

## 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 repayment 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 Commonwealth, Peace Savings Certificates and overdue CGS.

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### **Consolidated Revenue Fund (CRF)**

All revenues or monies raised or received by the Executive Government of the Commonwealth form the Consolidated Revenue Fund. It is from the Consolidated Revenue Fund that monies are appropriated for the purposes of the Commonwealth.

### **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 formerly available to Primary producers. The deposits were repayable at the request of the depositor at any time after the expiration of 12 months from the date of deposit. The scheme was wound up during 1999-2000.

### **Internal Treasury Bills**

These were issued by the Commonwealth as security for the investment of monies in the former Reserved Money Fund. They enabled a transfer of monies between the component funds of the Commonwealth Public Account so that the required balancing of those funds at 30 June was achieved. These processes were not required after 30 June 1999 following the passage in 1999 of amendments to the *Financial Management and Accountability Act 1997* which abolished separate funds' accounting.

### **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.

### **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.

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### 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 consist of Treasury Fixed Coupon Bonds and, in the past, holdings of CGS denominated in Netherlands Guilders.

### 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. No interest accrues on the stock following its 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.

## 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 are obligations 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 repurchase facility for small parcels of stock 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 the bank bill swap reference mid-rate, payable on the face value of the security. TABs are repayable at face value on maturity.

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### **Treasury Fixed Coupon Bond**

This is a medium to long-term security that carries an annual rate of interest fixed over the life of the security, payable in six monthly instalments 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. Interest on TIBs is paid quarterly.

### **Treasury Note (TN)**

Treasury Notes have in the past been issued with maturities of 5, 13, and 26 weeks but from July 2000 they have been issued with maturity dates broadly coinciding with the four major tax collection periods. 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 Certificate (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.