

# Senate Select Committee on Superannuation and Financial Services

## Main Inquiry Reference (b)

**Submission No. 23**

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# RESERVE BANK OF AUSTRALIA



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20 July 2000

Ms Sue Morton  
Secretary  
Select Committee on Superannuation  
and Financial Services  
Parliament House  
CANBERRA ACT 2600

Dear Ms Morton

## **PUBLIC HEARING – SUPERANNUATION AND FINANCIAL SERVICES -- MAIN INQUIRY**

Please find attached answers to the questions listed in your letter of 27 June 2000.

Yours sincerely

R Battellino  
Assistant Governor  
(Financial Markets)

Encl

1. *“At the moment you have some moneys that are being paid to the government from your earnings this financial year that are sitting on your books as retained earnings. When was the last time you paid it in two slabs?”*

The Reserve Bank Act requires that each year the Bank’s profit, after any transfers to reserves, be paid as a dividend to the Commonwealth Government. The timing of this dividend payment is a matter for the Commonwealth Government, as the Bank’s owner.

For many years up to the mid 1990s, the practice of governments had been to take profits in two parts – an interim dividend before the end of each financial year (ie before the final profit had been determined) and the remaining dividend early the following year.

Since 1996/97, the Commonwealth Government has not taken an interim dividend, preferring to take the dividend in one payment after the profit had been earned.

In 1998/99, with the Bank’s earnings being exceptionally large, the Government decided to defer some of the dividend for a year. Of the \$3 676 million that was available for distribution, \$3 000 billion was paid in July 1999 and the remainder in July 2000. This information was made public a year ago, in the Bank’s Annual Report published in August 1999. Details of payments to the Commonwealth are given in a table in each year’s Annual Report.

2. *“Is Australia well placed to deal with the rapidly increasing volume of financial transactions generated by globalisation in terms of the robustness and accountability of our electronic and handling systems?”*

Australia’s payment systems are equal to any in the world in terms of robustness and accountability. In fact, for a number of years, international financial market participants voted Australia as having the best-fixed interest settlement arrangements in the world. They are well up to the task of supporting the growth in financial sector transactions.

The forthcoming Annual Report of the Bank’s Payments System Board (which will be tabled around end September) will contain a detailed assessment of Australia’s key payment systems against international standards.

3. *“How does the RBA see the ‘evolution’ of international accounting and reporting standards impacting upon our aspirations as a financial centre?”*

Accounting and reporting standards are not an area of responsibility for the Bank, and it therefore does not have any particular comments to make on this topic.

4. *“A witness at our Sydney hearing referred to the need for a ‘national trading day’ to ensure some certainty and uniformity across Australia for traders and fund managers. Is this an issue?”*

We do not believe this to be a significant issue. The arrangements regarding market trading and the operation of payments and settlements systems around public holidays are well defined, and to our knowledge are not having any adverse impact on Australian financial markets.

5. *“Some witnesses have been concerned about ‘branding’ of a particular city, say Sydney, in order to provide a physical focus for the global financial centre for Australia. Obviously, other cities such as Melbourne have concerns as well as claims to the title of ‘global financial centre’. Does the RBA see the need to concentrate on one particular centre or is there potential to develop niche markets in various centres without diminishing the goal?”*

The factors that make a city attractive for a particular type of financial activity are varied, and include economic as well as social and historical considerations. Sydney is the centre most readily recognised by international market participants, and it is a pre-eminent in some financial activities, particularly foreign exchange and bond trading. Other activities, such as funds management, are fairly evenly split between Sydney and Melbourne; in such areas, market participants see no clear benefit in concentrating activity in one centre. Our view is that the question of where financial activity should be located is a matter best left to market participants.

6. *“Would the RBA be able to provide the Committee with any information it has on the operation of the global financial centres in Ireland and Singapore as possible case studies?”*

The Bank does not have any information other than that which is generally available to the public. This question might better be addressed to AXISS.

7. *“The Finance and Treasury Association made reference to the lack of a financial risk management policy with respect to the operation of government business enterprises and major capital acquisitions. Does the RBA have a view on this issue?”*

The question of risk management by the government is a complex one as the government needs to take into account its broader policy responsibilities as well as its financial exposures. It is not just a matter of adopting risk management approaches followed by the private sector.

In particular, at a general government level, pursuit of an active financial risk management policy could be destabilising to financial markets. For example, government action to hedge interest rate risk could be interpreted by the markets as an indicator of imminent changes to monetary policy. The government’s approach typically has been to self insure for financial risk. The Bank supports this approach, and believes that adoption of any policy involving *active* management by general government would be potentially harmful to Australia’s financial markets.

For government business enterprises, responsibility for financial risk management rests with the individual enterprises. These have greater flexibility and should adopt best market practice. It is unlikely that the policies adopted by individual enterprises would have significant implications for Australia’s markets.

International Department  
20 July 2000