

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 Management Portfolio

The AOFM's portfolio framework allocates the Commonwealth net debt portfolio between a Long-Term Debt Portfolio and a Cash Management Portfolio. The Cash Management Portfolio contains short-term assets and liabilities necessary to manage the within-year variability in net debt. The Cash Management Portfolio is designed so that it has neither a net asset balance nor a net liability balance on average through the course of each financial year.

Commonwealth Government securities (CGS)

Refers to debt obligations of the Commonwealth evidenced by the issue of securities. The vast bulk of the CGS on issue is represented by Treasury Bonds and Treasury Indexed Bonds.

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 pecuniary loss as a result. The Commonwealth faces credit risk as a part of its debt management activities in relation to its swap derivative transactions.

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.

Forward foreign exchange contract

A forward foreign exchange contract is a financial transaction in which two counterparties agree to trade foreign exchange at a specified price at a specified future date. The AOFM undertakes forward foreign exchange contracts with the Reserve Bank of Australia to alter the level of foreign currency exposure in the Commonwealth debt portfolio.

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.

General government net debt

Net debt is the sum of selected financial liabilities less the sum of selected financial assets in the Australian Government general government sector balance sheet. It is the sum of deposits held, advances received, government securities, loans and other borrowings less the sum of cash and deposits, advances paid and, investments, loans and placements.

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.

Long - Term Debt Portfolio

The AOFM's portfolio framework allocates the Commonwealth net debt portfolio between a Long-Term Debt Portfolio and a Cash Management Portfolio. The Long-Term Debt Portfolio contains ongoing domestic and foreign currency liabilities and assets and is designed to represent the trend volume of net CGS debt. The Cash Management Portfolio accommodates deviation from this trend volume of net debt caused by within-year variability in the net financing requirement.

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

Commonwealth Government securities on issue for the Commonwealth less the Commonwealth's holdings of its own debt. These holdings consist of Treasury Bonds and, in the past, holdings of Commonwealth Government securities denominated in Netherlands Guilders.

Net debt portfolio

The net debt portfolio comprises net CGS debt, term deposits at the Reserve Bank of Australia, swaps and forward foreign exchange contracts administered by the AOFM.

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 stockholders. These are predominantly Treasury Bonds, Australian Savings 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.

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.

Treasury 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 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 three to 10 years in the case of the First World War and five to seven 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.

ACRONYMS

AAS	Australian Accounting Standard
AATSI	Aboriginal and Torres Strait Islander
AOFM	Australian Office of Financial Management
APS	Australian Public Service
ATO	Australian Taxation Office
AUD	Australian dollar
CGS	Commonwealth Government securities
CRF	Consolidated Revenue Fund
EEO	Equal Employment Opportunity
EL	Executive Level
ESL	English as a second language
FBT	Fringe Benefit Tax
FMA	Financial Management and Accountability Act 1997
FMO	Finance Minister's Orders
GDP	Gross Domestic Product
GST	Goods and Service Tax
IT	Information technology
OECD	Organisation for Economic Co-operation and Development
OPA	Official Public Account
RBA	Reserve Bank of Australia
SES	Senior Executive Service
SMHEA	Snowy Mountain Hydro Electric Authority
UIG	Urgent Issues Group (of the Australian Accounting Standards Board)
USD	United States dollar

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