# Reserve Bank of Australia Review

## Third Request for Information from the Reserve Bank

## December 2022

## High-level Questions

**H1. In 2016, the RBA commissioned an external review of Economic Group's forecasts and analysis by Professor Adrian Pagan and Dr David Wilcox (Pagan and Wilcox 2016). In the most-recent batch of information provided to the Review, the RBA noted some changes made in response to the Review, such as introducing the MARTIN model and adjusting the cash rate assumption to be based on market expectations. However, the RBA has chosen not to implement some recommendations, including producing alternative sets of forecasts based on different cash rate assumptions, extending the forecast horizon beyond 2½ years, communicating its assumptions for potential output and the natural rate of unemployment, and adding a forecast coordinator to ensure consistency across forecasting teams.**

- **What considerations led the RBA to choose not to implement these recommendations? Are any of these recommendations (or others in the Pagan and Wilcox review) under active consideration by the RBA?**

The Pagan-Wilcox Review was commissioned in late 2014 by the Bank to provide a comprehensive health check of our forecasting approach (Kent, 2016). The Review observed that the Bank's forecasting practices were fundamentally sound and produced information conducive to good policymaking. The reviewers complimented the knowledge, motivation and general technical proficiency of the analysts in Economic Group. They also commended the use of models and the spirit of open debate in internal forecasting discussions. That said, a range of recommendations for improvement were put forward relating to the tools, processes and technical skills that support the forecast process.

Almost all of the recommendations in the Pagan-Wilcox Review were implemented in some form. Some recommendations did not lead to regular application due to changes in circumstance, particularly following the onset of the pandemic, or due to competing resource considerations. With regard to the specific recommendations cited in the question:

- Forecasts derived with alternative cash rate paths are used in policy discussions within the Bank and have been shown to the Board from time to time when relevant, but are not published externally.
- Technology to extend the forecast horizon was developed using the Bank's current full-system model, MARTIN. These extended forecast horizons have been shown to the Board from time to

time when relevant. However, they have not been published, in part because it is not possible to provide estimates of uncertainty based on past forecast errors when past forecasts did not extend so far. More recently, the extended horizon has not been used, reflecting heightened uncertainty about the economic outlook, as well as prioritising the use of MARTIN for scenarios during the pandemic.

- The *Statement on Monetary Policy's* Outlook chapter and Appendix Forecast Table provides much more detail than in the past about the outlook for a range of economic variables, including for the unemployment rate. This was partly in response to the Pagan-Wilcox Review, supported by a staff 'Challenge' suggestion in 2018 (also see question 5.5). Although this has not been extended to include explicit information about the assumptions for potential output and the natural rate of unemployment, both variables have been discussed by Bank staff in publications since the Pagan-Wilcox Review and also by senior Bank officials in public appearances. These formats have allowed for a detailed discussion of the uncertainties around the estimates of these variables, as well as the drivers of the longer run structural forces at play.
- A single 'forecast coordinator' has not been appointed, but there has been increased coordination and oversight for the forecast process through various mechanisms. First, the forecast teams work closely together with multiple links between specific desks and sections, overseen by the respective section heads. Two of the forecast sections have been combined to form a larger domestic activity section. In addition, staff from across Economic Group routinely attend forecast meetings of other sections to contribute ideas and suggestions. Second, senior management have multiple points of review and oversight during the development of the forecasts. Over the past year, this has included a Deputy Head of Department who has been aligned with the two main forecasting sections to provide detailed input throughout the forecast round. Third, MARTIN is able to provide a full-system cross-check for the internal consistency of the proposed forecasts.

There were a number of recommendations in the Review that now form part of the Bank's processes and the ongoing evolution of the forecasting framework:

- The use of MARTIN has expanded over time. Following the completion of the initial development phase of MARTIN through to 2018, work was under way to integrate MARTIN more deeply into with the forecast process. An evaluation of pre-pandemic forecasts found that one- and two-quarter-ahead staff forecasts consistently outperformed forecasts produced by simple models or MARTIN. However, MARTIN's performance was similar to that of the staff forecasts for periods beyond two quarters, prompting plans to trial the use MARTIN for this task. Following the onset of the pandemic, this work was put on hold in preference for developing MARTIN's use in scenario analysis, used regularly in recent years to communicate risk and uncertainties about the outlook in public communication. Ongoing review and improvement of our forecasting process continues to be one of the priorities for the forecast teams.
- New and/or improved economic models are regularly developed, tested and implemented by Bank staff. The motivations for model development include adaptations to changes in the macroeconomy, the introduction of new techniques developed by other macroeconomic forecasters and academic literature, and models developed to take advantage of new data sources. Some examples from the past five years include: introducing new models and revisions to the methodology of existing models for forecasting key variables, such as wages, inflation and consumption, and an explicit model-averaging approach; the introduction of a multi-equation

housing model; the expansion of MARTIN to include a banking sector; the re-introduction of a monthly activity indicator using a dynamic factor model (a Pagan-Wilcox Review recommendation).

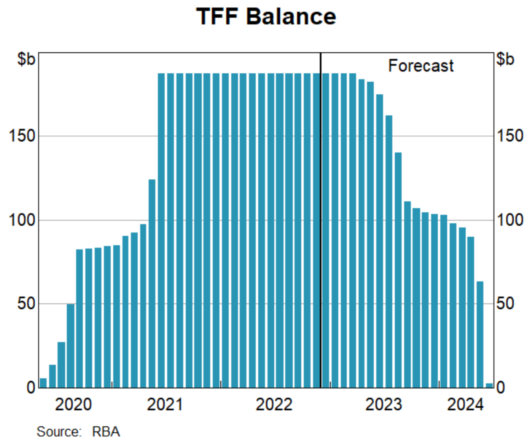
- Annual forecast reviews are conducted, with the findings communicated to the Board. Regular forecast reviews were conducted internally prior to the Pagan-Wilcox Review, but the annual forecast review to the Board has become a standing agenda item since 2014.
- The Pagan-Wilcox Review recommended redirecting resources from monitoring overseas economies and conducting business liaison to other activities, particularly modelling. A new Macroeconomic Modelling section within Economic Analysis Department was introduced, created out of existing positions, to develop and govern the MARTIN model, with additional positions re-allocated to this team in recent years. Resources directed to conducting liaison were broadly unchanged, as the contribution of the program goes well beyond its valuable direct contribution to our quarterly forecasting process. For the external sector, the Bank's forecasts for economies other than China have been based on the consensus of external analyst forecasts since 2020. A staff assessment found little difference in forecasting accuracy between the Bank and consensus forecasts. This change allowed staff resources to be redirected to thematic cross-country analysis of developments that are relevant to our understanding of the Australian economy. Staffing has also been shifted to create a new data science hub in Economic Research Department, which has led to the introduction of new modelling techniques in Economic Analysis Department as well as other parts of the Bank.

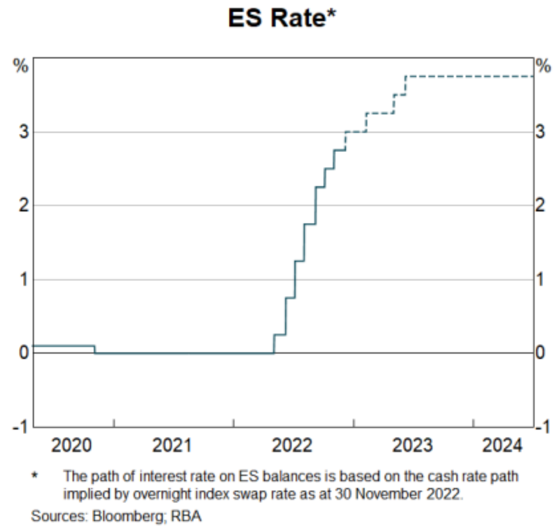
## H2. The RBA's Review of the Bond Purchase Program (BPP) helpfully presented estimates of the cumulative cost of the program based on three scenarios for the path of the cash rate. In the same way, is the RBA able to provide estimates of the cumulative cost of the Term Funding Facility (TFF)?

The Term Funding Facility (TFF) was established in March 2020 to provide support for the economy through lower funding costs to support the supply of credit, as part of the broader measures announced in response to the pandemic. Under this arrangement, banks were able to access funding through reverse repurchase agreements with a three-year term and at a fixed interest rate. A fixed interest rate was applied to ensure the scheme was attractive and used in scale, in order to materially lower funding costs in the economy.[1] The interest rate was initially set at 25 basis points, before being reduced to 10 basis points for funding drawn down after November 2020.

Although closed to new drawdowns since 30 June 2021, the TFF will continue to provide funding to banks until the funds that have been drawn down mature or the banks terminate the funding. Reverse repurchase agreements of $188 billion are currently outstanding (Graph 1). TFF funding is scheduled to begin maturing in April 2023, with the largest amounts scheduled to mature in the September quarter 2023 and the June quarter 2024.

1 See second request for information, question H3.




The overall implications of the TFF for the Bank's financial position will be known only once the last drawings mature in June 2024 (as the interest cost on ES balances, which are the counterpart liability to the TFF assets, will reflect the ES rate over time). Using financial market expectations for the cash rate (as at end-November; Graph 2), the difference between interest paid on ES balances and interest received on TFF lending would cumulate to $8.3 billion over the four year operation of the TFF, of which about $1.1 billion has occurred to date. Were the cash rate to rise by 25 basis points more (less) than is currently priced by financial markets, this would see the interest cost rise (fall) by about $0.5 billion.

- **In addition to the effects on nominal GDP, did analysis of the BPP and TFF produce estimates of the effects on real GDP and employment? If so, are you able to provide these estimates to the Review?**

In the Review of the Bond Purchase Program, the Bank reported that the Bank's macroeconometric model (MARTIN) suggests that a 30 basis point reduction in long-term bond yields would lead to an additional $25 billion of nominal GDP in cumulative terms over three years. The equivalent figure for real GDP is $13.5 billion in 2020 dollars. The total effect on employment – according to this model – would be an additional 37,000 jobs over three years (roughly ¼ per cent of the labour force). These estimates assume that the 30 basis point reduction in long-term yields persisted for six quarters before slowly unwinding over a few years; the additional activity and employment is estimated to continue increasing well beyond the three year mark.

As emphasised in the Review of the BPP, there is a high degree of uncertainty around these estimates and the results are likely to understate the true effects.

**H3. In the most-recent batch of information provided to the Review, the RBA noted that the 'Board was well aware of the financial risks and capital implications of further bond purchases by the time that it considered a Bond Purchase Program'. It appears that in May 2020 the Board considered the financial risks associated with purchases made up to that point, and the Audit Committee considered the international experience in August 2020.**

- **What if any further information or analysis did the Audit Committee and/or Board receive and consider about the financial risks associated with increasing its asset**

### purchases as part of the BPP, ahead of the BPP's implementation in November 2020 (that is, between May 2020 and November 2020)?

Between May 2020 and implementation of the BPP in November 2020, the Board and Audit Committee were provided with several updates on the risks associated with bond holdings, which all related only to the Bank's existing programs. The purchases up to this point were conducted as part of the response to dysfunction in bond markets following the onset of the pandemic and to achieve the target for the yield on 3-year AGS. This analysis was provided to:

- the Board as part of the usual profit distribution considerations in July 2020
- the Audit Committee as part of the periodic updates on the Bank's balance sheet and earnings in August 2020 and November 2020.

This analysis included the potential losses that would arise from purchases under the existing programs using the standard risk scenarios captured within the Bank's capital framework at the time (that is, a uniform rise in yields of 200 basis points). The November 2020 update also included specific information on the interest rate risk on the existing portfolio from a +/–100 basis points move in yields.

Board members were also informed of Audit Committee discussions, including on risks to the Bank's capital and relevant international experience, via regular provision of the minutes of Audit Committee meetings and a regular debrief provided to them by the Chair of the Audit Committee.

The following documents were provided to the Board and Audit Committee between May and November 2020 (in addition to the documents provided in the previous response).

**Attachments: Risk of Bond Purchases – Board and Audit Committee, May to November 2020**

| | |
|---|---|
| RBA Earnings and Financial Reporting Update (Nov 2020) | Audit Committee Paper |
| RBA Financial Statements for Year-Ended 30 June (see section on Commentary re RBA Earnings) (Aug 2020) | Audit Committee Paper |
| The Bank's Earnings, Distribution and Capital (July 2020) | Board Paper |

### - What if any further information or analysis on these financial risks was prepared by the staff but did not go to the Audit Committee or Board?

The Bank did not prepare any material information on the financial risks of the BPP ahead of the program's introduction that was not provided to the Audit Committee or Board.

Internal work in Financial Markets Group in the lead up to the start of the Bond Purchase Program (BPP) briefly outlined some potential costs, alongside estimates of the potential beneficial effects on domestic yields and the exchange rate. In particular, this work noted that a BPP could result in a capital loss to the Bank over the life of the program given the negative estimated term premia on Australian Government bonds. This work did not explore interest rate risks associated with movements in yields or the cash rate.

Other internal work during this period looked at the increased interest rate risks as the actual portfolio of bond holdings expanded, reflecting purchases for the yield target and to address market dysfunction. This reporting did not include the financial risks associated with the BPP until after that program was implemented.

- Following the Audit Committee meeting in May 2020, it was agreed that staff would prepare an analysis of potential losses on the Bank's domestic bond holdings (based on purchases completed to that point) under various scenarios for both interest rates and the exchange rate.[2] That analysis would form the basis for future briefings to the Audit Committee on the Bank's balance sheet and earnings outlook. No assumptions were made for further bond purchases, beyond what had been completed by May 2020, though later updates following the commencement of the BPP did factor in future purchases based on what had been publicly announced by the Bank. Initial analysis and potential scenarios for interest rates were provided to the Deputy Governor in mid-May 2020. These were later refined and included in future updates to the Audit Committee (which commenced from March 2021).
- Finance staff also updated existing internal reporting on the financial risks and performance of the Bank's portfolio, to include much more detail on the Bank's domestic bond portfolio. This reporting is distributed on a weekly basis, including to the Deputy Governor, Chief Financial Officer and senior staff in the Bank's Financial Markets Group. Examples of these reports from October 2020 and more recently are attached.
- Analysis conducted in Risk Management and Compliance Department shortly after the introduction of the BPP looked at the mark-to-market risk of the domestic portfolio implied from option prices. This analysis found that mark-to-market interest rate risk on the portfolio had increased significantly from $20 million prior to the pandemic to a peak of $10 billion, and remained elevated at $5 billion at end-December 2020. Updates of this analysis have subsequently been included regular reporting on portfolio risk and developments to the Governor and Risk Management Committee.

**Attachments: Risk of Bond Purchases – Internal, May to November 2020**

| | |
|---|---|
| Weekly investment management pack (May, Oct and Dec 2020) | Internal report |
| The Effect of QE: Theory and Evidence (September 2020) | Internal note |
| Option-Implied Interest Rate Risk on the Domestic Portfolio (December 2020) | Internal note |

## H4. For analysis prepared for the Audit Committee and/or Board on financial risks and capital implications:

### - to what extent were policy areas of the RBA involved in their preparation?

Policy areas were involved in the preparation of the following material for the Board and/or Audit Committee relating to the financial risks and capital implications of the BPP:

- The paper on international experience in managing the risks/capital implications of quantity-based bond purchase programs was prepared by the International Department in Financial Markets Group.
- Material provided to the Audit Committee in the lead up to November 2020 was provided to the Assistant Governor, Financial Markets for review.

2 Exchange rates were initially included as the Bank's foreign exchange exposure remained material relative to the interest rate exposure, though future analysis (including beyond November 2020) focused mainly on interest rates given the significant expansion of the domestic bond portfolio under the BPP.

- The changes to the capital framework in mid 2021 (to remove valuation risk on domestic bonds and include earnings at risk) was discussed with staff in Financial Markets Group and Risk and Compliance Department for feedback, and was then presented at the Executive Committee for broader feedback, ahead of being presented to the Board.
- Domestic Markets has provided key inputs to the preparation of regular earnings forecasts, including the profile of bonds to be purchased within the announced amounts under the BPP.

- **to what extent did the Board discuss the financial risks arising from the choice to offer fixed rate, rather than floating rate, funding under the Term Funding Facility (TFF)? Was any quantitative analysis provided to the Board to assist decision making, in addition to the high-level text in the March 2020 Board paper on the TFF?**

In discussing the question of fixed versus floating rate funding for the TFF as part of the initial monetary policy response to the pandemic, the Board agreed that the interest rate that would apply would be fixed for the term of the funding, which was consistent with the Bank's expectation that the cash rate was likely to stay at a very low level for some time. The Board noted that the fixed rate would carry some interest rate risk for the Bank, but in the circumstances considered this risk to be small and warranted by the need to ensure the scheme was effective in lowering funding costs for borrowers. No quantitative analysis on this matter was provided to the Board at the outset, as the focus was on the monetary policy goals as part of the Government's broader policy response to the pandemic.

### H5. The 'Review of the RBA's Approach to Forward Guidance' includes these points:

- **'The Board recognised the risks involved in stronger forward guidance, and judged that it was appropriate given the unique circumstances of the pandemic and the desire to insure against the worst possible economic outcomes.' What documents were presented to the Board regarding the risks involved in introducing a time-based element to the RBA's forward guidance?**

Prior to the pandemic, papers presented to the Board on unconventional monetary policy tools had discussed potential benefits and risks of stronger forward guidance. Papers on the subject had been discussed by the Board in July 2016 and August 2019. The August 2019 paper noted that time-based guidance is perhaps the easiest to convey. However, time-based guidance can also constrain policy choices in a way that reduces the credibility of the commitment and does not give flexibility to react to unexpected (positive) developments like state-based guidance. More generally, the paper noted that there have been occasions where other central banks had used forward guidance that had not worked as hoped. These had often been associated with some uncertainty about the reaction function of the central bank and resulted in unhelpful volatility in market yields, such as during the 'taper tantrum' associated with the timing of the end of the US Federal Reserve's balance sheet expansion in 2013.

The October 2020 Monetary Policy paper considered further policy stimulus options, including stronger forward guidance, to address the prospect of the Bank being substantially short of its policy goals for a lengthy period. The discussion of risks focused on not providing enough stimulus. It was argued that while the prevailing forward guidance at that time had provided a general sense of intentions, it could have been considered too vague.

The paper also noted concerns in some quarters that the combination of monetary and fiscal stimulus might have been excessive and could have led to an unwanted build-up in housing and credit markets, or an inflationary economic boom. These risks were viewed at the time as low. The paper assessed that in the circumstances – which included significant spare capacity and the long period of low inflation and wages growth prior to the pandemic – it seemed unlikely that the Board would 'do too much' with the policy settings under consideration.

- **In the Governor's speech on 15 October 2020, the Governor noted that 'we do not expect to be increasing the cash rate for at least three years.' We note that 'at least three years' phrasing was mentioned in the Board paper for 3 November. Was the Board provided with a copy of the draft 15 October speech? Did it discuss this phrasing in advance of delivery of the speech?**

As documented in the minutes of the October 2020 meeting, members agreed that the evolution in forward guidance (specifically, to place more weight on actual rather than forecast inflation and seek more than just progress towards full employment) would best be announced in a speech by the Governor on 15 October. This would allow for greater context to be provided than was possible in the post-meeting statement. Members were comfortable to leave it to the Governor to convey the approach discussed and agreed upon. They supported the Governor's intention to include phrasing that the Board did not expect to increase the cash rate for at least three years, which would make explicit the three-year horizon that had been implicit since the introduction of the yield target in mid-March 2020.[3] As a matter of practice, the Board is not provided with copies of speeches before they are delivered.

### H6. Board members are chosen from a register of candidates maintained by the Secretary to the Treasury and the Governor. What factors does the Governor take into consideration in proposing candidates for this register?

The Governor proposes candidates that have broad experience at senior levels in areas relevant to the Board's primary role in setting monetary policy, noting the restriction on appointing someone who is a director, officer or employee of an authorised deposit-taking institution. The relevant areas of experience include economics, business, public policy formulation and financial markets. In developing the list, the Governor also seeks to include candidates with a variety of backgrounds so that the Government has a number of options to choose from. The register is formulated in consultation with the Treasury.

### H7. What role does the RBA play in the re-appointment process for Board members?

The register of potential candidates maintained by the Secretary to the Treasury and the Governor includes the name of the member whose term is about to end, unless that individual has informed the Governor that they do not wish to be considered for re-appointment. Prior to each appointment, our understanding is that the minute to the Treasurer, which is prepared by the Treasury and attaches the register, typically includes a comment on the case for reappointing the member whose term is about to end. The decision on the re-appointment is made by the Treasurer.

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[3] Previous speeches and Board discussions had noted that the three-year yield target was consistent with the Board's expectation that the cash rate would remain at a very low level for several years, and reinforced its forward guidance (see Governor's speech 18 March 2020; minutes of the March 2020 Board meeting; and Deputy Governor's speech 30 June 2020). This link was also discussed in the minutes of the November 2020 meeting, when the Board considered whether to extend the yield target to five years.

## H8. What is the process for onboarding new Board members? What materials are they provided?

Following advice of a formal appointment having been made, the RBA Secretary contacts the new Board member to commence the induction and onboarding process. This involves a meeting at which the new member signs an oath or declaration of allegiance and an RBA declaration of secrecy, both of which are requirements of the *Reserve Bank Act 1959*. At that meeting, the Secretary and Board Secretariat Senior Coordinator provide an overview of the role of the Board, and cover a range of administrative matters, including the format and security of Board meetings, logistics for the provision of Board papers, the process for reviewing and commenting on minutes of meetings, payment of remuneration and travel allowances, and access to the Head Office building.

A set of documents is also provided, comprising detailed briefing material for new Reserve Bank Board members (covering the functions and operations of the Bank, the role and composition of the Board, administrative matters, senior management, monetary policy, operations in financial markets, financial system stability, the Bank's annual accounts and profit distribution, and the Bank's business services); the Code of Conduct for Reserve Bank Board Members; the Reserve Bank Board Audit Committee Charter; the Reserve Bank Board Remuneration Committee Charter; the Note Printing Australia Limited Charter; the Reserve Bank of Australia Risk Appetite Statement; the Reserve Bank of Australia Corporate Plan; the Board's Monetary Policy Risk Register; the latest Reserve Bank of Australia Annual Report; the latest Payments System Board Annual Report; a user guide for the secure application used for the provision of Board papers; contact details for relevant staff; forms in relation to payment of remuneration and superannuation; and a letter of indemnity from the Governor. Links to the main governing statutes, namely the *Reserve Bank Act 1959* and the *Public Governance, Performance and Accountability Act 2013*, are also provided.

The new member is also invited to have introductory meetings with the Governor, Deputy Governor and the Assistant Governors who present to the Board on a regular basis, and the Secretary offers to facilitate additional meetings at the new member's discretion in the early months of their tenure on the Board.

# Request for Information

## 2. Implementation

### 2.1. Historical data on the cash rate assumptions underpinning SMP forecasts. *(Past 10 years)*

The following attachment has been provided to the Secretariat.

**Attachments: Cash Rate Assumptions for SMP**

| | |
|---|---|
| Cash Rate Technical Assumptions (2012 to 2022) | Internal document |

### 2.2. Daily OIS rates at 1, 2, 3, 4 and 5 year maturities. *(Past 5 years)*

The Bank is contractually restricted from releasing these data, and has provided information to help the Secretariat source these data directly from Bloomberg.

### 2.3. 'Monetary policy risk register' presented to the Board. *(Past 5 years)*

The Monetary Policy Risk Register, in addition to the annual reviews of register that are provided to the Board, are attached.

**Attachments: Monetary policy risk registers**

| | |
|---|---|
| Annual Review of the Monetary Policy Risk Register (2022) | Board paper |
| Annual Review of the Monetary Policy Risk Register (2021) | Board paper |
| Annual Review of the Monetary Policy Risk Register (2020) | Board paper |
| Annual Review of the Monetary Policy Risk Register (2019) | Board paper |
| Annual Review of the Monetary Policy Risk Register (2018) | Board paper |
| Annual Review of the Monetary Policy Risk Register (2017) | Board paper |

## 3. Governance

### 3.1. February 2016 Board paper on frequency and conduct of Board meetings.

The paper is attached.

**Attachments: February 2016 Board Paper on the Frequency and Conduct of Board Meetings**

| | |
|---|---|
| Frequency and Conduct of Board Meetings (2016) | Special board paper |

# 5. Institution

## 5.1. Results of risk culture self-assessments conducted by each department. *(Latest)*

The following attachments have been provided to the RBA Review Secretariat.

**Attachments: Risk Culture Self-Assessments**

| | |
|---|---|
| Risk Culture Department Self-Assessment Summary (2022) | Internal document |
| Secretary's Department Self-Assessment (2021) | Internal document |
| Economic Research Self-Assessment (2021) | Internal document |
| Finance Self-Assessment (2021) | Internal document |
| Payment Policy Self-Assessment (2021) | Internal document |
| Human Resources Self-Assessment (2021) | Internal document |
| Audit Department Self-Assessment (2021) | Internal document |
| Economic Group Self-Assessment (2021) | Internal document |
| Financial Markets Group Self-Assessment (2021) | Internal document |
| Information Technology Self-Assessment (2021) | Internal document |
| Financial Stability Self-Assessment (2021) | Internal document |
| Information Self-Assessment (2021) | Internal document |
| Payment Systems Self-Assessment (2021) | Internal document |
| Workplace Self-Assessment (2021) | Internal document |
| Banking Self-Assessment (2021) | Internal document |
| Risk Management Self-Assessment (2021) | Internal document |
| Note Issue Self-Assessment (2021) | Internal document |

### 5.2. Information about the proportion of staff who have been the subject of formal performance improvement processes, including splits by demographic (gender, level, CALD staff). *(Past 10 years)*

Table 1 presents the number of performance improvement plans (PIPs) by year since 2015 (when the historic data are first available). Note that PIP data provide only a partial picture of how underperformance is managed at the Bank. Other important aspects – such as the decision on whether a new staff member passes six-month probation, whether a graduate is offered ongoing employment at the end of the two-year graduate development program and whether contracts are renewed for senior staff (which has been especially pertinent for senior managers in recent years) – are also presented in the table. Each of these involves extensive performance feedback and review ahead of decision points, but without requiring a PIP to be established.

It should be noted that data on PIPs has not been systematically collected over the years. This is especially true for splits of these data by demographic (which are included as an attachment provided to the RBA Review Secretariat). Data on exits also do not explicitly record termination due to performance reasons (a proxy is used), and some staff on the Graduate Development Program may resign after being informed they will not receive an ongoing offer of employment after the program concludes. For these reasons, the RBA does not have high confidence in the accuracy of the data.

With those caveats in mind, the data suggests that there are no material trends in the management of underperformance over time, nor material differences across demographics.

**Table 1: Management of Underperformance, by year**

As at mid December 2022

| | Total PIPs[(a)] | | Dismissals during probation[(b)] | Total hires | Involuntary exits[(c)] |
|---|---|---|---|---|---|
| | | Of which: exited | | | |
| **2012** | n/a | n/a | 3 | 145 | 4 |
| **2013** | n/a | n/a | 1 | 151 | 3 |
| **2014** | n/a | n/a | 12 | 252 | 3 |
| **2015** | 6 | 5 | 11 | 219 | 4 |
| **2016** | 4 | 4 | 11 | 218 | 4 |
| **2017** | - | - | 4 | 220 | 5 |
| **2018** | 4 | 4 | 9 | 207 | 2 |
| **2019** | 2 | 2 | 9 | 222 | 4 |
| **2020** | 3 | 2 | 4 | 164 | 5 |
| **2021** | 5 | 3 | 5 | 207 | 0 |
| **2022** | 3 | 2 | 3 | 323 | 4 |
| **Total** | **27** | **22** | **72** | **2,328** | **38** |

(a) The data presented are the Bank's best estimate of staff on a performance improvement plan (PIP) because data are not stored in a central register (and therefore have to be manually compiled).

(b) Includes dismissals of graduates during their probation period.

(c) The Bank's central database does not explicitly record termination due to performance reasons. However, in the majority of cases where there are performance issues, staff contracts are not renewed and so 'end of contract' and dismissal are used to approximate numbers. For graduate staff, these data may exclude some staff who resign after being informed ahead of the end of the Graduate Development Program that they will not receive an offer of ongoing employment after the program concludes. This column also includes dismissals during probation.

Source: RBA.

**Attachments: Information about Underperformance Management**

| | |
|---|---|
| Data on underperformance management by demographics, 2012-22 | Internal document |

## 5.3. Internal documentation and initiatives around the promotion of more inclusive forums for staff to 'speak up', challenge and debate ideas. *(Past 5 years)*

**Policy-related forums**

There have been a range of forums introduced across the core policy areas in recent years to further promote inclusive discussion, challenge and debate. This is typically an area where Groups and Departments experiment with different ways of doing things, including new outlets for work and introducing or adapting meetings to encourage staff to express and debate views in a safe setting. Key examples in recent years include:

- The 'VoxEC' internal blog was established in 2014 for staff to publish short personal commentary on research and analysis being done in the Bank with a view to promoting an informed debate. This has served as a forum for staff to express individual views on a range of topics, including putting forward ideas that are more tentative than would typically be included in a note or providing observations on external or internal policy debate. Staff can participate either as an author or by commenting on posts. The blog is for staff both within and outside of Economic Group, and spans a wide set of policy-related topics. Around 350 posts have been published in the eight years since the blog was established. Along similar lines, different parts of the Bank have encouraged more work to be distributed as 'chatter pieces', 'micro-notes' or other similar output that are less formal and have less editorial input from management than typical 'analytical notes'.
- In 2018, Economic Research Department established 'challenge notes' in which staff were encouraged to challenge the current status quo with respect to monetary policy. These are circulated widely across the Policy Groups or posted on VoxEC. Over 2018–2019, Economic Group held quarterly challenge meetings, with two to three presenters selected from those who had circulated challenge notes over the preceding quarter for discussion with senior management, including the Governors. See question 5.5 for further details.
- Board 'read outs' by the Assistant Governors in Economic and Financial Markets, which have been run for many years, continue to serve as a forum for open policy discussion and debate in a less formal setting than pre-PDG. This meeting is chaired by a Graduate or Analyst who frames the topics for discussion each month (as is the case for some other meetings, including presentations on current work in Economic Group). In Financial Markets Group, the meeting has been moved to mid-month to better allow staff to discuss the key issues that should shape the subsequent policy recommendation. Financial Markets Group is also opening up an online chat group to allow staff to add to the debates after the policy discussion meeting and after the pre-PDG meeting, with summaries provided to senior staff who attend the PDG meeting itself.
- A number of the changes relating to pre-PDG in recent years (as outlined in the previous request for information) are relevant to supporting inclusive discussion and debate. For example: in EC meetings, it had been common practice for many years for two staff to be called upon to initiate the discussion by advocating for opposing policy positions; 'mixed section meetings' where two or more teams meet to discuss policy and pose questions ahead of the formal pre-PDG meeting;

an active focus by pre-PDG chairs on hearing from staff at all levels, including analysts; key discussion topics being provided in advance of pre-PDG to assist staff to consider the key issues before the meeting; and permitting analysts to see the monetary policy paper under supervision from their manager to better understand decisions and, through this, allow them to engage in policy debate more fully.

- Individual departments have established a range of discussion forums in recent years to facilitate open discussion and debate. These include regular 'catch up' style meetings (e.g. ID Catch Up, DM What's Up, EC's Friday Morning Coffee meeting and the FS Weekly Seminar), at which analysts or management provide updates on key policy and market developments in Australia and abroad, very early stage or more advanced analytical work, strategic priorities for work plans, and organisational topics within the Bank. These are designed to spark discussion and staff are encouraged to question and debate the issues, or raise new questions, and there is typically very active participation. In Financial Stability Department, new regular meetings in smaller groups have been set up where analysts have the opportunity to discuss policy issues with executives or receive feedback on early work. Other longstanding examples include topic specific forums, such as the cross group housing community and section-level 'reading groups' on economic/policy literature.
- The Gender Equity ERG carried out work over 2020–21 to study how inclusive meetings are in the core policy areas and develop recommendations. Staff interactions in meetings were studied at 160 internal meetings over an 11-month period. Consistent with results of other studies in the external literature, this work found that women made fewer contributions in meetings than men relative to their share of attendance, especially when there was a larger portion of men attending a meeting. In light of this analysis, new training will be introduced on chairing meetings in an inclusive manner and best practice for inclusive meeting etiquette.
- One of the key considerations for promotions at senior levels is a propensity to think and debate critically about policy issues, as captured by panel reviews supporting senior hiring decisions. More generally, 'Act With Courage' by 'cultivating a speak up culture' is now explicitly called out as a Core Capability for Executives in the Strategic Leadership Job Family.

**Organisational issues**

The Bank also has a range of mechanisms in place to encourage staff to speak up about organisational issues:

- Staff are encouraged to raise issues of concern during 'skip' meetings (in which they meet with the leader who manages their direct manager). Experience has been that this has encouraged staff to discuss any concerns they have had with their direct managers.
- Information about how staff can raise issues is highlighted on the intranet, including through the Speak Up initiative, and reporting on risk incidents and work health and safety incidents. Additionally, awareness is raised through compulsory training modules on risk and compliance, which are conducted on an annual cycle.
- The Speak Up network is a group of staff who provide guidance to staff more broadly about options for speaking up about concerns. Members of the network volunteer for this role and

receive training to assist them. They provide help on how to handle a problem or if a staff member wants to seek more information confidentially.

- The Bank is currently piloting a speak up training program in the Information Technology department. The program is designed to help individuals and teams to speak up and share ideas. Following the pilot, the program will be evaluated for Bank-wide implementation.
- There are also a number of issue-specific channels available for staff to report concerns (see Table 5 below).
- Finally, staff can also raise issues anonymously, including though FairCall, which is a specialist, independent service via an external provider, KPMG. Any concerns raised via this service are reported directly to the Deputy Governor.

There have been efforts in recent years to strengthen the Bank's culture around discussing organisational issues, and especially on ensuring this underpins effective risk management practices. Actions have included:

- Updating the Bank's Risk Appetite Statement, including a sharper focus on behaviours, informed decision-making and culture. This has been supported by a number of Bank-wide initiatives, including: sharing 'good news' stories (e.g. via the internal *Currency* email); continuing to share information around the activities of the Risk Management Committee; establishing a Risk Champion network to highlight first line risk ownership and, to some extent, help psychological safety; seeking to formalise the role of second line risk teams to support effective challenge.
- Developing a department-based risk self-assessment process to help departmental leadership and staff reflect on their practices and how these could be improved, including around identifying risks, analysing issues, reporting transparently and responding to incidents. Following these self-assessments, individual departments developed action plans.
- Strengthening reporting culture around risk incidents, including through changing the language to focus on lessons learned, and talking about the benefits of reporting with wider groups of staff. Feedback from staff focus groups highlight that staff feel more comfortable reporting risk incidents and near misses in recent years. However, continued progress is important in ensuring that staff who report an incident or near miss do not feel that their workload would increase or that there is any perception of blame (other than in instances of unethical behaviour or activity).

Ensuring the Bank's culture supports such discussion remains an area of ongoing focus. Progress on department action plans will be a focus of the second phase of department self-assessment work. Recent discussions at both the Audit Committee and Risk Management Committee have focused on whether the embedded second line teams and Risk Champions have sufficient ownership and seniority. More generally, progress in this area requires ongoing cultural change, increased familiarity and incentives to ensure staff feel their efforts are rewarded.

Finally, in October 2022 the Bank launched the 'VoxBank' internal blog. While the focus of VoxEC has been on economic/financial topics, the new blog provides an opportunity to share ideas and opinions on other matters relevant to the Bank. In launching the blog, the Deputy Governor emphasised that it provides an opportunity for cross-departmental collaboration and feedback, and is a forum for diverse and inclusive discussion of topics that are important to all staff. The creation of VoxBank followed feedback that staff were seeking such a forum.

**Table 5: Issue-Specific Channels for Reporting Issues**

| Issue | Alternative Channel |
| --- | --- |
| Fraud or other wrongdoing | The Governor, the Deputy Governor and the Heads of Financial Stability and Risk and Compliance departments are identified as Authorised Officers for the purposes of the *Public Interest Disclosure Act 2013*. Reporting concerns to one of these people or discussing them with a supervisor offers staff certain legal protections available under the Public Interest Disclosure scheme.<br>Staff can contact any of the Authorised Officers individually. Alternatively they can send an email to disclose@rba.gov.au, which will read by one of the Authorised Officers. |
| Conduct | • Head of HR<br>• Head of Employee Relations<br>• HR Business Partner |
| Privacy | • Privacy Officer |
| Work Health & Safety | • Service Desk – HR<br>• Safety and Wellbeing Team – HR |
| Suggestions | • Governor's Suggestion Box |

**Attachments: Speak Up and Challenge**

| | |
| --- | --- |
| How Inclusive are our Meetings? (ERG note) | Internal note |
| Speaking Up | Intranet page |

### 5.4. Internal ‘challenge notes’. *(Past 5 years)*

The internal challenge notes are attached.

**Attachments: Internal Challenge Notes**

| | |
|---|---|
| Are We Taking Enough Risk in Our Analysis? (2022) | Internal blog post |
| Modelling: Are we doing it right? (2021) | Internal blog post |
| Challenge Note – the RBA and Fiscal Policy (2020) | Internal note |
| Wealth is care for country. Wealth is care for community. Interactions between First Nations Economies and Settler land use (2020) | Internal blog post |
| Ergodicity Economics, or, When Expected Value Fails (2020) | Internal blog post |
| WFH: Benefits, Costs and Options (2020) | Internal blog post |
| Challenge – Reviewing External Critiques (2019) | Internal note |
| Blog Challenge: External critiques of monetary policy (2019) | Internal note |
| EC Challenge meeting – Statement of Conduct on Monetary Policy (2019) | Internal note |
| EC Challenge meeting – Credit Spreads, the Cash rate and Forecast errors (2019) | Internal note |
| Challenge note: Should monetary policy target debt (2019) | Internal note |
| We are a publishing company (2019) | Internal note |
| Reviewing the risks around the forecasts (2019) | Internal blog post |
| Improving communication: bringing forward the SMP publishing date (2019) | Internal blog post |
| The Statement on the Conduct of Monetary Policy should specify a dual mandate (2019) | Internal blog post |
| The Statement on the Conduct of Monetary Policy should require more transparency (2019) | Internal blog post |
| Our Monetary Policy Stance: Reviewing External Critiques (2019) | Internal blog post |
| Publishing analytical notes externally (2019) | Internal blog post |
| Reviewing our monetary policy regime (2019) | Internal blog post |
| Who Should Sit on the Reserve Bank Board? (2019) | Internal blog post |
| Can We Help The Board Make the Best Choice? Beyond Forecasting | Internal blog post |
| Challenge Note: examining the leader laggard hypothesis in Australia (2018) | Internal note |
| Challenge Note: Turning the tables on the SMP forecast tables (2018) | Internal note |
| Who do we listen to when we speak? (2018) | Internal blog post |

| | |
|---|---|
| Strengthening our Culture of Intelligent Inquiry and Speaking Up (2018) | Internal note and email |

### 5.5. Results of the 'Whistle while you work?' survey.

The overview document for the Integrity@WERQ survey organised by Griffith University is attached.

**Attachments: Integrity@WERQ survey**

| | |
|---|---|
| Integrity@WERQ Guide Griffith University (2017) | Internal document |

### 5.6. Job/role families outlining capabilities required at different levels and for progression. *(Latest)*

The following attachments have been provided to the RBA Review Secretariat.

**Attachments: Job Family Library and Profiles**

| | |
|---|---|
| Job Profile Library | Internal document |
| Job Profile – Analysis (Economics, Commerce and Finance) | Internal document |
| Job Profile – Leadership (Management) | Internal document |
| Job Profile – Leadership (Executive) | Internal document |