

# Reserve Bank of Australia Corporate Plan

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# Corporate Plan 2021/22

## 1. Introduction

This corporate plan is prepared for 2021/22 in accordance with section 35(1)(b) of the *Public Governance, Performance and Accountability Act 2013* and covers the reporting periods from 1 July 2021 to 30 June 2025.

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

The plan outlines the Bank's mission and key objectives, the activities it undertakes to achieve them and how it measures performance. It also discusses the external environment in which the Bank operates, the Bank's organisational capability, and the Bank's approach to managing and overseeing the key risks it faces.

## 2. The external environment

The Reserve Bank is focused on supporting the Australian economy to recover and transition to expansion in the wake of the COVID-19 pandemic. The Bank is closely monitoring other external developments that affect its capacity to deliver on its key objectives, such as the evolution of the payments system.

### Economic conditions in the wake of COVID-19

The global economy is recovering from the significant impact of the COVID-19 pandemic and the global outlook has improved since the start of 2021. However, the experience across countries has been uneven and this is likely to be the case for some time. In several advanced economies, containment measures have gradually been eased as vaccination rates have risen and economic activity has picked up sharply, supported by substantial fiscal and monetary stimulus. Meanwhile, many emerging market countries continue to experience significant health and economic challenges; vaccine supplies remain limited in some countries, hampering their economic recoveries.

In Australia, the recovery had been faster than expected prior to the outbreak of the Delta variant of COVID-19. Over the course of the first half of 2021, more Australians had jobs than before the pandemic and GDP had exceeded its pre-pandemic level. The recovery has been strongly supported by fiscal and monetary policy. While recent outbreaks of the Delta variant of COVID-19 are interrupting the recovery and introducing a high level of uncertainty about the near-term outlook, the experience to date has been that once restrictions are eased, the economy bounces back quickly. The expected recovery in 2022 will be underpinned by accommodative policy settings and household and business balance sheets that are generally in good shape. On the nominal side of the economy, underlying inflation and wage outcomes remain subdued. A pick-up in inflation and wages growth is expected, but is likely to be only gradual and modest.

## The evolving payments system

The trend towards greater use of electronic methods of payment in the retail payments system has accelerated recently. In response to COVID-19, there has been a significant shift by merchants and consumers to contactless and mobile payments, and away from the use of cash and cheques. There has also been significant innovation in consumer-facing technology, and there continues to be potential for the entry of new technologically enabled service providers to widen payment options further.

While the proportion of payments made using banknotes is declining, cash is still used for many face-to-face transactions. Furthermore, the number and value of banknotes on issue continues to rise, highlighting the importance of banknotes as a store of value as well as a payment mechanism.

User and industry expectations concerning the speed of payments, and the capacity to combine information with payments, have been increasing. These trends have been reflected in strong growth in transactions enabled by the New Payments Platform (NPP), which facilitates 24/7 real-time payments between individuals and organisations. Ongoing development of NPP capabilities will allow the community to embrace new functionality through the delivery of digital services. These developments are also relevant to the Reserve Bank in its role as provider of banking services to the Australian Government. The government is seeking to implement more modern electronic payment services, and its banking requirements will continue to change in response to improvements in payments technology and changes in the way government agencies interact with the public.

Globally, there is significant interest in the potential use of technologies as a means of providing new payments, clearing and settlement services. With the increasing digitisation of payments, there is a strong focus on fraud prevention and cyber resilience among payment service providers and operators of payments infrastructure. In addition, international standards continue to promote enhancements in resilience and crisis management of financial market infrastructures (FMIs).

## 3. The Reserve Bank's Strategic Plan

The Reserve Bank's Strategic Plan sets out our mission to promote the economic welfare of the Australian people through our monetary and financial policies and operations. To deliver on the mission, the Bank has five key objectives, outlined in Section 4. Our vision is to be a world-leading central bank that is trusted for our analysis, service delivery and policies. Over the period of this corporate plan, the Bank will focus on six strategic focus areas, outlined in Section 5. The most important focus area will be for the Bank to support the Australian economy in the wake of the COVID-19 pandemic. The other focus areas will strengthen the capability of the Bank to successfully deliver on its mission and key objectives. The pursuit of our mission is also supported by our core values – promoting the public interest, integrity, excellence, intelligent inquiry and respect.



## 4. Key objectives

To deliver on its mission, the Reserve Bank has five key objectives.

### Price stability and full employment

It is the duty of the Reserve Bank Board to ensure that the monetary and banking policy of the Reserve 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:

- the stability of the currency of Australia
- the maintenance of full employment in Australia
- the economic prosperity and welfare of the people of Australia.

In support of this, the *Statement on the Conduct of Monetary Policy* agreed by the Treasurer and the Governor confirms the Bank's continuing commitment to achieving consumer price inflation between 2 and 3 per cent, on average, over time, consistent with its duties under the *Reserve Bank Act 1959*. Achieving the inflation target preserves the value of money and facilitates strong and sustainable growth in the economy over the longer term. This assists businesses and households in making sound investment decisions, underpins the creation of jobs and protects the savings of Australians. Sustaining high employment means not only do more people have jobs, but they also have better opportunities in life. High rates of unemployment are costly for the economy and hurt our society.

The Board's monetary policy decisions are implemented through the Bank's operations in domestic financial markets. Operations in financial markets are also undertaken to ensure the stable functioning of the financial system, including by ensuring there is sufficient liquidity in the domestic money market every day.

The Bank's foreign reserves are held to give the Bank the capacity to intervene in the foreign exchange market, consistent with the objectives of monetary policy. In particular, these foreign reserves enable the Bank to address apparent dysfunction in the foreign exchange market and/or a significant misalignment in the exchange rate. Such interventions occur rarely.

## The stability of the financial system

The Reserve Bank has a responsibility for fostering overall financial stability in Australia. Given the serious damage to employment and economic prosperity that can occur in times of financial instability, the *Reserve Bank Act 1959* has long had an implied mandate to pursue financial stability. Further, the Treasurer and the Governor recorded their common understanding of the Bank's longstanding responsibility for financial system stability as part of the *Statement on the Conduct of Monetary Policy*.

The Bank works with other regulatory bodies to foster financial stability. The Governor chairs the Council of Financial Regulators (CFR), which brings together the Reserve Bank, the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission (ASIC) and the Australian Treasury. The CFR is a non-statutory body whose role is to promote the stability of the Australian financial system and support effective and efficient regulation by the financial regulatory agencies. The CFR draws on the expertise of other non-member government agencies where appropriate, and meets jointly with the Australian Competition and Consumer Commission (ACCC), AUSTRAC and the Australian Taxation Office at least annually to discuss broader financial sector policy. 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.

## A secure, stable and efficient payments system

There are several distinct aspects to the Reserve Bank's role in the payments system, including those of policymaker, overseer and supervisor, and owner and operator of key national payments infrastructure.

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

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

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 infrastructure that supports financial markets. The Bank's payments policy area also acts as overseer of Australia's high-value payment system – the Reserve Bank Information and Transfer System (RITS).

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

## The delivery of efficient and effective banking services to the Australian Government

Insofar as the Commonwealth of Australia requires it to do so, the Reserve Bank must act as banker for the Commonwealth. The Reserve Bank's banking services fall into two components: those services provided in its capacity as the central bank; and those transactional banking services it provides to Australian government agencies. In common with many other central banks, the Bank also provides banking and custody services to a number of overseas central banks and official institutions. The banking services offered to the Australian Government and other central banks include payments and collections as well as general account maintenance and reporting.

## The provision of secure and reliable banknotes

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. NPA also produces banknotes for other countries, as well as Australia's passports. 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 trends in cash usage and counterfeiting, and conducts research into banknote security technology.

## 5. Strategic focus areas

In 2020, the Reserve Bank identified six strategic focus areas to support the Australian economy in the wake of the COVID-19 pandemic and to strengthen the capability of the Bank to deliver on its mission and key objectives successfully. These strategic focus areas remained current throughout 2020/21.

### Support the Australian economy in the wake of COVID-19

An important focus area continues to be supporting the Australian economy in the wake of the COVID-19 pandemic, which resulted in a major disruption to economic activity and employment in Australia. Through its actions, the Bank is supporting the economy to recover from this event and transition to a strong and durable expansion by:

- putting in place and adjusting as necessary a package of policy measures to keep funding costs low across the economy and support the provision of credit. This package includes: a cash rate target of 0.10 per cent; forward guidance that the Reserve Bank Board will not increase the cash rate target until progress is being made towards full employment and actual inflation is sustainably within the 2 to 3 per cent target band; a yield target of 0.10 per cent on the April 2024 Australian Government bond; a program of government bond purchases focusing on 5 to 10 year maturities; provision of liquidity for the financial system through the Bank's open market operations as required by market conditions; and a Term Funding Facility for the banking system with particular support for credit to small and medium-sized businesses (which closed to new drawdowns on 30 June 2021, although banks retain access to the funding they have drawn for up to three years).
- actively communicating its actions, its outlook for the economy, its assessment of the stability of the financial system, and the need for the official sector to support the recovery from the pandemic and the subsequent expansion
- working closely with other members of the CFR to support the economy by ensuring financial intermediation and financial markets continued to operate effectively. Focus areas have included the effect on the financial system of the progressive unwinding of support measures for households and businesses, credit conditions for small and medium-sized businesses, and housing lending standards and trends in household debt levels.

Over the period of this corporate plan, the Bank will maintain its provision of support by:

- actively assessing the efficacy of the policy actions taken and adapting the Bank's measures as required in support of its policy objectives
- continuing to provide credible and independent analysis of economic conditions and financial stability risks as Australia recovers from the effects of the pandemic, and of the policy responses domestically and internationally, to support high-quality decision-making
- working to ensure that the financial system continues to function smoothly and that lending standards remain sound.

## Support the evolution of payments

An effective payments system that meets the needs of consumers, businesses and government entities is a prerequisite for a well-functioning economy. The Australian payments system is evolving rapidly, driven by ongoing advances in technology and changing expectations of end-users, with the prospect of additional major changes if new forms of digital money, such as central bank digital currency (CBDC), are adopted. The trend towards greater use of electronic payment methods, which has accelerated as a result of the COVID-19 pandemic, presents both opportunities and risks. Policy issues for the Reserve Bank include the importance of keeping the costs of electronic payments low while maintaining the security, resilience and innovation in the payments system, and responding to any competition or access issues that emerge.

Over the period of this corporate plan, the Bank will work with the payments industry and users of the payments system on policy issues relating to both legacy and emerging payment methods. This includes:

- working to support the ongoing provision of cash services (including a consultation on banknote distribution arrangements), given that cash is still used intensively by some segments of the population, and monitoring industry efforts to wind-down the cheques system
- completing a major review of the regulatory framework for retail payments, focusing on the use of electronic payments, such as cards and bank transfers; based on its consultations with end-users and the payments industry, the Bank will work with industry to address issues or will seek to implement regulatory changes to respond to any policy concerns
- under its different roles as regulator, infrastructure provider and banker to the Government, continuing to work with the industry to realise the potential of the NPP to deliver payments that are real-time, data-rich and easily addressed
- promoting resilience in core payments infrastructure and services, including improved payments incident-management procedures and reporting
- conducting work in the Bank's Innovation Lab and with external partners on the exploration of the possible issuance of CBDC as well as on other relevant matters
- engaging with international efforts to enhance the efficiency, transparency and accessibility of cross-border payments.

The Bank will also continue to promote competition and innovation in the payments system by working with non-traditional payments service providers wishing to open an Exchange Settlement Account (ESA) at the Bank as part of their business model. Details on the process and requirements for assessing ESA applications were reviewed and updated in 2019.

## Attract and maintain a high-quality and innovative workforce

The ongoing quality and effectiveness of our employees are critical to the Reserve Bank delivering on its objectives. The Bank will continue to focus on attracting and retaining high-quality employees with a diversity of

skills and experience who are innovative and nimble. This involves fostering an environment in which all employees are engaged and empowered to contribute to the full extent of their abilities.

Over the period of this corporate plan, the Bank will continue to:

- focus on the current and future needs of the Bank, and enhancing the manner in which we attract and retain employees
- maintain focus on the Bank's core values – promotion of the public interest, integrity, excellence, intelligent inquiry and respect – with emphasis on encouraging employees to ask questions, propose innovative solutions and readily express opinions or concerns, and enhancing their understanding of appropriate risk-taking in pursuit of the Bank's objectives; initiatives will include identifying opportunities to establish a clear 'tone from the top' through enterprise-wide leadership goals and regular communication
- continue to develop the leadership capabilities of executive leaders and managers, with emphasis on contributing to and supporting Bank initiatives by establishing clear enterprise-wide leadership goals and emphasising the high standards expected of our leaders, developing employee leadership capabilities and maintaining the expected high standard of behaviour in the workplace
- continue to foster a diverse and inclusive culture, facilitated by active engagement with the Bank's Employee Resource Groups, and including initiatives such as exploring ways to ensure meetings are more inclusive (particularly in a hybrid working environment), enhancing cultural awareness, providing equal access to parental leave arrangements for men and women, finding ways to encourage a more diverse field of applicants for positions in the Bank, and actions contained in the Bank's Reconciliation Action Plan (which focuses on providing opportunities for Aboriginal and Torres Strait Islander peoples)
- continue to develop the technologies and facilities to support delivery of the Bank's objectives – in particular, the Bank is undertaking improvements to its Head Office at 65 Martin Place, Sydney, and the H.C. Coombs Centre for Financial Studies in Kirribilli, Sydney; these initiatives are aimed at upgrading base building infrastructure that is at end of life and ensuring a safe, efficient and engaging workplace
- continue to deliver initiatives to enhance employee mental health and wellbeing consistent with the Bank's Health and Safety Management Plan
- develop policies and workplace practices to ensure employees are able to work effectively and safely in a hybrid working environment, which involves working at Bank premises as well as residential or remote locations.

## Strengthen the resilience of technology services

The Reserve Bank maintains highly resilient, efficient, fit-for-purpose technology systems that underpin the Bank's core payment systems, banking and financial markets operations, policy analysis and banknote distribution.

Further strengthening key system resilience and availability is a key focus area, and seeks to avoid system downtime caused by unplanned incidents. This will be achieved by an ongoing program to address technology obsolescence, automation of key technology change activities, system design to reduce the complexity of the Bank's technology environments, and investment in staff technology skills.

The Reserve Bank's Information Technology Department is investigating ways to increase efficiencies in the Bank's technology footprint and to introduce technologies that support modern 'ways of working', which better facilitate staff collaboration across the business areas of the Bank. This will involve a focus on consolidating applications onto a set of core platforms supported by new integrated teams with agile processes. There will also be a sustained focus on keeping application systems and infrastructure continuously patched for security vulnerabilities.

Over the period of this corporate plan, the Bank will:

- continue to enhance our technology security posture in response to cyber threats and to remain aligned with Australian Signals Directorate guidelines and evolving industry best practices
- increase automation of core technology delivery processes and enhance staff skills to further reduce operational risks
- deliver efficiency benefits through technology simplification, incorporating the adoption of cloud services where appropriate
- establish a data bunker facility to provide additional resilience for the Bank's key technology services and data.

## Harness the power of data

Data are a strategic asset for a central bank. As such, the Reserve Bank continues to strengthen its capabilities in managing data as an asset. This involves extracting maximum information from the data available, while at the same time developing the Bank's processes, technology and people to enhance the value we obtain from data in the future.

Over the period of this corporate plan, the Bank will continue to:

- increase the maturity of its data governance and data management processes to ensure a common Bank-wide approach to working with data
- refresh and enhance the Bank's strategic platforms and tools for storing and analysing data
- migrate data from legacy systems and consolidate strategic platforms with modern tools
- invest in the uplift of employees' skills with data tools and technologies.

These initiatives aim to: improve analytical excellence, employee productivity and engagement; reduce data-related risks; and enable the Bank to leverage modern data tools and practices.

## Ensure we communicate effectively in a changing world

In a rapidly changing and uncertain world, it is important that the Reserve Bank communicates clearly with the Australian people. The Bank is committed to explaining its policies effectively, providing credible analysis of the Australian economy and being held accountable. The Bank will continue to demonstrate competence, integrity and dependability to maintain the trust of the community.

Over the period of this corporate plan, the Bank will:

- maintain regular communication on monetary and payments policies, banknote issuance, and reviews of financial stability and financial markets infrastructure
- provide information about the work the Bank is doing in cooperation with the Australian Government and the financial regulators, particularly through the CFR
- continue to develop new means of communication that are better aligned with the information needs of members of the community and their appetite to receive and respond to information
- continue to contribute to Australia's economic literacy, and encourage a diverse body of students to study economics
- maintain the Bank's business liaison program to understand the community's perspectives, priorities and concerns, gather information and insights, as well as to explain the Bank's monetary policy initiatives.

## 6. Key activities and measuring performance

This section outlines the key activities the Reserve Bank will undertake to deliver on its key objectives, and how it will measure and assess its performance.

### Reserve Bank of Australia – Summary Measures of Performance 2021/22–2024/25

| Key objectives                      | Key activities                                                                                                                                                                                | Performance measures and targets 2021/22                                                                                                                                                                                                                                   | Performance measures and targets 2022/23–2024/25                                             |
|-------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| Price stability and full employment | Conduct monetary policy in a way that will best contribute to:                                                                                                                                | Flexible medium-term inflation target to achieve consumer price inflation of between 2 and 3 per cent, on average, over time                                                                                                                                               | As for 2021/22                                                                               |
|                                     | <ul style="list-style-type: none"> <li>• stability of the currency</li> <li>• maintenance of full employment</li> <li>• economic prosperity and welfare of the people of Australia</li> </ul> | Foster sustainable growth in the economy                                                                                                                                                                                                                                   | As for 2021/22                                                                               |
|                                     | Achieve cash rate consistent with the Reserve Bank Board's objectives                                                                                                                         | Keep the cash rate within the interest rate corridor around the cash rate target each business day. The very high Exchange Settlement account balances mean the cash rate is likely to range between the target and the remuneration rate on Exchange Settlement balances. | As for 2021/22, subject to changes reflecting decisions by the Reserve Bank Board            |
|                                     | Achieve April 2024 Australian Government bond yield target                                                                                                                                    | April 2024 Australian Government bond yield consistent with the target at the close of each business day                                                                                                                                                                   | As for 2021/22 to 2023/24, subject to changes reflecting decisions by the Reserve Bank Board |
|                                     | Provide low-cost term funding to the banking system                                                                                                                                           | Manage the Reserve Bank's Term Funding Facility, which, while closed to new drawdowns, will provide low-cost funding to June 2024.                                                                                                                                         | As for 2021/22 to 2023/2024                                                                  |
|                                     | Provide adequate liquidity to the financial system                                                                                                                                            | Use open market operations to ensure financial institutions have access to sufficient liquidity                                                                                                                                                                            | As for 2021/22                                                                               |
|                                     | Support the smooth functioning of government bond markets                                                                                                                                     | Purchase government securities if required to support the smooth functioning of government bond markets as reflected in various measures of liquidity, including bid-offer spreads                                                                                         | As for 2021/22                                                                               |
|                                     | Provide support for lower risk-free yields across the yield curve, thereby lowering funding costs for all borrowers through a government bond purchase program                                | Execute a program of government bond purchases in the secondary market as directed by the Reserve Bank Board                                                                                                                                                               | Government bonds are purchased as per the parameters set by the Reserve Bank Board           |
|                                     | Manage reserves to portfolio benchmarks                                                                                                                                                       | Reserves portfolio managed within permitted deviations around benchmarks for interest rate and currency risk                                                                                                                                                               | As for 2021/22, although benchmarks will be subject to periodic review                       |

| Key objectives                                 | Key activities                                                                           | Performance measures and targets 2021/22                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Performance measures and targets 2022/23–2024/25                                                                                                                                                                                                                                                                                      |
|------------------------------------------------|------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                | Intervene in foreign exchange market as appropriate                                      | Publish data and explanations of any intervention                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | As for 2021/22                                                                                                                                                                                                                                                                                                                        |
| The stability of the financial system          | Support overall financial stability                                                      | <p>A stable financial system that is able to support the economy</p> <p>Work with CFR agencies and international bodies to identify and appropriately address evolving systemic risks</p> <p>Assess and communicate risks to financial stability, including through the Bank's half-yearly <i>Financial Stability Review</i></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | As for 2021/22                                                                                                                                                                                                                                                                                                                        |
| A secure, stable and efficient payments system | Support competition and efficiency in the payments system and financial system stability | <p>Monitor the outcomes for consumers and businesses following past reviews of the regulatory framework for card payments. Undertake policy work focusing on the strategic priorities identified by the Payments System Board (including supporting the shift to low-cost, convenient, inclusive and reliable digital payments, and responding to any access, competition or efficiency issues associated with new technologies and participants in the payments system) and any issues of competition, efficiency or risk identified in liaison with stakeholders</p> <p>Complete work on the comprehensive Review of Retail Payments Regulation, which commenced in late 2019. Monitor compliance with the Bank's card payments regulations</p> <p>Respond to any recommendations on the Bank's regulatory framework for payments stemming from the Treasury Payments System Review</p> <p>Prepare for and design the latest triennial Consumer Payments Survey (CPS)</p> <p>Undertake research and work with industry on policy issues relating to both legacy and emerging payment methods, including work to support the ongoing provision of cash services, monitoring the wind-down of the cheques system and planning for the eventual closure of the direct entry system, and research on the possible issuance of CBDC and other innovations in payment systems</p> <p>Support work being undertaken as part of the G20 roadmap on enhancing cross-border payments</p> <p>Work through the CFR to review the regulatory framework for stablecoin arrangements. Work with the Australian Government and other CFR agencies to implement the changes to the regulatory</p> | <p>As for 2021/22</p> <p>Monitor implementation of the changes stemming from the Review of Retail Payments Regulation and compliance with the Bank's card payments regulations</p> <p>As for 2021/22</p> <p>Undertake the CPS and analyse and report on results</p> <p>As for 2021/22</p> <p>As for 2021/22</p> <p>As for 2021/22</p> |

| Key objectives | Key activities                                                                                                                                    | Performance measures and targets 2021/22                                                                                                                                                                                                                                                                                                                                                                          | Performance measures and targets 2022/23–2024/25                 |
|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|
|                |                                                                                                                                                   | framework for stored-value facilities stemming from the recommendations in the CFR's 2019 report to the government                                                                                                                                                                                                                                                                                                |                                                                  |
|                |                                                                                                                                                   | Work with industry to modernise payment messaging standards via participation in the ISO 20022 migration project                                                                                                                                                                                                                                                                                                  | As for 2021/22                                                   |
|                |                                                                                                                                                   | Implement the new reporting and disclosure framework for retail operational performance                                                                                                                                                                                                                                                                                                                           | Monitor implementation of new reporting and disclosure framework |
|                |                                                                                                                                                   | Work by the Bank's Innovation Lab and with external partners to research the case for, and implications of, CBDCs                                                                                                                                                                                                                                                                                                 | As for 2021/22                                                   |
|                | Promote the safety and resilience of FMLs                                                                                                         | Assess RITS and licensed clearing and settlement (CS) facilities against relevant standards. The frequency, scope and level of detail of a compliance assessment is proportional to the systemic importance of a CS facility to the Australian financial system. Establish recommendations and regulatory priorities as appropriate for each high-value payment system and CS facility based on these assessments | As for 2021/22                                                   |
|                |                                                                                                                                                   | Undertake reviews as appropriate to determine whether additional FMLs should be subject to supervision or oversight by the Bank                                                                                                                                                                                                                                                                                   | As for 2021/22                                                   |
|                |                                                                                                                                                   | Work with the Australian Government on implementing the reforms to the regulation of FMLs, including crisis management powers over Australian CS facilities. Develop operational plans to execute any powers granted under the regime                                                                                                                                                                             | As for 2021/22                                                   |
|                |                                                                                                                                                   | Contribute to international policy work on FMI resilience and crisis management                                                                                                                                                                                                                                                                                                                                   | As for 2021/22                                                   |
|                |                                                                                                                                                   | Adapt domestic regulatory standards in response to international developments. Support international supervisory cooperation                                                                                                                                                                                                                                                                                      | As for 2021/22                                                   |
|                | Ensure the regulatory framework for payment systems and FMLs is consistent with the Australian Government's principles of regulator best practice | Actively engage with stakeholders and conduct research to understand emerging issues affecting the environment in which regulated entities operate                                                                                                                                                                                                                                                                | As for 2021/22                                                   |
|                |                                                                                                                                                   | Ensure regulatory requirements are streamlined, proportionate to risks and coordinated with other regulators, and build capability in data analysis to efficiently monitor compliance                                                                                                                                                                                                                             | As for 2021/22                                                   |
|                |                                                                                                                                                   | Communicate with regulated entities in a timely, clear and consistent way, including on regulatory priorities                                                                                                                                                                                                                                                                                                     | As for 2021/22                                                   |
|                | Ensure the operational reliability of RITS                                                                                                        | RITS availability at 99.95 per cent during core hours                                                                                                                                                                                                                                                                                                                                                             | As for 2021/22                                                   |
|                |                                                                                                                                                   | RITS FSS availability at 99.995 per cent on a 24/7 basis, with most transactions processed in less than one second                                                                                                                                                                                                                                                                                                | As for 2021/22                                                   |
|                |                                                                                                                                                   | Complete a refresh of FSS infrastructure by mid 2023                                                                                                                                                                                                                                                                                                                                                              |                                                                  |

| Key objectives                                                                        | Key activities                                                                                                          | Performance measures and targets 2021/22                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Performance measures and targets 2022/23–2024/25                                                                                                                        |
|---------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                       | Ensure the cyber security of RITS                                                                                       | Develop enhancements to RITS, and related back office systems, to support ISO 20022 readiness for testing by the first quarter of 2022.<br><br>Ongoing investment and regular reviews and testing to support cyber resilience. In 2021/22, this will include completion of the Bank's role in supporting the testing of RITS as part of the CFR-sponsored pilot 'red team' exercise for financial institutions<br>Complete the implementation of updated RITS member end point security requirements | As for 2021/22                                                                                                                                                          |
| The delivery of efficient and effective banking services to the Australian Government | Ensure central banking services remain fit for purpose                                                                  | Work with key stakeholders to maintain and improve, where possible, the central banking services provided to the Commonwealth of Australia                                                                                                                                                                                                                                                                                                                                                           | As for 2021/22                                                                                                                                                          |
|                                                                                       | Satisfy financial performance benchmarks                                                                                | Minimum return on capital for transactional banking business equivalent to the yield on 10-year Australian Government Securities plus a margin for risk                                                                                                                                                                                                                                                                                                                                              | As for 2021/22                                                                                                                                                          |
|                                                                                       | Progress on activities to deliver convenient, secure, reliable and cost-effective banking services to customers         | Provision of high-quality, cost-effective banking services to government and other official agency customers and, in turn, the public, supported by: <ul style="list-style-type: none"> <li>continued development of banking services and systems, including NPP capabilities</li> <li>support agency customers as they migrate payments from legacy payment systems to new systems</li> </ul>                                                                                                       | As for 2021/22, supported by: <ul style="list-style-type: none"> <li>ongoing development of new NPP services</li> <li>continued support for agency customers</li> </ul> |
| The provision of secure and reliable banknotes                                        | Ensure Australian banknotes 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                                                                                                                                                                                                                                                                                                                                                                                               | As for 2021/22                                                                                                                                                          |
|                                                                                       | <ul style="list-style-type: none"> <li>meet banknote demand</li> </ul>                                                  | More than 95 per cent of banknote orders from commercial banks fulfilled by the Bank within three days of request                                                                                                                                                                                                                                                                                                                                                                                    | As for 2021/22                                                                                                                                                          |
|                                                                                       | <ul style="list-style-type: none"> <li>ensure Australian banknotes remain secure, durable and cost effective</li> </ul> | Monitor actual and emerging counterfeiting trends<br>Evaluate and develop security features that could be deployed on Australian banknotes to combat counterfeiting threats, extend circulation life and/or reduce production costs                                                                                                                                                                                                                                                                  | As for 2021/22                                                                                                                                                          |
|                                                                                       | <ul style="list-style-type: none"> <li>Ensure high-quality banknotes</li> </ul>                                         | Banknote production orders by the Bank to be met by NPA within agreed quality parameters<br><br>Maintain quality of banknotes in circulation above the minimum quality standard agreed with industry                                                                                                                                                                                                                                                                                                 | As for 2021/22<br><br>As for 2021/22                                                                                                                                    |

## Price stability and full employment

The Reserve Bank will seek to ensure that monetary policy is set appropriately to produce consumer price inflation outcomes in Australia that are consistent with the inflation target and to foster sustainable economic growth. The flexible medium-term inflation target is the centrepiece of the monetary policy framework in Australia. Since the early 1990s, it has provided the foundation for the Bank to achieve its monetary policy objectives by providing an anchor for inflation expectations. A strategic focus area for the Bank over the period of this corporate plan will be to continue to support the economy to recover and transition to sustainable economic growth in the wake of the COVID-19 pandemic (see Section 5).

Assessing the conduct of monetary policy involves judging whether the policy decisions taken were consistent with the objectives of monetary policy, based on the information available at the time. Inflation outcomes for the period 2021/22 to 2024/25 will be measured by annual percentage changes in the consumer price index as published by the Australian Bureau of Statistics. Some variation in inflation from year to year is acceptable and expected; the inflation target does not require that inflation is always between 2 and 3 per cent. It is less straightforward to assess the extent to which the Bank succeeds in fostering sustainable growth in the economy, partly because the levels of output and unemployment that are consistent with stable inflation and maintaining financial stability risks at manageable levels cannot be directly observed and must be inferred from other data. Over the short term, monetary policy can affect cyclical deviations of output and unemployment from their equilibrium levels; however, over the long term, the Bank's contribution to sustainable growth comes mainly through achieving the inflation target and preserving financial stability.

As part of its responsibility for monetary policy, the Reserve Bank Board sets the cash rate target. The cash rate is the rate at which commercial banks borrow from and lend to each other on an overnight, unsecured basis.<sup>[1]</sup> It is determined by the demand for and supply of Exchange Settlement (ES) balances that commercial banks hold at the Bank. The Bank operates a corridor system around the cash rate target. Under this system, the balances that banks hold with the Bank overnight in ES Accounts earn an interest rate set at a margin below the cash rate target (the floor of the corridor). At the top of the corridor, if a bank needs to borrow from the Reserve Bank overnight, it is charged an interest rate set at a margin above the cash rate target. The policy measures announced by the Bank since March 2020 have contributed to a large increase in the volume of ES balances. As expected, this caused the cash rate to drift below the cash rate target, but remain above the floor of the corridor. This is consistent with the aim of the Bank's policy package of ensuring that funding costs in the Australian economy are very low.

The Board also has retained the target for the April 2024 Australian Government bond yield. The Bank's achievement of this target can be assessed by measuring the closing mid-market yield on this bond. At the Board's direction, the Bank also operates a bond purchase program, involving the purchase of longer-dated Australian Government Securities and securities issued by the state and territory borrowing authorities. This program aims to contribute to downward pressure on government bond yields and in doing so to lower risk-free yields across the yield curve, thereby lowering funding costs for all borrowers. In turn, this has contributed to a lower exchange rate than otherwise, freed up cash flows for households and businesses, and strengthened balance sheets by supporting asset values. The bond purchases have also led to portfolio rebalancing by investors and this too has supported the prices of other assets. The Bank will continue to execute this program within the parameters agreed upon by the Board.

Government bond purchases in secondary markets will be conducted, if required, to achieve the April 2024 bond yield target, to execute the bond purchase program and to support the functioning of these important financial markets. Measures of market functioning that can be used to assess how well this objective has been achieved include relatively low bid-offer spreads and volatility in yields, consistent with historical norms.

Under the Term Funding Facility (TFF) established by the Board, the Bank provides fixed-rate three-year funding to banks on the terms set out on the Bank's website.<sup>[2]</sup> While the TFF closed to new drawdowns at the end of June 2021, TFF funding extends to mid 2024, although authorised deposit-taking institutions have the option to repay funding at an earlier date. Total amounts of funding allocations and drawdowns are reported on the Bank's website, including institution level data for the 10 largest users.<sup>[3]</sup>

The Bank also provides liquidity in open market operations to support the operation of the payments system and consistent with the Board's objective to keep funding costs low. This can be measured by yields on repurchase agreements conducted in the Bank's open market operations remaining at low levels consistent with the targets for the cash rate and April 2024 Australian Government bond yield.

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

The Bank communicates its views and decisions regarding any foreign exchange intervention at the appropriate time in various written publications and speeches. When the Bank's Annual Report is published each year, intervention data for the year under review are also published on the Bank's website.<sup>[4]</sup> This facilitates the Bank's accountability for its performance in relation to any foreign exchange market intervention over the period of this corporate plan.

The Bank will also assess developments that may have a bearing on the design or implementation of the framework for monetary policy. As part of these activities, the Bank will continue to monitor developments in Australia's economic and financial environment where relevant to the design or implementation of monetary policy, and undertake and monitor relevant research and evaluate overseas experience. This will include engaging with public institutions, the academic community and other stakeholders, both domestically and internationally. The Bank will also engage in activities that support and enhance the transparency and accountability of its monetary policy activities, including through parliamentary testimonies, speeches and other public statements, and a range of publications and forms of community engagement.

## The stability of the financial system

The Reserve Bank will continue to use its powers, influence and public communication to fulfil its mandate to maintain financial stability. This involves identifying, assessing and addressing domestic sources of systemic risk, enhancing the resilience of the financial system to future shocks, and working with overseas bodies to address cross-border risks. The Bank's powers in relation to the payments system and FMLs have a bearing on financial stability outcomes. During stress in a financial market or institution, the Bank's facilities to provide liquidity would continue to be available as appropriate.

In the near term, the Bank will continue to assess the ongoing effects of the COVID-19 pandemic. The Bank and the other CFR agencies will coordinate closely on how best to support the economic recovery and to maintain a healthy financial system. A concern is that, if the recovery is incomplete for large parts of the economy, there could be stress in the financial system (such as a pullback in credit) or household stress. At the same time, there is a risk of weakening lending standards or excessive credit growth relative to incomes, in an environment of low interest rates, historically high household debt and strong activity in housing markets. The Bank will be particularly alert to these risks, and, along with the other CFR agencies, implement policy measures to ameliorate them as necessary. From a preventative perspective, the Bank will continue its analysis of the financial health of banks and other financial institutions, households and businesses to identify pockets of vulnerability and possible remedies, to ensure the sectors and the financial system more broadly are resilient to future shocks. This analysis

will be guided by ongoing refinements of the Bank's stress-testing framework, and improvements in the datasets used by the Bank.

The Bank's position as the ultimate provider of liquidity to the system gives it a key role in financial crisis management, in conjunction with the other CFR agencies. The Bank has an ongoing work program under the auspices of the CFR agencies to continually refine processes for managing distressed financial institutions and FMI, in order to provide an effective and coordinated response.

The Bank will also work on financial stability issues on a cross-border basis. The most intensive efforts will be with New Zealand, since Australian-owned banks account for a large share of assets of the New Zealand banking system. In this context, the Bank will continue to engage with New Zealand agencies on financial system issues as part of the Trans-Tasman Council on Banking Supervision (TTBC), which consists of the CFR agencies and their New Zealand counterparts. Future work of the TTBC will include: finalising work on outstanding technical issues relevant to crisis preparedness and resilience; implementing recommendations to enhance crisis communication arrangements from a trans-Tasman crisis simulation; additional information sharing and monitoring, including around the pandemic response and recovery; and strategies to promote cyber resilience.

More broadly, the Bank will continue to engage with international bodies on financial stability issues. Assessing the continuing effects of the pandemic on financial systems and markets is part of broader assessments of emerging risks and vulnerabilities that are conducted on an ongoing basis by several international bodies. With the improved health and economic outcomes in many countries, the international agenda also includes examining medium- and longer-term lessons from the pandemic for financial stability.

The key international groups from a financial stability perspective are the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS), the Committee on Payments and Market Infrastructures, the Bank for International Settlements and the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP). The Bank is a member of these and other bodies, and its engagement with them will ensure Bank staff stay abreast of the latest international developments, country experiences and best practices with respect to supporting the economy and financial system.

Addressing climate-related financial risks will be a prominent area of work across several bodies in the period ahead. The Bank is a member of the Network for Greening the Financial System (NGFS) and will continue to participate in NGFS workstreams on a range of topics, including the development of climate scenarios and the evolution of 'green' financial markets. The Bank will also be involved in the work on the financial risks of climate change through the FSB, G20, BCBS and EMEAP. Domestically, the Bank participates in the CFR Working Group on Climate Change Risk, which is currently chaired by the Deputy Governor. To support one of the main initiatives of this Working Group, Bank staff will continue working with APRA on the Climate Vulnerability Assessment (CVA) of financial risks from climate change that are faced by Australian banks. This includes two senior staff serving on the CVA steering committee.

The Bank will continue to improve its analytical approach, including by staying informed of the latest academic and financial market research into financial stability issues. Two overseas sources are important in this respect. First, international experiences with financial stability policies and frameworks, and research in this area, will continue to inform the Bank's own analysis. Second, recommendations from periodic international reviews of Australia's financial regulatory framework (by bodies such as the FSB and the International Monetary Fund) will also be important for the Bank in refining its approach to assessing financial stability risks.

The Bank's performance in promoting overall financial system stability will continue to be best assessed by the stability of the Australian financial system itself. The Bank will continue to publish its assessments of financial stability in the half-yearly *Financial Stability Review* and provide other ongoing communication on financial stability matters, such as via speeches. This communication informs the community about risks they should

consider when investing and borrowing. It also forms the basis of the Bank's accountability for the performance of its financial stability responsibilities.

## A secure, stable and efficient payments system

The Reserve Bank will continue its work on its mandate under the *Payment Systems (Regulation) Act 1998* to promote competition and efficiency and to control risk. The Bank will also continue its work on its mandate under the *Corporations Act 2001* to perform assessments of licensed clearing and settlement (CS) facilities against relevant standards, and set regulatory priorities as appropriate.

The Payments System Board meets quarterly to determine payments system policy in accordance with its statutory responsibilities. The Board's focus over the period of this corporate plan will be on a number of strategic priorities, including to:

- support the shift towards digital payments
- research central bank digital currencies and other innovations in payment systems and FMs
- identify and resolve any competition and efficiency issues associated with new technologies and players in the payments system
- promote the safety and resilience of FMs and payment systems
- work with the Government to implement reforms to the regulation of FMs, including crisis management powers over Australian CS facilities.

Consistent with the Bank's longstanding approach, the focus will be on working with industry participants to achieve outcomes that are in the public interest, with regulatory activity contemplated only when an appropriate industry response is not forthcoming. The Bank will implement the regulatory framework for payment systems and FMs consistent with the Australian Government's Regulator Performance Guide. In particular, the Bank will actively engage with stakeholders and conduct research to understand emerging issues affecting the environment in which regulated entities operate. The Bank will ensure regulatory requirements are streamlined, proportionate to risks and coordinated with other regulators, and build capability in data analysis to efficiently monitor compliance. The Bank will also communicate with regulated entities in a timely, clear and consistent way, including on its regulatory priorities.

The Bank will continue working on the comprehensive Review of Retail Payments Regulation, which commenced in 2019/20; the Review is expected to be completed in 2021 after being put on hold in March 2020 on account of the COVID-19 pandemic. The Review will focus on outcomes for consumers and businesses, and will pay particular attention to any issues of competition, efficiency or risk identified in liaison with stakeholders.

The Bank will continue to execute its responsibilities as overseer of high-value payment systems and supervisor of Australian-licensed CS facilities. As part of this, the Bank will continue to conduct and publish assessments of the RITS and licensed CS facilities. The frequency, scope and level of detail of a compliance assessment will be proportional to the systemic importance of a CS facility to the Australian financial system. The Bank will monitor whether additional FMs should be subject to its supervision or oversight. The Bank will also support international supervisory cooperation, including implementation and monitoring of international standards, and participating in cooperative cross-country oversight arrangements for individual operators where appropriate.

Reflecting the critical importance of RITS to the Australian financial system, the Bank will continue to invest in the infrastructure supporting the smooth operation of RITS and the FSS. In particular, given the increased adoption of, and demand for real-time 24/7 payment capabilities, the Bank has begun work on a major upgrade of FSS components ensuring a modern system that is able to meet future needs. The Bank also plans to use this opportunity to further enhance system resilience, improve automated patching and maintenance activities, and more generally to simplify the architecture of the FSS. The Bank will continue to monitor the operation of the FSS,

which facilitates 24/7 real-time settlement of NPP payments exchanged by households, businesses and government agencies.

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

In its role as the owner of RITS, the Bank has continued working with the industry on the migration of payments messaging used by Australia's payments systems to ISO 20022. The Bank is also engaged with overseas clients and correspondent banks in ensuring both internal and external back office systems will be able to make cross-border and correspondent banking payments using the new ISO 20022 format from November 2022, in line with agreed international deadlines.

The Bank ensures that RITS is appropriately protected from cyber attack, taking into account emerging threats and international standards. Security controls are aligned to the Australian Government Information Security Manual and the International Organization for Standardization's information security management standards (ISO 27001); the Bank's payments settlements systems have received certification for ISO 27001. Regular reviews will be undertaken to ensure that appropriate security controls are maintained and are appropriately tested. In particular, RITS will be included in a CFR pilot 'red team' exercise during 2021/22, which aims to test and demonstrate the collective cyber maturity and resilience of Australia's financial systems. Following a review of the cyber-related risks that might arise in relation to the way external institutions and operators interface with RITS, the Bank will be implementing changes to security requirements over the coming period.

The Bank cooperates with other financial regulators on payments issues. In 2021/22, the Bank and the ACCC will commence a second public consultation on NPP access and functionality, which will review developments since the first report was completed in 2018/19. The Bank will work with the Australian Government on implementing the government's reforms to the regulation of FMIs, including stronger supervisory powers and a crisis management regime for Australian CS facilities. This will involve developing operational plans to use powers granted under the regime. The Bank will also continue to contribute to international policy work on central counterparty resilience and FMI crisis management.

The Bank also cooperates with payments industry bodies. It has frequent engagement with the Australian Payments Network, the self-regulatory and coordinating body for the payments industry. In addition, the Bank cooperates with the Australian Payments Council (APC), the strategic coordination body for the payments industry. To promote greater resilience of electronic payments, the Bank will continue its work with the industry and APRA to develop a standard set of operational performance statistics for retail payments to be disclosed by individual institutions. Over the next several years, the Bank will also be participating in an industry project to update messaging standards used in the Australian payments system, including for RITS.

## **The delivery of efficient and effective banking services to the Australian Government**

The Reserve Bank will continue to work with government agencies and other key stakeholders to maintain and improve the central banking services it provides. This includes liaising with the Department of Finance to discuss ongoing changes in the banking and payments landscape to identify opportunities to further modernise cash management arrangements.

In addition, the Bank will continue to develop its services and systems to ensure its customers have access to the products and services they need, while at the same time meeting the objectives of security, reliability and cost-effectiveness. This includes working with the industry to develop additional NPP services and continuing to provide agency customers with advice and support as they adopt new payment capabilities. Overall, this work will ensure that the Bank continues to meet the needs of its government and other official agency customers and, in turn, the public.

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

## The provision of secure and reliable banknotes

The Reserve Bank aims to meet the public's demand for banknotes in a timely way, by ensuring it has a sufficient supply of banknotes it can readily distribute to the private sector. NPA supports the Reserve Bank by printing new banknotes as it requires, including to replace the outgoing banknote series. That said, with less capacity needed to meet ongoing production demands for the new series of Australian banknotes, NPA's corporate strategy also involves undertaking more export work (banknote and passport projects that are within risk appetite) to sustain the viability of the print works and keep the cost of Australian banknotes at reasonable levels. The National Banknote Site (NBS), located in Craigieburn, Victoria, is the distribution site for banknotes and was designed to be able to meet Australia's estimated needs for the distribution, processing and storage of banknotes for decades to come. The Bank also has contingency distribution arrangements in place, should any event prevent it from meeting banknote demand from the NBS.

The Bank aims to ensure that public confidence in banknotes remains high and that threats from counterfeiting are minimised. Over the past decade, the Bank's key initiative to enhance banknote security has been its Next Generation Banknote program, which involved the issuance of a new series of banknotes with upgraded security features. While the program has now come to an end, wide acceptance and distribution of these new banknotes over subsequent years will be an important focus to support this objective, along with the Bank's monitoring of counterfeiting trends in Australia and overseas.

The Bank has a banknote research and development 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 are 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.

Maintaining suitably high-quality banknotes in circulation also supports public confidence in banknotes, as high-quality banknotes are more readily handled by machines and make it more difficult for counterfeits to be passed. For new banknotes, the Bank achieves this by working closely with NPA to ensure that the Australian banknotes produced meet the Bank's specifications and quality standards. For banknotes in circulation, the Bank has arrangements that encourage the commercial banks and the cash-in-transit companies to sort the banknotes they handle to agreed quality standards and return to the Bank those that are deemed unfit for recirculation. The Bank will continue to collect information on the quality of banknotes in circulation to ensure that a quality standard in excess of the minimum standard is maintained.

The Bank also takes steps to ensure public recognition of the new banknote series is high. In particular, the Bank has an ongoing public awareness campaign providing information about the new banknotes and has extensive discussions with business stakeholders, such as banks, retailers and relevant machine manufacturers.

Public confidence in Australian banknotes is measured directly by a Reserve Bank survey on perceptions of Australian banknotes conducted every two years, with the most recent survey conducted in October 2020. This survey asks questions about the public's attitude to, and awareness of, banknotes, including the level of concern about counterfeiting.

## 7. Risk oversight and management

The Reserve Bank's approach to managing its key strategic, financial, people and operational risks is described in its *Risk Appetite Statement*. All heads of department are responsible for the identification of risks and implementation of controls consistent with this Statement. The Statement is reviewed biennially, or whenever there is a significant change to the Bank's operating environment, and is published on the Bank's website.<sup>[5]</sup>

A substantive review of both the *Risk Management Policy* and *Risk Appetite Statement* is currently under way and will continue during 2021/22. The aim of this work is to improve risk-based decision-making, with a view, in turn, to achieve better strategic outcomes. An internal change management and communication program will seek to ensure that the updated *Risk Appetite Statement* is embedded into work practices. In conjunction with this, opportunities will be sought to strengthen the value of the Bank's 'line 2' risk functions by providing greater clarity around the division between those responsible and accountable for owning and managing risk (line 1) versus those responsible for supporting and challenging risk management (line 2).

### Key risks and risk appetite

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

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

The Bank faces significant financial risks, largely because it manages Australia's foreign reserves and holds domestic financial assets in the pursuit of monetary policy objectives, including outright holdings of Australian Government securities. It accepts that the balance sheet risks are large and manages these risks carefully, but not at the expense of its policy responsibilities. The Bank has a very low appetite for credit risk and manages exposures accordingly.

The Bank manages a range of enterprise risks where particular attention is required. These risks – including cyber security, business resilience and resourcing – are considered to have the greatest potential to adversely affect the Bank's ability to discharge its responsibilities effectively. They inform decision-making at the executive level, promote a risk dialogue among management, and enable effective risk oversight through assignment of risk and control ownership and monitoring of actions around those risks and controls.

The Bank works to mitigate the key risks it faces to levels that are consistent with meeting its policy and operational objectives. Key risks are regularly reported to the Risk Management Committee, which is chaired by the Deputy Governor and reviews actions, controls and mitigation strategies for these risks.

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

## Risk management framework

The Reserve Bank's risk management framework establishes a process to manage risk across the Bank.<sup>[6]</sup> Managers have a responsibility to evaluate their risk environment, put in place appropriate controls, assign ownership of risks and controls, and monitor the effectiveness of controls. The risk management culture emphasises careful analysis and management of risk in all business processes.

Risks are identified, assessed and managed at a business level. The Risk Management Committee has oversight of these processes. The Committee meets at least six times a year and provides reports on its activities to the Executive Committee (chaired by the Governor) and the Reserve Bank Board Audit Committee.

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

The Bank seeks to ensure that it holds sufficient capital and reserves to manage the risks to its balance sheet that may be faced over time. In particular, the balance in the Reserve Bank Reserve Fund is consistent with the target balance set by the Reserve Bank Board. The target balance is based on an assessment of the financial loss that could be realised on the various assets that the Bank holds in pursuit of its policy objectives.

## Endnotes

- [1] See RBA, 'Cash Rate Methodology'. Available at <<https://www.rba.gov.au/mkt-operations/resources/cash-rate-methodology/overview.html>>.
- [2] See RBA, 'Term Funding Facility to Support the Australian Economy'. Available at <<https://www.rba.gov.au/mkt-operations/term-funding-facility/overview.html>>.
- [3] See RBA, 'Statistical Tables', Statistical Table A3, available at <<https://www.rba.gov.au/statistics/tables/>> and RBA (2021), 'Box C: Use of the Reserve Bank's Term Funding Facility', *Statement on Monetary Policy*, August, pp 57–60.
- [4] See RBA, 'Statistical Tables', Statistical Table A5. Available at <<https://www.rba.gov.au/statistics/tables/>>.
- [5] See RBA (2018), *Risk Appetite Statement*, September. Available at <<https://www.rba.gov.au/about-rba/our-policies/risk-appetite-statement.html>>.
- [6] See RBA (2019), *Risk Management Policy*, December. This policy seeks to ensure the implementation of an effective risk management framework that is consistent with the Bank achieving its policy and operational objectives. In doing so, it follows accepted standards and guidelines for managing risk, particularly those used by public and financial institutions. Available at <<https://www.rba.gov.au/about-rba/our-policies/risk-management-policy.html>>.