

## **Glenn Stevens: Remarks to Parliamentary Joint Committee on the Australian Commission for Law Enforcement Integrity**

Remarks by Mr Glenn Stevens, Governor of the Reserve Bank of Australia, to the Parliamentary Joint Committee on the Australian Commission for Law Enforcement Integrity, Canberra, 30 November 2012.

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Madam Chair

Members of the Committee

Thank you for the opportunity to attend today and for the opportunity to make a few introductory remarks.

The Committee posed a number of questions to the Reserve Bank, some in relation to the lessons from the corruption allegations against Note Printing Australia (NPA) and Securrency, and the majority in relation to the Bank's offshore operations. The Bank responded to these questions in late May.

In regard to the corruption allegations, the companies have extended their full cooperation to the legal authorities. They have also done a great deal of work to reform policies and compliance over the past several years. Of course, these matters remain before the Courts.

A key learning point for the Reserve Bank from these events is the extent of possible risks that can come from operating commercial ventures which export to a range of foreign jurisdictions. This has caused the Reserve Bank to re-evaluate its risk appetite insofar as such entities are concerned.

As for the offshore operations of the Reserve Bank itself, there are three of them: in London, New York and, recently, Beijing. Of those three, the operations in London and New York are the largest and carry the greatest risks for the Bank. Those risks are overwhelmingly of a financial and operational nature, since a major part of those offices' function is to manage the bulk of the Bank's foreign currency assets. The key people in those offices are Australian staff well trained in the Bank's policies and controls for such activities.

The Beijing office is, at this stage, small, purely representational, and is operated out of the Australian Embassy there, with the various protocols and controls associated with that. The staff there, who are bound by the Bank's Code of Conduct, also received appropriate training from the Department of Foreign Affairs and Trade.

The Bank's control environment for the London and New York offices has been configured appropriately for the risks these offices take, with detailed policies, procedures and controls. As a general observation, given the nature of the operations and the jurisdictions in which they are operating, the risks of corruption in the London and New York offices are considered generally to be inherently no more, and no less, than associated with like activities in Head Office. That said, risks of any operation can increase with remoteness and, for this reason, there is, on a daily basis, close monitoring from Head Office of all transactions undertaken in London and New York. Extensive, on-the-ground auditing of these operations occurs every year.

As to the integrity framework generally, the Bank has a Code of Conduct, which governs all the staff. Staff receive training in the requirements of the Code and additionally are required periodically to re-familiarise themselves with it. As it happens, a new version of this Code has recently been rolled out, following an extensive review. There is also a comprehensive Fraud Control Framework, which includes a Fraud Policy and a Reporting Fraud and Unethical Behaviour Policy. The Bank has drawn upon the relevant Australian standards and best practice guidelines, including the Commonwealth Fraud Control Guidelines and the

Commonwealth Procurement Rules, in preparing and implementing its policies and its fraud risk management framework.

Those policies place an obligation on staff to report any concerns they may have regarding compliance or unethical or illegal behaviour. There is an automatic process of escalation of such concerns, once expressed, to the Deputy Governor, and there are externally operated phone numbers staff can call if they wish to remain anonymous. The Bank undertakes to protect those who raise such concerns in good faith. Staff operating in the overseas offices, including locally recruited staff, are bound by these policies and the Code of Conduct. Staff in overseas offices are also, of course, bound by the laws of the country in which they reside. There is more detail in our responses to the Committee's questions on notice, supplied in late May.

The Committee also asked about corruption risks associated with the Reserve Bank's participation in global and regional forums, in which participation has increased considerably over recent years. These are forums such as the G-20, the Financial Stability Board, the Asian central bank group known as EMEAP, and international institutions such as the Bank for International Settlements, the IMF and so on. We believe the risks of corruption in such activities are inherently low, and made lower by appropriate controls on the way participation is conducted.

I would be pleased to respond to any questions members of the Joint Committee might have.