



Supplementary Comments – Hon Tony Smith, MP, Liberal Member

Overview

What has come to be described in the media as the ‘Banknotes Bribery Scandal’ first emerged in the public sphere on 23 May 2009. On that day *The Melbourne Age* reported allegations of bribery by overseas business agents of Securrency International Pty Ltd, a company half-owned by the RBA that produces the substrate polymer material used in Australian banknotes.

This was the first in a long series of articles by *Age* journalists Richard Baker and Nick McKenzie alleging that the use of bribes to secure overseas business contracts was endemic to two RBA subsidiary companies.

Soon after the appearance of that first story, the name of another RBA subsidiary began to be mentioned by the media in relation to allegations of bribery. On 25 May 2009 *The Age* reported that Note Printing Australia, a wholly owned RBA subsidiary that prints Australia’s banknotes, had dismissed its foreign business agents after an internal company audit recommended that “stricter controls were required”.¹

These allegations of bribery mushroomed over the weeks and months that followed, with media reports linking Securrency and/or Note Printing Australia to arms dealers,² organised crime³ and business dealings with nations on the US State Department’s list of state

¹ Nick McKenzie & Richard Baker, “RBA firm sacked its foreign agents”, *The Age* (25 May 2009) p 1

² Richard Baker & Nick McKenzie, “RBA warned on arms broker”, *The Age* (10 Sept 2009) p 1

³ Richard Baker & Nick McKenzie, “Guns drugs and money”, *The Age* (28 Aug 2009) p 1

terrorism sponsors.⁴ Newspaper reports also included allegations that excessive commissions were used to bribe government officials overseas. Securrency and Note Printing Australia were ultimately implicated in the alleged bribery of foreign government officials in India, Malaysia, Nepal and Vietnam.

Once newspaper stories alleging bribery began to appear in May 2009, Securrency called in the Australian Federal Police. Law enforcement authorities in the UK and Malaysia subsequently opened their own investigations into the activities of Securrency and Note Printing Australia business agents.

In August-September 2011, it was announced that criminal charges would be laid against Securrency and Note Printing Australia over an alleged conspiracy to offer or pay a benefit to a foreign official not legitimately due. Both RBA subsidiaries were charged in relation to alleged bribery offences in Malaysia and Indonesia. Charges arising from allegations of bribery in Vietnam were laid against Securrency, and allegations of bribery in Nepal were laid against Note Printing Australia.⁵ Those legal matters are still pending. There are also other ongoing legal matters with a number of individuals from both firms.

And while this Parliament should have no business involving itself with ongoing legal matters, this Parliament has every business involving itself with the governance of the Reserve Bank. Parliament must always tread carefully in these circumstances but it must equally never forgo its oversight function. The fact legal matters are outstanding does not dictate that there should be no parliamentary oversight. It is only through rigorous parliamentary oversight that any deficiencies may be identified and rectified. It is only through rigorous parliamentary oversight that the rest of the world can be confident that the disinfecting qualities of sunlight are at work in Australia.

As this *Report* rightly notes:

The House of Representatives Standing Committee on Economics (the committee) is responsible for scrutinising the Reserve Bank of Australia (RBA) and for ensuring its transparency and accountability to the Parliament, the community, and the financial sector.⁶

⁴ Richard Baker & Nick McKenzie, "RBA company in Sudan link", *The Age* (29 May 2009) p 1; Nick McKenzie & Richard Baker, "RBA link to Saddam regime", *The Age* (6 June 2009) p 1

⁵ *Hansard* House Economics Committee Hearing (8 October 2012) p 5

⁶ House of Representatives Standing Committee on Economics, *Review of the Reserve Bank of*

And the *Report* is equally correct when it states:

The appearance by the Governor of the RBA at biannual public hearings of the committee is an important element of the RBA's accountability framework. The details of this framework are set out in the *Statement on the Conduct of Monetary Policy*, agreed between the Treasurer, the Hon Wayne Swan, MP, and the RBA Governor, Mr Glenn Stevens. The statement formalises the biannual appearance before the committee. The statement, which is reproduced at Appendix B, states:

The Governor has also indicated that he plans to continue the practice of making himself available to report on the conduct of monetary policy twice a year to the House of Representatives Standing Committee on Economics.

The Treasurer expresses support for the continuation of these arrangements, through which the transparency and accountability of the Reserve Bank's conduct of monetary policy are in line with international best practice. These arrangements enhance the public's confidence in the independence and integrity of the monetary policy process.

A second procedural mechanism for achieving this accountability is set out in the Standing Orders of the House of Representatives, which provide for the referral of annual reports within a committee's area of portfolio responsibility for any inquiry the committee may wish to make.

Accordingly, the committee may inquire into aspects of the annual report of the RBA.⁷

The Evolving Story

From the time the first story was published in mid-2009, senior bank officials have repeatedly asserted their ignorance of allegations about possible illegality at Securrency or Note Printing Australia.

That initial newspaper article on 23 May 2009 in *The Age* featured the following statement of assurance from Deputy Governor-at-the-time Ric Battellino:

Mr Battellino told *The Age* the RBA was aware that Securrency operated in countries with "bad reputations", but was "very conscious to ensure arrangements were in place to avoid corruption payments".⁸

In June 2010 the Governor of the Bank wrote a detailed letter to the Treasurer stating:

The audits of NPA and Securrency took place well before *The Age* first raised its allegations in May 2009. Neither Securrency nor the Reserve Bank was aware of the allegations until that time. The allegations were completely unexpected, given that the company had strong policies prohibiting the payment of bribes, including by the agents, and that the audit findings had provided re-assurance that the company's procedures supporting these policies were robust. Neither of the former employees who appear to be among the sources used by *The Age* had made their concerns known to the board of Securrency or to the Bank. Had they done so, given the seriousness of the issues, the

⁷ Ibid 1.2 – 1.3

⁸ Richard Baker & Nick McKenzie, "Revealed: the RBA's dodgy deals", *The Age* (23 May 2009) p 1

Bank, as in the NPA case, would have carried out investigations and made any necessary changes immediately.⁹

This correspondence was released under FOI in November 2011.

In August 2011, the *Age* published new assertions that:

The leadership of the Reserve Bank failed to alert police after the bank received damning evidence in 2007 that its subsidiary Note Printing Australia was implicated in the bribery of foreign officials.¹⁰

The bank also rejected those assertions in a statement that read:

The implication the *Age* seems to be drawing is that people in the company and the bank had information indicating illegality but did not act appropriately on that information. The apparent inference contained in the questions is unwarranted.¹¹

Evidence at Hearings

The Committee has posed questions to the Bank on these matters during the course of its semi-annual Hearings in November 2010, February 2011, August 2011, February 2012 and August 2012. In addition, the Committee held a dedicated Hearing into events at Securrency and Note Printing Australia on 8 October 2012.

Following the publication of new allegations in August 2011 involving Note Printing Australia specifically, and the Bank's response to those (see above), the then Deputy Governor Mr Battellino faced direct questioning at the 26 August 2011 Hearings.

It was here that Mr Battellino first alluded to the fact that a Note Printing Australia employee raised an alarm in 2007 about allegations of illegal activity by some of the company's foreign agents. Mr Battellino was asked:

It has been suggested in the *Age* newspaper, since the last meeting of this committee, that that report said that at least one agent had admitted to bribery, at least one agent had demanded 'under the table' secret commissions, at least one agent had demanded excessive payments and that payments were being made to third-party accounts. Is that an accurate summary of what was in that report?¹²

He responded:

I cannot recall. A range of issues were raised in there. Allegations had been made by one of the staff members that the agents had said certain things. The agents denied those.¹³

Mr Battellino retired 10 days prior to the next Hearing in February 2012 and therefore questions on Note Printing Australia and Securrency were directed to Governor Stevens.

⁹ Glenn Stevens, Letter to Treasurer Wayne Swan (2 June 2010) p 3

¹⁰ Richard Baker & Nick McKenzie, "RBA held evidence of bribery", *The Age* (11 August 2012) p 1

¹¹ "RBA Statement in response to questions from *The Age*", *The Age* (11 August 2011) p 9

¹² *Hansard* House Economics Committee Hearing (26 August 2011) p 14

¹³ *ibid*

When I inquired into the precise nature of that 2007 warning by a Note Printing Australia staff member, the Governor initially responded:

If you are asking whether the person in question wrote a letter or something to the bank, I do not think that he did, no.¹⁴

But in the dying seconds of the Hearing, Mr Stevens amended his previous assertion:

Mr TONY SMITH: Chair, according to Mr Buchholz's highly accurate clock on his iPad, we have a couple of minutes left. Is it possible to ask another question or two?

CHAIR: Just one.

Mr Stevens: Madam chair.

Mr TONY SMITH: Can we go back to a question on the topic I was asking about earlier, just for a clarification. I quoted statements to this committee from Mr Battellino back in August about allegations being made by one of the staff members that agents had said certain things and the agents denied those. Governor, I think your answer was that that was conveyed orally. I just want to confirm that.

Mr Stevens: I need to come back to that. I think I said that the bank was aware of that but that it was not in writing. Actually, that was not quite true. I have been reminded while we have been talking that, in fact, the deputy governor invited that person to put that in writing, which he did, and give it to the deputy governor. That written statement on the matter was available to the Freehills people that did the investigation in 2007. So, whereas I said I thought that we were aware of it but that it was not documentary, in fact it was invited to be put in documentary form, which it was.

Mr TONY SMITH: One final question, Chair?

CHAIR: No, we are done.¹⁵

At this point it became clear that not only did former Deputy Governor, Ric Battellino fail to provide pertinent information at the Committee Hearings in November 2010, February 2011 and August 2011, but he also responded to direct questioning during those Hearings in a manner that can fairly be described as less than open. In an opinion piece written for *The Age* I noted:

Despite direct questioning on these matters at committee hearings in November 2010, February 2011

and August 2011, neither the governor nor his former deputy saw fit to volunteer these two salient facts

— that a briefing paper containing allegations of impropriety by some NPA agents was written by an NPA staff member in mid-2007 at Battellino's request; and that Battellino met with the author of this memorandum around that same time.¹⁶

On 22 August 2012, *The Age* published the text of the alleged memorandum that it asserted was submitted in June 2007 to Mr Battellino by former Note Printing Australia company

¹⁴ *Hansard* House Economics Committee Hearing (24 February 2012) p 16

¹⁵ *Ibid* pp 23-24

¹⁶ Tony Smith, "Don't let these banknote questions fester", *The Age* (7 September 2012) p 15

secretary Brian Hood. Mr Hood's memorandum not only contained detailed allegations of bribery by Note Printing Australia business agents, but also noted explicitly that one of the suspect agents confessed to working on behalf of Securrency as well:

In October 2005, the agent denied, to [B*] and me, the existence of his agency agreement with Securrency. His agreement with NPA was, I note, an exclusive arrangement. Our concern centred on whether or not his role promoting polymer sales could lead to a conflict of interest, and/or a breach of confidentiality, should he interact directly with NPA's competitors. He subsequently, only days later, admitted that he had held for years an agency role with Securrency.¹⁷

The implications of this memorandum are extremely significant. Its revelation that a suspect Note Printing Australia foreign business agent was simultaneously representing Securrency should have raised a massive red flag about possible deficiencies in probity practices at the latter. It defies logic to assume that if this business agent may have engaged in bribery to secure overseas contracts for one company he would miraculously refrain from doing so on behalf of the other.

The Bank's lack of openness was pursued at the Committee's August 2012 Hearing when I asked Governor Stevens:

If we go back a year to August 2011, for instance, Mr Battellino was referring in response to some questions to the fact that the board of Note Printing Australia had taken certain actions. You do not think at that point through all the questioning over a couple of years it would have been sensible for him to say, 'As it happens, I actually had a meeting with the person who has made these allegations'?¹⁸

Mr Stevens responded:

I am not going to comment on whether he [Mr Battellino] should have given some piece of information that he was not asked about at the time.

I followed up by asking:

You do not think that in the interests of openness it would have been good for the committee to have been told that as it happens, he had met with the person who had serious concerns?¹⁹

To this the Governor replied:

I do not know. At least what we have tried to convey is the essence of what occurred. The fact that two particular people met on a given day as part of that process—there would have been lots of meetings between various people trying to put all this investigation together. I did not feel that particular event was of the importance that you seem to feel it is. I accept that, obviously, others feel it is more important. I am sorry that we did not make that clearer earlier.²⁰

¹⁷ <http://www.theage.com.au/national/the-june-2007-rba-memo-20120822-24llm.html?rand=1345598937818>

¹⁸ *Hansard* House Economics Committee Hearing (24 August 2012) p 14

¹⁹ *ibid*

²⁰ *ibid*

At this Hearing, I asked whether the Governor would be prepared to appear at a specially convened hearing to face questioning in detail on these important matters. Mr Stevens indicated he was. This special dedicated hearing took place on Monday 8 October 2012 and included the former Deputy Governor, Ric Battellino.

On this occasion, both Mr Battellino and Governor Stevens explained their failure to volunteer pertinent facts before this Committee by claiming this was done out of respect for Mr Hood's request for confidentiality because:

presumably he [Hood] was very concerned about anything getting back to the people in the company that he works in.²¹

But in light of the fact that Mr Hood left the employ of Note Printing Australia in September 2008, more than two years before these issues were first broached by this Committee, I find this explanation less than persuasive.

This 'confidentiality excuse' is also rendered threadbare by the following exchange during the 8 October 2012 Hearing regarding the discrepancy between the Bank's behaviour in August 2011 vis-à-vis February 2012:

Mr TONY SMITH: In August 2011, following a series of questions from Ms O'Dwyer and follow-up questions from Mr Bandt, you consciously felt that you could not volunteer this information because of confidentiality. Then, as I recounted before the break, the following February—that is in February this year—Mr Stevens was able to confirm the existence of the memo and the meeting. What changed between August and February?

Mr Battellino: I think that Mr Stevens was actually asked specific questions about the memo.

Mr TONY SMITH: Yes. That is true.

Mr Battellino: I was not asked specific questions. I was asked in general about the allegation that this person had made. As I say, those allegations were made mainly through the board paper and the audit and with this statement to me.

Mr TONY SMITH: If you had been asked, you would have answered? I thought that, if you had been asked, you would have said that you had to maintain the confidentiality.

Mr Battellino: It is an interesting question. What would I have done? I do not know. I would have had to answer to the committee. I really do not know. It did not come up.

Mr TONY SMITH: It was obviously in your mind at the time.²²

I believe this lack of openness hindered the oversight function of this Committee because members couldn't ask questions earlier on relevant facts never volunteered by the Governor or his former Deputy.

²¹ Op cit Hansard (8 October 2012) p 38

²² Op Cit Hansard (8 October 2012) p 27

It is also difficult to accept Mr Battellino's claim at the August 2011 Hearing that he could not recall the detail of the Note Printing Australia audit report:

Mr TONY SMITH: I will take you to August 2011—and I was not on the committee at that point. You were asked a series of questions by Ms O'Dwyer—who has joined us; I know she was held up this morning by some engagements—Mr Ciobo and Mr Bandt. This was in the days following some new revelations in the *Age* newspaper, and there have obviously been lots of stories since that first story in May 2009. After some questions from Ms O'Dwyer, Mr Bandt followed up and referred to one of those. He was talking about the audit report on Note Printing Australia, and he made a number of statements and asked whether it was an accurate summary of the report. Your answer, as *Hansard* records it—and I was not there—was, firstly, 'I cannot recall'. We can provide this for you, if need be, but your answer was, firstly: 'I cannot recall. A range of issues were raised in there. Allegations had been made by one of the staff members that the agents had said certain things. The agents denied those. One of the agents had sought to mislead one of the central banks overseas about the exact size of his agency fee. There were a number of issues like that.' On my reading of it, that was the first time you were asked about these issues. Your point was that you were trying to preserve the confidentiality. Was that in your mind at that time when you were asked those questions?

Mr Battellino: Yes, definitely. What you are referring to I cannot recall. A lot has happened at the Reserve Bank in the five or six years that all of this has gone on.

Mr TONY SMITH: You would recall what was in the audit report, surely?

Mr Battellino: In very broad terms. If you are asking me: do I recall six years after the event, or whenever, everything that is in that audit report? I had a very—

Mr TONY SMITH: I think, if you look back at the media coverage in the lead up that prompted the questions, I would have thought that, if you had not recalled, you would have reminded yourself.

Mr Battellino: The broad understanding I had at that point was that the audit report had made all these allegations about business practices, and raised some suspicions.

Mr TONY SMITH: Given we are an oversight committee, you did not feel, at any point—if we accept you are trying to preserve confidentiality—that, if you could not volunteer certain information, you did not want to add to the committee that there was certain matters—

Mr Stevens: Were we asked, Madam Chair, at some point: could we please have a blow-by-blow account of every piece of the process that happened in 2007? We were not being asked that. We have given that today. We have spent quite a lot of time in the last few weeks getting back across this. This was a very different setting.

Mr TONY SMITH: With respect, I will come back to you, Governor. I am asking Mr Battellino about his testimony.²³

Failure of Judgement by the Bank

There was also clearly a failure by the Bank fully to consider its distinct ethical responsibility earlier with respect to allegations of illegality at Note Printing Australia in particular. The Bank leadership has repeatedly stated that the law firm Freehills had been retained by the Board of Note Printing Australia to determine whether there had been a breach of law. But it a third party law firm – reputable and respected though it may be – does not have the authority and investigative power of the police. Therefore the Freehills

²³ *ibid*

referral does not waive the higher responsibility of the nation's central Bank to refer plausible allegations of serious criminal activity to the Federal Police. The Bank also could-have and should-have referred the information contained in the Hood Memorandum directly to law enforcement authorities in mid-2007. Whilst Securrency and Note Printing Australia had corporate responsibilities, the Bank also has higher duty as a key public institution.

Governor Stevens should have also requested a copy of the Hood memorandum at the time it was first submitted to Mr Battellino.²⁴ Mr Hood was the company secretary of Note Printing Australia, a position important enough to require his signature to be affixed to the company's annual financial statement submission to ASIC. And yet when this senior executive raised plausible allegations of illegality by some of the agents representing this wholly owned subsidiary of the Bank, with Mr Battellino, Governor Stevens was of the view that an oral briefing from Mr Battellino was a sufficient response to this potential violation of Australia's anti-bribery laws. This decision meant that Governor Stevens denied himself the opportunity to make a fully informed judgement about the contents, tone and seriousness of Mr Hood's 2007 memorandum.

Lessons and Conclusions

At the 8 October 2012 dedicated Hearing of this Committee on Note Printing Australia, I asked the Governor:

In hindsight, what regrets do you have or lessons have been learned generally?²⁵

Mr Stevens responded with the words:

Hindsight is a great thing. People do not live their life in hindsight; they live it a day at a time in real time. If pressed on this, I would have to say that there should have been more scepticism and more questioning of the managements of both companies earlier than there was. I think it is hard to avoid that conclusion.²⁶

At the 8 October 2012 Hearing the Governor himself conceded that he today would handle similar allegations of illegality much differently than he dealt with past events at Note Printing Australia and Securrency:

Ms O'DWYER: In light of the information that has been provided—you know, hindsight being a wonderful thing—if you were to look back and make a decision with the knowledge you have today, do you think you would have called in the Federal Police a lot earlier than you did?

²⁴ Op cit Hansard (8 October 2012) p 24

²⁵ Ibid p 22

²⁶ ibid

Mr Stevens: I have given some thought to that and I think it was technically properly a decision for the board of the company. I do not think this should be seen as either—as I said earlier—call Freehills or call the police, one or the other. You could have done both. As I said at the beginning, had the conclusion of the Freehills work been a different conclusion to the one it was then we would have had, I feel sure, the people associated with that process with the kind of experience and integrity that they do have saying, 'mmm, you've got to go to the police.' That was not the conclusion so that was not the outcome.

Were we to see that set of circumstances again, personally—older and more scarred and wiser now—I think it might be prudent to still do that whole process. But at the end, to be honest, no-one advised us at the time to say to the police: 'We've done this. This is our conclusion and we're not proposing further action but we're advising you just in case something comes up one day' or in case they have got any other suggestions to make. But if I review this in my own mind and contemplate whether we might ever see a parallel set of circumstances, I think that additional step would be prudent.

I am also concerned that the narrative presented to date by the governor and his former deputy lacks precision and clarity. And this has had the unfortunate effect of making the bank appear reticent and even secretive. In speech to Parliament on this matter I noted:

If these questions linger today they will fester tomorrow. Only if they are answered and addressed can we ensure that the good name of the Reserve Bank and its high level of credibility will be preserved.²⁷

The magnitude of these matters also causes me to consider more fundamental questions about the current regime for Parliamentary oversight of the Reserve Bank. Per the provisions of the *Statement on the Conduct of Monetary Policy*, the Reserve Bank appears twice-yearly before the House Standing Committee on Economics for a period of roughly three hours. And much of that time is rightly devoted to important discussions of monetary policy and global economic trends.

But a mere 180 minutes every six months are clearly inadequate to canvas matters of governance and probity that might arise, as in the cases of Note Printing Australia and Securrency. It is worthwhile to note the fact that the Australian Securities and Investment Commission appears quarterly in oversight Hearings before the Parliamentary Joint Committee on Corporations and Financial Services.

Accordingly, I believe consideration should be given to amending the *Statement on the Conduct of Monetary Policy* so as to provide for the Bank to appear before the House Standing Committee on Economics on four occasions per year.

Mr Tony Smith MP

²⁷ Tony Smith, *Hansard House of Representatives* (20 August 2012) p 9332