities sold and contracted for purchase under repurchase agreements was $350 million ($1,789 million at 30 June 2018). Terms and conditions of repurchase agreements are consistent with those for reverse repurchase agreements disclosed above.

Concentration of credit risk

As noted, the RBA operates to minimise its credit risk exposure through comprehensive risk management policy guidelines. The following table indicates the concentration of credit risk in the RBA's investment portfolio.

	Risk rating of security/issuer[(a)]	Risk rating of counterparties[(a)]	Per cent of investments	
			2019	2018
Australian dollar investments				
Holdings of Australian Government Securities	Aaa	na	3.8	3.7
Holdings of semi-government securities	Aaa	na	0.5	0.5
	Aa	na	0.9	1.1
Securities sold under repurchase agreements	Aaa	Aa	–	0.4
Securities purchased under reverse repurchase agreements	Aaa	Aaa	0.2	–
	Aaa	Aa	27.1	30.2
	Aaa	A	8.1	10.9
	Aaa	Baa	0.9	0.8
	Aaa	Other[(b)]	2.7	1.9
	Aa	Aaa	0.1	–
	Aa	Aa	4.3	2.4
	Aa	A	2.7	1.8
	Aa	Baa	0.1	0.3
	Aa	Other[(b)]	0.2	0.1
	A	Aa	0.9	0.8
	A	A	1.1	0.8
	A	Baa	0.1	0.2
	Baa	Aa	0.1	–
	Baa	A	–	0.1
Foreign investments				
Holdings of securities	Aaa	na	9.1	9.7
	Aa	na	4.0	3.3
	A	na	10.9	12.4
Securities sold under repurchase agreements	Aaa	A	0.2	–
	Aaa	Baa	–	0.2
	Aa	Aa	–	0.3
Securities purchased under reverse repurchase agreements	Aaa	Aa	0.7	0.4
	Aaa	A	0.5	0.5
	Aaa	Baa	–	0.3
	Aa	Aa	–	0.3
Deposits	na	Aaa	2.6	0.7
	na	Aa	0.1	3.4
	na	A	13.2	8.6
Other	Aaa	A	–	0.1
	Aa	A	–	0.1
	na	Aa	0.5	0.3
	na	A	0.2	0.1
Other assets			4.2	3.3
			100.0	100.0

(a) Average of the credit ratings of the three major rating agencies, where available
(b) This category includes counterparties which are not rated

Note 16 – Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date. This is the quoted market price if one is available. The RBA's financial assets measured at fair value include its holdings of Australian dollar securities, foreign government securities, interest rate futures, foreign currency swap contracts and its shareholding in the BIS. Non-financial assets carried on the balance sheet at fair value include the RBA's property and gold holdings. Other than derivatives, there are no financial liabilities measured at fair value.

AASB 13 requires financial and non-financial assets and liabilities measured at fair value to be disclosed according to their position in the fair value hierarchy. This hierarchy has three levels: valuation for Level 1 assets is based on quoted prices in active markets for identical assets; for Level 2 assets, valuation is based on quoted prices or other observable market data not included in Level 1; Level 3 assets include inputs to valuation other than observable market data.

The table below presents the RBA's assets and liabilities measured and recognised at fair value and their classification within the fair value hierarchy at 30 June 2019.

	Fair Value			Amortised Cost	Total
	Level 1 $M	Level 2 $M	Level 3 $M	$M	$M
As at 30 June 2019					
Financial assets					
At fair value through profit or loss					
Australian dollar securities	9,347	52	–	na	9,399
Foreign government securities	39,102	4,828	–	na	43,930
Foreign currency swaps	3	112	–	na	115
At fair value through other comprehensive income					
Shares in international and other institutions	–	–	476	na	476
At amortised cost	na	na	na	121,900	121,900
	48,452	4,992	476	121,900	175,820
Non-financial assets					
Land and buildings	–	–	540	na	540
Gold holdings	5,159	–	–	na	5,159
Other	–	–	–	289	289
	5,159	–	540	289	5,988
Total assets	53,611	4,992	1,016	122,189	181,808
Financial liabilities					
At fair value through profit or loss					
Foreign currency swaps	115	477	–	na	592
Not at fair value through profit or loss	na	na	na	151,898	151,898
	115	477	–	151,898	152,490
Non-financial liabilities	na	na	na	406	406
Total liabilities	115	477	–	152,304	152,896

	Fair Value			Amortised Cost	Total
	Level 1 $M	Level 2 $M	Level 3 $M	$M	$M
As at 30 June 2018					
Financial assets					
At fair value through profit or loss					
Australian dollar securities	10,572	53	–	na	10,625
Foreign government securities	44,038	4,168	–	na	48,206
Foreign currency swaps	34	275	–	na	309
At fair value through other comprehensive income					
Shares in international and other institutions	–	–	444	na	444
At amortised cost	na	na	na	121,428	121,428
	54,644	4,496	444	121,428	181,012
Non-financial assets					
Land and buildings	–	–	506	na	506
Gold holdings	4,344	–	–	na	4,344
Other	–	–	108	371	479
	4,344	–	614	371	5,329
Total assets	58,988	4,496	1,058	121,799	186,341
Financial liabilities					
At fair value through profit or loss					
Foreign currency swaps	6	196	–	–	202
Not at fair value through profit or loss	na	na	na	160,561	160,561
	6	196	–	160,561	160,763
Non-financial liabilities	na	na	na	201	201
Total liabilities	6	196	–	160,762	160,964

The RBA's Level 2 financial instruments include foreign currency swaps priced with reference to an active market yield or rate, but which have been interpolated to reflect maturity dates. Prices for some Australian dollar and foreign currency-denominated securities are derived from markets that are not considered active.

Level 3 assets include the RBA's shareholding in the BIS and its property. The shareholding in the BIS is valued using the net asset value, as published in annual financial statements of the BIS, less a discount of 30 per cent. The discount applied is based on a Hague Arbitral Tribunal decision on compensation paid to former private shareholders, and subsequent transactions involving the re-allocation of BIS shares. Fair values of the RBA's property incorporate factors such as net market income and capitalisation rates, for property valued using an income capitalisation or a discounted cash flow approach, and depreciation rates for property valued using a depreciable replacement cost methodology.

There were no transfers between levels within the fair value hierarchy during the financial year. Movements in the fair value of the RBA's property during the financial year are detailed in Note 8. Fair value changes in the RBA's shareholdings in international and other institutions solely reflect valuation movements recognised in Other Comprehensive Income.

Note 17 – Subsequent Events

There are no events subsequent to 30 June 2019 to be disclosed.

Auditor-General for Australia

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Treasurer

Opinion

In my opinion, the financial statements of the Reserve Bank of Australia and its Controlled Entity (together the consolidated entity) for the year ended 30 June 2019:

(a) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and

(b) present fairly the financial position of the consolidated Entity as at 30 June 2019 and its financial performance and cash flows for the year then ended.

The financial statements of the consolidated entity, which I have audited, comprise the following statements as at 30 June 2019 and for the year then ended:

- Statement of Assurance;
- Statement of Financial Position;
- Statement of Comprehensive Income;
- Statement of Distribution;
- Statement of Changes in Capital and Reserves;
- Cash Flow Statement; and
- Notes to and Forming Part of the Financial Statements, including Accounting Policies and other explanatory information.

Basis for opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the consolidated entity in accordance with the relevant ethical requirements for financial statement audits conducted by me. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statement as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

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Key audit matter	How the audit addressed the matter
Accuracy of the liability for the Australian Banknotes *Refer to note 1 'Accounting Policies'* The balance of Australian banknotes on issue represents the value of all banknotes on issue and the liability ($80,024m as at 30 June 2019) is measured at the face value of all Australian banknotes issued less any banknotes withdrawn from circulation. Australian banknotes on issue relates directly to one of the Reserve Bank of Australia's key roles, the issuance of currency, as defined in the *Reserve Bank Act 1959* and is a key audit matter due to: • high interest to the users of the financial statements; • the balance is significant relative to the Reserve Bank of Australia's Statement of Financial Position; and • the accuracy of the liability for Australian banknotes on issue is dependent on the assumption that all Australian banknotes on issue retain their legal tender status. The audit of this assumption requires significant auditor judgement.	To audit the Australian banknotes on issue, I performed the following audit procedures: • tested design and effectiveness of key controls relevant to the accurate recording of the issuance and return of banknotes, including general IT controls over the Note Control System; • agreed the liability for Australian banknotes on issue recorded in the financial statements to the balance recorded in the Note Control System as at 30 June 2019; • assessed the movement in Australian banknotes on issue against known comparative trends. Demand for banknotes is driven, predominantly by underlying economic activity. I therefore compared movements in Notes on Issue against underlying economic activity, in particular household final consumption expenditure (HFCE). HFCE is produced by the Australian Bureau of Statistics and measures household expenditure; • performed a comparison of current year movements against prior year patterns, and investigated significant variances; and • performed a trend analysis on Australian banknotes on issue against prior periods focusing on the number of notes issued by denomination and investigated significant variances.

Key audit matter	How the audit addressed the matter
Valuation of Australian dollar and foreign currency investments *Refer to note 1 'Accounting Policies' and note 15 'Financial Instruments and Risk'* Valuation of Australian dollar and foreign currency investments was a key audit matter due to their significant size relative to the Reserve Bank of Australia's statement of financial position ($174,054m as at 30 June 2019) and the complexity inherent in auditing a wide range of investments which use different valuation methodologies. The portfolio of investments primarily comprises Australian dollar securities, foreign currency securities, repurchase agreements, deposits with other central banks, and foreign currency swap contracts. All investments are measured at fair value except for reverse repurchase agreements	To audit the valuation of Australian dollar and foreign currency investments, I performed the following audit procedures: • tested design and operating effectiveness of key relevant controls over the accurate recording of the purchase and sale of investments, including general IT controls on the Reserve Bank of Australia's investment trading system; • tested design and effectiveness of key controls relevant to the ongoing monitoring of the collateralisation of repurchase agreements; and • tested year end valuations of Australian dollar and foreign currency securities using the following procedures:

and deposits which are measured at amortised cost.	• checked all year end valuations of Australian dollar and foreign government securities and foreign currency swaps against independent pricing sources; • tested the year-end valuations of all foreign currency swaps using independent publicly available information; • checked whether all reverse repurchase agreements were appropriately collateralised in line with the Reserve Bank of Australia's policy. As part of this, for a sample of securities held as collateral I agreed valuations to independent pricing sources; and • requested and obtained independent confirmation from other central banks regarding the value of deposits held with them.

Other information

The Accountable Authority is responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2019 but does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and accordingly I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Accountable Authority's responsibility for the financial statements

As the Accountable Authority of the Reserve Bank of Australia, the Governor is responsible under the *Public Governance, Performance and Accountability Act 2013* (the Act) for the preparation and fair presentation of annual financial statements that comply with Australian Accounting and the rules made under the Act. The Governor is also responsible for such internal control as the Governor determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Governor is responsible for assessing the ability of the consolidated entity to continue as a going concern, taking into account whether the entities' operations will cease as a result of an administrative restructure or for any other reason. The Governor is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

Auditor's responsibilities for the audit of the financial statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the consolidated entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;
- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the consolidated entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Entity or the consolidated entity's to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the consolidated entity to express an opinion on the financial report. I am responsible for the direction, supervision and performance of the consolidated entity audit. I remain solely responsible for my audit opinion.

I communicate with the Accountable Authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Australian National Audit Office

Grant Hehir

Auditor-General

Sydney

4 September 2019

Part 5:
Indexes

Mornington Peninsula, Victoria

Statutory Reporting Requirements Index

The *Reserve Bank Annual Report 2019* complies with the reporting requirements of the Public *Governance, Performance and Accountability Act 2013* (PGPA Act), rules made under the PGPA Act and other applicable legislation.

To assist readers locate this information, the index of statutory reporting requirements identifies where relevant information can be found in this annual report.

PGPA Rule Reference	Part of Report, Page number	Description	Requirement
17BE	**Contents of annual report**		
17BE(a)	Our Role, 5	Details of the legislation establishing the body	Mandatory
17BE(b)(i)	Our Role, 5–6	A summary of the objects and functions of the entity as set out in legislation	Mandatory
17BE(b)(ii)	Annual Performance Statement for 2018/19, 120–133	The purposes of the entity as included in the entity's corporate plan for the reporting period	Mandatory
17BE(c)	Governance and Accountability, 7	The names of the persons holding the position of responsible Minister or responsible Ministers during the reporting period, and the titles of those responsible Ministers	Mandatory
17BE(d)	Statutory Reporting Requirements, 137	Directions given to the entity by the Minister under an Act or instrument during the reporting period	If applicable, mandatory
17BE(e)	Statutory Reporting Requirements, 137	Any government policy order that applied in relation to the entity during the reporting period under section 22 of the Act	If applicable, mandatory
17BE(f)	Not applicable	Particulars of non compliance with: (a) a direction given to the entity by the Minister under an Act or instrument during the reporting period; or (b) a government policy order that applied in relation to the entity during the reporting period under section 22 of the Act	If applicable, mandatory
17BE(g)	Annual Performance Statement for 2018/19, 120–133	Annual performance statements in accordance with paragraph 39(1)(b) of the Act and section 16F of the rule	Mandatory

PGPA Rule Reference	Part of Report, Page number	Description	Requirement
17BE(h), 17BE(i)	Statutory Reporting Requirements, 137	A statement of significant issues reported to the Minister under paragraph 19(1)(e) of the Act that relates to non compliance with finance law and action taken to remedy non compliance	If applicable, mandatory
17BE(j)	Reserve Bank Board, 14–15	Information on the accountable authority, or each member of the accountable authority, of the entity during the reporting period	Mandatory
17BE(k)	Operational Structure, 25–31	Outline of the organisational structure of the entity (including any subsidiaries of the entity)	Mandatory
17BE(ka)	Our People, 98	Statistics on the entity's employees on an ongoing and non ongoing basis, including the following: (a) statistics on full time employees; (b) statistics on part time employees; (c) statistics on gender; (d) statistics on staff location	Mandatory
17BE(l)	Management of the Reserve Bank, 96	Outline of the location (whether or not in Australia) of major activities or facilities of the entity	Mandatory
17BE(m)	Governance and Accountability, 7–13	Information relating to the main corporate governance practices used by the entity during the reporting period	Mandatory
17BE(n), 17BE(o)	Statutory Reporting Requirements, 138	For transactions with a related Commonwealth entity or related company where the value of the transaction, or if there is more than one transaction, the aggregate of those transactions, is more than $10,000 (inclusive of GST): (a) the decision making process undertaken by the accountable authority to approve the entity paying for a good or service from, or providing a grant to, the related Commonwealth entity or related company; and (b) the value of the transaction, or if there is more than one transaction, the number of transactions and the aggregate of value of the transactions	If applicable, mandatory
17BE(p)	Statutory Reporting Requirements, 138	Any significant activities and changes that affected the operation or structure of the entity during the reporting period	If applicable, mandatory
17BE(q)	Statutory Reporting Requirements, 138	Particulars of judicial decisions or decisions of administrative tribunals that may have a significant effect on the operations of the entity	If applicable, mandatory

PGPA Rule Reference	Part of Report, Page number	Description	Requirement
17BE(r)	Governance and Accountability, 7–8	Particulars of any reports on the entity given by: (a) the Auditor General (other than a report under section 43 of the Act); or (b) a Parliamentary Committee; or (c) the Commonwealth Ombudsman; or (d) the Office of the Australian Information Commissioner	If applicable, mandatory
17BE(s)	Not applicable	An explanation of information not obtained from a subsidiary of the entity and the effect of not having the information on the annual report	If applicable, mandatory
17BE(t)	Governance and Accountability, 12–13	Details of any indemnity that applied during the reporting period to the accountable authority, any member of the accountable authority or officer of the entity against a liability (including premiums paid, or agreed to be paid, for insurance against the authority, member or officer's liability for legal costs)	If applicable, mandatory
17BE(ta)	Our People, 103–106	Information about executive remuneration	Mandatory
17BF	**Disclosure requirements for government business enterprises**		
17BF(1)(a)(i)	Not applicable	An assessment of significant changes in the entity's overall financial structure and financial conditions	If applicable, mandatory
17BF(1)(a)(ii)	Not applicable	An assessment of any events or risks that could cause financial information that is reported not to be indicative of future operations or financial conditions	If applicable, mandatory
17BF(1)(b)	Not applicable	Information on dividends paid or recommended	If applicable, mandatory
17BF(1)(c)	Not applicable	Details of any community service obligations the government business enterprise has including: (a) an outline of actions taken to fulfil those obligations; and (b) an assessment of the cost of fulfilling those obligations	If applicable, mandatory
17BF(2)	Not applicable	A statement regarding the exclusion of information on the grounds that the information is commercially sensitive and would be likely to result in unreasonable commercial prejudice to the government business enterprise	If applicable, mandatory

PGPA Rule Reference	Part of Report, Page number	Description	Requirement
Public Governance, Performance and Accountability Act 2013			
S43(4)	Financial Statements, 139–181	Annual Financial Statements and Auditor-General's report	Mandatory
***Work Health and Safety Act 2011 Schedule 2* Part 4**			
4(2)(a)	Statutory Reporting Requirements, 134–136	Health, safety and welfare initiatives	Mandatory
4(2)(b)	Statutory Reporting Requirements, 134–136	Health and safety outcomes	Mandatory
4(2)(c)	Statutory Reporting Requirements, 134–136	Statistics of notifiable incidents	Mandatory
4(2)(d)	Statutory Reporting Requirements, 134–136	Investigations conducted	Mandatory
Environment Protection and Biodiversity Conservation Act 1999			
S516A(6)(a)	Statutory Reporting Requirements, 136	Report on implementation of Ecologically Sustainable Development principles	Mandatory
S516A(6)(b)	Not applicable	Identify how any outcomes specified for the Reserve Bank in an Appropriations Act contribute to ecologically sustainable development	Mandatory
S516A(6)(c)	Statutory Reporting Requirements, 136	Effect of the Reserve Bank's activities on the environment	Mandatory
S516A(6)(d)	Statutory Reporting Requirements, 136	Measures to minimise the impact of the Reserve Bank's activities	Mandatory
S516A(6)(e)	Statutory Reporting Requirements, 136	Mechanisms for reviewing/increasing effectiveness of measures	Mandatory

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Abbreviations

A glossary of relevant terms is available on the Reserve Bank website.[1]

24/7	24 hours per day, 7 days per week
AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
ABF2	Asian Bond Fund 2
ABN	Australian Business Number
AC	Companion of the Order of Australia
ADI	authorised deposit-taking institution
AFP	Australian Federal Police
AFXC	Australian Foreign Exchange Committee
AGS	Australian Government Securities
AM	Member of the Order of Australia
ANAO	Australian National Audit Office
ANU	Australian National University
ANZECG	Australian and New Zealand Econometric Study Group
AO	Officer of the Order of Australia
AOFM	Australian Office of Financial Management
APC	Australian Payments Council
APEC	Asia-Pacific Economic Cooperation
API	Application Programming Interface
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ATM	automated teller machine
ATO	Australian Taxation Office
AusPayNet	Australian Payments Network
BCBS	Basel Committee on Banking Supervision (of the BIS)
BIS	Bank for International Settlements
BPA	bulk purchase annuity
CAC Act	*Commonwealth Authorities and Companies Act 1997* (repealed)
CBD	central business district
CEDA	Committee for Economic Development of Australia
CEPAR	Australian Research Council Centre of Excellence in Population Ageing Research
CFR	Council of Financial Regulators
CHESS	Clearing House Electronic Sub-register System
CLF	Committed Liquidity Facility
CME	Chicago Mercantile Exchange Inc.
CPMI	Committee on Payments and Market Infrastructures (of the BIS)
CPRs	Commonwealth Procurement Rules
CS	clearing and settlement
CSA	credit support annex
DHS	Department of Human Services
EDO	Enterprise Data Office
EMEAP	Executives' Meeting of East Asia-Pacific Central Banks
eftpos	electronic funds transfer at point of sale
ERG	Employee Resource Group
ES	Exchange Settlement
ESA	Exchange Settlement Account
fintech	financial technology

1 See <https://www.rba.gov.au/glossary/>.

FMI	financial market infrastructure
FOI	Freedom of Information
FOI Act	*Freedom of Information Act 1982*
FSAP	Financial Sector Assessment Program (of the IMF)
FSB	Financial Stability Board
FSS	Fast Settlement Service (of RITS)
FTE	full-time equivalent
FX	foreign exchange
G20	Group of Twenty
G-SIB	global systemically important bank
GDP	gross domestic product
GFXC	Global Foreign Exchange Committee
GHOS	Group of Governors and Heads of Supervision
GST	Goods and Services Tax
HQLA	high-quality liquid assets
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IPS	Information Publication Scheme
ISDA	International Swaps and Derivatives Association
ISO	International Organization for Standardisation
IT	information technology
LCR	Liquidity Coverage Ratio
LIBOR	London Inter-Bank Offered Rate
LVSS	RITS Low Value Settlement Service
MIT	Massachusetts Institute of Technology
MP	member of parliament
NAB	National Australia Bank
NAIDOC	National Aborigines and Islanders Day Observance Committee
NBFI	non-bank financial intermediation
NBS	National Banknote Site
NGFS	Network for Greening the Financial System
NPA	Note Printing Australia Limited
NPP	New Payments Platform
OECD	Organisation for Economic Co-operation and Development
OMO	open market operations
PEXA	Property Exchange Australia Limited
PGPA Act	*Public Governance, Performance and Accountability Act 2013*
Prospera	Australia Indonesia Partnership for Economic Development
RBA	Reserve Bank of Australia
RBRF	Reserve Bank Reserve Fund
RDP	Research Discussion Paper
repo	repurchase agreement
RITS	Reserve Bank Information and Transfer System
RMBS	residential mortgage-backed securities
RTGS	real-time gross settlement
R&D	research and development
SAR	Special Administrative Region (of China)
SDR	Special Drawing Right
SEACEN	South East Asian Central Banks
Semis	semi-government securities (Australian state and territory government securities)
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UNSW	University of New South Wales
WHS	work health and safety
WHS Act	*Work Health and Safety Act 2011*
WPIT	Welfare Payment Infrastructure Transformation Program (of DHS)

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