

## CODE OF GOOD PRACTICES ON TRANSPARENCY IN MONETARY AND FINANCIAL POLICIES — DECLARATION OF PRINCIPLES

Australia's record of monetary and financial policy transparency is assessed against the International Monetary Fund's (IMF) working draft *Code of Good Practices on Transparency in Monetary and Financial Policies — Declaration of Principles*. The principles outlined in the draft Code provide a comprehensive 'benchmark' for assessing the degree of transparency associated with the institutional and operational frameworks of monetary and financial policies.

The IMF Code has two parts: compliance with good transparency practices for monetary policies by central banks (sections one to four); and compliance with good transparency practices for financial policies by financial agencies (sections five to eight). Each of these parts has similar components:

- clarity of roles, responsibilities and objectives of central banks and financial agencies responsible for financial policies;
- the process for formulating and reporting monetary policy decisions/financial policies;
- public availability of information on monetary policy/financial policies; and
- accountability and assurances of integrity by the central bank/financial agencies.

# Good transparency practices for monetary policies by central banks

## I Clarity of roles, responsibilities and objectives of central banks for monetary policy

**1.1 The objective(s) and institutional framework of monetary policy should be clearly defined in relevant legislation or regulations including, where appropriate, a central bank law.**

The broad objectives and institutional framework of monetary policy are specified in the *Reserve Bank Act 1959* (hereafter referred to as the Reserve Bank Act).

**1.1.1 The objective(s) of monetary policy should be publicly disclosed and explained.**

The objectives of monetary policy are specified in section 10 of the Reserve Bank Act. The objectives are:

- (a) the stability of the currency;
- (b) the maintenance of full employment; and
- (c) the economic prosperity and welfare of the people of Australia.

These objectives are further clarified in the *Statement on the Conduct of Monetary Policy*, which is an agreement between the Treasurer and the Governor of the Reserve Bank published in August 1996. In particular, this Statement reaffirms the respective roles and responsibilities of the Government and the Reserve Bank. The Governor reaffirmed the Bank's commitment to, and the Government formally endorsed, the target of keeping inflation between 2 and 3 per cent, on average, over the cycle.

The Reserve Bank Act itself provides for the Reserve Bank's independence in the conduct of monetary policy, and the Statement expresses the Government's recognition of this.

The objectives of monetary policy are also explained in public speeches by the Governor and other senior bank officers. These speeches are published in the monthly Reserve Bank *Bulletin* and are available on the Bank's website.

**1.1.2 The role and responsibilities of the central bank should be specified in legislation.**

The roles and responsibilities of the Reserve Bank are specified in Part II (which deals with the constitution, general powers, policy and management), Part IV (which gives the Reserve Bank powers to act as a central bank), and Part V (note issue) of the Reserve Bank Act.

**1.1.3 The legislation establishing the central bank should specify that the central bank has the authority to utilise monetary policy instruments to attain the policy objective(s).**

The authority of the Reserve Bank to use monetary policy instruments to attain the policy objectives is specified in section 8 of the Reserve Bank Act. This section provides for the Reserve Bank to undertake a wide range of transactions, and other actions, to achieve the objectives of the Reserve Bank Act.

**1.1.4 Institutional responsibility for foreign exchange policy should be publicly disclosed. If the central bank shares responsibility with the government in foreign exchange policy, the allocation of responsibility between the government and the central bank should be publicly disclosed.**

In Australia the Government determines the exchange rate regime. Since 1983, Australia has had a floating exchange rate regime.

Section 8 of the Reserve Bank Act gives the Reserve Bank power to deal in foreign exchange. The Reserve Bank holds Australia's foreign reserves and conducts any foreign exchange intervention. Information on these issues is published on the Reserve Bank's website. The Bank operates in the foreign exchange market, based on its assessment of market conditions, to occasionally influence the exchange rate. Since Australia has a flexible exchange rate regime, the Reserve Bank does not have an exchange rate target. It undertakes foreign exchange market operations in circumstances in which the exchange rate has clearly 'overshot' a level consistent with underlying economic conditions ('the fundamentals') or when the market threatens to

become excessively volatile. These operations are invariably aimed at reducing the potential for further over-shooting or at stabilising market conditions. Discussion of these operations appears in the *Semi-Annual Statement on Monetary Policy* and in the Reserve Bank's annual report. The Reserve Bank's foreign exchange transactions are published monthly (see section 3.2.4).

**1.1.5 The modalities of accountability for the conduct of monetary policy and for any other responsibilities assigned to the central bank should be specified in legislation.**

Some 'modalities of accountability' are specified in the *Commonwealth Authorities and Companies Act 1997* (hereafter referred to as the CAC Act) which provides the core reporting and auditing requirements for the Reserve Bank. These and associated orders by the Finance Minister (the Minister responsible for the CAC Act) require the Reserve Bank to comply with accounting standards applicable to financial institutions, including relevant disclosure standards. These accounts are independently audited by the Australian National Audit Office.

The Reserve Bank Act requires that unrealised profits on the Bank's assets should be credited to a reserve, implying that they are not available for distribution as profit.

The Bank publishes an annual report, including financial statements, on this basis each year. The CAC Act requires that this is completed and passed to the Treasurer within a set time period, and that the Treasurer table it in Parliament as soon as practicable.

Other disclosure practices have evolved over time. For a number of years, the Reserve Bank has published regular reports on the state of the economy, in addition to its annual report. Since 1997, the Governor, Deputy Governor and other senior Reserve Bank officers have appeared before a parliamentary committee at six-monthly intervals, to report on the conduct of monetary policy. At that time, a supporting document, the *Semi-Annual Statement on the Conduct of Monetary Policy*, is released.

**1.1.6 If the government has the authority in exceptional circumstances to override central bank policy decisions, the conditions under which this may be done, as well as specific decisions to invoke this authority, should be specified in legislation.**

The circumstances and procedures to be followed should the Government wish to override a policy decision of the Reserve Bank are specified in section 11 of the Reserve Bank Act.

If the Government disagrees with policy, as informed by the Reserve Bank, the legislation requires the Treasurer and the Bank in the first instance to endeavour to reach agreement. In the event that this is not possible, the procedures, in effect, allow the Government to determine policy, but these procedures are politically demanding. They require disclosure of the precise terms of the difference of view in separate statements prepared by the Government and the central bank. The Government and the Reserve Bank recognised, in the *Statement on the Conduct of Monetary Policy*, that the nature of this process reinforces the Reserve Bank's independence.

**1.1.7 The procedures for appointment, term of office, and criteria for removal of the members of the governing body of the central bank should be specified in legislation.**

The procedures for appointment and the term of office, and the criteria for removal from the Reserve Bank Board, including the Governor and Deputy Governor, are specified in Part III of the Reserve Bank Act. The Board comprises the Governor (chairperson and chief executive), the Deputy Governor (deputy chairperson), the Secretary to the Treasury, and six other ('private') members (usually drawn from the business community and academia), at least five of whom shall be persons who are not officers of the Reserve Bank or the public service. (In practice, there has never been an additional appointment from the Bank or public service.) The Governor and Deputy Governor are appointed for terms of up to seven years. 'Private' members are appointed for terms of up to five years. The Governors and 'private' Board members are appointed by the Governor-General of Australia, on advice of the Government. Individuals who are office bearers or employees of a banking institution are not eligible to be appointed to the Reserve Bank Board. All Board members hold office subject to good behaviour.

**1.2 The institutional relationship between monetary and fiscal operations should be clearly defined.**

**1.2.1 If credits, advances, or overdrafts to the government by the central bank are permitted, the conditions when they are permitted, and any limits thereof, should be publicly disclosed.**

As a matter of principle, the Commonwealth Government funds its financing needs at market interest rates via tenders of government securities. The Commonwealth Treasury and the Reserve Bank have agreed, by an exchange of letters in 1985, that the Reserve Bank will make available an overdraft facility to the Commonwealth Government, to meet unexpected and temporary shortfalls in cash, at a commercial interest rate (a rate significantly higher than that at which the Government would expect to raise cash in the market). The agreement requires that the overdraft must be extinguished within the following week, by the issue of securities to the market, if necessary. These arrangements were explained in detail in ‘The Separation of Debt Management and Monetary Policy’, Reserve Bank *Bulletin*, November 1993.

**1.2.2 The amounts and terms of credits, advances or overdrafts to the Government by the central bank and those of deposits of the Government with the central bank should be publicly disclosed.**

The amount of overdrafts to the Commonwealth Government by the Reserve Bank, which are rare, is not explicitly published. The extent of overdrawn by the Commonwealth is almost always zero. In recent years, overdrafts have been relatively small and have not lasted for more than two working days. The amount of deposits of the Government with the Reserve Bank is published weekly as part of the media release on the Bank's balance sheet. The terms of cash deposits are market-related (as set out in the *Bulletin* article of November 1993 cited above). Terms of fixed deposits, an innovation of recent months, have not been disclosed. The appropriate vehicle for doing so would be the forthcoming annual report; the Reserve Bank would intend to do so at that time.

**1.2.3 The rules and procedures for direct central bank participation in the primary markets for government securities, where permitted, and in the secondary markets, should be publicly disclosed.**

Rules and procedures for direct Reserve Bank participation in the primary markets for government securities, and the amount taken up in such markets, are publicly disclosed in prospectuses for Treasury Note tenders and Treasury Bond tenders. The amount of the proposed Reserve Bank take-up at any (individual) tender is declared at the time of the tender announcement.

The Reserve Bank's operations on behalf of the Commonwealth in secondary markets are also publicly disclosed, in the Bank's annual report.

The Treasurer issues the prospectuses for all Commonwealth Government securities.

The Treasury, in its annual publication *Commonwealth Debt Management*, reports on the Commonwealth's debt management operations, including those undertaken by the Reserve Bank on its behalf.

Each month, the Treasury provides details of the Loan Consolidation and Investment Reserve's holding of Commonwealth Government securities on its Reuters pages.

Each month, Treasury provides the IMF with details of the end-month stock of outstanding net Commonwealth Government securities.

**1.2.4 Central bank involvement in the rest of the economy (e.g. through equity ownership, membership on governing boards, procurement, or provision of services for a fee) should be conducted in an open and public manner on the basis of clear principles and procedures.**

The Reserve Bank wholly owns Note Printing Australia (NPA); it also owns 50 per cent of Securrency, a company which produces polymer substrate for production of currency notes. The Reserve Bank disclosed these relationships in its annual report. Both of these companies comply with disclosure requirements of the Corporations Law.

External governing boards on which the Reserve Bank is represented are either legislatively mandated, for example the Board of the Australian Prudential Regulation Authority (APRA), or are banking industry associations (such as the Board of the Australian Payments Clearing Association (APCA)). APRA publishes its own annual report. In respect of APCA, see section 5.2.

The Reserve Bank, as a matter of course, issues tenders for the supply of a range of outsourced services, for example catering, cleaning, cash distribution, and cheque processing. These tenders are conducted on a competitive basis. Business is re-tendered every few years. In respect of other procurements, the Reserve Bank follows a set of guidelines based on those used by the Australian Government.

For the provision of services, the Reserve Bank complies with these aspects of transparency by complying with the Government's policies on competitive neutrality. In this regard, Commonwealth agency transaction banking will be subject to private sector competition from 1 July 1999. The Reserve Bank's other services are accounted for in its annual report.

These services, such as government banking, registry services, settlement services (and note issue), are seen as discrete businesses which seek to recover full costs, and earn a return on notional capital through fees and charges. Revenues, costs and net earnings are separately reported for each of these activities in the annual report.

#### **1.2.5 The manner in which central bank profits are allocated, how capital is maintained, and whether losses are defrayed by the budget should be publicly disclosed.**

The principles by which Reserve Bank profits are allocated, and capital is maintained, are set out in sections 28-30 of the Reserve Bank Act. The Reserve Bank provides a Balance Sheet and a Statement of Profit and Loss, accompanied by detailed notes as well as a discussion of profit allocation in its annual report.

The Government records revenue received from the Reserve Bank in its Budget papers in the year subsequent to that in which these profits are earned.



**1.3 Agency roles performed by the central bank on behalf of the government should be clearly defined.**

**1.3.1 Responsibilities, if any, of the central bank in (i) the management of domestic and external public debt and foreign exchange reserves, (ii) as banker, advisor on economic and financial policies, and (iii) as fiscal agent of the government should be publicly disclosed.**

The principle of separation of public debt management from monetary policy has been publicly explained in the Reserve Bank *Bulletin* article of November 1993 (cited above).

The Reserve Bank is responsible for the management of foreign exchange reserves and reports on its operations and results in its annual report. The Bank's role as banker and fiscal agent for the Government is also reported in the annual report. The information provided on these matters has increased in recent years, with the focus of the annual report now very much on these operational issues, rather than on economic and monetary policy issues, as in the past.

**1.3.2 The allocation of responsibilities among the central bank, the ministry of finance, or a separate public agency, for the primary debt issues, secondary market arrangements, depository facilities, and clearing and settlement arrangements for trade in government securities should be publicly disclosed.**

The allocation of responsibilities among the Reserve Bank and Commonwealth Treasury for the primary debt issue is explained in the November 1993 Reserve Bank *Bulletin* article (cited above). Operations on Treasury's behalf undertaken by the Bank in the secondary bond market are disclosed in annual reports. Given the strict separation of debt management policy from monetary policy, detailed and timely disclosure of such operations is primarily the domain of Treasury.

The rules and regulations for the Reserve Bank Information Transfer System (RITS) — the depository, clearing and settlement system for Commonwealth Government securities — are publicly available in a handbook circulated to RITS members; it is made available more widely on request.

## II Open process for formulating and reporting monetary policy decisions

### **2.1 The analytic framework, instruments, and any targets that are used to pursue the objectives of monetary policy should be described and explained to the public.**

The inflation targeting framework for monetary policy is laid out in the *Statement on the Conduct of Monetary Policy*. The framework has been further explained in public speeches by the Governor and other senior Bank officials, see for example, ‘Australian Monetary Policy in the Last Quarter of the Twentieth Century’, Reserve Bank *Bulletin*, October 1998.

The instrument used is the overnight interest rate which is influenced by the Reserve Bank's market operations. As discussed below, these arrangements have been explained in a number of places and are widely understood.

#### **2.1.1 The procedures and practices governing monetary policy operations should be publicly disclosed and explained.**

The procedures and practices governing monetary policy operations have been publicly explained in annual reports and in numerous articles over the years. The most recent explanations are to be found in the article *Daily Dealing Operations*, Reserve Bank of Australia Report and Financial Statements 1997; and in the article *Reserve Bank Dealing Operations under RTGS*, Reserve Bank of Australia Report and Financial Statements 1998.

#### **2.1.2 The rules and procedures for the central bank's relationships and transactions with counterparties in its monetary operations and in the markets where it operates should be publicly disclosed.**

The rules and procedures of dealing arrangements with counterparties for the Reserve Bank's monetary operations have been publicly disclosed by media release, most recently in: *Changes to RBA's Domestic Market Operations in the Transition Phase to RTGS* (Media Release 96-06) (and accompanying information paper); *Changes to RBA Dealing Arrangements and PAR* (Media Release 97-11); and in annual reports.

Settlement practices relevant for counterparties are contained in RITS' Regulations.

**2.2 Where a monetary policy making body meets to assess underlying economic developments, monitor progress toward achieving its monetary policy objective(s), and formulate policy for the period ahead, information on the composition, structure, and functions of that body should be available to the public.**

The composition, structure and function of the Reserve Bank Board are specified in Parts II and III of the Reserve Bank Act. On composition and structure of the Board, see section 1.1.7 above. The function of the Board, as set out in Part II 10.(1) of the Reserve Bank Act, is to determine the policy of the Bank in relation to any matter (other than payments system policy) and take such action as is necessary to ensure that effect is given by the Bank to the policy so determined. It is the duty of the Board, as set out in Part II 10.(2), to ensure that its policy will best contribute to the objectives discussed at section 1.1.1.

The appointment of new Board members is announced to the public.

**2.2.1 If the policymaking body has regularly scheduled meetings to assess underlying economic developments, monitor progress toward achieving its monetary policy objective(s), and formulate policy for the period ahead, the dates should be publicly disclosed.**

The Reserve Bank Board has for many years met on the first Tuesday of every month (usually with the exception of January). This is well known by the public. The Bank's website notes that the Board usually meets once a month.

**2.3 Changes in the setting of monetary policy instruments (other than fine-tuning measures) should be publicly announced and explained in a timely manner.**

Changes in the setting of the monetary policy instrument have been announced at the time of their implementation since January 1990. The announcement is accompanied by a detailed explanation of the policy change. See, for example, Press Release 9816, 2 December 1998.

**2.3.1 The central bank should publish, with a pre-agreed maximum delay, a summary of the considerations for its monetary policy decisions.**

As stated above, an explanation for policy changes is published at the time of their announcement. However, there is no announcement of a decision to leave rates unchanged, nor is there any intention of doing so in future. Regular quarterly reports contain the Bank's assessment of the economy and discussion of policy actions.

**2.4 The central bank should issue periodic public statements on progress toward achieving its monetary policy objective(s) as well as prospects for achieving them.**

For a number of years, the Reserve Bank has published quarterly reports on its assessment of the state of the Australian economy, that document the progress toward achieving its monetary policy objectives. Since 1997, two of these a year have taken the form of the *Semi-Annual Statement on the Conduct of Monetary Policy*, released to coincide with the Governor's testimony before a parliamentary committee. These publications discuss both the current situation with respect to achieving the monetary policy objectives, and prospects for doing so. In particular, the *Statement on the Conduct of Monetary Policy* requires that *Semi-Annual Statements* include information on the outlook for inflation. Each of these documents is published in the Reserve Bank *Bulletin*, are posted on the Bank's website, and receive widespread public attention.

**2.4.1 The central bank should periodically present its monetary policy strategy to the public, specifying, inter alia, the rationale for its policy strategy, quantitative targets and instruments where applicable, and the key underlying assumptions.**

See section 2.4. In addition, the policy strategy in pursuing the inflation target has been explained in a number of speeches by the Governor.

**2.4.2 The central bank should publish on a specified schedule a report on the evolving macroeconomic situation, outlook, and their implications for the central bank's monetary policy objective(s).**

See section 2.4

**2.5 The public should normally be provided with an appropriate lead time to comment on proposed substantive changes to the structure of monetary regulations.**

It is not normal practice to publicly flag possible 'substantive changes to monetary regulations' ahead of their implementation, although banks are usually consulted about changes which impact on them. This issue does not seem important in practice in Australia because monetary policy is not implemented by regulations.

**2.6 The regulations on data reporting by financial institutions to the central bank for monetary policy purposes should be publicly disclosed.**

Relevant definitions and requirements as to timeliness, etc are published on appropriate reporting forms, which are publicly available.

### III Public availability of information on monetary policy

**3.1 Presentations and releases of central bank data should meet the standards related to coverage, periodicity, timeliness of data and access by the public that are consistent with the International Monetary Fund's data dissemination standards.**

The Bank publishes data in the Reserve Bank *Bulletin*, by press release and on the Bank's website. The data are consistent with the IMF's Special Data Dissemination Standards. With the publication of the January 1999 Financial Aggregates on 1 March 1999, the Bank became fully compliant.

**3.2 The central bank should release its balance sheets on a preannounced schedule and provide the public after a predetermined interval with information on its market transactions.**

**3.2.1 Summary central bank balance sheets should be published on a frequent and preannounced schedule. Detailed central bank balance sheets prepared according to appropriate and publicly documented accounting standards should be published periodically by the central bank.**

The Reserve Bank's balance sheet is published weekly by press release each Friday, with a balance date of the preceding Wednesday. The balance sheet is available as a hard copy and electronically. More detail is available each month in Table A.1 of the Reserve Bank *Bulletin*, where definitions are also contained.

As noted, the Reserve Bank provides a full set of financial statements, including a balance sheet, profit and loss statement, cash flow statement, and associated notes to the accounts, in its annual report, published each September with a balance date of 30 June. These accounts are independently audited and comply with accounting standards applicable to financial institutions in Australia, including standards governing disclosure.

**3.2.2 Information on the central bank's monetary operations, including aggregate amounts and terms of re-finance or other facilities (subject to the maintenance of commercial confidentiality) should be published regularly on a preannounced schedule.**

On domestic operations, the cornerstone of the Reserve Bank's framework is an announced target for the cash rate. The market-determined cash rate is published each day. The market understands that the Reserve Bank operates in the market to stabilise the cash rate at the target (see Box cited above in the *Reserve Bank of Australian Report and Financial Statements 1997*). The accountability of the Bank's operations is visible to the extent that the cash rate target is achieved day-to-day. For this reason, it is unnecessary to provide information about the volume of transactions undertaken each day, although it would be an easy matter to do so.

In addition, the Reserve Bank informs the market each morning about the system liquidity position, and whether the Reserve Bank intends to buy or sell securities.

The Reserve Bank publishes in the *Bulletin* information on its foreign exchange transactions on a pre-determined schedule each month (see below).

**3.2.3 Aggregate information on emergency financial support by the central bank should be reported as soon as it is deemed that such information will not be disruptive to financial stability.**

The Reserve Bank has in the past reported provision of liquidity in unusual circumstances in the annual report. Refer to section 7.2.1.

**3.2.4 Information about foreign exchange market operations by the central bank on behalf of its own account should be disclosed after a predetermined interval following such activities. (Information about foreign exchange market operations by the central bank on behalf of the finance ministry should also be revealed by the finance ministry or, if authorised, by the central bank after a predetermined interval following such activities.)**

As noted, information about the Reserve Bank's foreign exchange operations and forward commitments is published each month in Table H.4, Reserve Bank Foreign Exchange Transactions and Holdings of Official Reserve Assets, of the Reserve Bank *Bulletin*. The Reserve Bank *Bulletin* is published with a lag of two weeks or so after the end of the month to which these data refer. These data comply fully with relevant IMF disclosure standards, including reporting of the outstanding forward position.

Reasons for foreign exchange intervention are explained in the *Semi-Annual Statements on the Conduct of Monetary Policy*, other reports and speeches, and in the annual report.

Table H.4 of the Reserve Bank *Bulletin* identifies separately transactions undertaken for the Commonwealth Government.

Australia also publishes a breakdown of contributions for the change in reserves, distinguishing market transactions from all other Government transactions and valuation changes (monthly with a lag of about 17 days). Australia publishes a benchmark split for the currency breakdown of reserves, 40/30/30 between US dollars, yen and euros.

**3.3 The central bank should establish and maintain public information services.**

**3.3.1 The central bank should have a publications program, including an annual report and reports on the policies that it is pursuing as well as relevant data.**

The Reserve Bank publishes an annual report. In addition, it publishes a monthly Reserve Bank *Bulletin* which includes its quarterly reports on the economy and financial markets, speeches by senior bank officials, articles on issues related to monetary policy, and an extensive range of economic statistics, including on the Bank's own operations. The Reserve Bank also publishes a regular series of research discussion papers and occasional papers on topics of interest. Finally, the Bank publishes weekly a *Schedule of Expected Release Dates*, detailing forthcoming publications and releases over the next three months. This information is also available on the Bank's website. The Reserve Bank maintains a Media Information Office.

**3.3.2 Senior central bank officials should make public appearances to explain their institution's objective(s) and performance and have a presumption in favour of releasing their speeches to the public.**

The Governor and senior Reserve Bank officials make public speeches, many of which are published in the subsequent edition of the Reserve Bank *Bulletin* and are also made available on the Reserve Bank's website. These usually receive widespread media coverage.

**3.4 Texts of regulations issued by the central bank should be readily available to the public.**

Regulations issued by the Reserve Bank are publicly announced at the time of issue, and are published in the Reserve Bank *Bulletin*, and on the website.



## IV Accountability and assurances of integrity by the central bank

Australian government agencies are subject to the CAC Act, which outlines the reporting obligations of agencies and includes provisions covering the conduct of officers. In addition, each agency's enabling legislation can include additional requirements for reporting and the conduct of the board and of agency officers.

The *Auditor-General Act 1997* establishes the Office of Auditor-General and sets out the functions of the Auditor-General. The annual reports of Government agencies, including the Reserve Bank and APRA, are subject to an independent audit by the Auditor-General as stipulated in the CAC Act.

The *Financial Management and Accountability Act 1997* establishes a framework for the proper management of public money which is handled by Departments and other Agencies that act on behalf of the Commonwealth.

In general, all Government agencies are subject to the *Freedom of Information Act 1982* (refer to section 2.2.1 in the *Code of Good Practices on Fiscal Transparency*). This includes APRA, ASIC and the Reserve Bank. The object of this Act is to extend as far as possible the right of the Australian community to access information in the possession of the Commonwealth Government. The Act makes available to the public information about the operations of departments and public authorities and creates a general right of access to information in the possession of departments and public authorities.

- The right of access to information is limited only by exceptions and exemptions necessary for the protection of essential public interests and the private and business affairs of persons in respect of whom information is collected and held by departments and public authorities. The Reserve Bank is exempted by Part II of the Act in so far as documents concerning banking operations (including open market operation and foreign exchange dealings) and exchange control matters are concerned.

**4.1 Officials of the central bank should be available to appear before a designated public authority to report on the conduct of policy, explaining the policy objective(s) of their institution, reporting on their performance in achieving their objective(s), and, as appropriate, exchanging views on the state of the economy and the financial system.**

As mentioned above, the Governor and senior Reserve Bank officials appear before a parliamentary committee every six months to report on the conduct of monetary policy.

**4.2 The central bank should prepare and publish audited financial statements of its operations on a pre-announced schedule.**

Part 3 of the CAC Act requires the Reserve Bank to be audited on an annual basis.

**4.2.1 The financial statements should be audited by an independent outside auditor, and any qualification to the statements should be an integral part of the publicly disclosed financial statements.**

The Reserve Bank's financial statements are independently audited by the Auditor-General, as required under Part 3 of the CAC Act. The accounts were qualified by the Auditor-General in a number of recent years, to the extent of noting that the Reserve Bank's conservative policy on measuring profits departed from accounting standards. This approach took unrealised gains to a reserve rather than distributing such gains to the Government. The Reserve Bank Act has been amended to give legislative validity to the method applied to measure profits available for distribution to the Government. Consequently, the Reserve Bank's accounts were not qualified in the latest year.

Accounting requirements are set out in the CAC Act and in Finance Minister's Orders issued in terms of that Act.

**4.2.2 Information on accounting policies should be publicly disclosed.**

Information on accounting practices is reported in the Reserve Bank annual report.

**4.2.3 Internal governance procedures necessary to ensure the integrity of operations, particularly internal audit arrangements, should be publicly disclosed.**

The Reserve Bank's internal governance procedures are monitored by an internal Audit Committee, the majority of whose members are not officers of the Reserve Bank. The existence and composition of the Audit Committee are publicly disclosed.

**4.3 Information on operating expenses and revenues of the central bank should be made available to the public annually.**

Part 3 of the CAC Act requires the Reserve Bank to publish an *Annual Report* and financial statements each financial year, which provide information on operating expenses and revenue. The CAC Act also provides core reporting and auditing requirements.

**4.4 Standards for the conduct of personal financial affairs of officials and staff of the central bank and rules to prevent exploitation of conflict of interest, including any general fiduciary obligation, should be publicly disclosed.**

Members of the Reserve Bank's Board, including the Governor and Deputy Governor, are required to disclose material personal interests to the Treasurer under the CAC Act (Part 3, Division 4). This Act also sets standards of conduct for Board members and officers of Commonwealth authorities including:

- the general obligations on officers (to act honestly and exercise care and diligence in the discharge of their duties); and
- the improper use of inside information or position. (Officers must not make improper use of inside information or their position to the detriment of the authority or to another person.)

Standards for the conduct of the personal financial affairs of other officials and staff are covered by a Code of Conduct.

**4.4.1 Information about legal protections for officials and staff of the central bank in the conduct of their official duties should be publicly disclosed.**

This information is not provided to the public.

# Good transparency practices for financial policies by financial agencies

## V Clarity of roles, responsibilities and objectives of financial agencies responsible for financial policies

**5.1 The objective(s) and institutional framework of financial policies should be clearly defined in relevant legislation or regulations.**

**5.1.1 The objective(s) of financial policies should be publicly disclosed and explained.**

The objectives of financial policies are specified in relevant legislation.

- The *Australian Prudential Regulation Authority Act 1998* (the APRA Act) explains APRA's functions and objectives.
- Reserve Bank policy objectives and payments system policy objectives are set out in the Reserve Bank Act, the *Payment Systems (Regulation) Act 1998* (the PSR Act) and the *Payment Systems and Netting Act 1998* (the PSN Act).
- The objectives of the Australian Securities and Investments Commission's (ASIC) activities are set out in section 1(2) of the *Australian Securities and Investments Commission Act 1989* (the ASIC Act).

**5.1.2 The roles and responsibilities of the financial agencies should be specified in legislation or regulation.**

The roles and responsibilities of financial agencies are specified in legislation. In the case of APRA, this is set out in Part 2 of the APRA Act, as well as in other complementary legislation such as the *Banking Act 1959*.

For the Reserve Bank responsibilities and powers are set out in the Reserve Bank Act. For the Payments System Board that is within the

Reserve Bank, responsibilities and powers are set out in the Reserve Bank Act, the PSR Act and the PSN Act.

The ASIC Act sets out ASIC's functions and powers.

### **5.1.3 The modalities of accountability for the conduct of financial policies should be specified in legislation or regulation.**

The 'modalities of accountability' are contained in establishing legislation for the agency concerned and in complementary legislation such as the CAC Act.

In addition to the above, some additional disclosure requirements for APRA are contained in Part 7 of the APRA Act.

For the Reserve Bank, the 'modalities of accountability' are discussed in section 1.1.5.

The ASIC Act specifies that ASIC is to produce an annual report, that certain decisions are subject to administrative review, and provides for the establishment of a Parliamentary Joint Committee on Corporations and Securities, which is empowered to enquire into the activities of ASIC.

### **5.1.4 The procedures for appointment, term of office, and criteria for removal of the members of the governing bodies of financial agencies should be publicly disclosed.**

The procedures for appointments etc. are specified in legislation. In the case of APRA, these are set out in Parts 3 & 4 of the APRA Act. For the Reserve Bank, these are specified in Part III of the Reserve Bank Act, and for the Payments System Board these are specified in Part IIIA of the Reserve Bank Act. The ASIC Act outlines the procedures for appointment of Commission members, the term of appointment and the grounds for termination.

## **5.2 The institutional relationship between financial agencies and private self-regulatory bodies should be publicly disclosed.**

The Reserve Bank and ASIC make periodic statements on their relationships with private self-regulatory bodies, but there is no formal reporting requirement.

- For example, ASIC has memoranda of understanding (MOUs) with the Australian Stock Exchange and Sydney Futures Exchange that are publicly available.

At this stage, APRA does not have a relationship with any private self-regulatory body.

### **5.2.1 Guidelines or standards that public oversight agencies issue to private self-regulatory bodies should be publicly disclosed.**

In the case of the Reserve Bank, the PSR Act requires that it publish (in the *Commonwealth Gazette*) any standards or access regimes that it imposes on designated payment systems.

ASIC approves the rules of the exchanges, and liaises closely with them. However, it does not issue guidelines and standards as such, so therefore, these are not publicly disclosed.

### **5.2.2 With regard to payment systems, the legal and regulatory framework and the role of oversight agencies in this regard should be publicly disclosed.**

A description of the legal and regulatory framework for the Australian payments system is on the Reserve Bank website at <http://www.rba.gov.au> and also in last year's annual report. The website also contains a copy of the MOU between the Reserve Bank and Australian Competition and Consumer Commission (ACCC) that sets out their respective roles and responsibilities as well as consultation/cooperation arrangements between them. The relevant Law: the PSR Act, the Reserve Bank Act, the *Trade Practices Act 1974* (TPA), the PSN Act, associated explanatory memoranda and disallowable instruments are available at a variety of places including public libraries, Commonwealth Bookshops and the internet.

### **5.2.3 The agencies overseeing the payments system should ensure that decisions, policy changes, access criteria, system rules and fees by owners or operators of systemically important payment systems are publicly disclosed in a timely manner.**

Payment System operators may seek ACCC authorisation under the TPA. Before making a decision, the ACCC consults widely and publicly to acquire sufficient information to make a determination.

Draft determinations/authorisations are then published and comments sought. The ACCC then determines its final position, which also is published.

The Reserve Bank may designate a payment system and impose an access regime and standards. These powers derive from the PSR Act. The relationship between the powers of the RBA and the ACCC in the payments system is set out in a publicly available MOU. The Act requires that the Reserve Bank consult widely and make publicly available, including in the *Commonwealth Gazette*, its decisions, standards, access criteria and rules.

## VI Open process for formulating and reporting of financial policies

### 6.1 The conduct of policies by the financial agencies should be transparent.

The conduct of policies of financial agencies is regularly published. For example, APRA's prudential statements that govern their supervisory framework are available on the internet. The Reserve Bank is covered in section 2.1, but is required to publicly consult and release relevant information in respect of payments system policy under the PSR Act.

ASIC has a policy consultation process. Proposed policies are published on a website and subject to a consultation process before being finalised. Completed policy is published in the *ASIC Digest* and also in many commercial services.

#### 6.1.1 The financial agencies should publish the requirements for institutions under their jurisdictions to adhere to widely accepted regulatory, accounting and disclosure standards. The agencies should report to the public on adherence to those standards by the institutions under their jurisdictions, consistent with confidentiality requirements.

APRA, as the prudential supervisor, and ASIC, as the agency that provides regulation for the integrity of market conduct, consumer protection and corporations, make the requirements of the institutions under their jurisdictions publicly available. For example, APRA's

prudential policies are generally consistent with widely accepted regulatory, accounting and disclosure standards. The prudential standards for banks are based on those of the Basle Committee on Banking Supervision. Accounting standards are generally based on Australian Accounting Standards, while the Corporations Law requires Australian incorporated entities to maintain proper accounting records. APRA's policies on disclosure sometimes impose standards where none otherwise exist (e.g. in accounting for problem loans). Disclosure standards for financial institutions are also issued by the Australian Accounting Standards Board to ensure that institutions provide relevant and reliable information about their activities.

APRA and ASIC do not, however, publish information about the adherence of individual institutions to these standards. APRA's approach is that it is the responsibility of the board and management of an institution to ensure there is sufficient disclosure so that depositors, investors and other interested parties are able to ascertain whether supervised institutions are meeting APRA's prudential standards. For example, banks regularly publish their capital adequacy ratios in their yearly and half-yearly financial accounts. If an institution failed to meet one of APRA's prudential requirements, APRA would intensify their supervisory efforts until compliance was restored. ASIC publishes policy statements and practice notes which explain its view on the best practice in complying with the requirements of the law.

### **6.1.2 The regulations for financial reporting by financial institutions to financial agencies should be publicly disclosed.**

The requirements to supply ASIC with annual returns from companies and persons holding securities and other licences are set out in the Corporations Law. The ASIC database can be searched for copies of this information.

In carrying out its supervisory role, APRA gets a range of financial data from financial institutions on a regular basis. As outlined in its prudential statements, APRA uses an external auditor arrangement to ensure that its prudential standards are being observed.

Section 26 of the PSR Act details the Reserve Bank's powers to collect data related to the payments system.



### **6.1.3 The financial agencies should publicly disclose information on the schedule of fees levied on financial institutions.**

The costs of supervising institutions and the estimated revenue from levies are disclosed in the Commonwealth Budget papers. The actual schedule of levies to cover the cost of supervision of prudentially regulated institutions is decided by Government after consultation with industry, and is published in the *Commonwealth Gazette*.

It is also publicly known that banks are currently required to hold one per cent of their eligible liabilities with the Reserve Bank as non-callable deposits (NCDs), and that the Reserve Bank pays interest half yearly to each bank based on the daily level of each bank's NCDs at a rate set, currently, around five percentage points below the prevailing market rate.

The Corporations (Fees) Regulations set out the fees charged by ASIC.

### **6.1.4 The public should be made aware through appropriate publications that the financial agencies have the necessary legal authority and procedures for information sharing and consultation relevant to their respective jurisdictions and have developed procedures for mutual sharing of information and for co-operation with their counterparts in other countries on matters of common concern.**

Information sharing arrangements between agencies are matters of public knowledge. The three financial agencies have established MOUs with each other (except between ASIC and the Reserve Bank), which include details on information sharing and consultation, and these documents are publicly available. There are also additional mechanisms for information sharing that are publicly known, such as cross-agency representation on the APRA Board. The APRA Act states that the APRA Board must contain two Reserve Bank representatives and one ASIC representative. The Reserve Bank Act states that the Payments System Board must contain one APRA representative.

Agencies are also allowed to share information with counterparts in other countries on matters of common concern. For example, legislation allows APRA to share information with other overseas supervisors where there are matters of common concern.

ASIC's information sharing powers are set out in section 127 of the ASIC Act. ASIC Policy Statement 103 describes how information sharing powers are exercised. MOUs signed with domestic and foreign agencies are publicised and available publicly.

**6.1.5 In those countries where there are explicit deposit insurance guarantees, information on the nature and form of deposit protection, on the operating procedures, on how the guarantee is financed, and on the performance of the arrangement should be publicly disclosed.**

Australia does not have explicit deposit insurance guarantees.

**6.2 Significant changes in financial policies should be publicly announced and explained.**

The Government and regulatory agencies publish and explain significant changes in policies. A recent example of this was on the implementation of the financial system reforms, where the Treasurer made a speech in Parliament, tabled additional documentation to explain the reforms and issued a Press Release.

APRA has not made significant changes to its prudential policies since its establishment, but would make public significant changes through such means as Press Releases and their prudential statements.

- Additionally, any changes in APRA's prudential standards must be published in the Gazette.

In the case of the payments system, the PSR Act requires that the Payments System Board publish any standards (including through the Commonwealth Gazette) or access regimes that it imposes on designated payment systems.

ASIC publishes all of its policy statements and practice notes in the *ASIC Digest*.

**6.3 The public should normally be provided with appropriate lead time to comment on proposed substantive changes to the structure of financial regulations.**

In developing and implementing Australia's financial system reforms, the Government made use of a public consultation process. For example, the Financial System Inquiry considered many public submissions before making its recommendations in the Final Report.

APRA intends to consult with industry to provide them with sufficient time and opportunity to comment on their proposed changes, but, reflecting its recent establishment, has not had the need to do so to date.

- APRA are also required to consult with the Office of Regulatory Review in implementing policy change.

The PSR Act contains provisions that require the Reserve Bank to undertake a process of public consultation prior to decisions concerning access regimes and standards in the payments system. This process includes public notification of the action, together with a summary of its purpose and effect, and an invitation to the public to make submissions within a specified time.

Financial market law reform is subject to an extensive public consultation process through various forums, including the Business Review Advisory Group and the Ministerial Council for Corporations.

ASIC policy proposals are published on the ASIC website and distributed to interested parties for consultation.

**6.4 The financial agencies should provide the public with a periodic report on the major issues of the sector(s) of the financial system for which they carry designated responsibility.**

Financial agencies publish annual reports, other periodic publications, press releases, address parliamentary committees, and make official speeches to report on the major issues of the sector(s) of the financial system for which they carry designated responsibility.

For example, APRA's Statistical Bulletin provides information, both quantitative and qualitative, on industry developments, and the Reserve Bank publishes articles in its Bulletin and material in its annual report on issues related to financial stability and the payments system.

ASIC publishes a monthly newsletter; however, it principally outlines ASIC activities. ASIC also publishes statistics on issues such as the numbers of insolvencies and numbers of prospectuses lodged.

**6.5 The financial agencies should issue periodic public reports on the extent to which their policy objectives are being achieved.**

APRA's annual reports will outline the organisation's objectives, and the activities it undertakes to achieve these objectives (APRA's first report will be released this year).

The Reserve Bank publishes articles in its *Bulletin* and material in its annual report on issues related to financial stability and the payments system.

ASIC does not systematically report on the achievement of its policy objectives. It does produce reports on its performance and report on its surveillance activities but these are not usually framed in terms of an assessment against objectives.

## **VII Public availability of information on financial policies**

**7.1 Financial agencies should ensure that, consistent with confidentiality requirements, there is public reporting of institutional and aggregate financial data related to their jurisdictional responsibilities on a timely and regular basis.**

The Reserve Bank publishes financial system data and payments system data in its monthly *Bulletin*. Some data are also published on the Reserve Bank's website and by Press Release.

Under the PSR Act, the Reserve Bank has powers to collect information from corporations operating payment systems. It is able to aggregate this information and publish it.

**7.1.1 The public reporting of financial data by financial agencies should be consistent with widely accepted data dissemination standards.**

Refer to section 3.1 for Reserve Bank reporting.

For APRA, this information is consistent with widely accepted data dissemination standards.

**7.2 Where applicable, financial agencies should release their balance sheets on a preannounced schedule and provide the public after a predetermined interval with information on market transactions.**

APRA, the Reserve Bank and ASIC release or intend to release annual reports (APRA's first report will be released this year); however, the actual date of release is not preannounced as it is subject to the workings of Parliament and obtaining authority from the Treasurer to table the reports in or out of Session.

The financial statements include (but are not limited to) balance sheets, profit and loss statements and cash flow statements.

The three financial regulatory agencies are Commonwealth authorities for the purposes of the CAC Act.

- Under the CAC Act, the directors of the APRA, the members of the Reserve Bank Board and Payments System Board, and the Commissioners of ASIC are required to prepare an annual report with audited financial statements. They are required to present the report to the Treasurer, and the Treasurer is required to table the report in each House of Parliament as soon as practicable after receiving the report.

The annual report of the three financial agencies must include, at a minimum:

- a report of operations, prepared by directors/commissioners in accordance with Orders made by the Finance Minister, and publicly available;

- financial statements prepared by the directors/commissioners that comply with Orders made by the Finance Minister and which give a true and fair view of the matters those Orders require to be included in the statements with additional information as necessary to ensure such a true and fair view. The directors/commissioners must state in writing that the statements provide a true and fair view; and
- a report of the Commonwealth Auditor-General on those financial statements and addressed to the Treasurer.

Section 13 of the CAC Act also provides for the Finance Minister to require the three financial agencies to provide interim reports (in addition to their annual reports) including a report of the bodies' operations and their financial statements.

APRA does not undertake market transactions. Refer to section 3.2 for information on the Reserve Bank.

**7.2.1 Where applicable, aggregate information on emergency financial support by financial agencies to financial institutions should be reported, as soon as such information will not be disruptive to financial stability.**

While such support has been extremely rare, it is expected that the Reserve Bank would publish this information in their annual report, and where appropriate, in the *Bulletin* (also refer to section 3.2.3).

- APRA will not provide financial support, it will only advise the Reserve Bank.

**7.3 Financial agencies should establish and maintain public information services.**

**7.3.1 Financial agencies should have a publications program, including an Annual Report and reports on the policies and activities they are pursuing and, where applicable, relevant data.**

ASIC and APRA both publish or intend to publish annual reports (APRA's first report will be released this year). These contain broad information on their activities over the year, including their policies. In addition, the agencies provide aggregate data on the scope and nature of the institutions/markets that they regulate to further public

knowledge. Senior officers of the agencies regularly give speeches in a variety of forums.

- APRA publishes a quarterly statistical bulletin and the monthly Australian banking statistics.
- ASIC publishes a monthly newsletter reporting on its activities.

Refer to section 3.3.1 for the Reserve Bank.

**7.3.2 Financial agency officials should make public appearances to explain their institution's objective(s) and performance, and have a presumption in favour of releasing their speeches to the public.**

Officials of the Reserve Bank, APRA and ASIC make regular public appearances, including through speeches and participation in conferences, meetings, seminars and at Parliamentary Committees and use these opportunities to explain their institution's objectives and performance.

If the Parliament so decides, officials of agencies are required — under the *Parliamentary Privileges Act 1987* — to appear and testify regularly before Parliament. See also section 8.1.

The three agencies publish the majority of speeches by their officials, including on the internet.

**7.4 Texts of regulations and any other generally applicable directives and guidelines issued by financial agencies should be readily available to the public.**

Instruments of subordinate legislation — including regulations — are required to be tabled in Parliament and subject to disallowance within 15 sitting days. Tabled documents are publicly available, including on the internet.

In addition, the Reserve Bank, APRA and ASIC are required to publish non-disallowable instruments, such as standards, including by publishing them in the *Commonwealth Gazette*. The instruments are readily available at public libraries, Commonwealth Bookshops and on the internet.

ASIC policy statements and practice notes are published in the *ASIC Digest*.

## VIII Accountability and assurances of integrity by financial agencies

Australian government agencies are subject to the CAC Act, which outlines the reporting obligations of agencies and includes provisions covering the conduct of officers. In addition, each agency's enabling legislation can include additional requirements for reporting and the conduct of the board and of agency officers.

The *Auditor-General Act 1997* establishes the Office of Auditor-General and sets out the functions of the Auditor-General. The annual reports of Government agencies, including the Reserve Bank and APRA, are subject to an independent audit by the Auditor-General as stipulated in the CAC Act.

The *Financial Management and Accountability Act 1997* establishes a framework for the proper management of public money which is handled by departments and other agencies that act on behalf of the Commonwealth.

In general, all Government agencies are subject to the *Freedom of Information Act 1982* (refer to Box 8 of Attachment A to the Report). This includes APRA, ASIC and the Reserve Bank. The object of this Act is to extend as far as possible the right of the Australian community to access information in the possession of the Commonwealth Government. The Act makes available to the public information about the operations of departments and public authorities and creates a general right of access to information in the possession of departments and public authorities.

- This right is limited only by exceptions and exemptions necessary for the protection of essential public interests and the private and business affairs of persons in respect of whom information is collected and held by departments and public authorities. The Reserve Bank is exempted by Part II of the Act in so far as documents concerning banking operations (including open market operations and foreign exchange dealings) and exchange control matters are concerned.



**8.1 Officials of financial agencies, where applicable, should be available to appear before a designated public authority to report on the conduct of policy, explaining the policy objective(s) of their institution, reporting on their performance in achieving their objective(s), and as appropriate, exchanging views on the state of the financial system.**

Both Houses of the Australian Parliament have the power (under the *Parliamentary Privileges Act 1987*) to conduct inquiries and have the power to compel the attendance of witnesses, the giving of evidence and the production of documents.

Senior officers of Federal government departments and statutory bodies are regularly called to testify before Parliamentary Committees. Testifying officers are bound by parliamentary privilege to be truthful and to answer to the best of their knowledge. While public and parliamentary advocacy and defence of government policies and administration is the preserve of the Minister, it is the duty of the public servant to provide full and accurate information to the Parliament about factual and technical background. Guidelines exist for official witnesses appearing before a Parliamentary Committee.

In the *Statement on the Conduct of Monetary Policy* agreed to by the Governor of the Reserve Bank and the Treasurer, the Governor agreed to appear before the House of Representatives Standing Committee on Financial Institutions and Public Administration twice a year. Other senior Bank officers also regularly appear before this and other Parliamentary Committees.

While the APRA Chairman and Chief Executive have no similar commitment to appear before Parliamentary Committees, they are expected to do so on request.

**8.2 Where applicable, financial agencies should prepare and publish audited financial statements of their operations on a preannounced schedule.**

Refer to section 7.2.

**8.2.1 The financial statements should be audited by an independent outside auditor, and any qualification to the statements should be an integral part of the publicly disclosed financial statements.**

The CAC Act (section 8) requires that all Commonwealth government agencies be subject to the independent audit of the Auditor-General. These audits are conducted in accordance with the Australian National Audit Office Auditing Standards which incorporate the Australian Auditing Standards. The Auditor-General's audit opinion is published as part of each agency's annual report.

**8.2.2 Information on accounting policies should be publicly disclosed.**

The annual reports of the Reserve Bank, ASIC and APRA include, or will include, information on accounting policies (in accordance with Australian Accounting Standards), and internal audit arrangements.

**8.2.3 Internal governance procedures necessary to ensure the integrity of operations, particularly internal audit arrangements, should be publicly disclosed.**

For the Reserve Bank, refer to section 4.2.3.

APRA has yet to publish an annual report. However, it is expected that APRA will disclose internal governance arrangements in accordance with normal disclosure requirements.

**8.3 Information on operating expenses and revenues of financial agencies should be made available to the public annually.**

This information is included in the financial statements (as described in sections 7.1).

**8.4 Standards for the conduct of personal financial affairs of officials and staff of financial agencies and rules to prevent exploitation of conflicts of interest, including any general fiduciary obligation, should be publicly disclosed.**

ASIC and APRA have standards of conduct for the personal financial affairs of its officers but at present these are not publicly disclosed.

- The Chairman of ASIC is required to disclose all pecuniary interests to the Minister and other Commission members and senior officers must disclose financial interests to the Chairman.

Refer to section 4.4 for the Reserve Bank.

**8.4.1 Information about protection for officials and staff of agencies in the conduct of their official duties should be publicly disclosed.**

The APRA Act, the Banking Act and the ASIC Act provide APRA and ASIC staff with an indemnity from liability for any activity done in good faith and without negligence in the performance of their duties.

For the Reserve Bank, this information is not provided to the public.