



RBA REVIEW – QUICK UPDATE – 20 APRIL 2023, 11:30AM

Key points

- The [RBA Review](#) report, together with the initial [Government response](#), were released this morning.
- [RBA media statement](#); RBA press conference (midday), Treasurer press conference, and APRA media statement still to come.
- The Treasurer has today given in-principle support for all recommendations; the RBA has today welcomed and supported all recommendations.
- The report makes 14 recommendations¹ across the five themes – refer [Attachment](#) below.
- The RBA review will have far-reaching implications for the RBA across governance, leadership, culture, public communication, CFR engagement and internal operations. Key call-outs include:
 - Shift to a dual-board structure, one responsible for monetary policy and one responsible for RBA governance.
 - RBA leaders to drive institutional and cultural change, with the Governance board to assess progress and publicly report by June 2025.
 - RBA to improve its leadership capability, openness to constructive debate, diverse views, external hires, and introduce diversity targets.
 - Improved public communications on monetary policy, together with increased engagement with Treasury (as regards fiscal policy) and clear input to APRA (as regards macropru).
 - The review reinforced the RBA's independence, dual monetary policy objectives (of price stability and full employment) and a flexible inflation target (2-3%).
- Media is likely to focus on the sections report that indicate the RBA panel formed the view that the Reserve Bank Board did not consistently provide robust challenge to RBA management through 2016-19 (especially page 38 and 39) and since 2021 (especially page 60).
- Most relevant to APRA is recommendation 6 titled 'Reinforce cooperation arrangements for promoting financial stability'.
 - This recommendation calls for more formalised cooperation arrangements for financial stability policy, both at CFR and APRA-RBA levels.
 - The Review recommends that the CFR MoU be updated to provide greater public clarity regarding the role of the Council of Financial Regulators (CFR), including how agencies work together to ensure a 'whole-of-system' response and identify regulatory gaps.
 - The Review also recommends that the APRA-RBA MoU be updated, with calls to provide greater clarity over macroprudential policy cooperation arrangements. There is a specific recommendation that RBA provide APRA with advice on the use of macroprudential policy tools.

¹ Media is reporting 51 recommendations, being the count of individual sub-items within recommendations.

- Section 47C

- In terms of timing, the RBA will publish a roadmap outlining key milestones for progressing review recommendations. Some recommendations (e.g. dual-board structure) would require legislation.

Detail of recommendations relevant to APRA

- The Review panel sought to formalise and reinforce the RBA's role, and CFR cooperation arrangements, in relation to financial stability and specifically macroprudential policy in order to:

provide the RBA with more flexibility to use the cash rate in pursuit of its price stability and full employment... while containing risks to financial stability with more targeted tools.

- Specific recommendations:

- **Rec 6.1 - CFR agencies to renew MoUs to reinforce cooperation** in relation to promoting financial stability, to ensure:

- clarity on the outcomes the group is responsible for delivery and specific roles of each agency;
- a shared responsibility for identifying regulatory gaps at a 'whole of system' level;
- a shared commitment to reduce the risks posed by such gaps.

- **Rec 6.2** - the RBA should commit to inform the CFR when monetary policy is likely to affect, or be affected by, risks to financial stability. This should include **formal advice** from the RBA to APRA on its use of macroprudential tools. This advice to CFR and APRA should be **published after 5 years** (subject to some discretion including a 'national interest' exemption);

- **Rec 6.3** - The RBA and APRA should update their public **memorandum of understanding** so that it sets out clear and specific commitments to cooperation in promoting financial stability, including the way APRA consults the RBA on macroprudential policy settings;

- The Executive Summary states this should include RBA and APRA agreeing on mechanisms to ensure the RBA's assessment of financial stability risks, and any interactions with monetary policy, feed directly into APRA's macroprudential policy decisions.
- The report text also specifically suggests strategy sessions as an important supplement to the CFR's existing risk register;
- The report text also suggest that APRA might consider, for example, inviting a formal view from the RBA on its macroprudential policy papers, or having RBA staff present at macroprudential policy discussions.

- **Rec 5.1 – legislative change to the RBA Act**, to specify the RBA's responsibility to contribute to financial system stability, in cooperation with other government agencies, especially APRA.

- Other matters:

- The RBA Review discussed the possibility of making the CFR a statutory body. While this was not recommended, the text includes a suggestion that the CFR consider this option in five years (i.e. 2028);

- The RBA Review also recommends removing the legacy power of the RBA in section 36 of the Banking Act to direct lending policy (Rec 5).
- Overall, the RBA Review commentary is positive as regards CFR cooperation, albeit with some concerns of stakeholders briefly reflected (see page 106).

However, the Review also heard some criticisms of existing cooperation arrangements. Some stakeholders noted a general lack of clarity regarding how agencies work together, what each was responsible for and how agencies would seek to address perceived gaps in the regulatory architecture.

A monetary policy framework fit for the future

Flexible inflation targeting has contributed to lower, more stable inflation and unemployment. Clarifying this framework and strengthening RBA decision making will best serve Australians in the future.

A clear monetary policy framework

- Flexible inflation targeting operated by an independent RBA has generally worked well over three decades, contributing to **lower, more stable inflation and unemployment**.
- Some **modest improvements to the current** framework and objectives will ensure it remains well-suited to Australia's future challenges.
- The RBA should have **dual monetary policy objectives of price stability and full employment**, with equal consideration given to each. The economic prosperity and welfare of Australians now and in the future should be an overall purpose for the institution.
- The RBA should retain a **flexible inflation target of 2 to 3 per cent** and aim at the midpoint to maximise the chance that the target is met and best anchor inflation expectations.
- The RBA should systematically set out its **assessment of its full employment objective**, as reflected in a range of relevant indicators of labour market conditions.
- The RBA should clearly **explain how it is balancing its two monetary policy objectives**, including how long inflation is expected to be materially away from the midpoint of the target and why, and how long labour market conditions are expected to deviate from full employment and why.
- There should be increased **joint work between Treasury and the RBA on the relative roles of fiscal and monetary policy**.
- There should be **5-yearly reviews** of the RBA's monetary policy framework and policy tools.
- There should be **more formalised cooperation arrangements for financial stability policy** including by the RBA providing formal advice to APRA for its use of macroprudential tools.

Stronger monetary policy decision making and accountability

- Monetary policy decision making should be strengthened to deal with an **increasingly complex environment** that includes more supply-side shocks and a broader monetary policy toolkit.
- The Reserve Bank Board's composition and decision making processes have not sufficiently enabled it to **shape policy decisions, strategy, and the RBA's underlying analysis and judgements**.
- The Government should **form a Monetary Policy Board with greater economic expertise** and participation in decision making while maintaining diverse perspectives and knowledge.
- The Monetary Policy Board should move to **8 monetary policy meetings a year to allow more time to consider the issues** and engage with RBA staff within each meeting cycle.
- **Monetary policy processes should be more transparent**, with press conferences after each meeting, papers published after 5 years, and Board members occasionally speaking publicly about the work of the Board.
- The RBA should strengthen its strategic communications capability, with a new **Chief Communications Officer** position.

Note: **Yellow highlighting** overlay by APRA.

A high performing institution

The RBA is a strong and widely respected institution. It should build on its strengths to become more open and dynamic and improve its governance.

An open and dynamic RBA

- The RBA has high **calibre, deeply committed people** and a **supportive and collegiate culture**. It is **respected domestically and internationally** for its expertise, the quality of its work and the contribution it makes in global forums.
- The RBA should build on the steps it has already taken to become **more open and dynamic**.
- The RBA should appoint a **Chief Operating Officer**, focussed on improving systems and processes and creating a more agile organisation that better empowers staff.
- The RBA should improve its leadership capability with a compulsory **leadership training program**, externally facilitated **360 degree feedback** and **improved performance management**.
- The RBA should promote constructive debate and openness to diverse views through assessing how **leaders engage with staff** on ideas, **more openness to external hires**, and **diversity targets**.
- The RBA should strengthen the role of research in policy formulation by developing a **new research strategy** overseen by the Monetary Policy Board and establishing a **monetary policy strategy team**.

More robust corporate governance

- The RBA's corporate governance should be strengthened to deal with a **complex operating environment** and **drive change**.
- The Government should **establish an RBA Governance Board with an external chair** to support and oversee management, drawing on best practice elsewhere.
- The Governance Board's role should include **oversight of the RBA's organisational strategy, finances, strategic staff planning and risk management (including cyber risks)**. It should have no role in monetary, financial stability or payments policy or the day to day running of the RBA.

RBA leaders drive institutional and cultural change

- RBA leaders should be assessed on how they deliver and model cultural change, and measure change through **annual staff surveys**.
- The Governance Board should **assess progress on implementation** and report by June 2025.
- The RBA should participate in **5-yearly Australian Public Service capability reviews**.

Implementing the Review

- The Government should **legislate changes to commence from 1 July 2024**.
- The Government should make appointments to the Boards in a way that delivers **continuity of decision making** including by ensuring appointments fall due at regular intervals.
- The Government should **consult with the Shadow Treasurer** about the implementation of the recommendations of the Review.
- The RBA should develop a **roadmap to implement the changes**, with clear timelines and accountabilities.