SENATE ECONOMICS LEGISLATION COMMITTEE

Answer to questions by Senator Andrew Bragg

Question 1. What risks would there be to the performance of the RBA if the existing Board was abolished and replaced by a Governance Board and a Monetary Policy Board as proposed in the Bill?

The main risk I will cover in my answer to questions 2 and 3.

The other more general risk is that the RBA will be saddled with three boards of external part-time members, which is very unusual by international central banking standards, and unusual for any institution as small as the RBA. This will result in more board meetings, more board papers, more bureaucracy and more levels of management. There will inevitably be more demarcation disputes and questions about who can speak for the RBA. See answer to question 4.

Questions 2. What issues and risks do you see with potential compositions of these proposed boards?

At this point I would like to ask the question of why we would want to have a Governance Board at all. I think it is the result of applying practices that are relevant to the private sector but unnecessary in the government sector.

We know that in a public company there is a need for a board to ensure that management does not enrich themselves at the expense of shareholders. There are many opportunities for this to happen especially if there are bonuses for short-term performance and there may be ethical issues at stake. And there are a multitude of individual shareholders who need to be represented by the board.

In the case of the RBA, there is no opportunity for the management to enrich themselves, engage in corrupt practices or violate ethical standards. There is no multitude of shareholders; there is only one – the Australian government. It appoints the Governor, the Deputy Governor and the board members. Its representative – the Secretary of the Treasury attends every board meeting. It is fully capable of looking after itself.

What of a purely governance nature is left for the Governance Board to do? The Review says it is responsible for the balance sheet, but the balance sheet is determined by monetary policy decisions. The Review says it should handle risk management, but there is already a risk management function in the RBA and

this didn't stop the RBA losing $30 billion because of a monetary policy decision (quantitative easing).

I suspect the Governance Board would be a board in search of something to do and this would inevitably lead to 'mission creep'.

Question 3. What are the risks of having part-time members dominating the Monetary Policy Board?

This board is to perform the main work of the old Reserve Bank Board, and will continue with the same numerical structure – the Governor, Deputy Governor, Secretary of the Treasury and six external part-time members. This numerical structure made sense for the old Board because it was essentially an advisory board, much like a corporate board. It had the power to vote, but rarely did so, like corporate boards.

The Review's proposals turn this board into a decision-making board. Votes must be counted at each meeting and the votes published (although not by name). Part-time board members are expected to comment publicly on monetary policy matters.

What this means is that the RBA will be the only central bank with a decision-making board with the external part-time members having the majority of the voting power. This introduces a potential long-term risk as we don't know who these part-time members will be, what expertise they will have or what commitment to long-term sustainable outcomes they will have.

It also compromises the position of Governor, who could be outvoted but still have to be the public face of the RBA defending a policy they had voted against.

Question 4. What are the risks of having an independent Chair of the RBA, as recommended by the Review, instead of the Governor chairing the RBA Board?

Under the Review's proposals, the Governance Board becomes the continuing legal entity of the old Reserve Bank Board and signs off on the annual accounts and the dividend to the Government etc. So, in a legal sense, it becomes the senior partner and the Monetary Policy Board the junior partner.

If there was an external Chair of the Governance Board, and the Governor was Chair of the Monetary Policy Board, who would speak for the RBA? Would it

depend on what the subject was? It could introduce a problem akin to the problem in public companies where there can be doubts as to whether it is the Chair or the CEO that speaks for the company.

Addendum.

While the four questions listed above are good questions, some are not directly relevant to the legislation before the committee. They are questions that should have been asked a year ago when the Review was released. Now, events have largely passed them bye.

The main outstanding issues raised by the legislation are:

- The proposed formation of the Governance Board, which I have covered.
- The transition arrangements for current Reserve Bank Board members. These appear to have been adequately covered in the legislation in that current Board members can serve out their current five-year term (seven in exceptional circumstances).
  It is worth remembering that the Review recommended that current Board members be asked whether they wished to serve out their term on the Monetary Policy Board or the Governance Board. There was no provision for them to be directed by the Treasurer – they were to be asked.