

COMMONWEALTH GOVERNMENT SECURITIES ON ISSUE FOR THE STATES AND THE TERRITORIES

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The Nature of the Debt

Until July 1990, the Commonwealth borrowed on behalf of the State and Territory Governments and allocated a portion of the proceeds of its Treasury Fixed Coupon Bond raisings to those Governments to fund the redemption of previous allocations of CGS and, until 1986, also as new money borrowings. The States and the Territories are responsible for meeting all obligations as to interest and principal on the CGS on allocation to them.

In addition to the CGS represented by the Commonwealth's Treasury Fixed Coupon Bond raisings, there are outstanding balances of Tax Free Stock for New South Wales, Victoria and South Australia. This is stock with no fixed date of maturity which was issued by State Governments prior to 1 January 1924. Further, Queensland and Tasmania have repayment obligations to the Commonwealth Bank in relation to previous loans (State Domestic Raisings) under the Savings Bank Amalgamation Agreement (Queensland) and the State Savings Bank Transfer Agreement (Tasmania), South Australia has outstanding Sterling debt which was issued at the turn of the century and which matures at the Treasurer's option, and there are overdue Sterling stock, Treasury Fixed Coupon Bonds, Australian Savings Bonds and Special Bonds on issue for New South Wales.

Nominal allocations of securities were made to the Australian Capital Territory in respect of general purpose capital advances made to it in 1988-89 and 1989-90, as part of the arrangements for ACT self-government; that nominally allocated debt which comprises \$14.0 million of Treasury Fixed Coupon Bonds maturing on 15 July 1999 and \$12.7 million of Treasury Fixed Coupon Bonds maturing on 15 July 2000, has been included in the tables of the debt outstanding for the Commonwealth in Appendix 6.

Important areas of State and Territory debt, such as advances for housing made by the Commonwealth under Housing Agreements, are not evidenced by the issue of securities, and therefore do not appear in this document. Other examples are specific purpose capital payments made to the States on terms and conditions involving the payment of interest and repayment of capital to the Commonwealth. Debt of semi-government and local authorities of the States and Territories is also excluded, as is the debt of other bodies guaranteed by Governments.

Provisions for Debt Redemption

Following a decision of the Loan Council, from July 1990 the States and Territories have been required to make sufficient payments to the Commonwealth to enable the redemption, at its maturity, of all CGS on issue for them.

The annual funding of the redemption of State and Territory debt is governed by the *Financial Agreement Act 1994* under which the Commonwealth contributes at the rate of 0.28 per cent of the net CGS debt outstanding for the State/Territory at the previous 30 June and the States and the Northern Territory contribute at the rate of 0.85 per cent. Supplementary contributions by the States and the Northern Territory, net of these formula contributions and interest earnings on cash balances, are determined by the volume of maturing debt.

Redemption of the CGS nominally allocated to the ACT is administered in a manner consistent with the conditions applying to the States and the Northern Territory, but outside the Debt Retirement Reserve Trust Account (DRRTA), part of the Reserved Money Fund, through which CGS debt on issue for the States and the Northern Territory has been administered since 1 July 1995.

Debt Redemption in 1997-98 and Securities Outstanding

For each State and the Northern Territory, particulars of the debt redemption effected in 1997-98, and the debt outstanding at 30 June 1998, are set out below.

Table 1: Debt Redemption for New South Wales in 1997-98

Summary of Transactions		\$
Opening DRRTA Balance		479 173.07
Income		
State Contributions		
- Standard		15 050 290.00
- Supplementary		1 649 634 205.91
Commonwealth Contributions		4 957 743.00
Interest Earnings		34 014.39
Total Income		1 669 676 253.30
Total Expenditure		1 665 907 689.04
Closing DRRTA Balance		4 247 737.33

Debt Redemption by Security

Rate per cent	Maturity Date	Face Value \$	Cost \$
<i>Tax Free Stock</i>			
2.325	Optional	1 000.00	623.60
2.7125	Optional	600.00	436.50
3	Optional	200.00	154.20
3.1	Optional	12 871.00	9 483.14
<i>Australian Savings Bonds</i>			
9.25	1 Jul 85	20.00	20.00
9.25	1 Jul 87	1 000.00	1 000.00
10.25	1 Apr 88	200.00	200.00
12.25	1 Dec 88	5 760.00	5 760.00
12.25	1 May 89	20.00	20.00
<i>Treasury Fixed Coupon Bonds</i>			
10.4	15 May 86	4 000.00	4 000.00
8.8	15 Jul 97	7 088 800.00	7 088 800.00
13.5	15 Aug 97	9 340 243.55	9 340 243.55
12.5	15 Sep 97	153 671 065.47	153 671 065.47
12.5	15 Jan 98	215 499 008.78	215 499 008.78
13.0	15 Apr 98	3 534 567.80	3 534 567.80
12.0	15 Jul 99	505 500 000.00	568 214 980.00
13.0	15 Jul 00	509 700 000.00	613 994 546.00
12.0	15 Nov 01	77 900 000.00	94 542 780.00
Total		1 482 259 356.60	1 665 907 689.04

Table 2: Debt Redemption for Victoria in 1997-98

Summary of Transactions		\$
Opening DRRTA Balance		3 936 473.03
Income		
State Contributions		
- Standard		588 992.00
- Supplementary		0.00
Commonwealth Contributions		194 021.00
Interest Earnings		201 548.82
Total Income		984 561.82
Total Expenditure		31 814.70
Closing DRRTA Balance		4 889 220.15

Redemption of Tax Free Stock

Rate per cent	Maturity Date	Face Value \$	Cost \$
2.325	Optional	15 454.00	9 228.67
2.7125	Optional	600.00	398.81
3	Optional	34 562.00	22 187.22
Total		50 616.00	31 814.70

Table 3: Debt Redemption for Queensland in 1997-98

Summary of Transactions		\$
Opening DRRTA Balance		201 761.57
Income		
State Contributions		
- Standard		3 597 697.00
- Supplementary		46 275 208.69
Commonwealth Contributions		1 185 124.00
Interest Earnings		9 862.89
Total Income		51 067 892.58
Total Expenditure		50 928 733.60
Closing DRRTA Balance		340 920.55

Redemption of State Domestic Raisings

Rate per cent	Maturity Date	Face Value \$	Cost \$
Variable	Various	50 928 733.60	50 928 733.60
Total		50 928 733.60	50 928 733.60

Table 4: Debt Redemption for Western Australia in 1997-98

Summary of Transactions		\$
Opening DRRTA Balance		274 839.02
Income		
State Contributions		
- Standard		3 622 067.00
- Supplementary		104 003 286.25
Commonwealth Contributions		1 193 152.00
Interest Earnings		9 789.80
Total Income		108 828 295.05
Total Expenditure		107 684 066.77
Closing DRRTA Balance		1 419 067.30

Redemption of Treasury Fixed Coupon Bonds

Rate per cent	Maturity Date	Face Value \$	Cost \$
13.5	15 Aug 97	6 156 265.68	6 156 265.68
12.5	15 Sep 97	39 948 481.00	39 948 481.00
12.5	15 Jan 98	60 983 822.25	60 983 822.25
13.0	15 Apr 98	595 497.84	595 497.84
Total		107 684 066.77	107 684 066.77

Table 5: Debt Redemption for South Australia in 1997-98

Summary of Transactions		\$
Opening DRRTA Balance		141 142.21
Income		
State Contributions		
- Standard		3 721 707.00
- Supplementary		80 987 840.90
Commonwealth Contributions		1 225 974.00
Interest Earnings		6 009.77
Total Income		85 941 531.67
Total Expenditure		85 351 022.63
Closing DRRTA Balance		731 651.25

Debt Redemption by Security

Rate per cent	Maturity Date	Face Value \$	Cost \$
<i>Tax Free Stock</i>			
2.325	Optional	62 360.00	34 454.76
3	Optional	11 359.00	8 063.93
<i>Treasury Fixed Coupon Bonds</i>			
8.8	15 Jul 97	12 728 000.00	12 728 000.00
13.5	15 Aug 97	6 035 124.28	6 035 124.28
12.5	15 Sep 97	53 414 569.94	53 414 569.94
12.5	15 Jan 98	11 819 850.51	11 819 850.51
13.0	15 Apr 98	1 306 253.32	1 306 253.32
Total		85 377 517.05	85 346 316.74
<i>Sterling Stock</i>			
3	Optional	4 545.45	4 705.89
Total			85 351 022.63

Table 6: Debt Redemption for Tasmania in 1997-98

Summary of Transactions		\$
Opening DRRTA Balance		127 854.45
Income		
State Contributions		
- Standard		3 674 722.00
- Supplementary		86 091 701.68
Commonwealth Contributions		1 210 497.00
Interest Earnings		5 196.03
Total Income		90 982 116.71
Total Expenditure		89 922 548.20
Closing DRRTA Balance		1 187 422.96

Debt Redemption by Security

Rate per cent	Maturity Date	Face Value \$	Cost \$
<i>State Domestic Raisings</i>			
Various	Various	5 749 000.00	5 749 000.00
<i>Treasury Fixed Coupon Bonds</i>			
8.8	15 Jul 97	6 694 000.00	6 694 000.00
13.5	15 Aug 97	3 928 317.25	3 928 317.25
12.5	15 Sep 97	28 707 738.28	28 707 738.28
12.5	15 Jan 98	44 151 946.80	44 151 946.80
13.0	15 Apr 98	691 545.87	691 545.87
Total		89 922 548.20	89 922 548.20

Table 7: Debt Redemption for the Northern Territory in 1997-98

Summary of Transactions		\$
Opening DRRTA Balance		49 088.92
Income		
Territory Contributions		
- Standard		1 301 711.00
- Supplementary		36 180 060.34
Commonwealth Contributions		428 799.00
Interest Earnings		2 811.00
Total Income		37 913 381.34
Total Expenditure		37 897 882.58
Closing DRRTA Balance		64 587.68

Redemption of Treasury Fixed Coupon Bonds

Rate per cent	Maturity Date	Face Value \$	Cost \$
13.5	15 Aug 97	3 003 231.53	3 003 231.53
12.5	15 Sep 97	5 780 289.59	5 780 289.59
12.5	15 Jan 98	28 699 599.20	28 699 599.20
13.0	15 Apr 98	414 762.26	414 762.26
Total		37 897 882.58	37 897 882.58

Table 8: Government Securities on Issue for New South Wales at 30 June 1998

	Rate per cent	Maturity Date	Face Value \$'000
Treasury Fixed Coupon Bonds			
	13.5	15 Jul 98	5 474
	14.5	15 Sep 98	2 478
	14	15 Apr 99	..
1998-99			7 951
	12	15 Jul 99	28
	5.4	15 Feb 00	5 795
	13	15 Feb 00	68 587
1999-00			74 410
	13	15 Jul 00	2
	13	15 Dec 00	13 039
	7	15 Feb 01	34 375
2000-01			47 416
	12	15 Nov 01	26
2001-02			26
	5.25	15 Jul 03	20 839
	5.25	15 Feb 04	20 966
	5.4	15 May 04	18 996
2003-04			60 801
	6	15 Jul 05	67 421
	7	15 Jul 05	22 294
2005-06			89 715
Total Treasury Fixed Coupon Bonds			280 320
Tax Free Stock			8 359
Overdues			159
Overdue Sterling Stock (a)			5
Total Stock on Issue			288 843

(a) Australian dollar equivalent at 30 June 1998 using exchange rate indicated in Appendix 6.

.. nil to less than \$500.

Table 9: Government Securities on Issue for Victoria at 30 June 1998

	Rate per cent	Maturity Date	Face Value \$'000
Treasury Fixed Coupon Bonds			
	7	15 Feb 01	26 264
2000-01			26 264
	5.25	15 Jul 03	26 236
	6.5	15 Jul 03	2 450
	5.25	15 Feb 04	16 276
2003-04			44 961
Total Treasury Fixed Coupon Bonds			71 225
Tax Free Stock			1 954
Total Stock on Issue			73 179

Table 10: Government Securities on Issue for Queensland at 30 June 1998

Year of Contractual Obligation	\$'000
State Domestic Raisings	
1998-99	30 767
1999-00	33 158
2000-01	47 558
2001-02	49 177
2002-03	30 852
2003-04	113 369
2004-05	67 650
Total	372 532
Total Stock on Issue	372 532

Table 11: Government Securities on Issue for Western Australia at 30 June 1998

	Rate per cent	Maturity Date	Face Value \$'000
Treasury Fixed Coupon Bonds			
	14.5	15 Sep 98	709
	14	15 Apr 99	6 960
1998-99			7 670
	12	15 Jul 99	132 281
	13	15 Feb 00	16 805
	13	15 May 00	18 762
1999-00			167 848
	13	15 Jul 00	116 056
	13	15 Dec 00	2 603
2000-01			118 659
	5.25	15 Jul 01	..
	12	15 Nov 01	16 389
2001-02			16 389
	5.25	15 Jul 03	5 265
	6.5	15 Jul 03	..
	5.25	15 Feb 04	2 885
	5.4	15 May 04	..
2003-04			8 151
	6	15 Jul 05	..
2005-06			..
Total Treasury Fixed Coupon Bonds			318 716
Total Stock on Issue			318 716

.. nil to less than \$500.

Table 12: Government Securities on Issue for South Australia at 30 June 1998

	Rate per cent	Maturity Date	Face Value \$'000
Treasury Fixed Coupon Bonds			
	14	15 Apr 99	5 821
1998-99			5 821
	12	15 Jul 99	111 349
	5.4	15 Feb 00	3 626
	13	15 Feb 00	22 425
	13	15 May 00	24 233
1999-00			161 633
	13	15 Jul 00	74 276
	13	15 Dec 00	3 625
	7	15 Feb 01	1 539
2000-01			79 440
	5.25	15 Jul 01	23 882
	12	15 Nov 01	18 042
2001-02			41 925
	5.25	15 Jul 03	13 761
	6.5	15 Jul 03	1 321
	5.25	15 Feb 04	8 839
	5.4	15 May 04	9 434
2003-04			33 356
	6	15 Jul 05	27 981
	7	15 Jul 05	968
2005-06			28 949
Total Treasury Fixed Coupon Bonds			351 124
Tax Free Stock			354
Overdue Sterling Stock(a)			1 368
Total Stock on Issue			352 846

(a) Australian dollar equivalent at 30 June 1998 using exchange rate indicated in Appendix 6.

Table 13: Government Securities on Issue for Tasmania at 30 June 1998

	Rate per cent	Maturity Date	Face Value \$'000
Treasury Fixed Coupon Bonds			
	13.5	15 Jul 98	1 187
	14.5	15 Sep 98	537
	14	15 Apr 99	4 760
1998-99			6 485
	12	15 Jul 99	99 306
	5.4	15 Feb 00	2 033
	13	15 Feb 00	14 931
	13	15 May 00	15 811
1999-00			132 082
	13	15 Jul 00	97 801
	13	15 Dec 00	2 812
	7	15 Feb 01	7 461
2000-01			108 074
	5.25	15 Jul 01	12 103
	12	15 Nov 01	15 364
2001-02			27 467
	5.25	15 Jul 03	7 990
	6.5	15 Jul 03	651
	5.25	15 Feb 04	4 883
	5.4	15 May 04	4 701
2003-04			18 225
	6	15 Jul 05	1 660
	7	15 Jul 05	5 557
2005-06			7 217
Total Treasury Fixed Coupon Bonds			299 548

Table 13: Government Securities on Issue for Tasmania at 30 June 1998 — continued

Year of Contractual Obligation	\$'000
State Domestic Raisings	
1998-99	4 554
1999-00	4 462
2000-01	3 305
2001-02	3 895
2002-03	943
2003-04	18 463
2004-05	7 355
Total	42 977
Total Stock on Issue	342 526

Table 14: Government Securities on Issue for the Northern Territory at 30 June 1998

	Rate per cent	Maturity Date	Face Value \$'000
Treasury Fixed Coupon Bonds			
	13.5	15 Jul 98	1 488
	14.5	15 Sep 98	673
	14	15 Apr 99	1 815
1998-99			3 976
	12	15 Jul 99	28 043
	13	15 Feb 00	11 528
	13	15 May 00	12 498
1999-00			52 069
	13	15 Jul 00	47 403
	13	15 Dec 00	1 872
2000-01			49 274
	12	15 Nov 01	9 974
2001-02			9 974
Total Treasury Fixed Coupon Bonds			115 294
Total Stock on Issue			115 294

THE LOAN CONSOLIDATION AND INVESTMENT RESERVE (LCIR)

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Introduction

The Reserve was established under the *Loan Consolidation and Investment Reserve Act 1955* as a separate trust account within the Trust Fund, now the Reserved Money Fund. It receives its funds mainly from appropriations from the Consolidated Revenue Fund (CRF) and also receives income from its investments in CGS. The main function for which the LCIR was established was to redeem or repurchase CGS, so reducing the amount of the Commonwealth public debt; it was established at a time when very large amounts of war debt were approaching maturity. The fund operates as a pivot in Commonwealth accounting arrangements by:

- receiving surplus funds of the CRF in accordance with *Appropriation Act No.1*;
- investing in Internal Treasury Bills (ITB) for end-year balancing of the Commonwealth's accounts (see below);
- investing in Commonwealth securities; and
- engaging in switches of securities with the RBA.

LCIR Holdings of CGS

The Commonwealth repurchased certain of its outstanding bonds denominated in foreign currencies in a number of financial markets between 1987-88 and 1990-91 in order to reduce its liabilities by a larger amount than would have been possible through scheduled maturities, sinking fund options and early calls. All bonds acquired were cancelled, with the exception of those from four public Netherlands Guilder loans. Because the agreements under which these loans were issued expressly precluded early redemption, the stock has been held as an investment by the LCIR. It is the only foreign currency liability so held. Although still on issue, the holding does not constitute a liability for the Commonwealth.

The LCIR held \$3,064 million face value of Treasury Fixed Coupon Bonds at 30 June 1998, an increase of \$3,051 million from 30 June 1997. The holdings, the majority of which were repurchased during 1997-98, do not constitute liabilities for the Commonwealth.

At the end of each financial year, the Commonwealth issues, as necessary, Internal Treasury Bills to enable the transfer of moneys between Funds within the Commonwealth Public Account (CPA), to satisfy the requirement that

none of the elements of the CPA end the year in deficit. In practice, the LCIR has been the principal investor in ITBs. The Bills are issued with effect of 30 June and are redeemed immediately at the commencement of the new financial year. While an interest rate of 1 per cent per annum attaches to the Bills, in view of their virtually instantaneous redemption, in practice no interest payments are made.

1997-98 Activities of the LCIR

- In July, November and December 1997, the LCIR repurchased through the RBA, for investment, Treasury Fixed Coupon Bonds from a number of series, amounting to \$3,050 million (face value), as part of the Commonwealth's debt reduction program. It is not intended for these securities to be reintroduced into the market in the future.
- In addition, the LCIR made quarterly purchases of Treasury Fixed Coupon Bonds from the RBA of stock acquired through the Bank's Small Investor Repurchase Facility. Treasury Fixed Coupon Bonds amounting to around \$3.9 million (face value) were cancelled at the time of purchase. In addition, Treasury Fixed Coupon Bonds amounting to \$0.7 million, representing securities on allocation to the States and Northern Territory, were added to the LCIR's investment in CGS.
- The LCIR's holding of ITBs of \$1,463 million as at 30 June 1997 was redeemed on 1 July 1997. On 30 June 1998, the LCIR invested in ITBs amounting to \$8,508.3 million.
- On 30 June 1998, surplus funds in the CRF amounting to \$8,305.1 million were paid into the LCIR.

Table 1: LCIR — Investments at 30 June 1998

Rate per cent	Maturity Date	Face Value of Investment \$	Cost of Investment \$
<i>Treasury Fixed Coupon Bonds</i>			
13.50	15 Jul 98	7 030 000	7 403 416
14.50	15 Sep 98	1 790 000	1 920 120
14.00	15 Apr 99	5 224 000	5 862 755
13.00	15 Feb 00	123 588 000	143 345 181
13.00	15 May 00	69 167 148	80 509 261
7.00	15 Feb 01	23 132 700	24 129 477
10.00	15 Oct 02	885 000 000	1 041 068 327
5.25	15 Jul 03	27 076 600	25 374 842
6.50	15 Jul 03	1 559 200	1 606 624
5.40	15 May 04	10 500	8 478
9.00	15 Sep 04	760 000 000	889 372 140
7.00	15 Jul 05	2 000	1 927
10.00	15 Feb 06	1 160 000 000	1 457 336 305
		3 063 580 148	3 677 938 853
<i>Internal Treasury Bills</i>			
1.00	30 Jun 99	8 508 280 000	8 508 280 000
Total \$A Securities		11 571 860 148	12 186 218 853
<i>Netherlands Guilder Loans(a)</i>			
8.25	1 Nov 99	24 987 615	20 153 175
7.25	1 Jan 01	16 612 865	12 093 059
Total Foreign Currency Securities		41 600 479	32 246 234
Total Investments		11 613 460 628	12 218 465 087

(a) Australian dollar equivalent at 30 June 1998 using exchange rate indicated in Appendix 6.

Table 2: Summary of LCIR Transactions during 1997-98

	\$	\$
Invested balance at 1 July 1997		1 527 178 532
Cash balance at 1 July 1997		2 299 953 582
Notional balance 1 July 1997		3 827 132 114
<i>Receipts</i>		
Transfer from CRF	8 305 125 292	
Interest on investments (a)	89 982 909	
Profit on realisation	2 880 596	
Total		8 397 988 796
<i>Expenditure</i>		
Loss on realisation	23 883	
Other	3 991 601	
Total		4 015 484
Notional balance 30 June 1998		12 221 105 427
Invested balance 1 July 1997		1 527 178 532
Purchase of investments	12 172 225 623	
Realisation of investments	1 480 939 068	
Invested Balance at 30 June 1998		12 218 465 087
Cash Balance at 30 June 1998		2 640 340

(a) Net of accrued interest paid to the RBA on the purchase of investments.

GLOSSARY

Australian Savings Bond

A retail debt instrument which was issued from 1976 until 1987. The bonds were sold ‘on tap’ and had a maximum maturity of around 7.5 years. The security could be redeemed early at the request of the holder on a month’s notice and without penalty after a minimum holding period.

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 RBA 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 Reserved Money 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 Reserved Money Fund, the Commercial Activities 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 Reserved Money 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, now the Reserved Money 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 CGS Debt

CGS on issue for the Commonwealth less the Commonwealth's holdings of its own debt. These holdings are by the Reserved Money 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. These are predominantly Treasury Fixed Coupon Bonds, Australian Savings Bonds, Special Bonds and War Savings Certificates. 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.

Reserved Money Fund (RMF)

Established under the *Financial Management and Accountability Act 1997*, the RMF includes elements of the former Trust Fund in which the Commonwealth holds money on trust for, or otherwise for the benefit of, a person other than the Commonwealth and monies reserved for future Commonwealth purposes. The DRRTA and the LCIR are elements of the RMF.

Special Bond

A retail debt instrument issued from 1959 to 1976 which was sold on tap and with an original issue maturity of around 7.5 years. This instrument was the forerunner of the Australian Savings Bond.

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 to the Commonwealth 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.

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.