

Submission to the Independent Review of the Public Governance, Performance and Accountability Act 2013

June 2018

Introduction

This submission provides the observations of the Reserve Bank of Australia (the Reserve Bank) on the Consultation Draft of the Independent Review of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and the *Public Governance, Performance and Accountability Rule 2014* (the Rule).

The Reserve Bank welcomes the Consultation Draft and the draft recommendations made in it. The PGPA Act and the Rule play a key role in the governance and operation of the Reserve Bank. While the PGPA Act and the Rule set standards that apply across the Commonwealth, they also accommodate the Reserve Bank's particular circumstances.

In general, the Reserve Bank supports the draft recommendations in the Consultation Draft.

We have made specific comments below on a number of draft recommendations where we believe that the particular circumstances of the Reserve Bank may be relevant in the context of the finalisation of those recommendations.

Draft recommendations 12 and 13

12. *Accountable authorities of large Commonwealth entities, or entities with complex risks, should consider appointing a Chief Risk Officer to support the accountable authority to implement a strong risk culture and behaviours across all levels of the organisation.*
13. *Accountable authorities of large entities, or entities with complex risks, should consider establishing a separate risk committee, with an independent chair and membership linkage with the audit committee, to strengthen the governance of risk. Where an entity establishes a separate risk committee, the risk committee should be responsible for reviewing the appropriateness of the entity's system of risk oversight and management, with the audit committee's functions amended accordingly.*

The accountable authority of the Reserve Bank, being the Governor, has the power to manage the Reserve Bank¹. The Reserve Bank's two Boards, the Reserve Bank Board and Payments System Board, are responsible, respectively, for the Reserve Bank's:

1 Section 12(2) *Reserve Bank Act 1959*

- (i) monetary and banking policy and the Bank's policy on all other matters, except for its payments system policy; and
- (ii) payments system policy².

In the context of the Governor's duty to manage the Reserve Bank and his duty under the PGPA Act³ to establish and maintain systems relating to risk and control, the Reserve Bank has established a Risk Management Committee, which has oversight of the Reserve Bank's arrangements for risk management, is chaired by the Deputy Governor and also comprises members of the Reserve Bank's senior executive management.

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.

In accordance with its charter, the Risk Management Committee provides regular information reports of its activities to the Reserve Bank's Executive Committee⁴ and to the Reserve Bank Board Audit Committee.

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

In relation to draft recommendation 12, the Reserve Bank's Head of Risk and Compliance Department, together with the Deputy Governor as chair of the Risk Management Committee, support the Governor to implement a strong risk culture and behaviours across all levels of the Reserve Bank.

In relation to draft recommendation 13, we agree that the establishment of the Reserve Bank's Risk Management Committee (which occurred in 2003 with the express endorsement of the Reserve Bank Board Audit Committee) has strengthened the Reserve Bank's governance of risk.

However, the Reserve Bank Board Audit Committee continues, under its charter (the Charter), to assist the Governor in relation to establishing and maintaining appropriate systems of risk oversight and management. This is consistent with section 17(2)(c) of the Rule. Finally, we note that the Charter states that both the Deputy Governor and the Head of Risk and Compliance Department are invited to attend meetings of the Audit Committee on a regular basis.

² Section 8A *Reserve Bank Act 1959*

³ Section 16

⁴ The Executive Committee is a management committee that supports the Governor. It is the key decision-making committee for matters of a management or administrative nature.

Draft recommendation 22

- 22.** *Audit committees should be subject to greater transparency by requiring disclosure in annual reports of their charter; membership; the qualifications, skills and experience of each committee member; details of each member's attendance at meetings; and the remuneration of each audit committee member, broadly consistent with the practice of Australian Securities Exchange (ASX) listed companies.*

As a subcommittee of the Reserve Bank Board, the Reserve Bank Audit Committee appropriately comprises members of the Reserve Bank Board. We note that the Treasurer appoints the six non-executive members of that Board⁵.

Currently, two members of the Reserve Bank Board are members of the Audit Committee and the other two members of the Audit Committee are external appointments (made by the Governor) of persons determined by him to have appropriate qualifications, knowledge, skills or experience.

In relation to those members of the Audit Committee who are members of the Reserve Bank Board, therefore, the Reserve Bank does not determine the skills of the members of its Audit Committee.

Reserve Bank of Australia
19 June 2018

⁵ Section 14 *Reserve Bank Act 1959*