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SYDNEY NSW 2001

RESERVE BANK OF AUSTRALIA

~~PRIVATE AND CONFIDENTIAL~~

17 September 2010

The Hon Wayne Swan MP
Treasurer
Suite MG 41
Parliament House
CANBERRA ACT 2600

Dear Treasurer,

I am writing to you on behalf of the Reserve Bank Board in relation to two matters concerning the remuneration of the Governor and Deputy Governor.

First, I want to bring to your attention the increased disclosure on remuneration contained in this year's Annual Report. A copy of the relevant section of this year's Report is attached; as agreed, the Report will be tabled on 28 October. The more detailed information on remuneration will become public at that time. The commercial accounting standard on which the Bank reports does not require such detailed information, but the Board decided on this increased disclosure as appropriate in the interest of good governance.

The Report notes that the Board approved an increase to the salary of the Governor and Deputy Governor of 3 per cent last financial year. This was a decision taken by the non-executive members of the Board, on the advice of the Board's Remuneration Committee. As is customary, the Governor, Deputy Governor and the Secretary to the Treasury did not take part in this process or in the decision. The 2009 decision was based on the view that a modest increase was appropriate. The Board informs the President of the Remuneration Tribunal of these decisions.

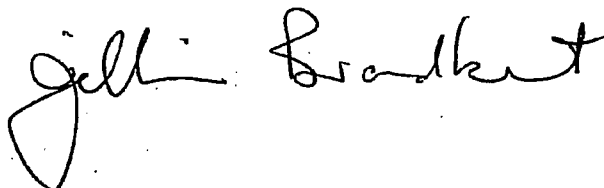
The Report also notes that, following a comprehensive review of the remuneration of the Governor and Deputy Governor in 2008, the Board initiated a substantial restructuring of remuneration. The aim was to make the remuneration of these positions more transparent by removing longstanding non-cash benefits and replacing them with salary. Taking into account the details of this review and the significance and responsibilities of the positions, the Board increased the total remuneration of the Governor and Deputy Governor for 2008/09.

The second reason for writing is to express the Board's serious concerns about the possibility that responsibility for the remuneration of senior officers of the Reserve Bank be moved away from the Bank's Board to the general ambit of the Remuneration Tribunal. Our reasons for concern are as follows:

- Current practice and relativities of Reserve Bank remuneration have worked very well for Australia since they were established in the late 1980s by Treasurer Keating. These relativities were adopted to address the acute staffing difficulties that the Bank experienced in the 1980s, as staff were competed away by higher-paying jobs in the finance sector. The relativities today are much the same as those established by Treasurer Keating.
- The framework put in place by Treasurer Keating, under which the Reserve Bank Board has been taking its decisions, recognised that the relevant comparisons for Reserve Bank remuneration are not against mainstream government agencies but government business enterprises and other financial institutions. In this regard, the remuneration of the Reserve Bank's executives is generally below that of their peers either in the Future Fund, Australia Post and certainly the private sector.
- Attracting and retaining top financial talent into government in Sydney is a challenge. Salary levels and the quality of the Bank's officers are interdependent.
- These current arrangements have been instrumental to the Reserve Bank's high standing and respect, on both a national and international level. Changing current responsibilities on remuneration would jeopardise the calibre of Reserve Bank officers and the Bank's high standing.

The Board considers its remuneration decisions seriously. The Board believes that the current remuneration framework for the Bank is crucial to the Bank's continuing capacity to carry out its duties to the standards required, and would see any move to unwind it as undermining the capacity of the Bank to do so.

Yours sincerely



Jillian Broadbent AO
Member, Reserve Bank Board
Member, Remuneration Committee

Encl

cc - Mr Corbett
- Mr McGauchie