

Glossary

Bearer Securities

A negotiable instrument, akin to cash, which evidences a payment obligation to be met, on presentation, at designated dates.

Cash Value

The amount of money for which a security is issued or bought.

Commonwealth Government Securities (CGS)

The Commonwealth issues stock to the public in the form of Treasury Fixed Coupon Bonds, Treasury Adjustable Rate Bonds, Treasury Indexed Bonds and Treasury Notes. The prospectuses under which these borrowing instruments are issued set out the terms and conditions of issue, including obligations of the Commonwealth as to the payment of interest and the payment of principal. Stock is now issued domestically only in the form of Inscribed Stock ie, holdings are inscribed on a register at the Reserve Bank of Australia. Until 1984, stock was also issued in bearer form and bearer stock remains outstanding for a number of CGS lines. CGS denominated in foreign currencies has also been issued in the past, under loan documentation specific to the particular issue. There remains stock outstanding from these borrowings, the last of which was undertaken in 1987.

Commonwealth Marketable Debt

Total CGS on issue less CGS on issue for the States and the Territories, CGS held by the Commonwealth Trust Fund, Peace Savings Certificates, overdue CGS and Income Equalisation Deposits.

Commonwealth Public Account (CPA)

All Commonwealth Government accounting transactions are recorded in this account, which comprises the Consolidated Revenue Fund, the Trust Fund and the Loan Fund. This is the main bank account of the Commonwealth, maintained at the RBA.

Consolidated Revenue Fund (CRF)

This is the principal working fund of the Commonwealth into which all taxation revenues, fees and other non-tax receipts are paid. The CRF is the Fund through which the bulk of government expenditure takes place.

Credit Risk

Credit risk is the risk of financial loss arising from a counterparty to a transaction defaulting on its financial obligations under that transaction. Credit risk is contingent on both a default taking place and there being a pecuniary loss as a result. The Commonwealth faces credit risk, as a part of its debt management activities, only in respect of swap counterparties in its swap derivative transactions.

Debt Retirement Reserve Trust Account (DRRTA)

The account was established under the *Financial Agreement Act 1994* to handle the redemption of CGS on issue for the States and the Northern Territory. Funding of the account is from State and Territory contributions, Commonwealth contributions on their behalf, and interest on balances. From July 1995, the DRRTA replaced the National Debt Sinking Fund and the Northern Territory Debt Sinking Fund through which the redemption of CGS on issue respectively for the States and the Northern Territory was previously administered.

Discount

The amount by which the value of a security is less than its face, or par, value.

Face Value

The amount of money indicated on a security, or inscribed in relation to a security, as being due to be paid on maturity.

Funding Risk

Funding risk is the risk that an issuer is unable to raise funds, as required, in an orderly manner and without financial penalty. The Commonwealth faces funding risk in respect of the primary issuance, typically in tender processes, of its full range of debt instruments. Funding risk encompasses both long-term fund raising to cover budget deficits and the short-term funding or cash management implications of mismatches in the timing of government outlays and receipts.

Income Equalisation Deposits

A form of interest paying investment available to Primary producers. The deposits are repayable at the request of the depositor at any time after the expiration of 12 months from the date of deposit.

Internal Treasury Bills

These are issued by the Commonwealth as security for the investment of moneys in the Trust Fund. They enable a transfer of moneys between the component funds of the Commonwealth Public Account so that the required balancing of those funds at 30 June is achieved.

Liquidity Risk

Liquidity risk is the risk of financial loss that could occur should the debt portfolio require restructuring. Liquidity is the ease with which one financial claim can be exchanged for another as a result of the willingness of third parties to transact in this debt. The Commonwealth faces liquidity risk with respect to transactions in existing debt such as debt repurchases prior to maturity.

Loan Consolidation and Investment Reserve (LCIR)

Established as a separate trust account within the Trust Fund. Funding of the Reserve is from appropriations from the CRF and income on its investments. The funds of the LCIR are devoted to the redemption of, or investment in, Commonwealth Government securities.

Loan Fund (LF)

The fund into which the proceeds of borrowings undertaken upon the public credit of the Commonwealth are paid.

Market Risk

Market risk, from an issuer's perspective, is the risk that once debt has been issued, financial market prices may move such that either debt service costs increase directly or the opportunity to reduce debt service costs is missed. The Commonwealth faces two main sources of market risk— interest rate risk and exchange rate risk.

Market Value

The amount of money for which a security trades in the market at a particular point of time.

Modified Duration

A measure of the sensitivity of the market value of a debt security to a change in interest rates. Measured as the percentage change in the market value of a debt instrument in response to a one percentage point change in nominal interest rates.

Net Commonwealth Debt

CGS on issue for the Commonwealth less the Commonwealth's holdings of its own debt. These holdings are by the Commonwealth Trust Fund, predominantly the LCIR, and consist of Treasury Fixed Coupon Bonds on allocation for the States and the Territories, holdings of CGS denominated in Netherlands Guilders and Internal Treasury Bills.

Operational Risk

Operational risk is the risk of financial loss arising from the transaction, settlement and resource management processes associated with debt management. This broad definition includes risks such as fraud risk, settlement risk, legal risk, accounting risk, personnel risk and reputational risk. Operational risk is contingent on both an operational failure occurring and there being a resultant financial loss.

Overdues

Securities which have passed their maturity date but remain unrepresented by stock holders. The Commonwealth repays the stock when presented, though no further interest accrues on the stock following the maturity date.

Peace Savings Certificates

Securities issued during the Second World War. Their terms and conditions are akin to a passbook savings account where the interest is capitalised each year.

Premium

The amount by which the value of a security is above its face, or par, value.

State Domestic Raisings (SDR)

These were issued by the governments of Queensland and Tasmania to the then Commonwealth Savings Bank under, respectively, the Savings Bank Amalgamation Agreement and the State Savings Bank Transfer Agreement. Under the *Financial Agreement Act 1994*, SDRs are administered as CGS by the Commonwealth on behalf of Queensland and Tasmania.

Swap

A swap is a financial transaction in which two counterparties agree to exchange streams of payments occurring over time according to predetermined rules. Swaps are used, for liability management purposes, to change the currency and/or interest rate exposure associated with existing loans.

Tax Free Stock (TFS)

Stock with no fixed date of maturity issued by the New South Wales, Victorian and South Australian Governments prior to 1 January 1924. The stock may be sold at a market related price through the Small Investor Repurchase Facility operated by the RBA. Under the *Financial Agreement Act 1994*, Tax Free Stock is administered as CGS by the Commonwealth on behalf of the State Governments.

Trust Fund (TF)

Accounts within the Trust Fund comprise moneys held in trust for persons and authorities other than the Commonwealth Government; working accounts covering certain Commonwealth Government quasi-commercial activities; and other moneys held in trust to meet future expenditure such as moneys in the DRRTA and the LCIR.

Treasury Adjustable Rate Bond (TAB)

This is a medium to long-term security that carries an interest rate which is adjusted quarterly in line with movements in Bank Bill rates, payable on the face value of the security. TABs are repayable at face value on maturity.

Treasury Fixed Coupon Bond

This is a medium to long-term security that carries a rate of interest fixed over the life of the security, payable on the face, or par, value of the security. The bonds are repayable at face value on maturity.

Treasury Indexed Bond (TIB)

This is a medium to long-term security issued in the form of a Capital Indexed Bond. The nominal value of the security, on which a fixed rate of interest applies, varies over time according to movements in the Consumer Price Index. At maturity, the adjusted capital value of the Bonds is paid. In the past, Treasury Indexed Bonds were also issued in the form of Interest Indexed Bonds, some of which are yet to mature. These Bonds carry a nominal rate of interest, which varies over time according to movements in the Consumer Price Index, and are repayable at face value on maturity.

Treasury Note (TN)

Treasury Notes are issued with maturities of 5, 13, and 26 weeks. The Notes are issued at a discount and redeemable at par on maturity. The 'interest' payable on the Notes is represented by the difference between their issue value and their par or face value. Treasury Notes are issued to cover mismatches between the Commonwealth's outlay and revenue streams throughout the year.

War Savings Certificates (WSC)

War Savings Certificates were securities issued in bearer form to raise funds during the World Wars. The securities had maturities ranging from 3 to 10 years in the case of the First World War and 5 to 7 years in the case of the Second World War. Certificates were purchased at a discount, with interest being incorporated in the face value of the certificate payable at maturity. Outstanding WSC are classified as overdue securities.