

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

13 – 14 February 2013

Question: AET 81

Topic: Reserve Bank Act

Written: Received from Committee – 22 February 2013

Senator BUSHBY asked:

81. In relation to the extract from the Reserve Bank Act below:

RESERVE BANK ACT 1959 - SECT 17

Disqualifications from membership

A person who is a director, officer or employee of an ADI is not capable of appointment, or of continuing to act, as a member of the Reserve Bank Board.

- a. What reasons can you posit for this provision being in place?
- b. Having regard to the evolving nature of the financial system, with the creation of near banks and super funds, some of which hold assets far greater than some of the smaller banks, is there a need to review this provision?
- c. Is the Treasury aware that a recent RBA appointee holds a directorship with Australia's largest union super fund with assets exceeding \$100 bn and investments in cash of billions of dollars?
- d. If the answer to the above is yes, did Treasury give any advice to the Treasurer regarding how any potential or actual and perceived conflicts of interest could be handled in relation to this appointment? If so, in what written format and on what date?
- e. Given that on a Monday this person could be in receipt of sensitive interest rate data whilst at an RBA meeting, and on Tuesday sitting at super fund directors meeting deciding whether to sell assets and go into cash or vice versa, isn't this a matter about which we should be concerned?
- f. Is there any consideration being given to amending the RBA Act to bring it in line with the contemporary financial sector in Australia?

Answer:

Under the Reserve Bank Act, a member of the Reserve Bank Board is not permitted to be a director, officer or employee of an Authorised Deposit-taking Institution (ADI). Over and above the legislated requirements, and in recognition of their responsibility for maintaining a reputation for integrity and propriety on the part of the Board and the Reserve Bank, members have adopted a Code of Conduct. This Code of Conduct requires members:

- to advise the Governor of the existence of any material personal interest in an ADI or other financial entity (this is in addition to the disclosure to the Treasurer under the class order);

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- not to perform any paid or unpaid work as a consultant or adviser to an ADI;
- not to perform any paid or unpaid work as a director, officer or employee of, or a consultant or adviser to, a holder of an Australian credit licence or any private-sector entity operating in Australia whose main business is the provision of finance;
- not to participate in deliberations of an entity that provides or manages insurance, a registrable superannuation entity or a managed fund more generally, where there may be an actual or perceived conflict of interest with their role and obligations as a member of the Reserve Bank Board. This does not preclude members' involvement in the governance of the entity's investment strategy, consistent with any duties they might have as a director, but does preclude members from participating in active management of funds for such an entity; and
- to not improperly use information obtained as a Board member to gain an advantage for someone else or themselves or to cause detriment to the Bank or any other person.