Mr Peter Costello

Treasury Laws Amendment (Reserve Bank Reforms) 2023

Answers to questions on notice taken on 22 February 2023 at a public hearing

Questions from Senator Andrew Bragg:

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?
2. What issues and risks do you see with the potential compositions of these proposed boards?
3. What are the risks of having part-time members dominating the monetary policy board?
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?

Answer:

When prudential supervision of Banks was stripped out of the jurisdiction of the RBA and given to APRA in 1998, the idea was that APRA would be a focussed and dedicated prudential regulator and the RBA focussed on and dedicated to monetary policy. Unlike the Federal Reserve in the U.S. or the Bank of England the RBA does not do any banking supervision.

So, from the late 1990s the Board of the RBA has been focussed on monetary policy, perhaps more focussed than any comparable Central Bank Board in the world.

The non-monetary responsibilities of the RBA Board are light and hardly distracting. It is hard to think that stripping them out will make the Monetary Board any more focussed. There is no evidence that non-monetary duties distracted or compromised the Board in any way or contributed to the failure of the RBA in regard to QE and forward guidance during Covid which, rightly, has been the subject of criticism.

Substituting two Boards for one, will not make the Monetary Board better.

Introducing two Boards means two sets of Directors. Leaving aside the full time RBA Officials, the external directors will need to be designated to either the Monetary Board or the Management Board. This effectively means "A" class Directors and "B" class Directors. There will need to be careful demarcation between the responsibilities of the two Boards to avoid the risk of duplication or conversely prevent issues from falling between the cracks.

In a Public Company, the Board appoints the CEO. Here the management Board will not do that, as the Government makes the appointment of the Governor. In a Public Company, the Board sets remuneration and incentives for the CEO. Here that will be done by the Remuneration Tribunal. In a Public Company, the Board sets the business strategy. But in this case that is largely set by the Statement agreed with the Treasurer on the conduct of monetary policy.

This is a Bank with only one shareholder, and that shareholder sets all the significant governance itself under a series of separate regulatory arrangements.

What exactly will the B Class Board do? Even the management of the Balance Sheet and the dividend are effectively decided by the monetary policy which will be conducted by the A class Board. Witness the case now. No dividends can be paid by the RBA for some time because the QE-inspired-bond-buying-program wiped out the equity of the Bank. That could not have been stopped by a Management Board because it was done in the furtherance of monetary policy. So who really is in control of the earnings and Dividend?

And in normal times, the Shareholder (Government) will be much more significant in setting the Dividend than any management Board.

Supervising the Balance Sheet of the Bank is not a major activity. The Balance Sheet is not nearly as big as the Future Fund, for example. And in any event the value of the Balance Sheet will be set overwhelming by the Monetary Board's decisions. At least with one Board we know who bears the responsibility for the loss on the Balance Sheet. With two Boards I can see arguments arising about who should carry the responsibility.

There will be more appointments with two Boards in place of one. There will be more meetings and probably more sets of Board papers, but it hard to think that this will lead to better monetary policy decisions.