Australian Office of Financial Management

Annual Report 2017–18

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Australian Government

Australian Office of Financial Management

17 September 2018

The Hon Josh Frydenberg MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

I have pleasure in presenting the Annual Report of the Australian Office of Financial Management for the year ending 30 June 2018 for presentation to the Parliament.

The Report has been prepared in accordance with section 46 of the *Public Governance, Performance and Accountability Act 2013*.

Part 2 *Performance* of this Annual Report includes the Australian Office of Financial Management Annual Performance Statement, which is prepared in accordance with section 39 of the *Public Governance, Performance and Accountability Act 2013*. In my opinion this Annual Performance Statement accurately reflects the Australian Office of Financial Management's performance for 2017–18.

Yours sincerely

Rob Nicholl
Chief Executive Officer

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ITS ROLE

The AOFM supports and advances Australia's economic growth and stability, and the effective operation of its financial markets, through issuing debt, investing in financial assets and managing that debt and those investments for the government.

Contents

LIST OF TABLES

LIST OF CHARTS

REVIEW BY THE CHIEF EXECUTIVE OFFICER

Review by the Chief Executive Officer

Context

Consistent with its core responsibilities, the AOFM remains focused on ensuring the government's expenditure obligations are able to be met at all times and its budget financing needs are delivered cost effectively without undue risk. Additionally the AOFM is managing the Australian Government Securities (AGS) portfolio with a view to promoting market integrity while balancing a range of medium-long term debt portfolio considerations.

Term issuance for 2017–18 was $81 billion, considerably lower than for the previous year and consistent with improving fiscal outcomes. Issuance was smoothly absorbed into global financial markets. The AOFM also observed the domestic investor base playing a greater role than had been apparent for some time, particularly in the first half of the year.

With the previous year (2016–17) having marked the conclusion of a long strategy to incorporate a 30-year benchmark bond into the yield curve, operational considerations turned more to efficient market maintenance (as opposed to distinctive market development aims). In terms of cash portfolio management, the AOFM maintained a strategy similar to past years to ensure that a reasonable contingency was in place at all times to cover payment obligations even if the ability to issue bonds were to have been temporarily impeded. While not a lone consideration US Treasury bond yields rising above those for most AGS maturities in early calendar 2018 was a threshold change to the market; however, AOFM issuance didn't at any time look to be threatened by the potential for a resulting sharp slowdown in offshore investor buying.

The quantitative easing programs of major central monetary authorities (namely the European Central Bank, the US Federal Reserve, the Bank of England and the Bank of Japan) were again central to investor considerations. However, last year the focus was on the impacts in markets of these programs being either terminated or reversed. The year commenced with market expectations of global economic growth in the larger advanced economies increasing in a synchronised manner, leading to a change in monetary policy settings to reflect such conditions. Instead, regional and country specific economic growth rates have not synchronised to the extent anticipated. This divergence and the non-uniform unwinding of quantitative easing contributed to an increase in volatility in the relative level of yields and across financial markets more broadly (compared to the prior year of historically low volatility).

Throughout this volatility the AGS market retained a 'safe haven' status. The ongoing support in demand (particularly in long-dated maturities) translated into a 'flattening' of the AGS yield curve. During 2017–18, the yield for the longest AGS maturity (30 years) decreased from just over 3.5 per cent to just over 3.0 per cent, while the yield on 10-year bonds remained around 2.6 per cent. Yields on the shortest maturities rose from just over the RBA cash rate to about 1.8 per cent. These conditions supported a bias in the AOFM's issuance towards long-dated maturities.

During 2017–18, the level of offshore ownership of AGS remained between 55 and 60 per cent. A trend of onshore investor buying being dominated by domestic bank balance sheets looked to have abated toward the end of the year. It is difficult to judge whether any re balancing between non-resident and domestic AGS ownership will occur through 2018–19, but diversity (by both region and investor type) across the overall investor base remains a feature of the AGS market. Offshore investors are attracted by underlying liquidity, the credit quality of the Australian Government and the transparency and regularity of issuance. Should these features persist, the AGS market will continue to exhibit efficiency and resilience, providing the government with good access to financial markets as the need arises.

Issuance, market maintenance and portfolio management

The 2017–18 issuance program was undertaken through the well-established combination of regular weekly competitive tenders and syndications where this was deemed to be a more effective issuance method. The program was complemented by regular bond buyback tenders that have assisted the AOFM to manage funding risk, while supporting the efficiency of the market and reducing bond maturity volumes with the aim of aiding the RBA in its task of managing domestic system liquidity.

Treasury Bond issuance of $75.5 billion focused on achieving the AOFM's portfolio strategy, while supporting the bond futures contracts. The AOFM maintained its strategy of lengthening the duration of the portfolio in the face of historically low term-premium assessments. This also leaves the AOFM with an enhanced range of issuance options depending on market conditions over future years, has established the AGS market internationally as fully comparable to many other sovereign markets that would be considered as 'peer' markets, and continues to reduce the Government's call on markets over the medium term.

Gross issuance of Treasury Indexed Bonds for the year totalled $5.6 billion, about half of which was issued via twice-monthly competitive tenders. This segment of the AGS market continues to be predominantly domestic investor focused.

Bonds repurchased ahead of maturity totalled $23 billion, of which $12.2 billion were acquired through buyback tenders, $3 billion were bought back in conjunction with syndication and $7.7 billion were purchased from the RBA.

Residential mortgage-backed securities

The AOFM was issued a Direction in May 2015 to commence a program of regular divestment of the remaining residential mortgage backed securities (RMBS) portfolio; this started in June 2015. Having suspended its auction process in November 2015 due to a marked widening of RMBS yields, the AOFM recommenced auctions in November 2017 on the basis of improved market conditions; this resulted in the complete divestment of the remaining RMBS holdings by February 2018.

Looking ahead

The financial market outlook continues to be dominated by speculation about non-uniform global economic growth and inflation prospects, further divergences in the conduct of monetary policy overseas, and the relative performance between sovereign bond markets. In addition, the prospect of worsening international trade disputes increases the prospect for volatility across financial markets. These, amongst other factors, remain relevant to the AOFM's deliberations although the risk outlook for issuance is appreciably lower given the forecast fiscal improvement, which is supported by establishment of a 30-year yield curve, and a broadening of the investor base. Depending on the cause, a sudden and steep deterioration in global market conditions could prove challenging for AOFM issuance, but this would be unlikely to last for an extended period given the underlying appeal of the AGS market to investors.

Sharp elevations in short-term money market rates including the repo market, particularly over quarter-ends, could well persist into 2018–19. The AOFM has consulted broadly on possible causes and it is evident that there are many factors influencing this (some domestic and others international). Isolating one key factor over others is difficult. However, a persistence of this pattern will undoubtedly influence AGS investors dependent on access to repo facilities. While this change in market dynamics is not something for the AOFM to address, a sustained softening in demand would inform our expectations in terms of patterns of planned issuance.

Related to this is the considerable amount of work that has gone into developing mechanisms to capture and monitor internationally available data on capital flows. This has complemented the AOFM's own data and its comprehensive liaison with market participants. Together, these combine to give the AOFM an enhanced understanding of the environment in which it must operate.

Finally, the AOFM remains focused on portfolio management objectives that will support a diversified investor base and an outlook for declining issuance, but little expected change in the overall size of the debt portfolio. These objectives will take into account the continuing need to communicate clearly with financial markets and to announce issuance plans that are carefully considered and will meet the test of the changing fiscal and market circumstances.

Rob Nicholl
Chief Executive Officer

PART 1: AOFM OVERVIEW

AOFM OVERVIEW

Role, function, outcome and program structure

The AOFM is responsible for the management of Australian Government debt. The AOFM also manages the government's cash balances and invests in very low risk financial assets, which in recent years has been in the form of term deposits with the Reserve Bank of Australia (RBA).

The objectives of the AOFM are to:

1) meet the budget financing task in a cost-effective manner subject to acceptable risk,

2) facilitate the government's cash outlay requirements as and when they fall due, and

3) be a credible custodian of the AGS market and other portfolio responsibilities.

The AOFM's debt management activities include the issuance of Treasury Bonds and Treasury Indexed Bonds. To support the efficient operation of the markets for these debt instruments, a securities lending facility that allows financial market participants to borrow bonds is maintained on behalf of the AOFM by the RBA.

The AOFM's cash management activities include the issuance of Treasury Notes for short-term funding.

The AOFM's investment management activities include managing a portfolio of Australian RMBS that were acquired under a government program that supported competition in lending for housing after the global financial crisis.

The AOFM is part of the Treasury portfolio. It is accountable to the Secretary to the Treasury and to the Treasurer, and through the Treasurer to the Parliament and the public. However, it is a listed entity under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and maintains its own accounts and is responsible for compliance with the Act separately to the Treasury. AOFM staff are employed under the *Public Service Act 1999*.

For budgetary purposes, the AOFM's activities comprise of one program directed to achieve the following outcome on behalf of the Australian Government: the advancement of macroeconomic growth and stability. This is pursued through issuing debt and investing in financial assets; and managing debt, investments, and cash. The AOFM aims to cost effectively manage the debt portfolios for which it is responsible subject to an acceptable level of risk. Its bond issuance operations take into account a range of considerations, including the government's policy objectives of supporting liquidity in the AGS market.

Organisational structure

The AOFM business structure remains unchanged from the previous reporting period, with its core operational activities being segregated into three broad areas. Activities in portfolio and global market research (including monitoring and anticipating regulatory impacts on financial markets), transaction design and execution, and investor engagement, together form what in the financial sector is typically viewed as 'front office' related (Funding, Markets and Strategy).

Business operations comprise transaction settlements, together with all associated payment obligations and the monitoring and financial statement reporting of the AOFM's transactions (and balance sheet activity) on behalf of the Australian Government. These activities form what is typically viewed in the financial sector as the 'back office' (Accounting Services). This is effectively two separate teams.

A 'middle office' (Enterprise Risk and Assurance) oversights separation of the back and front office functions through maintaining complementary frameworks for enterprise risk and assurance (including audit) and the coordination of outsourced legal services, and compliance with the AOFM's obligations under relevant legal, regulatory and delegated powers. It also undertakes performance monitoring of the various portfolio and transaction activities.

AOFM governance and corporate related functions sit within a Corporate Development business unit. Advice on issues regarding the AOFM's staff development objectives and APS specific issues are provided directly to the Chief Executive through a dedicated role. The Audit Committee reports directly to the CEO and reviews financial and performance reporting, risk oversight and management, and internal controls. Members of the Audit Committee are not officials or employees of AOFM.

This overall structure provides for an appropriate segregation of duties — consistent with financial industry best practice.

PART 2:
PERFORMANCE AND OUTCOMES

PERFORMANCE AND OUTCOMES

Introduction

This part of the annual report is presented in two sections: Section 1 is focused on the PGPA Act requirement to provide an Annual Performance Statement, and Section 2 gives context to the outcomes achieved through the AOFM's operations to support its principal functions and discusses relevant market aspects of the environment in which the AOFM operates.

Section 1: Annual Performance Statement

The AOFM's purpose is to ensure the government's debt financing needs are fully met each year while managing the cash, debt and other portfolios over the medium-long term at low cost subject to acceptable risk. The AOFM will take into account the potential for its operations to impact domestic financial markets.

The purpose is achieved through three key objectives, which are to: (1) meet the budget financing task in a cost-effective manner subject to acceptable risk; (2) facilitate the government's cash outlay requirements as and when they fall due; and (3) be a credible custodian of the AGS market and other portfolio responsibilities.

The AOFM is required to balance cost and risk considerations but its overriding aim is to ensure that the financing requirements of government are able to be met in full and on time. The AOFM has minimal appetite for failure in any critical function associated with issuance, settlement and cash management; the design and conduct of its core business processes reflect this risk appetite.

Like any agency of government, the AOFM is involved in many and varied tasks that go to support its overarching responsibilities. Management of the agency involves the maintenance of a variety of business processes and associated activities to support these overarching responsibilities. However, reducing all of these considerations to several key performance measures is considered relevant for the purposes of external performance accountability.

Table 1 presents the statement of results against six indicators summarising the AOFM's performance in achieving its purpose. It also refers to Section 2, which provides detail on a range of outcomes important to the AOFM's achievement of its annual and longer-term aims.

The Annual Performance Statement for 2017–18 is prepared in accordance with paragraph 39(1)(a) of the PGPA Act.

Table 1: Annual Performance Statement 2017–18

Key performance indicator	Measure	Result
Objective: Meet the Budget financing task in a cost-effective manner subject to acceptable risk		
Term issuance	Shortfall in volume ($) between actual Treasury Bond issuance and planned issuance announced at the Budget and subsequent releases	The shortfall in issuance was zero, with the financing task for 2017–18 fully met through sufficient issuance ($81.05 billion) *Discussion from page 14*
Financing cost	The cost of the long-term debt portfolio compared to the 10 year average of the 10-year bond rate	The effective yield of the long term debt portfolio for 2017–18 was 3.30 per cent (2016–17: 3.42 per cent). This is below the 10 year average of the 10 year bond rate of 3.80 per cent. Debt issuance in 2017–18 was cost effective, and consistent with the AOFM strategy of lengthening the average term to maturity of the nominal portfolio to reduce refinancing risk and variability in interest costs. The average yield of Treasury Bond issuance (accounting for 93 per cent of all long term issuance) for 2017–18 was 2.70 per cent (2016–17: 2.38 per cent). This is below the 2017–18 average of the 10 year bond rate of 2.71 per cent (2016–17: 2.43 per cent). The average term to maturity of the Treasury Bond portfolio was 7.38 years as at 30 June 2018 (30 June 2017: 7.13 years). The average term of new issuance in 2017–18 was 11.08 years (2016–17: 10.29 years). *Discussion from page 26*

Key performance indicator	Measure	Result
New issuance yields	Weighted average issue yield at Treasury Bond and Treasury Indexed Bond tenders less prevailing mid-market secondary yields	The weekly selection of bond maturities and issuance volumes for tenders facilitated continual efficient functioning of the primary market. This is reflected by average tender yields being below secondary market yields for Treasury Bonds (0.51 basis points), and Treasury Indexed Bonds (1.32 basis points). *Discussion from page 18*
Objective: Facilitate the government's cash outlay requirements as and when they fall due		
Use of the overdraft facility	Number of instances the RBA overdraft facility was utilised to the extent that it required Ministerial approval during the assessment period	Sufficient cash was available at all times to meet the government's outlays. The overdraft facility was utilised once in 2017–18, however, the amount was below the threshold requiring Ministerial approval. *Discussion from page 31*
Objective: AOFM is a credible custodian of the AGS market and other portfolio responsibilities		
A liquid and efficient secondary market	Annual turnover in the secondary market for Treasury Bonds and Treasury Indexed Bonds	Annual secondary market turnover for Treasury Bonds was $1.3 trillion and for Treasury Indexed Bonds $51 billion in 2017–18. This is adequate for the market to function effectively. *Discussion from page 19*
	Number of times the AOFM securities lending facility was accessed and the aggregate face value amount of stock lent (excluding intraday borrowings)	The securities lending facility was used 52 times (excluding intra-day uses), but only for small volumes and generally for short periods. *Discussion from page 20*
Market commitments	Number of times the AOFM failed to undertake actions consistent with public announcements	All publicly announced specific operational publicly announced commitments were met.

Meet the budget financing task in a cost effective manner subject to acceptable risk

Each year the AOFM's financing task is determined by the forecast budget deficit, the need to refinance maturing debt, and funding to be undertaken by government that is additional to budget requirements. The financing task can be adjusted at the margin in response to changes in management of the cash portfolio the AOFM may judge as appropriate from year to year.

The financing task is achieved through issuance of AGS, the mix of which is determined through an annual strategy that balances debt portfolio risks (such as future interest rate volatility and funding risks) against differences in short and long-term borrowing costs.

The method of issuance is determined by balancing considerations of supporting market liquidity and managing execution risk against the anticipated transaction costs associated with different issuance approaches (all of which contribute to overall portfolio costs). The majority of issuance occurs via competitive tender, which achieves the 'best cost' outcome for the government in most circumstances. The syndication method is reserved for situations in which execution risk and/or the trading liquidity of the security being issued are of primary consideration.

The indicators in Table 1 above show that the financing task was fully met while meeting expected costs associated with how this was achieved. Of the $81.1 billion in gross issuance for the year, $62.5 billion was issued via competitive tender, with new issuance yields consistently lower than secondary market yields. The remainder was issued via syndication. Financing costs on the overall portfolio also compared favourably against market indicator rates. More detail on each of these aspects is provided in Section 2 below.

Facilitate the government's cash outlay requirements as and when they fall due

This objective is achieved through management of the cash portfolio in which the AOFM monitors both actual and forecasts for daily revenue collections and expenditure. It also monitors the cycles of each throughout the year, these cycles being independent of each other. This independence in cycles can at times create significant mismatches between revenue collected and expenditure needs, which the AOFM accommodates through managing cash reserves and the use of short-term borrowing. There was only one instance during the year where there was a need for the RBA overdraft facility to be used. The facility is used when the overnight cash balance in the official public account is not sufficient to cover expenditures. This event was a consequence of insufficient notification being provided to the AOFM on planned outlays. It did not involve an overdraw amount sufficient to warrant the need for ministerial approval.

AOFM is a credible custodian of the AGS market and other portfolio responsibilities

That the AOFM is judged by financial markets to be a credible custodian of the AGS market can be assessed from a number of perspectives. Liquidity is, for example, a key consideration for most investors because it reflects an ability to transact in the market (either through buying or selling AGS) in a timely manner and in volumes to meet their needs, without market prices being materially moved as a result of those transactions. Liquidity is a product of having a wide range of active ‘price makers’ in AGS and a large, diverse and active investor base. The AOFM supports liquidity through regular and consistent issuance into maturities that are chosen to reflect investor demand, clear communication and transparency regarding the AOFM’s operations and issuance strategy, and a long standing focus on the development of a functional and resilient AGS market. High levels of secondary market turnover and regular feedback from investors attesting to their capacity to buy and sell large parcels of AGS at acceptable prices are strong indicators of liquidity for 2017–18. They also reflect favourably on the AOFM’s credibility as a sovereign issuer and custodian of the AGS market.

Section 2: Outcomes

This section details AOFM operations undertaken in achieving its principal functions, and reports on the aims underpinning these operations and how these principal functions were achieved. It is presented according to five primary operational considerations: bond issuance, debt portfolio management, cash portfolio management, RMBS portfolio management, and market engagement. The discussion of each refers to underlying aims, how they are achieved, and associated outcomes.

Bond issuance

Aims

The AOFM currently has two different term debt instrument choices — nominal Treasury Bonds and Treasury Indexed Bonds, the latter for which the capital value is adjusted over time according to inflation outcomes. During times of Australian Government budget deficits the main aim of Treasury Bond and Treasury Indexed Bond issuance is to meet the budget financing task; however, the issuance program is also determined such that it will assist with meeting overall debt portfolio aims (such as increasing the average term to maturity of the portfolio). The AOFM plans its programs each year to undertake issuance in a cost effective manner.

The AOFM also aims to support the efficient operation of Australia's financial markets by being a credible custodian of the AGS market. This takes account of the following financial market activities:

- Treasury Bonds, Treasury Indexed Bonds and Treasury Bond futures are used by financial market participants as benchmarks for the pricing of other capital market instruments and to manage interest rate risk, and

- the existence of active and efficient physical and futures markets for sovereign debt strengthens the robustness of the financial system and reduces its vulnerability to shocks.

Another element of market efficiency that is important to issuers, intermediaries and investors is market liquidity. Bond market liquidity is broadly accepted to mean the ability to trade bonds at short notice and at low cost without materially moving prices. Strong liquidity is attractive to investors and reflects favourably on a sovereign bond market. There is no single measure of liquidity, it is an assessment by individuals (and institutions) based on a number of considerations. These considerations include, but are not restricted to, turnover in secondary markets, the frequency of primary market activity, bid-offer spreads, and the time it takes to execute 'large' transactions.

Bond buybacks

The AOFM repurchases Treasury Bonds before their maturity with several aims in mind: to increase the duration of the debt portfolio, reduce refinancing risk, assist in the cash management task around the time of bond maturities, enhance the operation of the secondary market, and assist the RBA in its liquidity management task on days of very large maturities.

Treasury Indexed Bonds may be repurchased ahead of maturity from time to time. This may be to assist in the issue of a new line, or to enhance the operation of the secondary market.

Approach to achieving the aims and market influences

The AOFM only uses competitive tenders and syndications to conduct bond issuance. The use of competitive tenders remains the mainstay of AOFM's issuance operations. 84 Treasury Bond tenders and 17 Treasury Indexed Bond tenders were conducted during the year. One new Treasury Bond line was launched by syndication and two new lines were launched by tender. Two syndicated taps for bonds longer than the ten-year futures contract were held.

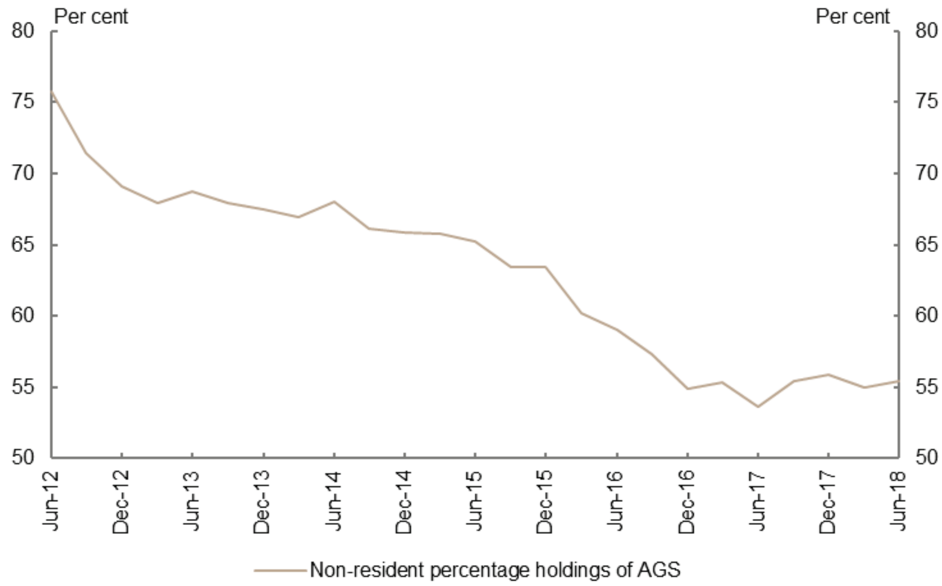
Buybacks of short-dated Treasury Bonds were conducted via tenders, in conjunction with syndicated issues, and via bilateral transactions with the RBA.

The government's funding program was lower than the two most recent years. Funding markets (including the Australian repo market) were strained during the second half of the year, which restricted the ability of some investors and market-makers to hold large positions in AGS.

Over the past decade, some investors were attracted to the AGS market by the higher yields available on Treasury Bonds compared to those of other highly rated sovereign bonds. These relativities changed during 2017–18. The spread between yields on ten year Australian Treasury Bonds and US Treasuries turned negative for the first time since 2000. Currency-hedged yields on Treasury Bonds also became less attractive to investors.

The proportion of outstanding AGS held by offshore investors increased modestly in 2017–18, as illustrated in Chart 1. This followed a period of declining relative holdings of non-residents from 2012. Strong offshore interest in long dated AGS from a diverse investor base remains.

Chart 1: Non-resident holdings of Australian Government Securities



Source: Australian Bureau of Statistics and the AOFM

Bond buybacks

The AOFM conducts regular competitive buyback tenders for the repurchase of short-dated Treasury Bonds. These operations are funded by separate tenders for issuance of longer-dated Treasury Bonds. Buyback tenders add to the AOFM's operational flexibility and have become an accepted feature of the market.

There are two other ways in which the AOFM can repurchase bonds prior to maturity: switches or buybacks can be accommodated in conjunction with syndicated issues; and via transactions with the RBA, which purchases short-dated Treasury Bonds in its liquidity operations.

Holders of the 2018 Treasury Indexed Bond line were invited to submit offers of this line to the AOFM in conjunction with the syndicated issue of the new 2027 line. There are no plans to introduce a regular buyback program for Treasury Indexed Bonds.

Outcomes

Meeting the budget financing task

The financing task for 2017–18 was fully met. A total of $81.05 billion of term debt was issued during the year.

At the time of the 2017–18 Budget, Treasury Bond and Treasury Indexed Bond issuance for the year was expected to total around $85 billion in face value terms. This volume was revised over the course of the year following an improvement in the government's fiscal position compared to forecasts.

Treasury Bond issuance

Gross Treasury Bond issuance for the year totalled $75.5 billion. This was a significant reduction from the $103 billion of Treasury Bonds issued in 2016–17. The bulk of this issuance was into existing bond lines in order to enhance market liquidity. In addition, three new Treasury Bond lines were launched in 2017–18:

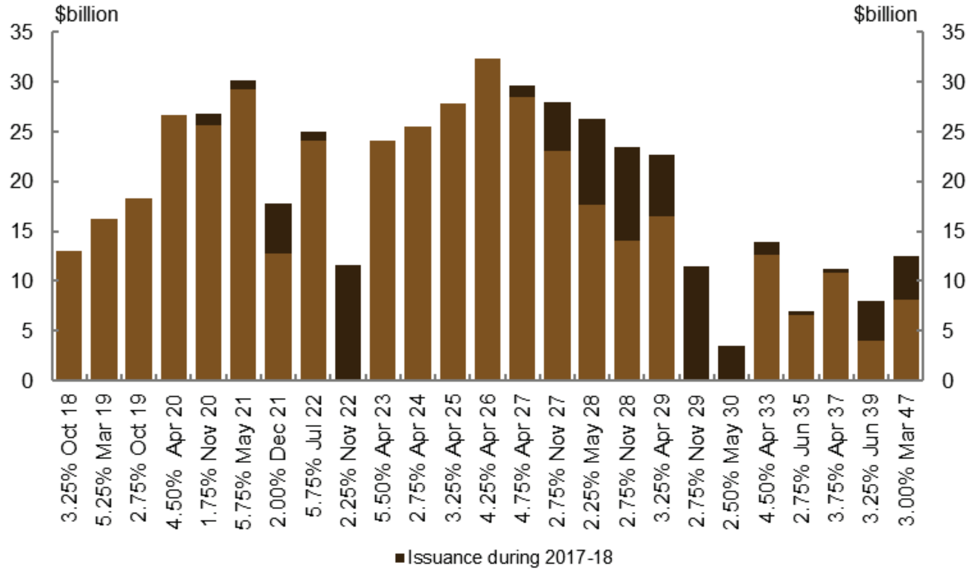
- a new bond line maturing in November 2022 was issued to support the operation of the three-year Treasury Bond futures contract, and
- new bond lines maturing in November 2029 and May 2030 were issued to support the operation of the 10-year Treasury Bond futures contract and to reduce growth in the amount outstanding in surrounding bond lines, which will make it easier to manage maturity of those bonds lines.

In selecting the bond lines to issue each week, the AOFM took account of its debt issuance strategy, prevailing market conditions, information from financial market contacts about investor demand, relative value considerations, the liquidity of outstanding bond lines, and managing the maturity structure to limit funding risk. Two or three tenders were held during most weeks.

Large issuance volumes were achieved at issues of new Treasury Bonds. The November 2029 ($9.6 billion) was issued by syndication, while tenders were held for the initial issue of the November 2022 ($3.5 billion) and May 2030 ($2.5 billion) bond lines.

At the end of the year, there were 25 Treasury Bond lines, with 13 of these lines having over $20 billion on issue and 22 having over $10 billion on issue. Chart 2 shows Treasury Bonds outstanding as at 30 June 2018 and the allocation of issuance across bond lines during 2017–18.

Chart 2: Treasury Bonds outstanding as at 30 June 2018 and issuance in 2017–18



Treasury Bond buybacks

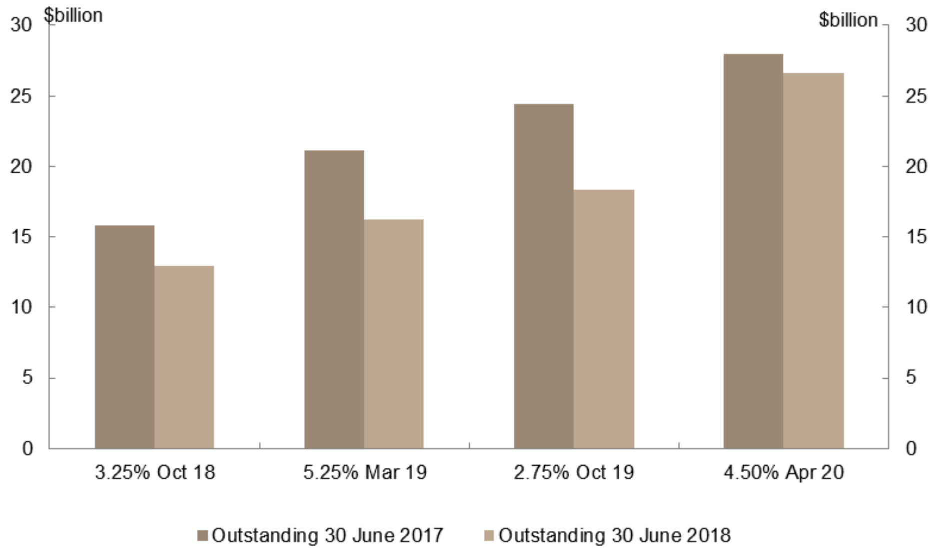
A total of $22.9 billion of Treasury Bonds were repurchased ahead of maturity in 2017–18, of which $15.2 billion were bonds maturing after 30 June 2018:

- 22 Treasury Bond buyback tenders were conducted, at which $12.2 billion of bonds were repurchased,
- the AOFM repurchased $3.0 billion of bonds in conjunction with the syndicated issue of the new 21 November 2029 Treasury Bond,
- $7.7 billion of bonds were repurchased from the RBA, and
- a small amount of bonds were repurchased from retail investors who sold their holdings via the Australian Government Securities Buyback Facility.

Buyback tenders are effectively a reverse of normal competitive issuance tenders. The AOFM sets the total volume of bonds it is prepared to buy back and offers from intermediaries are accepted from the highest yield (lowest price) in descending order until the total volume is reached. All buybacks other than those from retail investors were of Treasury Bond lines shorter than the three-year futures basket.

The volume outstanding in short-dated Treasury Bonds was reduced as illustrated in Chart 3.

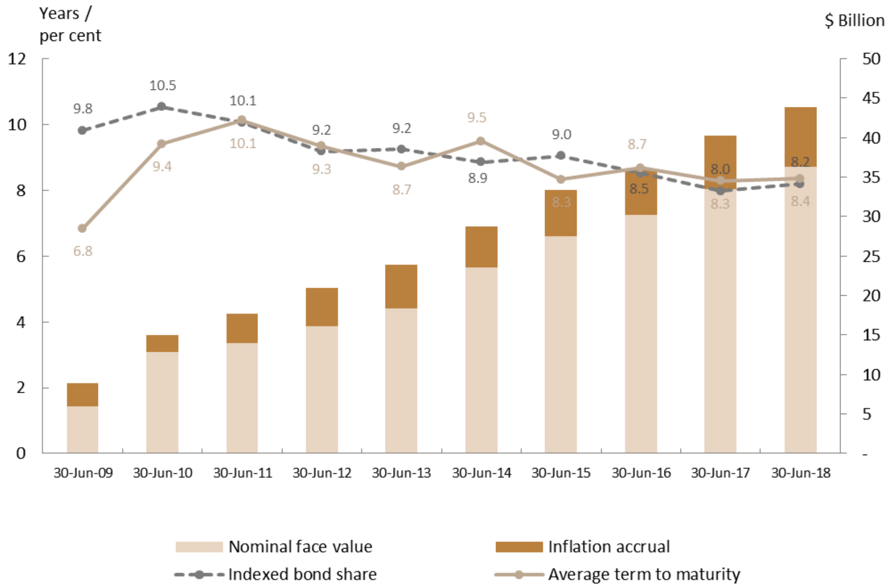
Chart 3: Volume outstanding in short-dated Treasury Bonds as at 30 June 2017 and 30 June 18



Treasury Indexed Bond issuance

The AOFM's alternative long-term funding instrument is Treasury Indexed Bonds, the capital values of which are adjusted with changes in the CPI. The issuance of these bonds typically attracts a different (and predominantly domestic) class of investor to Treasury Bonds, providing a source of diversification in the funding base. While the indexed bond portfolio has declined marginally as a share of the long term funding, the total stock of indexed bonds has continued to grow steadily (as shown in Chart 4).

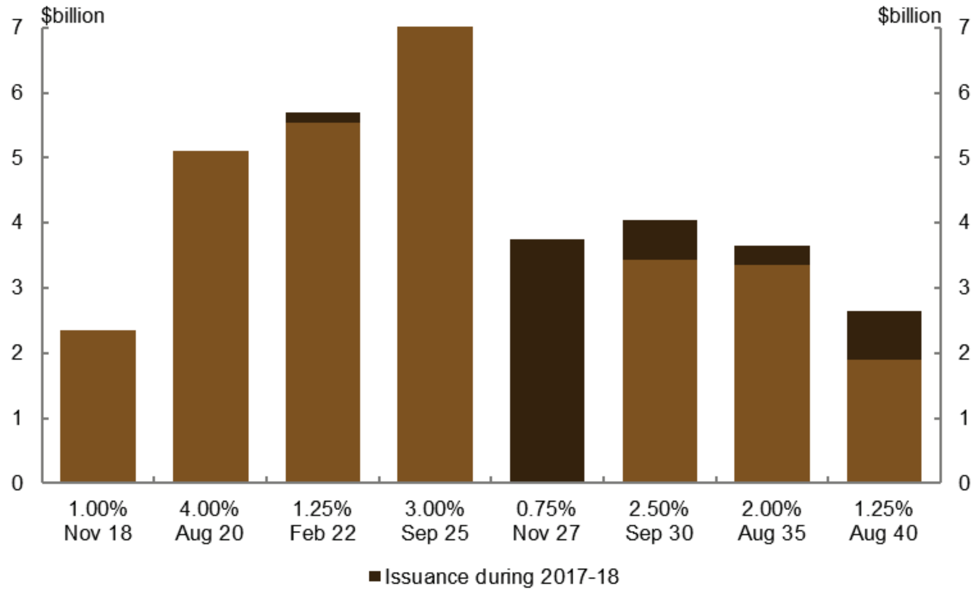
Chart 4: Treasury Indexed Bonds — average term to maturity and share of the long-term funding base



Treasury Indexed Bond issuance for the year totalled $5.55 billion, of which $2.55 billion was conducted via tender. Two tenders for the issue of Treasury Indexed Bonds were conducted in most months. The volume of each line outstanding, relative yields and other prevailing market conditions were considered in the selection of which line to offer. A syndicated offer for $3 billion of a new November 2027 Treasury Indexed Bond line was conducted in August 2017. In conjunction with the syndication, around $2.7 billion of the November 2018 Treasury Indexed Bond line was repurchased.

Chart 5 shows the amount outstanding in each of the eight Treasury Indexed Bond lines as at 30 June 2018, and the allocation of issuance during the 2017–18 year.

Chart 5: Treasury Indexed Bonds outstanding as at 30 June 2018 and issuance in 2017–18



Efficiency of issuance

Table 2 summarises the results of Treasury Bond tenders conducted during the year. The results are shown as averages for each half-year and grouped by the maturity dates of the bonds offered.

Table 2: Summary of Treasury Bond tender results

Period	Maturity	Face value amount allocated ($m)	Weighted average issue yield (%)	Average spread to secondary market yield (basis points)	Average times covered
July - December 2017	Up to 2025	13,300	2.1383	-0.89	5.77
	2026 - 2030	22,000	2.7248	-0.44	3.92
	2031 - 2047	2,200	3.0480	-0.36	3.06
January - June 2018	Up to 2025	6,200	2.3108	-0.53	5.43
	2026 - 2030	13,900	2.7761	-0.41	4.36
	2031 - 2047	2,200	3.2504	-0.22	2.89

The average coverage ratio for all Treasury Bond tenders in 2017–18 was 4.44, an increase from 3.41 in 2016–17. The average tender size of $712 million was lower than in 2016–17, reflecting the smaller issuance program. Shorter-dated bond tenders generally received a greater volume of bids (higher than average coverage ratios), which reflected both core investor base interest and a lower supply of short-dated bonds.

The strength of bidding at tenders was also reflected in competitive issue yield spreads to secondary market yields. At most Treasury Bond tenders the weighted average issue yields were below prevailing secondary market yields.

The average coverage ratio was 3.53 for Treasury Indexed Bond tenders, an increase from 3.14 in 2016–17. At most tenders, the weighted average issue yields were below prevailing secondary market yields.

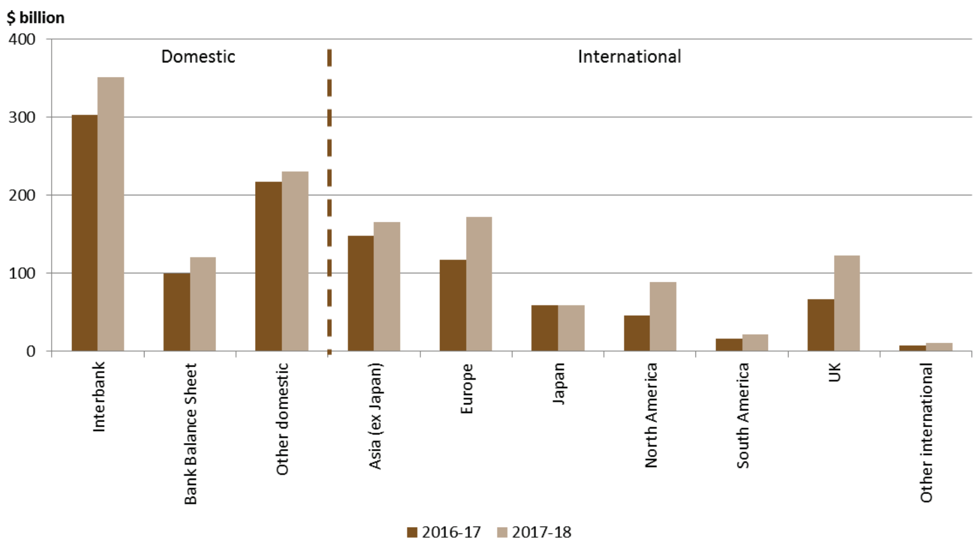
Full tender details are available in Part 5 of this annual report.

Market liquidity and efficiency

The Treasury Bond market operated smoothly during 2017–18 with liquidity and efficient price discovery being maintained throughout the year. However, there were times during the year when repo rates were elevated, raising the costs to some investors and market-makers of holding AGS.

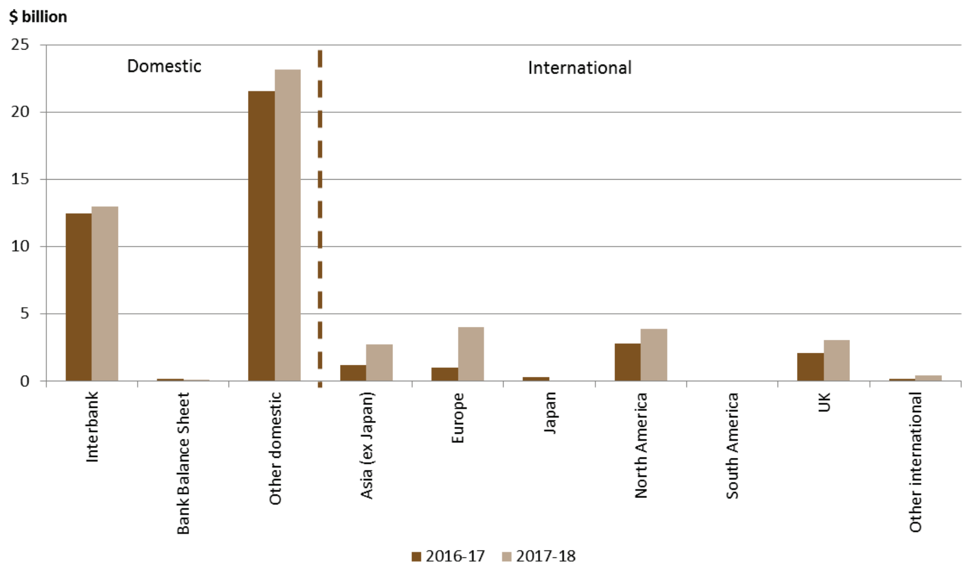
In previous years, data on secondary market turnover in Treasury Bonds has been obtained from the Australian Financial Markets Association (AFMA). However, in order to obtain more frequent and detailed data the AOFM began collecting secondary market turnover data directly from market-makers commencing in July 2016. Total secondary market turnover of Treasury Bonds in 2017–18 amounted to $1.3 trillion, an increase of 24 per cent from 2016–17. Growth was strongest in Europe, the UK and the Americas.

Chart 6: Annual Treasury Bond Turnover



Although liquidity in Treasury Indexed Bonds remains good compared to global inflation-linked debt markets, it has continued to prove noticeably more challenging than for Treasury Bonds. This is consistent with the relative liquidity of nominal and inflation-linked securities in other sovereign debt markets. Market participants reported that large trades may have to be executed carefully and over time, and larger transactions can at times move market prices. Treasury Indexed Bond turnover in 2017 18 was around $51 billion, an increase of 21 per cent from 2016–17. Turnover increased particularly sharply in Asia (ex-Japan) and Europe.

Chart 7: Annual Treasury Indexed Bond Turnover



There was tightness in several indexed bond lines at times during the year, requiring some market participants to borrow these from the securities lending facility.

Turnover in the Treasury Bond futures market is significantly higher than in the underlying Treasury Bonds. The three and 10-year Treasury Bond futures contracts are highly liquid: over 56 million three-year contracts (representing $5.6 trillion face value of bonds) and over 47 million 10-year contracts ($4.7 trillion face value of bonds) were traded in 2017–18. Turnover in the 20-year contract is considerably lower: 383,000 contracts ($19 billion face value of bonds) were traded. All contract close-outs in 2017–18 occurred smoothly.

The AOFM's securities lending facility allows market participants to borrow Treasury Bonds and Treasury Indexed Bonds for short periods when they are not otherwise available in the secondary market. This enhances the efficiency of the market by improving the capacity of intermediaries to continuously make two-way prices, reduces the risk of settlement failures and supports market liquidity. The facility was used 52 times for overnight borrowing in 2017–18 compared with 51 times during 2016–17. The volumes borrowed were higher than in 2016–17, with the total face value amount lent in 2017–18 being $1,667 million, an increase from $388 million in the previous year.

Debt portfolio management

Aims

In managing the debt portfolio and meeting the government's financing requirements, the AOFM aims for low and stable debt servicing costs over the medium-long term. It also seeks to maintain liquid bond lines to facilitate cost-effective issuance of debt through time and to effectively manage future funding and refinancing risks.

To meet these aims the AOFM endeavours to execute a debt issuance strategy that appropriately accounts for the trade-offs between cost and risk while simultaneously providing consistent and transparent stewardship of the AGS market in order to underpin confidence and promote market liquidity. Through its strategy and operations the AOFM contributes to an efficient and resilient market while providing continuity of access to financial markets for the Australian Government.

The AOFM uses cost and risk measures that reflect the considerations faced by sovereign debt managers generally. The primary cost measure used is historic accrual debt service cost. This includes interest payments made on AGS, realised market value gains and losses on repurchases, capital indexation of indexed debt and the amortisation of any issuance premiums and discounts. Total accrual debt service cost can be expressed as a percentage of the stock of debt outstanding to provide the effective yield of the portfolio. The use of an historic accrual debt service cost measure excludes unrealised market value gains and losses.

An alternative measure of cost is 'fair value', which takes account of unrealised gains and losses resulting from movements in the market value of physical debt and assets. Debt service cost outcomes are presented in the AOFM's financial statements on this basis. A comprehensive income format is used that allows revenues and expenses on an historic basis to be distinguished from the effects of unrealised market value fluctuations. Fair value facilitates an assessment of financial risk exposures and changes in those exposures from year to year, the value of transactions managed and the economic consequences of alternative strategies. It is most useful in the context of trading for profit making purposes.

Variability in portfolio outcomes can be measured in several ways. The AOFM calculates and compares several metrics to assess risk. In general, an acceptable level of risk can be characterised as an acceptable level of variation in interest cost outcomes over time. Debt issuance decisions made today impact the variability of future interest cost outcomes because of their influence on the maturity profile of the portfolio and hence the amount of debt that needs to be refinanced (and 're-priced') through time.

Approach to achieving the aims

While the AOFM is a price-taker in global capital markets, it does influence the cost and risk profile of the portfolio through the maturity structure of the debt securities it issues (and to a lesser extent, the mix between nominal and inflation-linked securities). Issuing longer-term securities will typically involve paying higher debt service costs (in the presence of a positive term premium)[1] although this is compensated by reduced variability in future interest cost outcomes and lower exposure to refinancing or rollover risk.[2] Issuing shorter term debt securities by contrast will typically be cheaper (avoiding a term premium) but result in higher variability in cost outcomes through time and a greater debt refinancing task. Striking the right balance between these cost and risk considerations is the debt manager's ongoing challenge.

Strategic portfolio decision making is informed by an ongoing research program, which is focussed on exploring the cost and risk characteristics of alternative portfolio structures and issuance strategies. This is done in light of prevailing fiscal and economic conditions, as well as an assessment of broader market trends. Drawing on this research, the AOFM formulated a strategy for the structure and composition of issuance for the financial year which was ultimately approved by the Treasurer. Separately, a range of complementary limits, thresholds, guidelines and targets governing the AOFM's operations were submitted to the Secretary to the Treasury for approval through an Annual Remit.

Implementing the strategy requires weekly operational issuance decisions such as determining how much and which lines to issue or when a new maturity should be established. These operational decisions were influenced by several factors including general market conditions, relative value considerations and feedback from investors. The ongoing suitability of the debt issuance and portfolio strategy is reviewed if there are substantive changes to market conditions or the fiscal outlook.

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1 The term premium is the additional yield demanded by investors in order to hold a long-term bond instead of a series of shorter-term bonds.

2 Refinancing risk, also referred to as rollover risk, is the inability to renew maturing debt by further borrowing.

Outcomes

During the year, the total volume of Treasury Bonds outstanding increased by around $29 billion, to $493 billion.

Portfolio risk management

The AOFM's strategy in 2017–18 followed a broadly similar theme to recent years, with a focus on longer term issuance and further lengthening of the average term to maturity of the debt portfolio. This will accommodate forecast growth in debt balances, while simultaneously reducing exposure to future interest rate and debt refinancing risks. The strategy also aimed to support diversity both in the AGS investor base, as well as the issuance options available to the AOFM across the curve.

The strategy was influenced by a range of factors including a continuation of low outright bond yields and low term premium (which increases the cost-effectiveness of longer term issuance). An external environment characterised by heightened regional security and trade tensions were also influential in shaping the AOFM's risk based approach. At its core, the 2017–18 portfolio strategy was designed to preserve the AOFM's flexibility to operate under a wide variety of circumstances (including the potential for disruption to 'normal' funding operations), while continuing to benefit from the relatively low interest rates on offer. A bias towards issuance of longer maturity bonds underpinned the strategy, which was complemented by a regular program of bond buyback tenders and maintaining a cash buffer that provided flexibility against potential threats to the government's cash financing needs through the year.

Chart 8 demonstrates the lengthening bias implicit to the AOFM's strategy with the average Treasury Bond issued in 2017–18 having a term to maturity of 11.08 years[3]. The issuance program continued to benefit from low interest rates and was delivered cost effectively, with an average yield on new issuance of 2.70 per cent[4], which is lower than the average 10-year bond yield observed over the financial year of 2.71 per cent despite being more than one year longer.

3 Calculation is based on the term to maturity of each bond issued during the year, weighted by book value.

4 Calculation is based on issue yields during the year weighted by book value.

Chart 8: Treasury Bond issuance — average yield, term to maturity and 10-year bond yield

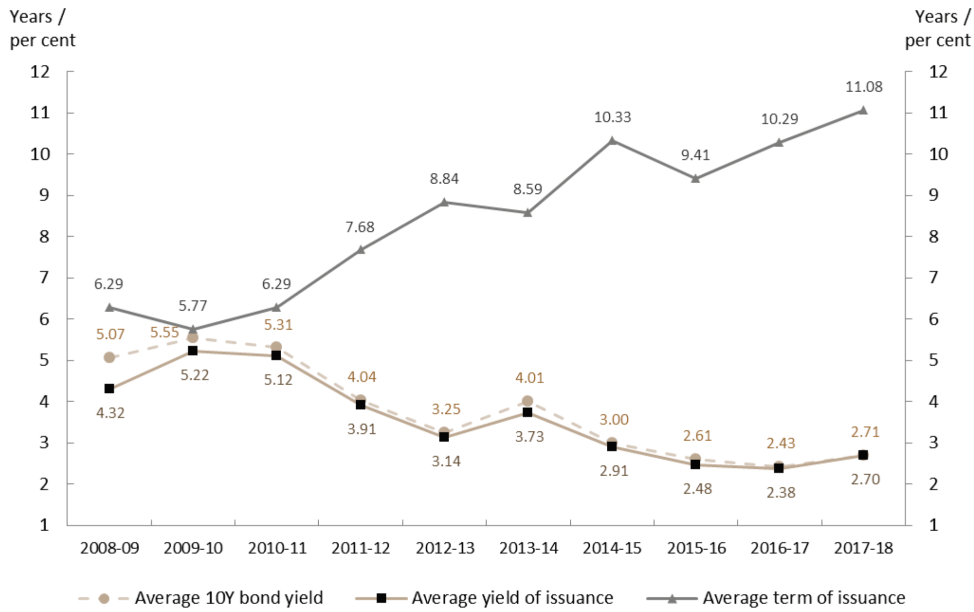
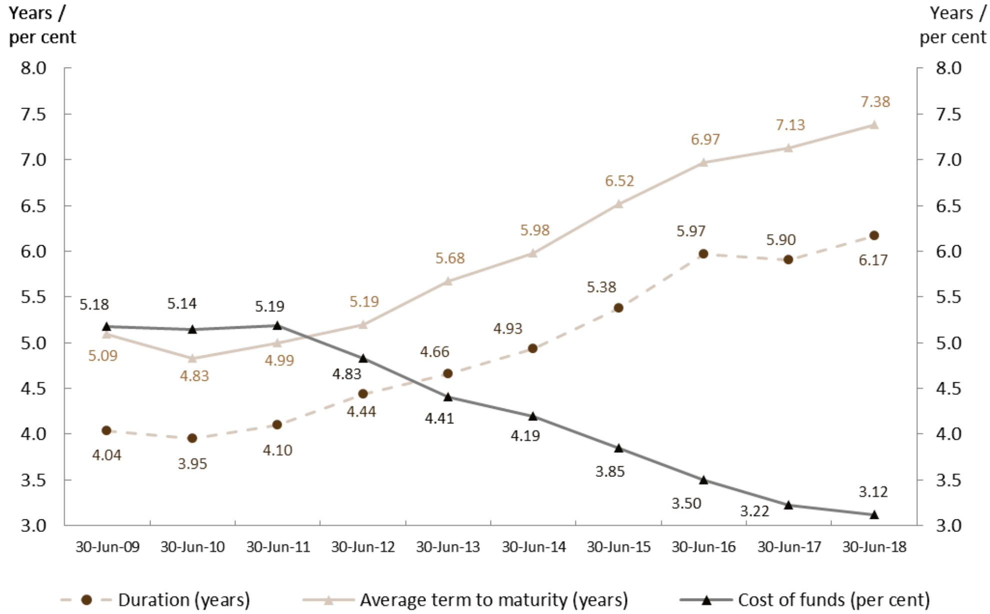


Chart 9 shows that the average term to maturity of the Treasury Bond portfolio as a whole lengthened by 0.26 years to 7.38 years over 2017–2018. Duration was also higher by 0.27 years finishing 2017–18 at 6.17 years. The effective cost of funds (or yield) on the Treasury Bond portfolio fell from 3.22 to 3.12 over the same period.[5]

5 These are point in time measures as at 30 June each year, in contrast to the debt servicing cost incurred throughout the year captured in Table 3. Figures are calculated by weighting Treasury Bond issuance yields by book volume.

Chart 9: Treasury Bond portfolio — modified duration, average term to maturity and cost of funds

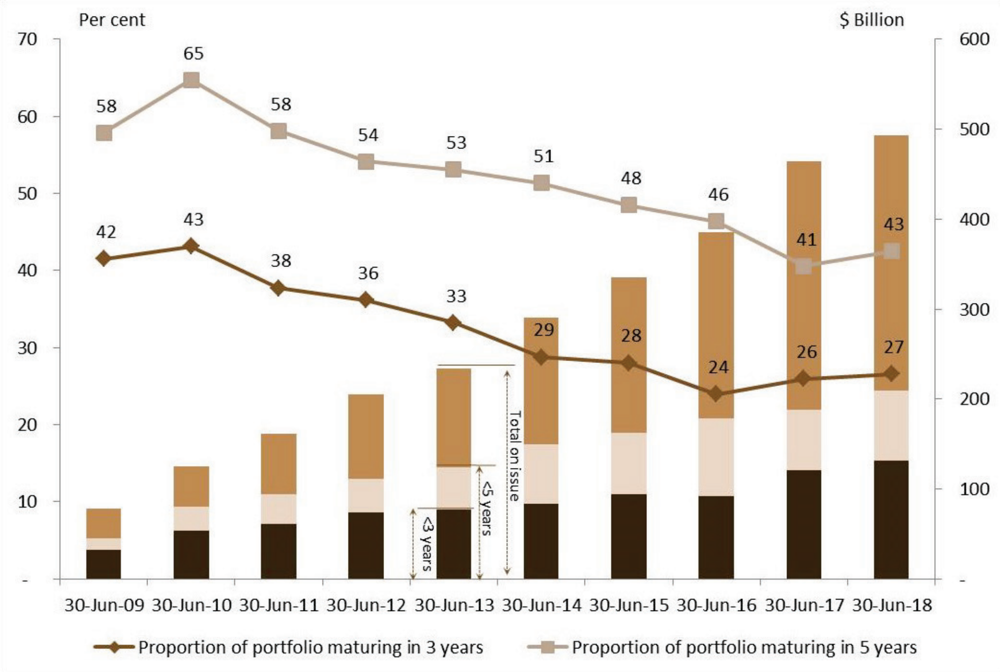


The reduced risk levels of the portfolio flowing from the AOFM's strategy are demonstrated in Chart 10 below. The chart shows a steady decline in the short to medium term Treasury Bond refinancing task, measured as the proportion of the stock of Treasury Bonds on issue through time[6]. At 30 June 2010 the structure of the portfolio was such that 43 per cent and 65 per cent of bonds required refinancing over the next three and five year periods respectively; this has now fallen to 27 per cent and 43 per cent. The AOFM estimates that the cumulative impact of its portfolio strategy is a gross borrowing task that is approximately $100 billion lower over the next five fiscal years than what it would otherwise have been[7]. This implies that the portfolio is now less exposed to funding, refinancing and interest rate risks.

6 In absolute dollar terms, the quantum of three and five year maturities in the portfolio has still grown although this has occurred at a considerably slower pace compared to growth in the overall stock of Treasury Bonds.

7 Compared to a counterfactual where the pre-2011 portfolio structure is retained.

Chart 10: Treasury Bond portfolio — maturity profile



In 2017–18, the AOFM continued to maintain an asset buffer (in the form of term deposits with the RBA) to act as a precaution against a possible deterioration in funding conditions.

Portfolio cost

The debt servicing cost[8] of the net AGS portfolio managed by the AOFM in 2017–18 was $16.72 billion on an average book volume of $492.56 billion, representing a net cost of funds of 3.39 per cent for the financial year. The largest component of net AGS debt is the Long Term Debt Portfolio (LTDP), comprised primarily of Treasury Bonds and Treasury Indexed Bonds, which incurred debt servicing costs of $17.45 billion on an average book volume of $528.50 billion, implying a cost of funds of 3.30 per cent. The difference between net AGS debt and the LTDP is attributable to the short term assets and liabilities the AOFM uses for liquidity management purposes (term deposits and Treasury Notes) and other residual assets (such as RMBS).

8 Debt servicing cost includes net interest expense (measured on an accruals basis and includes realised gains and losses on the disposal of assets or liabilities) plus foreign exchange revaluation gains and losses (now minimal). Unrealised changes in the market valuation of domestic debt and assets are not part of this measure.

Chart 11: Net AGS debt and LTDP cost of funds analysis (per cent)

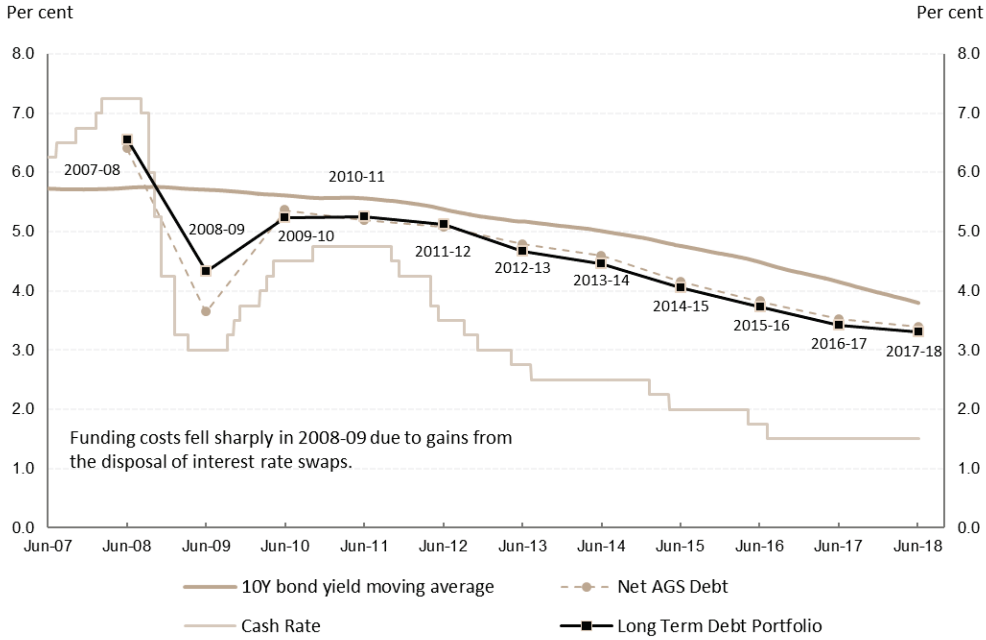


Chart 11 shows the funding cost profile of the net AGS debt portfolio and the LTDP back to 2007–08. These profiles are contrasted with the cash rate and the 10-year moving average of the 10-year bond yield. With interest rates trending down, funding costs on the net debt portfolio and the LTDP have declined by 180 and 196 basis points respectively since 2010–11. This compares to declines of 325 basis points in the cash rate and 176 basis points in the 10-year bond yield moving average over the same period. Given the largely fixed cost structure of the net debt portfolio and the LTDP, changes in funding cost will always lag changes in the overnight cash rate (changing only when existing debt securities or assets mature or new securities are issued/investments placed). In a comparison with the 10-year bond yield moving average, funding costs have fallen further because of the relative 'over-representation' of recently issued debt in the portfolio through a period where issuance yields have been declining.[9]

9 Bond issuance over the past five financial years for instance accounts for almost 80 per cent of the LTDP as at 30 June 2018. Bond yields over this period were on average significantly lower than the preceding five years, which largely explains why portfolio funding costs have fallen by more than the 10-year bond yield moving average.

Table 3 provides further details of the cost outcomes for the portfolio of debt and assets administered by the AOFM broken down by instrument and portfolio for 2016–17 and 2017–18.

Table 3: Commonwealth debt and assets administered by the AOFM

	Debt servicing cost		Book volume		Effective yield	
	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18
	$ million		$ million		per cent per annum	
Contribution by instrument						
Treasury Bonds	(15,059)	(15,854)	(439,320)	(485,291)	3.43	3.27
Treasury Indexed Bonds	(1,312)	(1,598)	(39,064)	(43,207)	3.36	3.70
Treasury Notes	(72)	(67)	(4,339)	(3,950)	1.66	1.70
Foreign loans (a)	(0)	-	(5)	-	8.42	0.00
Gross physical AGS debt	(16,443)	(17,519)	(482,728)	(532,448)	3.41	3.29
Term deposits with the RBA	570	650	33,123	37,095	1.72	1.75
RMBS investments	70	37	2,379	915	2.93	4.04
State Housing Advances	115	110	1,958	1,880	5.86	5.86
Gross assets	754	797	37,460	39,890	2.01	2.00
Net AGS debt	**(15,689)**	**(16,722)**	**(445,268)**	**(492,558)**	**3.52**	**3.39**
Contribution by portfolio						
Long Term Debt Portfolio	(16,372)	(17,452)	(478,389)	(528,498)	3.42	3.30
Cash Management Portfolio	498	583	28,784	33,145	1.73	1.76
RMBS Portfolio	70	37	2,379	915	2.93	4.04
State Housing Portfolio	115	110	1,958	1,880	5.86	5.86
Total debt and assets	**(15,689)**	**(16,722)**	**(445,268)**	**(492,558)**	**3.52**	**3.39**
Re-measurements (b)	19,403	581				
Total after re-measurements	**3,714**	**(16,141)**	**(445,268)**	**(492,558)**		

Note: Sub totals and totals are actual sum results, rounded to the nearest million dollars. Effective yields are based on actual results before rounding, rounded to two decimal places. Book volume is a through the year average.
(a) Interest expense and effective yield on foreign loans incorporates foreign exchange revaluation effects.
(b) Re-measurements refer to unrealised gains and losses from changes in the market valuation of financial assets and liabilities.

The cost of gross debt increased in dollar terms by $1.08 billion compared to the previous year. This was primarily due to an increase in the average volume of debt on issue from $482.73 billion in 2016–17 to $532.45 billion in 2017–18. However, in percentage terms the funding cost of gross debt declined by 12 basis points (from 3.41 per cent to 3.29 per cent). This improvement was driven by the issuance of new bonds at yields that were below the average of pre-existing (and maturing) debt.

The return on gross assets in dollar terms for the period was $797 million, an increase of $43 million compared to 2016–17. This was driven by an $80 million increase in income from term deposits (resulting from larger holdings) which more than offset a

$33 million reduction in income from RMBS following the completion of the divestment process in February 2018.

The net servicing cost of the combined portfolio of debt and assets was $16.72 billion. This was higher in dollar terms compared to 2016–17, due to the volume of debt on issue being higher than the previous year. As a percentage of net debt, servicing costs fell from 3.52 per cent to 3.39 per cent, slightly larger than the fall in gross debt servicing costs.

Movements in market interest rates had a favourable impact on the market value of the portfolio in 2017–18. Unrealised gains from re-measurements amounted to $583 million. This compares to an unrealised gain of $19.40 billion in the previous year. Most of the re-measurement gains are attributable to changes in the market value of Treasury Bonds. Re-measurement items are highly volatile from one year to the next and have no bearing on the AOFM's debt issuance strategy. Indeed, were the AOFM to adopt a strategy designed to minimise the 'noise' from re-measurements, issuance would be limited to only very short-term debt securities, for example Treasury Notes and near maturity bonds, creating a portfolio structure that would maximise expected variability in debt servicing costs when measured in cash, accrual and public debt interest terms, while also maximising exposure to refinancing and funding risk. In practice the AOFM has been seeking to reduce these risks through allocating a greater proportion of issuance to long dated bond lines.

Cash management

Aims

The AOFM manages the daily cash balances of the Australian Government in the OPA.[10] This is undertaken in a manner that ensures the government is able to meet its financial obligations as and when they fall due. Other objectives are to minimise the cost of funding and the carrying cost of holding cash balances (which centres on holding only balances assessed as prudent to cover forecast needs and contingencies, while investing excess balances but at low or minimal risk). In minimising cost, the AOFM seeks to avoid use of the overdraft facility provided by the RBA.[11]

10 The OPA is the collective term for the core bank accounts maintained at the RBA for Australian Government cash balance management.

11 The overdraft facility is more costly than equivalent short-term borrowing (for example, issuance of Treasury Notes). The terms of the facility provide that it is to cover only temporary shortfalls of cash and is to be used infrequently and, in general, only to cover unexpected events.

Approach to achieving the aims

Achieving the cash management objective involves formulating forecasts of government cash flows, and developing and implementing appropriate strategies for short-term investments and debt issuance.

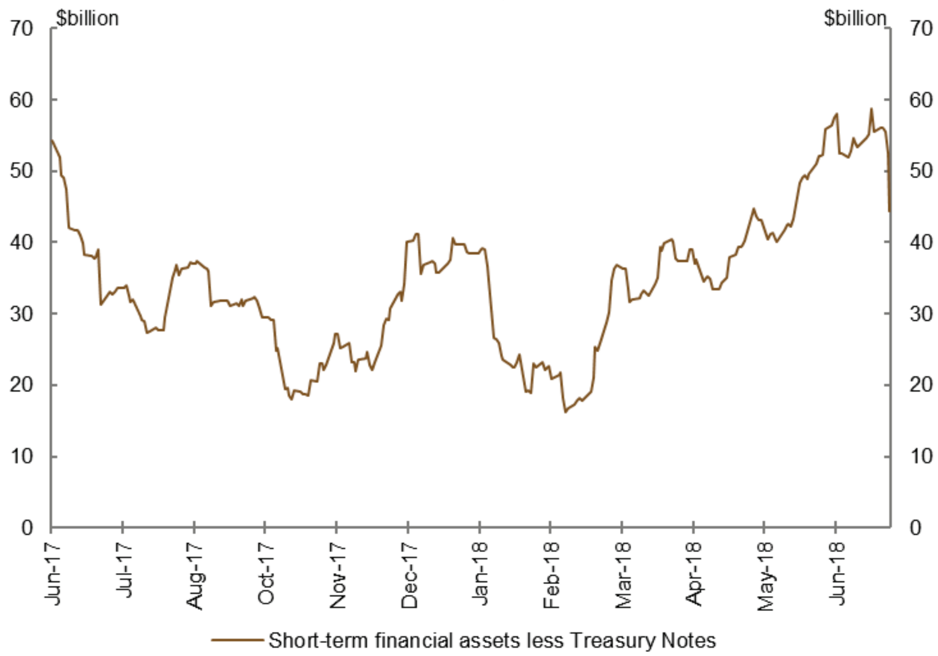
A precautionary asset balance is maintained to manage the forecasting risk associated with potentially large unexpected cash requirements (or shortfalls in revenue collections) and the funding risk associated with market constraints.

Cash balances not required immediately were invested in term deposits at the RBA, with the magnitudes and tenors of the term deposits determined by the AOFM. Maturity dates of term deposits were selected to most efficiently finance net outflows. Interest rates for term deposits at the RBA reflect the rates earned by the RBA in its open market operations.

Treasury Notes are issued to assist with management of the within-year funding requirement. The volume of Treasury Notes on issue ranged from $2.5 billion to $6.5 billion during 2017–18.

The size and volatility of the within-year funding requirement are reflected in changes in the short-term financial asset holdings managed by the AOFM, after deducting Treasury Notes on issue. Chart 12 shows movement in the funding requirement over the year.

Chart 12: Within-year funding requirement 2017–18



Outcomes

The task of meeting the government's financial obligations as and when they fall due was fully met. The overdraft facility was utilised once in 2017–18, however, the amount was below the threshold requiring Ministerial approval.

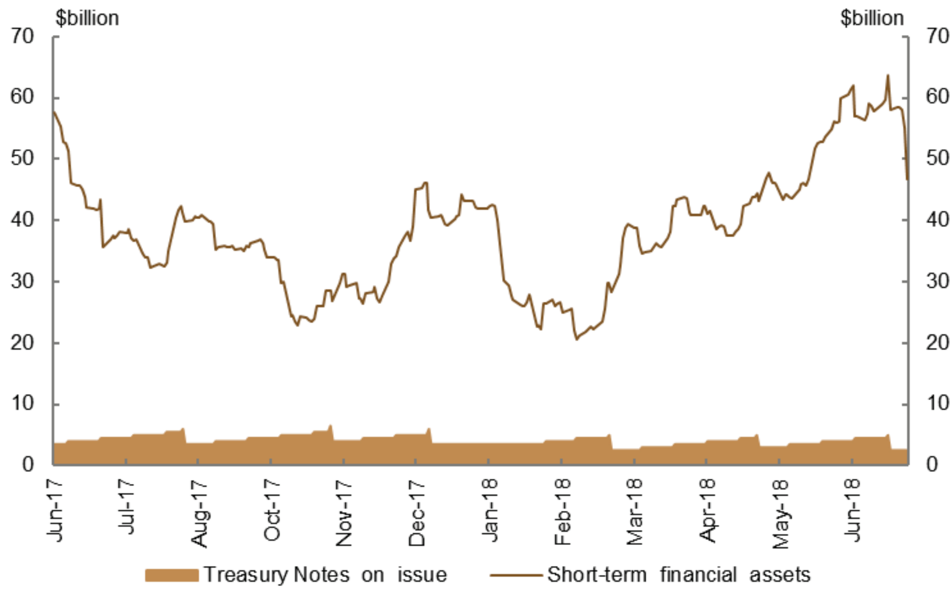
During 2017–18, the AOFM placed 386 term deposits with the RBA. The stock of term deposits fluctuated according to a range of factors influencing the AOFM's cash portfolio management needs and decisions. The balance of term deposits ranged from a minimum of $18.6 billion in January 2018 to a maximum of $61.4 billion in June 2018.

The average yield obtained on term deposits during 2017–18 was 1.75 per cent, compared with 1.72 per cent in 2016–17. The increase in average yield reflects the higher average level of short-dated interest rates that prevailed during 2017–18.

A total of $13.5 billion of Treasury Notes were issued in 2017–18 (in face value terms). The average coverage ratio at tenders was 4.07, an increase from 3.35 in 2016–17. Yields were on average around 25 basis points higher than Overnight Indexed Swap (OIS) rates for corresponding tenors (compared to around 10 basis points higher than OIS rates in 2016–17), reflecting higher spreads across Australian short-dated funding rates. Details are available in Part 5 of this annual report.

The movement in total short-term financial asset holdings managed by the AOFM (OPA cash balance plus term deposits with the RBA), together with the volume of Treasury Notes on issue during 2017–18 are shown in Chart 13.

Chart 13: Short-term financial asset holdings and Treasury Notes on issue 2017–18



In undertaking its cash management activities, the AOFM was required to adhere to a set of cash management principles which required that balances in the OPA be sufficient to meet the Commonwealth's operational needs without being excessive, with use of the overdraft facility expected to be infrequent and in general only to cover unexpected events (due to timing or quantum or both). The AOFM has developed an operational framework to adhere to the principles. The average OPA balance for the year was $1.218 billion.

Residential Mortgage-Backed Securities

Aims

During the period October 2008 to April 2013, the AOFM was directed to invest up to $20 billion in eligible RMBS to support competition in mortgage lending. In total, just under $15.5 billion was invested[12]. On 5 May 2015, the Treasurer issued a direction under the PGPA Act to divest the government's RMBS portfolio through a regular competitive process.

Approach to achieving the aims and finalisation of the program

In accordance with the Treasurer's direction, the AOFM commenced a competitive sales process for the government's RMBS portfolio in June 2015. Under that Direction, five auctions were held in which around $458 million in amortised face value of RMBS were sold. Conditions affecting the Australian RMBS market deteriorated during 2015 such that in November 2015 the AOFM exercised its operational discretion to suspend RMBS auctions.

In November 2017, the AOFM announced that it had determined that RMBS market conditions had improved sufficiently to warrant recommencing the RMBS divestment process through regular auctions. At the same time, the AOFM announced some changes to the auction process, most notably that the reserve price would be announced in the lead up to each auction, and the details of each auction would be announced at least two weeks in advance of the auction date (but the previous practice of announcing a pipeline of auctions would be discontinued).

Four auctions were held between November 2017 and February 2018, with a total amortised face value of $1.508 billion, resulting in the complete divestment of the AOFM's remaining RMBS holdings. In all but one case each note was completely sold

12 Copies of each direction are available on the AOFM website.

the first time it was offered.[13] Table 4 puts the RMBS sales made in 2017–18 into a historic context.

Table 4: RMBS divestments over time

Financial Year	Amortised Face Value ($m)	Gain on sale ($m)
2009–2010	73.79	-
2010–2011	-	-
2011–2012	50.00	-
2012–2013	510.58	5.29
2013–2014	885.00	12.60
2014–2015	160.50	1.00
2015–2016	297.01	1.71
2016–2017	-	-
2017–2018	1,508.24	10.66
Total	**3,485.12**	**31.26**

Over the life of the program from October 2008 to February 2018, around $31.3 million in gains were realised through RMBS divestments totalling just under $3.5 billion in amortised face value terms. No notes were sold at a loss and the remaining circa $12 billion in taxpayer funds were repaid in full through amortisation and/or the exercise of call options by the issuers.

Turning to the portfolio's performance for 2017–18, accrual interest income was approximately $37 million. This represented an annualised accrual return of 4.04 per cent on the portfolio's average book value of $915 million. This is higher than the corresponding rate of return in 2016–17, due largely to the inclusion of the realised gains on sale of around $11 million reported in Table 4. Unrealised gains of $5 million were recognised as at the end of the previous financial year, but fell to zero by definition as the divestment was completed. Consequently the rate of return on the portfolio, inclusive of re-measurements, was around 3.50 per cent in 2017–18.

The total gross return on the RMBS portfolio over the life of the program, inclusive of realised gains on divestment, was just over $2.9 billion. This corresponds with an internal rate of return of around 5 per cent per annum.[14]

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13 Further details of the auctions, including reserve prices and prices achieved, bids received and accepted, and volumes of each security sold, can be found on the AOFM website.

The divestment of the remaining securities held by the AOFM brings the RMBS program to a close.

Market Engagement

Aims

In order to achieve its core objectives the AOFM needs to maintain a comprehensive understanding of market related issues including major announcements and events, impacts on the global flow of capital, changing investor preferences, and the performance of banks that play the role of intermediaries — particularly in the primary AGS market, on which the AOFM relies exclusively for access to end investors. While this latter aim can in part be served by assessing announced regulatory changes, there remains the need for a heavy emphasis on maintaining strong lines of communication directly with intermediaries and (both directly and indirectly through intermediaries) with end investors.

Communication with intermediaries is frequent and, with investors, is based on an investor relations program. The program is underpinned by an investor relations strategy that is reviewed annually in response to changes in market conditions, investor activity, and changes in the key investor base and/or the AOFM's planned issuance strategy.

Approach to achieving the aims

A major review of the investor relations strategy was conducted in December 2017 in which the objectives of the strategy were modified and the emphasis placed on these objectives, changed. The reasons for the major review came about through questions on whether the current strategy would remain relevant through the changing global rates environment, forecast lower budget deficits and the reduced issuance programs the AOFM has recently experienced and is looking to implement over the Budget forward estimates period.

Investor relations aims have been heavily focused on the diversification of the AGS investor base and maintaining information flows through direct engagement with key investors. With the investor base growing in number and by diversity and the government's steadily improving fiscal position, the need to engage with investors on issues of AGS market development has been reduced.

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14 Note that this does not include the cost of financing the RMBS portfolio. Any estimate of the *net* return would be extremely sensitive to the assumptions regarding the choice of the subset of gross debt notionally allocated to the financing of the RMBS portfolio.

However, with rapidly changing global macro conditions mentioned earlier in this report, such as a historically low interest rate environment, the tightening of monetary policy by the US Federal Reserve and other Central Banks, and the unwinding of expansionary monetary policy settings by the US Fed, the need for market perspectives and feedback from investors remains.

The three objectives of the revised strategy are:

- collecting and analysing market intelligence from investors,
- managing and maintaining updates to the AOFM's program of activities and its intended operations with key investors, and
- a deepening of the investor base diversification through engagement with new or potentially new investors.

Outcomes

The first half of 2017–18 was very active for investor engagement. Along with annual engagements with regular investor groups in Japan and Australia, several commitments involving investor diversity opportunities were pursued.

For the year overall the total number of investors met was 128, (compared with 131 in 2016–17).

A number of different investor engagement opportunities arose throughout the year, the most notable of these included meetings with Japanese regional banks, universities, and agricultural credit institutions based outside of Tokyo. This trip also included an invitation to speak at a large Japanese domestic bank global investor conference, which the AOFM had not done before. This opened communication with a range of investors that would not otherwise have been readily accessible to the AOFM.

Early in 2018, several financial intermediaries hosted around 15 Korean life insurers on information gathering trips to Australia. For most of them this was their first visit to Australia. The AOFM was able to directly meet a number of them and present to all of them at a forum in Sydney. These new and different types of market engagement opportunities are infrequent and are made possible through the AOFM's extensive network of relationships in the domestic and global banking sectors.

The bulk of investor relation activity, however, remained directed at ongoing investor engagement and information gathering. Face-to-face meetings with investors were held in North Asia, Central Europe, North America, and Tokyo. Central Europe and North America are places with key investors that had not been visited for three to four years. The Australian investor base is readily accessible and was covered through a series of meetings in Sydney, Melbourne and Brisbane.

The AOFM continued past practice of using appropriate opportunities at conferences and speaking events to engage with investors and reiterate key messages and themes regarding AGS issuance and market impacts. Each year Australian Business Economists hosts the luncheon post-Budget speech by the CEO. It remains the first and most important platform to provide information to the market for the upcoming year.

Other formats in which the AOFM presented were financial market conferences or investor missions (including the Mizuho Global Investor Conference, ANZ Hunter Valley conference, and the Deutsche Bank Investor Mission) hosted by the financial intermediaries, and several roundtables. While these events do not substitute for the benefits derived from face-to-face meetings, they remain useful in their own right and typically offer opportunity for short face-to-face meetings with selected attendees.

The major investor related event conducted by the AOFM this year was the Australian Government Fixed Income Forum in Tokyo in June 2018. The Forums have been conducted every 18-20 months. Speakers included the Treasury Secretary, the RBA Assistant Governor (Financial Markets), and the CEOs of the AOFM and the Australian Securitization Forum. Two panel discussions included the CEOs of the four largest state borrowing authorities, with a separate session that had four senior fund managers (two Australian and two Japanese). There were 90 attendees with 65 different Japanese investor institutions represented.

As well as face-to-face meetings and presentations, the AOFM conducted a number of phone meetings with international and domestic investors throughout the year. Regular fortnightly calls with ten domestic Treasury Indexed Bond investors assisted in the selection of individual lines to tender and were useful in gauging demand for Treasury Indexed Bonds in general.

Table 5: Summary of investor relations activities in 2017–18

Activity	Details
Conferences, speaking engagements and investor roadshows	16 events
Presentations: large engagements/ roundtables	7 presentations
Approximate total audience size: large presentations	315 attendees
Individual meetings	128 investor meetings
Individual cities visited	21 cities
AOFM staff participating in investor relation activities	CEO, Head of Investor Relations, Head Portfolio Strategy & Research, Senior Strategist Investor Relations, Communications Officer Investor Relations, Analyst Funding and Liquidity
Hosting banks: Investor roadshows, conferences, roundtable discussions	ANZ, Bank of America Merrill Lynch, Citi Commonwealth Bank of Australia, Daiwa Securities Deutsche Bank, JP Morgan, Mizuho Asia Securities, Nomura Securities, TD, UBS, Westpac

PART 3: MANAGEMENT AND ACCOUNTABILITY

MANAGEMENT AND ACCOUNTABILITY

Governance of the AOFM

The AOFM's governance arrangements enable an efficient and effective delivery of business objectives. Key elements include:

- corporate and tactical business planning processes,
- enterprise-wide risk management, assurance and compliance activities that are oversighted by an Audit Committee chaired by an independent member,
- performance frameworks that facilitate on-going monitoring and review, and
- delegations, instructions and internal guidance regarding powers and duties to ensure adherence with relevant legislation, regulations, and policies.

Overview of accountabilities

The AOFM is part of the Treasury portfolio. It is accountable to the Secretary to the Treasury and to the Treasurer, and through the Treasurer to the Parliament. As a listed entity under the PGPA Act the AOFM's CEO is accountable for the management and performance of the AOFM, namely with respect to the implementation of debt management and investment policies. This also extends to matters such as the maintenance of accounts and records, management of risks and compliance with legislation and government policy.

The Secretary to the Treasury is responsible for advising the Treasurer on government policy relating to debt management and investment activities. In order to undertake the required functions of the AOFM, the CEO is delegated powers and authorisations by the Treasurer and the Secretary to the Treasury for debt creation and issuance, investment, and portfolio management.

The AOFM's corporate plan, policies, and codes of conduct mirror AOFM values and these reflect high standards of integrity and accountability. Activities are designed to meet the requirements of legislative and regulatory frameworks, as well as the codes and practices generally expected of financial market participants.

The AOFM meets an important part of its accountability to the Secretary of the Treasury through the annual (pre-Budget) provision of a comprehensive debt portfolio management strategy that focuses on the outlook for issuance (in the context of the financing task), appropriate AGS market development aspirations (such as yield curve extensions), planned cash portfolio management parameters, and planned bond buybacks. This strategy is formalised after the release of the Budget through an annual remit, with the Treasurer approving the scope of planned borrowing on behalf of the government for the Budget year ahead.

Committees

Executive Group

The AOFM Executive Group leads the agency's continuing development in accordance with its purpose and objectives. The Executive Group assists and supports the CEO in fulfilling his responsibilities to manage the AOFM (in particular, as the accountable authority under the PGPA Act, and pursuant to other Commonwealth legislation). Its activities include: the setting and tracking of strategic plans and performance targets, reviewing the AOFM's risk profile and setting of risk appetite, monitoring financial and compliance performance, and building capability and capacity to support high levels of performance. The Executive Group, which is chaired by the CEO and comprises the AOFM's senior executives, meets monthly.

Audit Committee

The Audit Committee monitors and reviews the AOFM's governance, enterprise risk management, internal control, and financial reporting arrangements. It receives periodic briefings from AOFM management on changes to the business and risk profiles. It oversees the AOFM's assurance program and receives reports, indicator dashboards and briefings from AOFM business units and internal auditors. This information, together with relevant observations from the external auditor, assists the Audit Committee to form a view on the AOFM's financial and performance reporting, compliance with its obligations, and the on-going effectiveness of AOFM risk and control frameworks.

Key activities of the Committee during 2017–18 included:

- advice on the preparation and review of the AOFM's financial statements,
- considering developments in the AOFM's risk profile and compliance performance, as reported through quarterly risk and assurance (including audit) reports,
- reviewing the adequacy of fraud control strategies and monitoring activities,
- monitoring the progress of: major corporate projects, initiatives to achieve the AOFM's workforce planning outcomes, and the implementation of audit recommendations, and

- reviewing the AOFM's reporting on performance obligations, in line with the annual reporting requirement under the PGPA Act, including its approach to monitoring key performance indicators, and how these will be incorporated into the Annual Performance Statement.

The Committee met four times during 2017–18 at the AOFM's office in Canberra. Member attendance at 2017–18 meetings is provided in Table 1. The Audit Committee also conducted closed sessions with the internal auditors and external auditors during the year.

Table 1: Audit Committee meetings for 2017–18

Audit Committee members	Eligible meetings	Attendance
Will Laurie, Independent Member, Chair	4	4
David Lawler, Independent Member (a)	1	1
Stephen Knight, Independent Member	4	4
Jan Harris, Independent Member (b)	2	2
Samantha Montenegro, Chief Risk and Compliance Officer, AOFM	4	4

(a) Mr David Lawler concluded his tenure as an independent member on 31 August 2017. Mr Lawler's final meeting as an independent member was held on 24 August 2017.
(b) Ms Jan Harris was appointed to this position on 28 November 2017, which had been vacant for the 22 November 2017 meeting as a result of the conclusion of Mr Lawler's tenure. Ms Harris' first meeting was on 20 March 2018.

External observers at Audit Committee meetings included the ANAO and its outsourced provider (KPMG), and the AOFM's internal auditor (PricewaterhouseCoopers). The AOFM CEO regularly attends meetings as an observer.

Other management committees

Cash Management Meeting

The Cash Management Meeting is held each week to review the government's cash portfolio position and short to medium term cash flow projections, including expected funding needs and emerging risks to the cash portfolio profile. The meeting is chaired by the CEO, and attended by the Head of Funding and Liquidity and other front office staff.

Security Committee

The Security Committee meets quarterly and oversights security management within the AOFM. Its membership comprises the CEO (as Chair), Chief Risk and Compliance Officer, Agency Security Advisor, and IT Security Advisor. The head of the Treasury Security Team is also invited to attend ex officio to assist in security harmonisation.

Portfolio Strategy Meeting

Portfolio Strategy Meetings (PSM) advise the CEO on operational debt portfolio and financial risk management issues, and review deal execution and general financial market conditions. Membership during 2017–18 included the CEO, Head of Global Markets and Business Strategy, Head of Portfolio Strategy and Research, Head of Funding and Liquidity and Head of Investor Relations, with other senior staff holding relevant functional responsibilities invited as observers and contributors to topical papers. Meetings are generally convened on a quarterly basis.

Management of fraud risk

The AOFM has a **low** risk appetite for fraud, and has taken comprehensive steps to prevent the occurrence of fraud. These include the application of a fraud control plan, and systems to ensure the regular identification, assessment and treatment of fraud risk vulnerabilities. The AOFM's approach to fraud risk management complies with the PGPA Act and Rule and the Commonwealth Fraud Control Framework.

For 2017–18 the AOFM did not identify any instance of fraud or suspected fraud.

Enterprise risk

Risk management is integral to the AOFM's activities and is viewed internally as the responsibility of all staff. The Executive Group, in a leadership capacity, fosters a strong risk aware culture and supports staff in judging appropriate risk in which to engage. The risk and assurance functions guide staff on the design, implementation and effective operation of appropriate risk treatments and controls.

The enterprise risk management framework provides for the active and transparent management of uncertainty (threats and opportunities). Key reflection points are provided quarterly (at Executive Group meetings), and these are an established feature of annual corporate planning activities. Risk assessments are used as key inputs to strategy development and decisions on operational activities. The enterprise risk management framework captures information that is used to indicate emerging matters of note and key risks to be managed and monitored. This approach is used at both enterprise ('top-down', outward focussed) and business unit ('bottom-up', inward focussed) levels. Staff understand that risks are to be managed in line with the AOFM's risk appetite and tolerance statements.

The AOFM's enterprise risk management framework is consistent with the Commonwealth Risk Management Policy. In 2017–18, the framework was assessed at an 'advanced' rating of maturity under the Comcover Benchmarking Program, consistent with the AOFM's target level of maturity.

The AOFM's enterprise risks are classified into three broad categories:

- Strategic risks: opportunities and exposures that impact on the AOFM's medium to long term objectives. These risks are monitored and reviewed by the Executive Group on a semi-annual basis, with a comprehensive review of the context in which the AOFM operates undertaken on an annual basis as part of the corporate planning process,
- Portfolio risks: impact on portfolio management, investment and debt issuance activities, these risks are managed pursuant to the AOFM's financial risk management framework, and
- Operational risks: relate to business as usual and corporate activities of the AOFM, and generally deal with matters of compliance, or the availability, integrity and/or actions of staff, providers, systems and/or internal processes. These risks are reviewed at least on a quarterly basis.

The AOFM's most significant risks typically arise from uncertainty relating to external factors (most notably the potential for sudden changes in economic or financial market conditions), or major changes to business activities. Key entity risks under management include the:

- potential negative impact of market trends or disruptive technologies on the successful issuance of AGS necessary to meet funding requirements,
- ongoing management of actions and messaging by the AOFM to maintain AGS investor confidence, as well as a positive view of the AGS market, and
- potential disruptions to third party suppliers or failure of internal systems and controls, which may negatively impact the AOFM's ability to deliver outcomes in accordance with its objectives.

Business continuity arrangements

The AOFM has a comprehensive business continuity plan to ensure that its critical functions can continue in the event of a major short-term or prolonged disruption. These arrangements include the provision of full back-up of IT and related business services that can be implemented when the AOFM's day-to-day business systems or office accommodation are not accessible, or when AOFM staff are not available to perform key tasks.

Business continuity plans were updated and tested in 2017–18 to ensure staff familiarity with processes and procedures in the event of a business disruption. Business continuity arrangements are supplemented by a crisis management framework to enhance business resiliency

Assurance

The AOFM's enterprise risk framework is complemented by an assurance framework that is used to monitor the operation and effectiveness of key controls. The framework is designed to meet the needs of the AOFM and is modelled on better practice industry standards.

The AOFM's compliance with external obligations, internal controls, and its business procedures is monitored through a co-sourced arrangement, with in-house assurance and compliance activities supplemented by the use of independent internal audit services.

In 2017–18, assurance and compliance activities provided structured assurance on the effectiveness and efficiency of the AOFM's governance arrangements, risk management and internal control environment. Key activities undertaken in 2017–18 included:

- completion of the annual assurance testing program to assess operating effectiveness of key controls and compliance with key legislative and policy requirements.
- project assurance for the AOFM's Treasury system upgrade,
- maintenance and performance of the AOFM's approach to obligations under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006*, and
- completion of an annual fraud control testing program.

Information and output derived from the enterprise risk and assurance frameworks support the CEO in meeting the obligation to maintain a system of risk management and internal control pursuant to section 16 of the PGPA Act.

Internal audit

The AOFM's internal audit service provider is PricewaterhouseCoopers. Internal audit coverage is determined using a methodology aligned with professional internal audit standards, with due regard to the AOFM's business and risk contexts. The Audit Committee endorses the internal audit strategy, for CEO approval.

The internal auditor completed four reviews in 2017–18:

- identification of key cloud-based applications used by the AOFM and an assessment as to the effectiveness of processes in place to monitor data-flows from AOFM systems to a cloud-based service.
- assessing the end-to-end process and controls supporting the debt issuance, confirmation, settlement and buyback activities,
- project assurance for the AOFM's Treasury system upgrade, and
- a post implementation review of the AOFM's contract execution for the fitout of its new premises.

Two reviews remain outstanding from the 2017–18 strategic internal audit plan, and were in progress as at 30 June 2018:

- assessing the AOFM's compliance with the Protective Security Policy Framework (PSPF), and
- a review of the AOFM's approach to key supplier risk management.

The internal auditor also completed a management initiated review: assessing the design and integrity of the AOFM's AGS turnover survey spreadsheet tools.

In its annual report on internal controls, the internal auditor concluded that AOFM continues to have a mature control environment (demonstrated by the nature and type of findings reported). Audit recommendations were aimed at enhancing the efficiency of the current control environment or clarifying current settings. At 30 June 2018, three internal audit recommendations remained outstanding and these are being addressed in accordance with agreed timelines.

Judicial decisions

In 2017–18, no matters relating to the AOFM were the subject of judicial proceedings, administrative tribunal hearings or consideration by the Commonwealth Ombudsman.

External reports on agency operations

There were no reports in 2017–18 on the operations of the AOFM by the Auditor-General (other than the report on financial statements), a Parliamentary committee, or the Commonwealth Ombudsman.

Management of human resources

Workforce planning

The *AOFM Workforce Plan 2014–2018* concluded at the end of the reporting period. Actions identified in the Plan relating to organisational resilience are ongoing. A new workforce plan attuned to AOFM's strategic context is being developed.

Enterprise Agreement

The *AOFM Enterprise Agreement 2015–2018* was approved by the Fair Work Commission and came into effect on 17 July 2015 and continues to apply. The CEO authorised adjustments to AOFM pay rates via a determination under subsection 24(1) of the *Public Service Act 1999* in November 2015. One individual flexibility arrangement was made under clause 1.5 of the Agreement during 2017–18.

Training and development

In 2017–18, all staff participated in some form of training. This included compliance training, leadership programmes, financial market related courses, an internal seminar series, and individual professional development activities. Payments to external providers for training and development during the period were on average $4,260 per full-time equivalent employee (FTE).

The AOFM workforce

As at 30 June 2018, AOFM employed 36.6 FTE. Table 2 shows the paid head count of the workforce by broadband classification as at the beginning and end of 2017–18.

Table 2: Operative and paid inoperative staff as at 30 June 2018 and 2017

	Ongoing				Non-ongoing				
	Full-time		Part-time		Full-time		Part-time		
Classification	Male	Female	Male	Female	Male	Female	Male	Female	Total
2018									
AOFM1	-	2	-	-	-	-	-	-	**2**
AOFM2	19	5	-	3	-	-	-	-	**27**
AOFM3	5	2	-	-	-	-	-	-	**7**
AOFM4	1	-	-	-	-	-	-	-	**1**
CEO	1	-	-	-	-	-	-	-	**1**
Total	**26**	**9**	**-**	**3**	**-**	**-**	**-**	**-**	**38**
2017									
AOFM1	-	2	-	-	-	-	-	-	**2**
AOFM2	18	8	-	3	-	-	-	-	**29**
AOFM3	5	1	-	-	-	-	-	-	**6**
AOFM4	1	-	-	-	-	-	-	-	**1**
CEO	1	-	-	-	-	-	-	-	**1**
Total	**25**	**11**	**-**	**3**	**-**	**-**	**-**	**-**	**39**

Note: AOFM broadband classifications are linked to Australian Public Service classifications as follows: AOFM1 corresponds to APS1 to APS4, AOFM2 corresponds to APS5 to EL1, AOFM3 corresponds to EL2 and AOFM4 covers higher level EL2.

During the first half of the reporting period, one position was staffed by AOFM to support knowledge transfer and technical capacity building in sovereign debt management in the Solomon Islands. This was arranged under the *Solomon Islands Economic and Public Sector Governance Program*. One AOFM staff member was placed in the Budget Policy Division of Treasury in this period as well. In the second half of the reporting period one employee was seconded to the Infrastructure and Project Financing Agency and another to Treasury as the manager of the Risk, Governance and Appointments section.

Ninety per cent of AOFM staff have degree qualifications, with 28 per cent holding higher degrees and 28 per cent holding double degrees. Thirty-eight per cent have professional qualifications related to the technical aspects of their role with the AOFM.

Employees who identify as indigenous

The AOFM does not have any staff who identify as indigenous.

Changes to senior management

There were no permanent changes to senior management during 2017–18.

Other staffing changes

One ongoing employee was recruited during 2017–18.

There was one ongoing staff departure during the year.

Staff departures represented 2.7 per cent of average staffing levels in 2017–18 (19.0 per cent in 2016–17).

The retention rate for 2017–18 was 97.4 per cent, with an average annual retention rate of 89.6 per cent over the last five years.

Employment arrangements

All non-SES staff had terms and conditions set during 2017–18 by the *AOFM Enterprise Agreement 2015–2018* and a determination made under subsection 24(1) of the *Public Service Act 1999* by the CEO.

The CEO has his terms and conditions set by the Secretary through a determination made under subsection 24(1) of the *Public Service Act 1999*.

Remuneration

Pay rates as at 30 June 2018 are shown in Table 3. These rates were set in accordance with the *AOFM Enterprise Agreement 2015–2018* and a determination made under subsection 24(1) of the *Public Service Act 1999*.

Table 3: AOFM salary ranges

	30 June 2018	
Classification	Band low $	Band high $
AOFM1	42,356	77,407
AOFM2	75,333	153,548
AOFM3	178,995	223,744
AOFM4	240,740	300,925

Remuneration within the range for the classification depends on individual performance ratings. Performance appraisals balance what is achieved (outputs) with how those results are obtained (behaviours). Performance-linked bonuses are not available.

Non-salary benefits provided to Australia-based staff principally comprise superannuation and support for professional development through study assistance, short courses and payment of job-relevant professional society membership fees. A mobile phone, laptop, or other mobile device may be provided where there is a business need. Employees on long-term deployment overseas are provided with housing, utilities, security, health and related ancillary services. Remuneration for key management personnel is reported in Note A of Part 4: Financial Statements.

Disability reporting mechanism

Since 1994, non-corporate Commonwealth entities have reported on their performance as policy adviser, purchaser, employer, regulator, and provider under the Commonwealth Disability Strategy. In 2007–08, reporting on the employer role was transferred to the Australian Public Service Commission's State of the Service reports and the *APS Statistical Bulletin*. These reports are available at www.apsc.gov.au. From 2010–11, entities have no longer been required to report on these functions.

The Commonwealth Disability Strategy has been overtaken by the National Disability Strategy 2010–2020, which sets out a 10-year national policy framework to improve the lives of people with disability, promote participation and create a more inclusive society. A high level two-yearly report will track progress against each of the six outcome areas of the Strategy and present a picture of how people with disability are faring. The first of these reports was published in 2014, and can be found at www.dss.gov.au.

Work health and safety

Health, wellbeing and safety services are provided by the Treasury under a Memorandum of Understanding. The AOFM has one Health and Safety Representative who assists staff in accordance with the *Work Health and Safety Act 2011*.

Monitoring the emergence of notable work health and safety issues is a standing agenda item at Executive Group meetings.

Flu vaccinations were made available to staff in 2017–18. There was an all-staff briefing on ergonomic issues relating to work practices and equipment use. Counselling and related support is available under an Employee Assistance Programme provided by Benestar Group. Additional online resources are provided to all staff to assist with safety, health and wellbeing promotion.

There were no compensable injury claims in 2017–18. There was one incident under section 37(5) which was notified to Comcare. The incident was investigated and no further action was required.

There have been no notices or investigations under Part 10 of the *Work Health and Safety Act 2011.*

Consultants

During 2017–18, two new consultancy contracts were entered into with total actual expenditure of $13,200. In addition, two ongoing consultancy contracts were active during 2017–18, involving total actual expenditure of $261,715. This is summarised in Table 4.

Annual reports contain information about actual expenditure on contracts for consultancies. Information on the value of contracts and consultancies is available on the AusTender website at: www.tenders.gov.au.

The AOFM engages consultants where it requires specialist expertise or when independent research, review or assessment is required.

Prior to engaging consultants, the AOFM takes into account the skills, experience and resources required for the task, the skills available internally, and the cost-effectiveness of engaging external expertise. The decision to engage a consultant is made in accordance with the PGPA Act and related rules, including the *Commonwealth Procurement Rules* (CPRs), and relevant internal policies.

Table 4: Consultancy contracts

	2014–15	2015–16	2016–17	2017–18
Number of consultancy contracts				
New contracts	8	9	1	2
Ongoing contracts	4	5	3	2
Expenditure (including GST)				
New contracts	$126,851	$211,337	$14,614	$13,200
Ongoing contracts	$583,875	$222,974	$221,822	$261,715

Purchasing

The AOFM's purchasing activities are consistent with, and reflect the principles of, the Commonwealth Procurement Rules (CPRs). These rules are applied to the AOFM's activities through the *Accountable Authority Instructions* and supporting internal policies and procedures.

The AOFM's Procurement Plan is published annually and available from the AusTender website: www.tenders.gov.au. The plan is updated when circumstances change.

ANAO access clauses and exempt contracts

Five contracts in excess of $100,000 were entered into during the reporting period that did not provide for the Auditor-General to have access to the contractor's premises.

The first contract was for the syndicated issuance of $2.3 billion of Australian Government Treasury Bonds (a June 2039 maturity) in July 2017. The AOFM appointed Bank of America Merrill Lynch, Westpac Institutional Bank and UBS AG (Australia Branch) to act as managers for the issue.

The second contract was for the syndicated issuance of $3 billion of Australian Government Treasury Indexed Bonds (a November 2027 maturity) in August 2017. The AOFM appointed Citi, UBS AG (Australia Branch), Westpac Institutional Bank and Deutsche Bank AG to act as managers for the issue.

The third contract was for the syndicated issuance of $2.1 billion of Australian Government Treasury Bonds (a March 2047 maturity) in October 2017. The AOFM appointed Citi, Deutsche Bank AG and Toronto Dominion Australia Limited to act as managers for the issue.

The fourth contract was for the syndicated issuance of $9.6 billion of Australian Government Treasury Bonds (a November 2029 maturity) in January 2018. The AOFM appointed Citi, Commonwealth Bank of Australia, Deutsche Bank AG and UBS AG (Australia Branch) to act as managers for the issue.

The fifth contract was for the syndicated issuance of $1.7 billion of Australian Government Treasury Bonds (a June 2039 maturity) in May 2018. The AOFM appointed ANZ, Commonwealth Bank of Australia and National Australia Bank to act as managers for the issue.

ANAO access clauses were not included in the contracts as the AOFM maintains all relevant information in relation to the contracted services. Under these contracts, $30.86 million (including GST) was paid.

No contract or standing offer has been exempted from being published in the Purchasing and Disposals Gazette on the basis that it would disclose exempt matters under the *Freedom of Information Act 1982*.

Procurement initiatives to support small business

The AOFM supports small business participation in the Commonwealth Government procurement market. Small and Medium Enterprises (SME) and Small Enterprise participation statistics are available on the Department of Finance's website.

www.finance.gov.au/procurement/statistics-on-commonwealth-purchasing-contracts.

Consistent with paragraph 5.4 of the CPRs, the AOFM's procurement practices provide appropriate opportunities for SMEs to compete and ensure that SMEs are not unfairly discriminated against.

The AOFM recognises the importance of ensuring that small businesses are paid on time. The results of the Survey of Australian Government Payments to Small Business are available on the Treasury's website: www.treasury.gov.au

PART 4:
FINANCIAL STATEMENTS

Auditor-General for Australia

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Treasurer

Opinion

In my opinion, the financial statements of the Australian Office of Financial Management for the year ended 30 June 2018:

(a) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and

(b) present fairly the financial position of the Australian Office of Financial Management as at 30 June 2018 and its financial performance and cash flows for the year then ended.

The financial statements of the Australian Office of Financial Management, which I have audited, comprise the following statements as at 30 June 2018 and for the year then ended:

- Statement by the Accountable Authority and Chief Finance Officer;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement;
- Administered Schedule of Comprehensive Income;
- Administered Schedule of Assets and Liabilities;
- Administered Reconciliation Schedule;
- Administered Cash Flow Statement; and
- Notes to the financial statements, comprising a Summary of Significant Accounting Policies and other explanatory information.

Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Australian Office of Financial Management in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* to the extent that they are not in conflict with the *Auditor-General Act 1997* (the Code). I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matter

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period. The matter set out below was addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on this matter.

Key audit matter	How the audit addressed the matter
Valuation of Australian Government Securities *Refer to Administered Note 1 'Financial Risk Management', 2 'Treasury Bonds', 3 'Treasury*	The audit procedures that I applied to address the matter included testing: • the design and effectiveness of general key IT controls relevant to the treasury

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Indexed Bonds', and 4 'Treasury Notes'. The Australian Office of Financial Management issues Australian Government Securities on behalf of the Commonwealth Government. The securities primarily comprise treasury bonds, treasury indexed bonds, and treasury notes. The valuation of Australian Government Securities is a key audit matter due to: • the significant monetary value of Australian Government Securities relative to the Australian Office of Financial Management's balance sheet ($575,443 million at 30 June 2018) and the range of financial instruments held; and • the valuation of financial instruments uses a variety of different fair value estimation methodologies which involve assumptions about the return on securities over a long period into the future.	management systems used to record and measure Australian Government Securities. • the design and effectiveness of key controls relevant to the issuance of Australian Government Securities, including new tenders, debt coupon payments, coupon redemptions, and debt buybacks. • the design and effectiveness of key controls relevant to the ongoing monitoring of market valuations of debt. • valuations of Australian Government Securities at 30 June 2018, using the following procedures: o Checked all treasury bonds, treasury indexed bonds, and treasury notes face values and coupon rates to independent third party reports. o Performed a recalculation of the fair value of Australian Government Securities for all issued treasury bonds, treasury indexed bonds, and treasury notes and assessed the assumptions about future returns on these securities against market yield data.

Accountable Authority's Responsibility for the Financial Statements

As the Accountable Authority of the Australian Office of Financial Management the Chief Executive Officer is responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards and the rules made under that Act. The Chief Executive Officer is also responsible for such internal control as the Chief Executive Officer determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive Officer is responsible for assessing the Australian Office of Financial Management's ability to continue as a going concern, taking into account whether the entity's operations will cease as a result of an administrative restructure or for any other reason. The Chief Executive Officer is also responsible for disclosing matters related to going concern as applicable and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;
- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Australian National Audit Office

Grant Hehir

Auditor-General

Canberra

23 August 2018

3

STATEMENT BY THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

In our opinion, the attached financial statements for the year ended 30 June 2018 comply with subsection 42 (2) of the *Public Governance, Performance and Accountability Act 2013*, and are prepared from properly maintained financial records as required by subsection 41 (2) of the *Public Governance, Performance and Accountability Act 2013*.

In our opinion, and on the condition of receiving continuing appropriations from Parliament, there are reasonable grounds to believe that the Australian Office of Financial Management will be able to pay its debts as and when they fall due.

No matter, transaction or event of a material or unusual nature has arisen in the interval between the end of the reporting period (30 June 2018) and the date of signing this report that has significantly affected or may significantly affect the AOFM's operations.

Signed

R Nicholl
Chief Executive Officer
23 August 2018

Signed

P Raccosta
Chief Financial Officer
23 August 2018

Administered schedule of comprehensive income

for the period ended 30 June 2018

	2018 $'m	2017 $'m	Notes
EXPENSES			
Interest expense:			
Treasury Bonds	**15,363**	14,644	**2**
Treasury Indexed Bonds	**1,566**	1,312	**3**
Treasury Notes	**67**	72	
Other	**..**	1	
Interest expense	**16,996**	16,029	
Supplier expenses	**29**	47	
Grants	**..**	..	
Total expenses	**17,025**	16,076	
INCOME			
Interest revenue:			
Loans to State and Territory Governments:			
Perpetual debt	**..**	..	
Advances	**110**	115	
Deposits	**650**	570	
Residential mortgage-backed securities	**26**	70	
Interest revenue	**786**	755	
Other	**..**	..	
Total income	**786**	755	
GAINS (LOSSES)			
Foreign exchange	**..**	..	
Residential mortgage-backed securities sales	**11**	-	
Debt repurchased	**(523)**	(414)	
Total gains (losses)	**(512)**	(414)	
Surplus (deficit) before re-measurements	**(16,751)**	(15,735)	
RE-MEASUREMENTS (net market revaluation)			
Treasury Bonds	**823**	18,258	
Treasury Indexed Bonds	**(238)**	1,126	
Treasury Notes	**1**	1	
Other	**(5)**	18	
Total re-measurements	**581**	19,403	
Surplus (deficit)	**(16,170)**	3,668	

The above schedule should be read in conjunction with the accompanying notes.

Administered schedule of comprehensive income (continued)

for the period ended 30 June 2018

Interest expense and interest revenue are determined using the effective interest method.

The category 'gains (losses)' represents the total proceeds paid or received from repurchasing debt prior to maturity or from selling a financial asset prior to maturity, less the amortised cost carrying value of the debt or financial asset using the effective interest method at the time of repurchase or sale. The AOFM conducts these transactions at market rates.

The category 'surplus (deficit) before re-measurements' records a financial result that is consistent with an accruals (or amortised cost) basis of accounting under the historic cost accounting convention and is most relevant to the AOFM's role in managing its debt portfolio, whereby debt and other financial instruments are predominately issued and held to maturity, and where portfolio restructuring is performed primarily for portfolio management purposes, rather than for profit making purposes.

The category 're-measurements' provides information on the unrealised changes in the market revaluation of the portfolio of administered financial assets and financial liabilities (which are carried at fair value through profit or loss) during the financial year. This is relevant for assessing changes in financial risk exposures and changes to the value of transactions managed from year to year. The revaluation effect will net to zero over the life of a financial instrument.

Administered schedule of assets and liabilities

as at 30 June 2018

	2018 $'m	2017 $'m	Notes
LIABILITIES			
Interest bearing liabilities at fair value:			
Treasury Bonds	**524,403**	499,040	**2**
Treasury Indexed Bonds	**48,548**	44,718	**3**
Treasury Notes	**2,492**	3,490	**4**
Other debt (at fair value)	**-**	-	
Interest bearing liabilities at amortised cost:			
Other debt (at amortised cost)	**6**	6	
Interest bearing liabilities	**575,449**	547,254	
Other - liabilities	**..**	..	
Total liabilities	**575,449**	547,254	
FINANCIAL ASSETS			
Cash at bank	**1**	1	
Investments at fair value:			
Term deposits with the RBA	**45,140**	56,860	**5**
Residential mortgage-backed securities	**-**	1,927	**6**
Loans at amortised cost:			
Loans to State and Territory Governments	**1,792**	1,872	**7**
Total assets	**46,933**	60,660	
Net assets (liabilities)	**(528,516)**	(486,594)	

The above schedule should be read in conjunction with the accompanying notes.

Financial assets and financial liabilities denoted as being measured at amortised cost, are measured at fair value on initial recognition and at amortised cost on subsequent measurement using the effective interest method. Changes in carrying value, including amortisation of premiums or discounts, are recognised in Interest Revenue (for assets) and Interest Expense (for liabilities).

Financial assets and financial liabilities denoted as being measured at fair value, are measured at fair value on initial recognition and at fair value through profit or loss on subsequent measurement. Changes in carrying value are attributed between changes in amortised cost and other changes. Changes in carrying value attributable to amortised cost, including amortisation of premiums or discounts, are recognised in Interest Revenue (for assets) and Interest Expense (for liabilities). Other changes in carrying value (including unrealised changes in valuation due to a change in interest rates) are recognised in Re-measurements.

The AOFM is not aware of any quantifiable or unquantifiable administered contingencies as of the signing date that may have an impact on its operations.

Administered reconciliation schedule

for the period ended 30 June 2018

	2018 $'m	2017 $'m	Notes
NET ASSETS			
Opening value	**(486,594)**	(449,670)	
Administered schedule of comprehensive income:			
Surplus (deficit)	**(16,170)**	3,668	
Administered transfers (to) from Australian Government:			
Special appropriations (unlimited)	**557,571**	529,294	**9**
Transfers to OPA	**(583,323)**	(569,886)	
Change in special account balance	**..**	..	
Net assets	**(528,516)**	(486,594)	

The above schedule should be read in conjunction with the accompanying notes.

Administered schedule of cash flows

for the period ended 30 June 2018

	2018 $'m	2017 $'m	Notes
OPERATING ACTIVITIES			
Cash received (used):			
Interest receipts	**801**	713	
GST refunds from ATO	**2**	3	
Interest payments:			
Treasury Bonds	**(18,295)**	(17,198)	**2**
Treasury Indexed Bonds	**(1,142)**	(908)	**3**
Treasury Notes	**(70)**	(80)	
Other	**(7)**	(7)	
Other payments	**(31)**	(50)	
Net cash from operating activities	**(18,742)**	(17,527)	**8**
INVESTING ACTIVITIES			
Cash received (used):			
Capital proceeds from deposits	**485,150**	443,400	
Capital proceeds from residential mortgage-backed securities	**1,929**	895	
State and Territory loan repayments	**96**	94	
Acquisition of deposits	**(473,450)**	(471,300)	
Net cash from investing activities	**13,725**	(26,911)	
FINANCING ACTIVITIES			
Cash received (used):			
Capital proceeds from borrowings	**94,820**	124,053	
Other receipts	**43**	23	
Repayment of borrowings	**(64,051)**	(39,032)	
Other payments	**(43)**	(14)	
Net cash from financing activities	**30,769**	85,030	
TRANSACTIONS WITH OPA			
Cash from (to):			
Appropriations	**557,571**	529,294	
Special account payments	**..**	9	
Receipts sent to OPA	**(583,323)**	(569,886)	
Special account receipts to OPA	**..**	(9)	
Net cash from OPA	**(25,752)**	(40,592)	
Net change in cash held	**-**	-	
+ cash held at the beginning of period	**1**	1	
Cash held at the end of the period	**1**	1	

The above schedule should be read in conjunction with the accompanying notes.

Statement of comprehensive income

for the period ended 30 June 2018

	2018 $'000	2017 $'000	Notes
NET COST OF SERVICES			
EXPENSES			
Employee benefits	6,822	6,622	A
Supplier expenses	3,460	3,748	A
Depreciation and amortisation	433	205	
Write-down and impairment of assets	-	14	
Total expenses	10,715	10,589	
OWN-SOURCE INCOME			
Staff secondments	447	553	
Resources received free of charge	290	290	
Other	-	115	
Total own-source income	737	958	
Net cost of services	9,978	9,631	
APPROPRIATION FUNDING			
Revenue from government	10,834	11,198	
Total appropriation funding	10,834	11,198	
Surplus (deficit)	856	1,567	

The above statement should be read in conjunction with the accompanying notes.

Statement of financial position

as at 30 June 2018

	2018 $'000	2017 $'000	Notes
ASSETS			
Financial assets:			
Cash and cash equivalents	73	100	
Receivables	24,586	24,673	B
Non-financial assets:			
Computers, plant and equipment	370	409	
Leasehold improvements	1,677	1,890	C
Computer software	942	1,104	D
Supplier prepayments	223	58	
Total assets	27,871	28,234	
LIABILITIES			
Payables:			
Supplier payables	136	510	
Salary and superannuation	47	49	
Provisions:			
Employee provisions	2,354	2,279	E
Other provisions	418	418	F
Total liabilities	2,955	3,256	
Net assets	24,916	24,978	
EQUITY			
Retained surplus	30,467	29,611	
Contributed equity	(5,551)	(4,633)	
Total equity	24,916	24,978	

The above statement should be read in conjunction with the accompanying notes.

The AOFM is not aware of any quantifiable or unquantifiable departmental contingencies as of the signing date that may have an impact on its operations.

Statement of changes in equity

for the period ended 30 June 2018

	2018 $'000	2017 $'000	Notes
RETAINED SURPLUS			
Changes for period:			
Surplus (deficit)	856	1,567	
Change for period	856	1,567	
+ opening value	29,611	28,044	
Closing balance	30,467	29,611	
CONTRIBUTED EQUITY			
Changes for period:			
Capital injection - capital budget	713	720	
Capital injection - equity	-	150	
Return of capital - appropriations extinguished	(1,631)	(8,194)	
Change for period	(918)	(7,324)	
+ opening value	(4,633)	2,691	
Closing balance	(5,551)	(4,633)	
Total equity	24,916	24,978	

The above statement should be read in conjunction with the accompanying notes.

Statement of cash flows

for the period ended 30 June 2018

	2018 $'000	2017 $'000	Notes
OPERATING ACTIVITIES			
Cash received (used):			
Appropriations	**10,256**	**9,822**	
GST received from ATO	**5**	**3**	
Services and other	**537**	**585**	
Employees	**(6,732)**	**(6,470)**	
Suppliers	**(3,543)**	**(3,350)**	
GST paid to ATO	**(8)**	**(2)**	
Transfers to Official Public Account (a)	**(542)**	**(588)**	
Net cash from operating activities	**(27)**	**-**	**G**
INVESTING ACTIVITIES			
Cash received (used):			
Purchase of leasehold improvements	**(204)**	**(1,294)**	
Purchase of plant and equipment	**(9)**	**(392)**	
Net cash from investing activities	**(213)**	**(1,686)**	
FINANCING ACTIVITIES			
Cash received (used):			
Appropriations	**213**	**1,686**	
Net cash from financing activities	**213**	**1,686**	
Net change in cash held	**(27)**	**-**	
+ cash held at the beginning of period	**100**	**100**	
Cash held at the end of the period	**73**	**100**	

(a) Non-appropriation receipts are required to be returned to the Official Public Account (OPA). They increase the AOFM's available appropriation under section 74 of the *Public Governance, Performance and Accountability Act 2013* and when subsequently drawn down for use by the AOFM they are recorded as appropriations.

The above statement should be read in conjunction with the accompanying notes.

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The Australian Office of Financial Management (AOFM) is a listed entity under the *Public Governance, Performance and Accountability Act 2013*. The AOFM is a not-for-profit Australian Government entity.

These financial statements cover the AOFM as an administrative entity of the Commonwealth of Australia and are for the reporting period 1 July 2017 to 30 June 2018. They are required by section 42 of the *Public Governance, Performance and Accountability Act 2013*, and are general purpose financial statements prepared on a going concern basis.

The financial statements have been prepared in accordance with:

- the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*, and

- Australian Accounting Standards that apply for the reporting period.

The financial statements have been prepared on an historical cost basis, except for certain assets and liabilities which are carried at fair value or on a discounted cash flow basis as required or allowable by relevant accounting standards.

The financial statements are presented in Australian dollars and values are rounded as indicated.

Amounts rounded to zero are represented as '..' in the statements.

The continued existence of the AOFM in its present form, and with its present outcome and program, is dependent on government policy and on continuing appropriations by Parliament for the AOFM's administration and activities.

New Australian Accounting Standards applicable to the reporting period

During 2017–18 the AOFM adopted all applicable Australian Accounting Standards that became effective during the reporting period.

New Australian Accounting Standards applicable in future reporting periods

A number of revised or new Australian Accounting Standards have been issued that are effective for future reporting periods. With the exception of AASB 16 *Leases* (effective for the 2019–20 financial year), and AASB 9 *Financial Instruments* (effective for the 2018–19 financial year) the revisions are not expected to materially affect the AOFM's assets, liabilities, revenue or expenses.

AASB 16 *Leases*

Currently, accounting standards distinguish between operating leases and finance leases. Lessees are required to recognise finance leases only on the balance sheet. Under AASB 16 the majority of leases will need to be recognised on the balance sheet by lessees. The standard is expected to have a moderate impact on the AOFM's departmental balance sheet arising from its property lease which is currently recognised as an operating lease. The quantitative impact on the AOFM's departmental balance sheet has not been determined.

AASB 9 *Financial Instruments*

Financial assets

Currently, all of the AOFM's administered financial assets, with the exception of loans to the state and territory governments, are designated at fair value through profit or loss. Loans to the state and the territory governments are measured at amortised cost.

AASB 9 establishes new principles for determining the accounting treatment for financial assets. AASB 9 requires that a financial asset be measured at:

- amortised cost — where the business objective of the entity is to hold the instrument to collect its contractual cash flows (rather than trading to earn capital profits) and those contractual cash flows are solely in the nature of principal and interest on the principal outstanding, or

- fair value through other comprehensive income — where the business objective is achieved by collecting the contractual cash flows and selling financial assets, and those contractual cash flows are solely in the nature of principal and interest on the principal outstanding, or

- fair value through profit or loss — where the financial asset is held for trading to earn capital profits, or is designated as such to reduce an accounting mismatch, or where contractual cash flows are not solely in the nature of principal and interest.

Where an entity's objective for holding a financial asset changes, so too should the accounting treatment, where relevant. The sale of a financial asset for portfolio management, credit or liquidity reasons may not represent a change of purpose from one of collection of contractual cash flows.

The cash flows arising from the AOFM's administered investments are in the nature of principal and interest. Accordingly, the AOFM's objective for holding these assets will be relevant for determining their measurement. The AOFM currently holds term deposit investments to collect contractual cash flows and does not expect to realise them prior to maturity under normal operating conditions. On adoption of AASB 9 the AOFM will need to change its accounting treatment for term deposits investments from fair value through profit or loss to amortised cost.

For assets classified at amortised cost or at fair value through other comprehensive income an allowance for expected credit losses needs to be considered. Refer to Note 12 for the quantitative impact on 1 July 2018 arising from the adoption of AASB 9.

Financial liabilities

The classification requirements for financial liabilities remain largely unchanged in AASB 9 from AASB 139. Accordingly, there is no quantitative impact resulting from the adoption of AASB 9. For financial liabilities carried at fair value through profit or loss, AASB 9 has adopted a revised disclosure for the presentation of unrealised fair value gains and losses due to changes in own credit risk. The unrealised fair value gain or loss is to be apportioned between changes in credit risk (recognised in other comprehensive income) and other changes (recognised in profit or loss). Given that debt instruments issued by the AOFM are widely used by market participants as the risk free pricing benchmark in interest rate markets, changes in the fair value of financial liabilities arising from changes in credit risk are not relevant.

OBJECTIVES AND ACTIVITIES OF THE AOFM

The AOFM's activities are focused on delivering to a single outcome:

the advancement of macroeconomic growth and stability, and the effective operation of financial markets, through issuing debt, investing in financial assets and managing debt, investments and cash for the Australian Government.

The AOFM aims to achieve the outcome through the following objectives:

- meeting the budget financing task in a cost-effective manner subject to acceptable risk,
- facilitating the government's cash outlay requirements as and when they fall due, and
- being a credible custodian of the Australian Government Securities market and other portfolio responsibilities.

The AOFM manages a portfolio of debt and financial assets on behalf of the Australian Government. It issues Treasury Bonds and Treasury Indexed Bonds to finance budget deficits. It also manages the government's cash in the Official Public Account (OPA) which is surplus to immediate requirements to manage the within-year financing task. It undertakes the administration, financial and operational risk management, and financial reporting of its portfolio of debt and assets.

Financing the budget

For many years debt issuance by the AOFM was undertaken solely with the objective of maintaining the Treasury Bond and Treasury Bond futures markets, as successive budget surpluses removed the need to borrow to fund the Budget. On 3 February 2009 the Budget outlook changed in the *Updated Economic and Fiscal Outlook* and the objective of issuance changed to funding the Budget. Since that time the AOFM has significantly increased debt issuance and intensified its engagement with investors (including overseas investors) and intermediaries.

Portfolio management

The cost and risk of the debt portfolio is managed through debt issuance and (where appropriate) investment activities. Since early 2009, debt issuance volumes have exceeded those necessary to maintain liquidity in Treasury Bond and Treasury Bond futures markets, affording the AOFM with a greater level of flexibility in setting its issuance program against an overarching objective of minimising cost subject to acceptable risk. In recent years the AOFM has lengthened the duration of its Treasury Bond portfolio through longer term issuance as a means of reducing refinancing risk and the variability of debt servicing costs. The Treasury Bond yield curve extends to 29 years currently (an extension of 17 years since 2011).

Cash management

The AOFM manages the overall level of cash in the OPA to ensure that the government is able to meet its financial obligations as and when they fall due. To this end, it makes short term borrowings by issuing Treasury Notes. It invests OPA cash surplus to immediate requirements in term deposits with the RBA. The AOFM holds continuing balances of short term assets to allow it to respond flexibly and quickly to meet unexpected expenditure requirements and disruptions in the markets.

The OPA is recorded in the Department of Finance's financial statements and is not reported by the AOFM.

Investments in residential mortgage-backed securities (RMBS)

From September 2008 to April 2013 the AOFM invested $15.5 billion in RMBS. On 5 May 2015, the then Treasurer issued a direction to the AOFM to divest the RMBS portfolio through a regular competitive process, subject to appropriate market conditions as determined by the AOFM. Since that time the portfolio has been progressively sold and was fully divested in 2017–18.

Legislation

The AOFM's borrowing and portfolio management activities comply with applicable legislative requirements. The key legislative mechanisms that governed these activities during the reporting period were as follows:

- the *Commonwealth Inscribed Stock Act 1911* represents the Australian Government's primary vehicle for the creation and issuance of stock, including Treasury Bonds, Treasury Indexed Bonds and Treasury Notes. It also provides a standing authority to the Treasurer to borrow in Australian currency,
  - On 9 May 2017 the Treasurer issued a direction under section 51JA of the Act permitting the AOFM to borrow up to $600 billion.
- the *Loans Securities Act 1919* includes provisions relating to overseas borrowings, securities lending, repurchase agreements and other financial arrangements,
- the *Financial Agreement Act 1994* formalises debt consolidation and redemption arrangements applying since 1 July 1990 between the Australian Government and the state and territory governments, and
- section 58 of *Public Governance, Performance and Accountability Act 2013* allows the Treasurer to invest public money in authorised investments.

ADMINISTERED NOTES

Administered items are identified separately from departmental items in the financial statements by shading.

Administered assets, liabilities, revenue and expenses are those items that an entity does not control but over which it has management responsibility on behalf of the government and which are subject to prescriptive rules or conditions established by legislation, or Australian Government policy, in order to achieve Australian Government outcomes. These items include debt issued to finance the government's fiscal requirements and investments of funds surplus to the government's immediate financing needs.

Note 1: Financial risk management

The government is exposed to financial risks arising from its portfolio of financial assets and liabilities — interest rate risk, inflation risk, credit risk, liquidity risk and refinancing risk. These risks are managed by the AOFM within a financial risk management framework that includes directions from the Treasurer and policies and limits approved by the Secretary to the Treasury and overseen by the CEO and senior management of the AOFM.

Timing mismatches between the Australian Government's receipts and expenditures cause large fluctuations in the volume of short term assets and liabilities managed by the AOFM, and thus in the overall size of its net portfolio, relative to the gross volume of debt outstanding. To provide stability in the management of the longer term component of debt, long term financing and short term financing are managed through separate portfolios, the debt portfolio and the cash management portfolio. In addition, loans to state and territory governments are held in a separate portfolio.

Debt portfolio

The debt portfolio is used to meet the Australian Government's budget financing needs and to support efficient Treasury Bond and Treasury Bond futures markets. Issuance is the primary mechanism for managing interest rate risk of the debt portfolio. That is, the AOFM manages the cost structure of the debt portfolio through the choice of instruments and bond series in issuing debt. The annual debt issuance strategy is informed by qualitative and quantitative factors to achieve an interest rate profile that appropriately balances cost and cost variability, investor demand and diversification, the refinancing task and financial market efficiency.

Cash management portfolio

The cash management portfolio is used to manage within year timing mismatches between Australian Government receipts and expenditures. The cash management portfolio holds a fluctuating portfolio of short term investments and short term liabilities. The portfolio is managed to achieve an appropriate balance between refinancing risk, liquidity risk and interest rate risk.

Note 1: Financial risk management (continued)

Interest rate risk

Interest rate risk represents the risk to debt servicing cost outcomes and investment return outcomes, and to the value of debt and financial assets caused by changes in interest rates.

In its ordinary course of business the primary measure used by the AOFM to assess interest rate risk is the accruals basis of accounting under the historic cost accounting convention. Fair value measures of interest rate risk are considered to be secondary.

Financial instruments with a fixed interest rate expose the portfolio to changes in fair value with changes in interest rates, whilst those financial instruments at floating interest rates expose the portfolio to changes in debt servicing costs with changes in interest rates. The extent to which the AOFM can match the repricing profile of financial assets with financial liabilities is limited due to the differences in the volumes and the need for assets to be available for cash management or other purposes. The interest rate exposure is predominately to fixed interest instruments.

Note 1: Financial risk management (continued)

Interest rate risk (continued)

		Interest exposure		
	Carrying value $'m	**Fixed**	**Floating**	**Non-interest bearing**
2018:				
Liabilities:				
Treasury Bonds	**524,403**	**524,403**	**-**	**-**
Treasury Indexed Bonds	**48,548**	**48,548**	**-**	**-**
Treasury Notes	**2,492**	**2,492**	**-**	**-**
Other	**6**	**-**	**-**	**6**
Total	**575,449**	**575,443**	**-**	**6**
Assets:				
Cash at bank	**1**	**-**	**-**	**1**
Term deposits with the RBA	**45,140**	**45,140**	**-**	**-**
Loans to State and Territory Governments	**1,792**	**1,792**	**-**	**..**
Total	**46,933**	**46,932**	**-**	**1**
2017:				
Liabilities:				
Treasury Bonds	499,040	499,040	-	-
Treasury Indexed Bonds	44,718	44,718	-	-
Treasury Notes	3,490	3,490	-	-
Other	6	-	-	6
Total	547,254	547,248	-	6
Assets:				
Cash at bank	1	-	-	1
Term deposits with the RBA	56,860	56,860	-	-
Residential mortgage-backed securities	1,927	-	1,927	-
Loans to State and Territory Governments	1,872	1,872	-	..
Total	60,660	58,732	1,927	1

Note 1: Financial risk management (continued)

Interest rate risk (continued)

	Balance measured at fair value $'m (a)	*Fair value determined by* Level 1 Market rates	Level 2 Observable inputs	Level 3 Unobservable inputs
2018:				
Liabilities:				
Treasury Bonds	**524,403**	**524,403**	**-**	**-**
Treasury Indexed Bonds	**48,548**	**48,548**	**-**	**-**
Treasury Notes	**2,492**	**2,492**	**-**	**-**
Other	**-**	**-**	**-**	**-**
Total	**575,443**	**575,443**	**-**	**-**
Assets:				
Cash at bank	-	**-**	**-**	**-**
Term deposits with the RBA	**45,140**	**-**	**45,140**	**-**
Loans to State and Territory Governments	-	**-**	**-**	**-**
Total	**45,140**	**-**	**45,140**	**-**
2017:				
Liabilities:				
Treasury Bonds	499,040	499,040	-	-
Treasury Indexed Bonds	44,718	44,718	-	-
Treasury Notes	3,490	3,490	-	-
Other	-	-	-	-
Total	547,248	547,248	-	-
Assets:				
Cash at bank	-	-	-	-
Term deposits with the RBA	56,860	-	56,860	-
Residential mortgage-backed securities	1,927	-	1,927	-
Loans to State and Territory Governments	-	-	-	-
Total	58,787	-	58,787	-

(a) Only those financial assets and financial liabilities measured at fair value as at period end are reported in this column. Those measured at amortised cost are excluded.

Note 1: Financial risk management (continued)

Interest rate risk (continued)

The following sensitivity analysis illustrates the interest rate risk sensitivity of administered financial instruments and the financial impact on profit or loss and equity to financial positions held as at period end.

		Sensitivity (basis points)	
	Carrying Value $'m	**+20**	**- 20**
2018:		**Impact $'m**	**Impact $'m**
Changes in fair value:			
Treasury Bonds	**524,403**	**6,396**	**(6,532)**
Treasury Indexed Bonds	**48,548**	**728**	**(747)**
Treasury Notes	**2,492**	**1**	**(1)**
Term deposits with the RBA	**45,140**	**(2)**	**2**
		+30	-30
2017:		Impact $'m	Impact $'m
Changes in fair value:			
Treasury Bonds	499,040	8,705	(8,973)
Treasury Indexed Bonds	44,718	978	(1,016)
Treasury Notes	3,490	2	(2)
Term deposits with the RBA	56,860	(6)	6
Residential mortgage-backed securities	1,927	(9)	9
Changes in interest revenue:			
Residential mortgage-backed securities	1,927	6	(6)

The following assumptions have been made in undertaking the analysis:

- a sensitivity of 20 basis points and 30 basis points has been used for domestic interest rates as at 30 June 2018 and 30 June 2017 respectively as per standard parameters set by the Department of Finance,
- a parallel shift in interest rates (real and nominal) takes place,
- for fixed rate instruments that are carried at fair value, changes in fair value only are considered relevant,
- for fixed rate instruments that are carried at amortised cost, interest rate risk is not considered relevant, and
- for floating rate instruments, the impact on interest revenue or interest expense represents an annualised estimate calculated as if the positions as at period end were outstanding for the whole financial year.

Note 1: Financial risk management (continued)

Inflation risk

Treasury Indexed Bonds have their principal value indexed against the all Groups Australian Consumer Price Index (CPI). The interest is a fixed rate of interest payable on the accreted principal value. Accordingly these debt instruments expose the AOFM to inflation risk on interest payments and on the value of principal payable on maturity. There is a six month lag between the calculation period for the CPI and its impact on the value of interest and principal.

Credit risk

Credit risk is the risk of non-performance (including partial performance) by a counterparty to a financial contract, leading to a financial loss for the creditor.

The AOFM's investment activity is made in accordance with legislative requirements, delegations and directions from the Treasurer and policies and limits established by the Secretary to the Treasury. For 2017–18 and 2016–17, investment in term deposits with the Reserve Bank of Australia were the only eligible investments the AOFM was permitted to acquire. Investments with the RBA are considered to carry zero credit risk.

Under previous Commonwealth-state financing arrangements the Australian Government made concessional loans to state and Northern Territory governments for specific purposes. The AOFM has responsibility for the administration of these loans.

To protect the Australian Government's financial position with respect to securities lending arrangements (which allows market participants to borrow Treasury Bonds and Treasury Indexed Bonds not readily available from other sources), the market value of the collateral securities taken from counterparties is greater than the market value of the Treasury Bonds or Treasury Indexed Bonds lent. There is a right to seek additional collateral if there is a decline in the market value of the collateral securities relative to the lent securities.

Note 1: Financial risk management (continued)

Credit risk (continued)

The following table sets out the AOFM's credit risk by asset class and credit rating as at the reporting date.

	Fair value	*S&P, Fitch or Moody's long term credit rating (a)*		
	$'m	Aaa AAA	Aa1 AA+	Aa2 AA
2018:				
Cash at bank	**1**	**1**	**-**	**-**
Term deposits with the RBA	**45,140**	**45,140**	**-**	**-**
Loans to State and Territory Governments	**2,297**	**975**	**313**	**1,009**
Total	**47,438**	**46,116**	**313**	**1,009**
2017:				
Cash at bank	1	1	-	-
Term deposits with the RBA	56,860	56,860	-	-
Residential mortgage-backed securities	1,927	1,927	-	-
Loans to State and Territory Governments	2,397	1,026	328	1,043
Total	61,185	59,814	328	1,043

(a) Where a counterparty has a split rating between the rating agencies, the AOFM's exposure is allocated to the lower credit rating. The RBA is assumed to have the same credit rating as the Commonwealth of Australia as its liabilities are guaranteed by the Australian Government under section 77 of the *Reserve Bank Act 1959*.

Note 1: Financial risk management (continued)

Liquidity risk and refinancing risk

Refinancing risk is the risk that when maturing debt needs to be funded by debt issuance, it may have to be refinanced at a higher cost or market conditions may prevent sufficient funds from being raised in an orderly manner. The AOFM seeks to control refinancing risk by issuing along the entire yield curve. This creates a range of short-dated and mid-to-long-dated exposures that balance cost and refinancing patterns. In formulating its debt issuance strategy the AOFM considers the volume of debt in any one line and the maturity structure of its debt (including the number of bond lines and the maturity gaps between lines).

The AOFM monitors market conditions in order to form a view on refinancing risk, and considers it when issuing debt along the yield curve. In addition, as a means of further reducing refinancing risk in future years and to improve market efficiency, the AOFM conducts regular buy backs of Treasury Bonds that no longer form part of the ASX three-year futures contract.

The AOFM manages liquidity risk by maintaining sufficient cash and short term investments to ensure that the government can meet its financial obligations as and when they fall due. The AOFM manages the daily volume of cash in the OPA by monitoring the projected daily transactions of major spending and revenue agencies, undertaking investment of funds that are surplus to immediate cash requirements and by issuing Treasury Notes. The cash flows into and out of the OPA are highly variable and difficult to forecast from day to day, and so in consequence are the size and timing of cash management activities. The AOFM also has access to an overdraft facility with the RBA. The overdraft facility is not to be used in normal day-to-day operations but only to cover temporary, unexpected shortfalls of cash and it has a limit of $1 billion (in the absence of Ministerial approval). The AOFM monitors the daily balance in the OPA, holdings of short term assets and short term and long term debt issuance activity.

The following table discloses the undiscounted value of the contractual maturities of financial liabilities as at the reporting date, including estimated future interest payments. Interest payments and the principal value on redemption of Treasury Indexed Bonds are based on capital values as at period end.

Note 1: Financial risk management (continued)

Liquidity risk and refinancing risk (continued)

		Payable within 5 years $'m		
	Total future cash flows	Within 1 year	1 to 5 years	**Up to 5 years sub-total**
2018:				
Principal:				
Treasury Bonds	**493,184**	29,185	180,449	**209,634**
Treasury Indexed Bonds	**43,867**	2,561	15,306	**17,867**
Treasury Notes	**2,487**	2,487	-	**2,487**
Other	**6**	6	-	**6**
Interest:				
Treasury Bonds	**130,147**	17,767	55,431	**73,198**
Treasury Indexed Bonds	**7,462**	1,004	2,904	**3,908**
Treasury Notes	**13**	13	-	**13**
Other	**-**	-	-	**-**
Total	**677,166**	**53,023**	**254,090**	**307,113**
2017:				
Principal:				
Treasury Bonds	464,044	31,169	157,126	188,295
Treasury Indexed Bonds	40,242	-	20,277	20,277
Treasury Notes	3,482	3,482	-	3,482
Other	6	6	-	6
Interest:				
Treasury Bonds	125,277	17,718	54,077	71,795
Treasury Indexed Bonds	7,482	962	3,044	4,006
Treasury Notes	18	18	-	18
Other	-	-	-	-
Total	640,551	53,355	234,524	287,879

Note 1: Financial risk management (continued)

Liquidity risk and refinancing risk (continued)

	Payable in greater than 5 years $'m			
	5 to 10 years	10 to 15 years	15 years+	**5 years and greater sub-total**
2018:				
Principal:				
Treasury Bonds	169,800	75,100	38,650	**283,550**
Treasury Indexed Bonds	12,566	5,506	7,928	**26,000**
Treasury Notes	-	-	-	**-**
Other	-	-	-	**-**
Interest:				
Treasury Bonds	37,009	11,068	8,872	**56,949**
Treasury Indexed Bonds	2,066	968	520	**3,554**
Treasury Notes	-	-	-	**-**
Other	-	-	-	**-**
Total	**221,441**	**92,642**	**55,970**	**370,053**
2017:				
Principal:				
Treasury Bonds	162,499	71,200	42,050	275,749
Treasury Indexed Bonds	8,581	4,705	6,679	19,965
Treasury Notes	-	-	-	-
Other	-	-	-	-
Interest:				
Treasury Bonds	35,806	9,989	7,687	53,482
Treasury Indexed Bonds	1,990	947	539	3,476
Treasury Notes	-	-	-	-
Other	-	-	-	-
Total	208,876	86,841	56,955	352,672

Note 2: Treasury Bonds

Treasury Bonds are denominated in Australian dollars and pay a fixed coupon semi-annually in arrears. Treasury Bonds are redeemable at face value on maturity. There are no options available to either the Australian Government or the holder of the securities to exchange or convert Treasury Bonds. There are also no options to either party for early redemption. The AOFM issues Treasury Bonds primarily through a competitive auction process to registered bidders. In certain circumstances syndicated issuance is undertaken.

Accounting policy

The AOFM monitors the cost and risk on Treasury Bonds primarily on an accruals basis, but also on a fair value basis. The AOFM has designated Treasury Bonds to be carried at fair value through profit or loss under AASB 139.

The fair value of Treasury Bonds is determined by reference to observable market rates for identical instruments.

Key aggregates are comprised of:

	2018 $'m	2017 $'m
SCHEDULE OF ADMINISTERED COMPREHENSIVE INCOME		
Interest expense:		
Interest paid / payable	**17,751**	17,236
Amortisation of net premiums	**(2,388)**	(2,592)
Interest expense	**15,363**	14,644
SCHEDULE OF ADMINISTERED ASSETS AND LIABILITIES		
Treasury Bonds:		
Face value	**493,184**	464,044
Accrued interest	**3,498**	4,041
Unamortised net premiums	**10,062**	12,473
Market value adjustment	**17,659**	18,482
Carrying value	**524,403**	499,040
SCHEDULE OF ADMINISTERED CASH FLOWS		
Interest paid:		
Coupons paid	**18,529**	17,844
Interest received on issuance	**(478)**	(709)
Interest paid on repurchase	**244**	63
Interest paid	**18,295**	17,198

As at 30 June 2018 the weighted average market yield on Treasury Bonds was 2.39 per cent (30 June 2017: 2.30 per cent). As at 30 June 2018 the weighted average (*nominal*) issuance yield on Treasury Bonds was 3.14 per cent (30 June 2017: 3.24 per cent).

Note 2: Treasury Bonds (continued)

Changes in principal value for the period

	2018 $'m	2017 $'m
Changes in principal (face value):		
New issuance:		
issued via tender	**59,800**	75,100
issued via syndication	**15,700**	27,900
Debt repurchased	**(22,892)**	(12,348)
Matured	**(23,468)**	(11,828)
Change for period	**29,140**	78,824
+ opening value	**464,044**	385,220
Closing balance	**493,184**	464,044

Of the debt repurchased in 2017–18, $7.7 billion was for Treasury Bonds otherwise maturing in 2017–18.

Note 2: Treasury Bonds (continued)

Treasury Bond lines on issue and their carrying values

	Principal (face value)		Carrying value (fair value)	
	2018 $'m	2017 $'m	**2018 $'m**	2017 $'m
Maturity Date - Coupon				
21 Jul 17 - 4.25%	**-**	13,866	**-**	14,148
21 Jan 18 - 5.50%	**-**	17,303	**-**	18,097
21 Oct 18 - 3.25%	**12,975**	15,797	**13,112**	16,226
15 Mar 19 - 5.25%	**16,210**	21,133	**16,842**	22,707
21 Oct 19 - 2.75%	**18,308**	24,400	**18,595**	25,041
15 Apr 20 - 4.50%	**26,643**	27,997	**28,076**	30,233
21 Nov 20 - 1.75%	**26,800**	25,700	**26,687**	25,543
15 May 21 - 5.75%	**30,199**	29,299	**33,511**	33,538
21 Dec 21 - 2.00%	**17,800**	12,800	**17,746**	12,739
15 Jul 22 - 5.75%	**25,000**	24,100	**29,130**	28,832
21 Nov 22 - 2.25%	**11,600**	-	**11,643**	-
21 Apr 23 - 5.50%	**24,100**	24,100	**27,892**	28,582
21 Apr 24 - 2.75%	**25,500**	25,500	**26,150**	26,202
21 Apr 25 - 3.25%	**27,900**	27,900	**29,450**	29,585
21 Apr 26 - 4.25%	**32,400**	32,400	**36,594**	36,986
21 Apr 27 - 4.75%	**29,699**	28,499	**35,025**	34,061
21 Nov 27 - 2.75%	**28,000**	23,100	**28,393**	23,385
21 May 28 - 2.25%	**26,300**	17,600	**25,519**	16,923
21 Nov 28 - 2.75%	**23,500**	14,000	**23,819**	14,099
21 Apr 29 - 3.25%	**22,700**	16,500	**24,157**	17,456
21 Nov 29 - 2.75%	**11,500**	-	**11,636**	-
21 May 30 - 2.75%	**3,500**	-	**3,444**	-
21 Apr 33 - 4.50%	**13,900**	12,600	**16,860**	15,173
21 Jun 35 - 2.75%	**6,950**	6,550	**6,821**	6,244
21 Apr 37 - 3.75%	**11,200**	10,800	**12,614**	11,790
21 Jun 39 - 3.25%	**8,000**	4,000	**8,316**	3,991
21 Mar 47 - 3.00%	**12,500**	8,100	**12,371**	7,459
Total	**493,184**	464,044	**524,403**	499,040

Note 3: Treasury Indexed Bonds

Treasury Indexed Bonds are denominated in Australian dollars and are capital-indexed with the principal value of the bond adjusted by reference to movements in the CPI (based on a six month lag).

Interest payments are made quarterly in arrears, at a fixed rate, on the adjusted capital value. At maturity, investors receive the adjusted capital value of the security.

The AOFM issues Treasury Indexed Bonds primarily through a competitive auction process to registered bidders. In certain circumstances syndicated issuance is undertaken.

Accounting policy

The AOFM monitors the cost and risk on Treasury Indexed Bonds primarily on an accruals basis, but also on a fair value basis. The AOFM has designated Treasury Indexed Bonds to be carried at fair value through profit or loss under AASB 139.

The fair value of Treasury Indexed Bonds is determined by reference to observable market rates for identical instruments.

Capital accretion is recognised in Interest Expense over time with the quarterly release of the CPI.

As future inflation rates are uncertain, an estimate of the adjusted capital value on maturity of each series of Treasury Indexed Bonds is not disclosed in the financial statements.

Note 3: Treasury Indexed Bonds (continued)

Key aggregates are comprised of:

	2018 $'m	2017 $'m
SCHEDULE OF ADMINISTERED COMPREHENSIVE INCOME		
Interest expense:		
Interest paid / payable	**984**	914
Capital accretion and amortisation of net premiums	**582**	398
Interest expense	**1,566**	1,312
SCHEDULE OF ADMINISTERED ASSETS AND LIABILITIES		
Treasury Indexed Bonds:		
Principal:		
Face value	**36,247**	33,429
Capital accretion (to next coupon)	**7,620**	6,813
Adjusted capital value	**43,867**	40,242
Accrued interest	**82**	78
Unamortised net premiums	**1,308**	1,345
Market value adjustment	**3,291**	3,053
Carrying value	**48,548**	44,718
SCHEDULE OF ADMINISTERED CASH FLOWS		
Interest paid:		
Coupons paid	**983**	912
Interest received on issuance	**(4)**	(4)
Interest paid on repurchase	**1**	..
Accretion since issuance (paid on redemption)	**162**	..
Interest paid	**1,142**	908

As at 30 June 2018, the weighted average market yield on Treasury Indexed Bonds was 0.51 per cent (30 June 2017: 0.61 per cent).

As at 30 June 2018, the weighted average *(real)* issuance yield on Treasury Indexed Bonds was 1.63 per cent (30 June 2017: 1.70 per cent).

Note 3: Treasury Indexed Bonds (continued)

Changes in principal value for the period

	Principal (face value)		Adjusted Capital Value (a)	
	2018 $'m	2017 $'m	**2018 $'m**	2017 $'m
Changes in principal:				
New issuance				
issued via tender	**2,550**	2,550	**2,739**	2,851
issued via syndication	**3,000**	700	**3,010**	721
Debt repurchased	**(2,732)**	..	**(2,922)**	..
Matured	**-**	-	**-**	-
Accretion	**-**	-	**798**	679
Change for period	**2,818**	3,250	**3,625**	4,251
+ opening value	**33,429**	30,179	**40,242**	35,991
Closing balance	**36,247**	33,429	**43,867**	40,242

(a) to next coupon

Treasury Indexed Bond lines on issue and their carrying amounts

	Principal (face value)		Carrying value (fair value)	
	2018 $'m	2017 $'m	**2018 $'m**	2017 $'m
Maturity Date - Coupon				
21 Nov 18 - 1.00%	**2,357**	5,089	**2,565**	5,478
20 Aug 20 - 4.00%	**5,114**	5,114	**9,434**	9,537
21 Feb 22 - 1.25%	**5,840**	5,690	**6,808**	6,521
20 Sep 25 - 3.00%	**7,193**	7,193	**10,226**	10,139
21 Nov 27 - 0.75%	**3,750**	-	**3,853**	-
20 Sep 30 - 2.50%	**4,643**	4,043	**6,653**	5,655
21 Aug 35 - 2.00%	**3,950**	3,650	**5,155**	4,558
21 Aug 40 - 1.25%	**3,400**	2,650	**3,854**	2,830
Total	**36,247**	33,429	**48,548**	44,718

Note 4: Treasury Notes

Treasury Notes are short term discount instruments, denominated in Australian dollars and repayable at face value on maturity.

Accounting policy

The AOFM monitors the cost and risk on Treasury Notes primarily on an accruals basis, but also on a fair value basis. The AOFM has designated Treasury Notes to be carried at fair value through profit or loss under AASB 139.

The fair value of Treasury Notes is determined by reference to observable market rates for identical instruments.

Key aggregates are comprised of:

	2018 $'m	2017 $'m
SCHEDULE OF ADMINISTERED ASSETS AND LIABILITIES		
Treasury Notes:		
Face value	**2,500**	3,500
Unexpired interest discount	**(8)**	(11)
Market value adjustment	**..**	1
Carrying value	**2,492**	3,490

Changes in principal value for the period

	2018 $'m	2017 $'m
Change in principal (face value):		
New issuance:		
issued via tender	**13,500**	13,000
Matured	**(14,500)**	(14,500)
Change for period	**(1,000)**	(1,500)
+ opening value	**3,500**	5,000
Closing balance	**2,500**	3,500

The average tenor of issuance was around three months (2016–17: four months).

Note 5: Term deposits with the RBA

Term deposits with the RBA are Australian dollar denominated investments placed for a fixed term of less than six months at an agreed fixed interest rate, with interest calculated on a simple interest basis.

Term deposit investments are made under the authority of section 58 of the *Public Governance, Performance and Accountability Act 2013*.

Accounting policy

The AOFM monitors the cost and risk on term deposits primarily on an accruals basis, but also on a fair value basis. The AOFM has designated term deposits to be carried at fair value through profit or loss under AASB 139.

The fair value of term deposits is based on a zero coupon curve using the overnight cash rate and overnight indexed swap rates. These yields reflect a default free credit risk.

Key aggregates are comprised of:

	2018 $'m	2017 $'m
SCHEDULE OF ADMINISTERED ASSETS AND LIABILITIES		
Term deposits:		
Face value	**45,100**	56,800
Accrued interest	**36**	57
Market value adjustment	**4**	3
Carrying value	**45,140**	56,860

Changes in principal value for the period

	2018 $'m	2017 $'m
Changes in principal (face value):		
New term deposits	**473,450**	471,300
Matured term deposits	**(485,150)**	(443,400)
Change for period	**(11,700)**	27,900
+ opening value	**56,800**	28,900
Closing balance	**45,100**	56,800

Note 6: Residential mortgage-backed securities (RMBS)

Residential mortgage-backed securities (RMBS) are investments in Australian dollar denominated debt instruments secured by pools of mortgages and held by special purpose vehicles.

In 2015 the AOFM began running down its holdings of RMBS investments and in February 2018 sold its last holdings.

Key aggregates are comprised of:

	2018 $'m	2017 $'m
SCHEDULE OF ADMINISTERED ASSETS AND LIABILITIES RMBS:		
Face value	-	1,919
Accrued interest	-	2
Market value adjustment	-	6
Carrying value	-	1,927
Expected to be received:		
Within one year	-	497
In one to five years	-	1,430
In more than five years	-	-
Total	-	1,927

The following table provides a summary of the RMBS portfolio from its inception in September 2008 until its divestment in February 2018.

		Cash inflows			
	Amount invested	**Principal repaid**	**Sales proceeds**	**Coupon receipts**	**Net cash (a)**
	$'m	**$'m**	**$'m**	**$'m**	**$'m**
Financial year:					
2008–09	(6,203)	179	-	76	(5,948)
2009–10	(2,820)	851	74	365	(1,530)
2010–11	(4,349)	1,439	-	600	(2,310)
2011–12	(1,930)	1,509	50	641	270
2012–13	(160)	1,771	517	480	2,608
2013–14	-	2,178	899	313	3,390
2014–15	-	1,595	162	197	1,954
2015–16	-	1,151	299	112	1,562
2016–17	-	894	-	71	965
2017–18	-	410	1,521	27	1,958
Total	**(15,462)**	**11,977**	**3,522**	**2,882**	**2,919**

(a) Net cash proceeds relates directly to cash flows on the RMBS portfolio only. Financing costs arising from acquiring the investments and the financing effects of subsequent cash flows are not included in the figures.

Note 7: Loans to state and territory governments

Loans to state and territory governments predominantly comprise concessional housing advances and specific purpose capital advances made between 1945 and 1989 under Commonwealth — state financing arrangements. These loans are structured with annual repayments which incorporate principal and interest.

Accounting policy

Loans to state and territory governments are measured at fair value on initial recognition and at amortised cost on subsequent measurement using the effective interest method.

Key aggregates are comprised of:

	2018 $'m	2017 $'m
SCHEDULE OF ADMINISTERED ASSETS AND LIABILITIES		
Perpetual debt:		
Face value	..	..
Accrued interest	..	..
Balance of special account	..	..
Advances:		
Face value	1,993	2,089
Unamortised net discounts	(201)	(217)
Accrued interest	..	..
Other	..	..
Total	1,792	1,872
Expected to be received:		
Within one year	82	79
In one to five years	345	338
In more than five years	1,365	1,455
Total	1,792	1,872
Ageing:		
Not overdue	1,792	1,872
Overdue	-	-
Total	1,792	1,872

The fair value of these loans is $2,297 million (2016–17: $2,397 million). In estimating fair value data from Treasury Bonds is used.

Note 8: Cash flow reconciliation

The following table reconciles the surplus (deficit) reported in the Schedule of Comprehensive Income to net cash flows from operating activities reported in the Schedule of Cash Flows.

	2018 $'m	2017 $'m
Surplus (deficit)	**(16,170)**	3,668
Adjustments for non-cash items:		
Amortisation and capital accretion of debt instruments	**(1,806)**	(2,194)
Amortisation of net discounts on Loans to State and Territory Governments	**(16)**	(17)
Net (gains) losses	**512**	414
Re-measurements	**(581)**	(19,403)
Debt Retirement Reserve Trust Account contributions and interest payments	**..**	..
Adjustments for cash items:		
Capital accretion costs on redemption of debt	**(162)**	..
Accrual adjustments:		
Interest accruals on debt	**(543)**	36
Interest accruals on assets	**24**	(31)
Accrued expenses	**..**	..
Net cash from operating activities	**(18,742)**	(17,527)

Note 9: Appropriations

Administered special appropriations (unlimited amount)

	2018 $'000	2017 $'000
Commonwealth Inscribed Stock Act 1911		
s13AA - payment of principal and interest on money raised by Stock issued under the Act and payments on depository interests in Stock issued under the Act.	**57,529,106**	45,105,069
s13A - payment of costs and expenses incurred in relation to issuing and managing debt and depository interests	**31,305**	50,155
s13B - payment of costs and expenses incurred in repurchasing debt prior to maturity	**26,560,649**	12,831,004
Financial Agreement Act 1994		
s5 - debt redemption assistance and payment of interest to bond holders on behalf of the State and Northern Territory Governments on public debt under the Act (a)	**8**	271
Loans Securities Act 1919		
s4 - payment of principal and interest on money raised by stock issued under the Act	**-**	7,686
Public Governance, Performance and Accountability Act 2013		
s58(7) - investments made in the name of the Commonwealth of Australia	**473,450,000**	471,300,000
Total	**557,571,068**	529,294,185

(a) The 2017–18 amount includes $1,131 paid into the Debt Retirement Reserve Trust Account (2016–17: $31,790).

The following table details the investments (in face value terms) made in the name of the Commonwealth under the authority of section 58 of the *Public Governance, Performance and Accountability Act 2013*.

	2018 $'000	2017 $'000
INVESTMENTS MADE IN THE NAME OF THE COMMONWEALTH		
Opening value	**58,718,811**	31,713,365
Acquisitions	**473,450,000**	471,300,000
Redemptions and sales	**(487,068,811)**	(444,294,554)
Closing face value	**45,100,000**	58,718,811

Note 9: Appropriations (continued)

The following details administered special appropriations that are available but were not used by the AOFM during 2017–18 and 2016–17:

- *Australian National Railways Commission Sale Act 1997*, sec 67AW — Purpose: payment of principal and interest on former debts of the National Railways Commission.
- *Loans Redemption and Conversion Act 1921*, sec 5 — Purpose: payment of principal, interest and costs of converting loans made in accordance with the Act.
- *Loans Securities Act 1919*, sec 5B — Purpose: payment of money under a swap or other financial arrangement and any expenditure in connection with the negotiation, management or service of, or a repayment under, any such agreement.
- *Loans Securities Act 1919*, sec 5BA — Purpose: payment of money to enter into securities lending arrangements.
- *Moomba-Sydney Pipeline System Sale Act 1994*, sec 19 — Purpose: payment of principal and interest on former debts of the Pipeline Authority.
- *Public Governance, Performance and Accountability Act 2013*, sec 74A — Purpose: payments of recoverable GST.
- *Treasury Bills Act 1914*, sec 6 — Purpose: payment of principal and interest on money raised by issuance of Treasury Bills.

Administered annual appropriations

	2018 $'000	2017 $'000
Annual appropriations	**10**	10
Total available for payment	**10**	10
Appropriation applied	**-**	-
Variance	**10**	10

Note 9: Appropriations (continued)

Unspent administered annual appropriation

	2018 $'000	2017 $'000
UNSPENT ADMINISTERED ANNUAL APPROPRIATIONS		
Appropriation Act 1 2016–17	**-**	10
Appropriation Act 1 2017–18	**10**	-

Special account — Debt Retirement Reserve Trust Account

	2018 $'000	2017 $'000
DEBT RETIREMENT RESERVE TRUST ACCOUNT (DRRTA)		
Opening balance	**44**	1,037
Appropriation for reporting period:		
Commonwealth contributions	**1**	19
Interest amounts credited	**1**	12
State contributions	**1**	7,824
Available for payments	**47**	8,892
Debt repayments made	**(7)**	(8,848)
Balance	**40**	44
Balance represented by:		
Cash - held in the Official Public Account	**40**	44

Establishing Instrument — *Public Governance, Performance and Accountability Act 2013*, section 80.

Purpose — to fund the redemption of the state and territory debt governed by the *Financial Agreement Act 1994*. Monies standing to the credit of the DRRTA are applied to repurchase debt of the states and the Northern Territory.

Monies standing to the credit of the Debt Retirement Reserve Trust Account are held on behalf of New South Wales and Victoria. These monies are held for the purposes prescribed by the *Financial Agreement Act 1994*.

Note 10: Budgetary report to outcome comparison

The AOFM produces budget estimates of Australian Government Securities (AGS) and certain financial assets for the Australian Government Budget which is released in May each year for the Budget year (the financial year commencing on the following 1 July) and three forward years.

The projections of debt issuance and asset holdings are a consequence of the expenditure, investment and revenue decisions and assumptions made by the government in producing its Budget. As part of the budget process, the AOFM receives an estimate of the aggregated annual financing task for the budget year and forward years from the Treasury. The headline cash deficit (which represents net cash flows after operating activities and investing activities for policy purposes; and before investments for liquidity purposes and financing activities) is the closest published aggregate to this financing task. The financing task plus the volume of maturing AGS debt and planned early repurchases of AGS debt (that would otherwise mature in a future year) determines the size of the debt issuance program in each year.

The volume of AGS debt that needs to be issued in face value terms to generate the required level of financing will depend on the future level of AGS yields (or interest rates) and the mix and tenor of debt to be issued. The mix and tenor of debt to be issued is based on the debt management strategy for the period ahead.

A technical assumption is made about future AGS yields. It is assumed that the AGS yields for different tenors of debt will be the same as the prevailing observed market rates at the time the budget estimates are prepared.

2017–18 Budget

In the 2017–18 Budget (released in May 2017) the government estimated a headline cash deficit of $48.4 billion for 2017–18. After AGS maturities and redemptions of $48.1 billion, operational considerations (such as market conditions, the uncertainty and timing associated with future year funding requirements, the strength of revenue collections relative to forecasts and the level of cash holdings to maintain) and the financing transactions of other government agencies, the long term debt issuance program for 2017–18 was set at $85 billion.

At the time of the Mid-Year Economic and Fiscal Outlook (released in December 2017) the headline cash deficit for 2017–18 was forecast to improve (by $8.8 billion) to $39.6 billion. The long term debt issuance program was reduced (by $5.4 billion) to $79.6 billion.

Note 10: Budgetary report to outcome comparison (continued)

At the time of the 2018–19 Budget (released in May 2018) the headline cash deficit was forecast to improve further (by $2.5 billion) to $37.1 billion. After AGS maturities and redemptions, operational considerations and the financing transactions of other agencies, the long term debt issuance program for 2017–18 was revised to $81.6 billion.

Administered schedule of comprehensive income

	Outcome	Budget	Variance
	2018 $'m	**2018 $'m**	**2018 $'m**
EXPENSES			
Grants	**..**	..	..
Interest expense	**16,996**	17,130	(134)
Supplier expenses	**29**	24	5
Total expenses	**17,025**	17,154	(129)
INCOME			
Interest revenue	**786**	656	130
Other revenue	**..**	-	..
Total income	**786**	656	130
GAINS (LOSSES)			
Foreign exchange	**..**	-	..
Residential mortgage-backed securities sales	**11**	-	11
Debt repurchased	**(523)**	(469)	(54)
Total gains (losses)	**(512)**	(469)	(43)
Surplus (deficit) before re-measurements	**(16,751)**	(16,967)	216
RE-MEASUREMENTS			
Net market revaluation	**581**	1,831	(1,250)
Total re-measurements	**581**	1,831	(1,250)
Surplus (deficit)	**(16,170)**	(15,136)	(1,034)

Original Budget released in May 2017. The Budget figures are not audited.

Significant variances in expenses before re-measurements

Interest expense for 2017–18 was $134 million lower than forecast in the 2017–18 Budget. This comprises a favourable variance for Treasury Bonds interest of $74 million and a favourable variance for Treasury Indexed Bonds interest of $60 million.

Note 10: Budgetary report to outcome comparison (continued)

The lower interest expense is primarily attributable to:

- a lower debt issuance program than forecast,
- a higher debt repurchase program than forecast, and
- lower than forecast CPI for the period.

Significant variances in income before re-measurements

Interest income for 2017–18 was $130 million higher than forecast in the 2017–18 Budget. This comprises a favourable variance of $150 million for term deposits and an unfavourable variance of $20 million for RMBS investments.

Revenue earned on term deposits was higher than forecast due to two factors. Firstly, the AOFM's average term deposit holdings were higher than forecast due to operational considerations. Secondly, the interest rates earned on term deposit investments were higher than forecast due to an increase in short term market rates over the course of 2017–18.

Interest income on RMBS investments was lower than forecast due to the recommencement of the divestment program not being factored into the 2017–18 Budget.

Significant variances in gains (losses) before re-measurements

During 2017–18 as part of its cash management operations the AOFM redeemed $25.623 billion of Treasury Bonds and Treasury Indexed Bonds prior to maturity. This included $7.7 billion of Treasury Bonds maturing in 2017–18. In the 2017–18 Budget, the AOFM forecast the early redemption of $17 billion of Treasury Bonds and Treasury Indexed Bonds maturing in future years. The early redemption of within-year maturities are not forecast in the Budget. The additional repurchases of debt prior to maturity realised additional accounting losses.

In addition, during 2017–18, the AOFM recommenced its RMBS divestment program due to more favourable market conditions. The AOFM sold $1.508 billion of RMBS investments in 2017–18 for an accounting profit of $11 million. The recommencement of the RMBS divestment program was not forecast in the 2017–18 Budget.

Significant variances in re-measurements

A technical assumption is made about future interest rates in budget forecasts. It is

Note 10: Budgetary report to outcome comparison (continued)

assumed that the AGS yields for different tenors of debt will be the same as the prevailing observed market rates (at the time the budget estimates are prepared). Actual long term interest rates as at 30 June 2018 were lower than at budget (May 2017), and short term interest rates were higher. Longer term debt is more price sensitive to changes in interest rates. Overall, the changes in market rates resulted in a small increase in the market value of the AGS portfolio as at 30 June 2018 compared to budget. There is an inverse relationship between yield and price.

Administered schedule of assets and liabilities

	Outcome	Budget	Variance
	2018 $'m	**2018 $'m**	**2018 $'m**
LIABILITIES			
Interest bearing liabilities	**575,449**	584,562	(9,113)
Other - accrued expenses	**..**	..	..
Total liabilities	**575,449**	584,562	(9,113)
ASSETS			
Cash at bank	**1**	1	-
Investments	**45,140**	40,627	4,513
Loans to State and Territory Governments	**1,792**	1,792	-
Total assets	**46,933**	42,420	4,513
Net assets	**(528,516)**	(542,142)	13,626

Significant variances in interest bearing liabilities

The fair value of AGS debt outstanding as at 30 June 2018 was $9.1 billion lower than forecast in the 2017–18 Budget. In face value terms, AGS on issue as at 30 June 2018 was around $8 billion lower than forecast, primarily due to lower issuance activities. Differences in the mix of AGS issuance and repurchase activity for 2017–18, and in market rates as at 30 June 2018 have also contributed.

Significant variances in financial assets

As at 30 June 2018 the AOFM held $5.7 billion (in face value terms) in additional term deposit investments than projected in the 2017–18 Budget. This is due to operational considerations.

In addition, as at 30 June 2018 the AOFM had fully divested its RMBS portfolio. In the Budget the AOFM projected that it would continue to hold around $1.2 billion in RMBS investments.

Note 11: Securities lending facility

The AOFM has a securities lending facility for Treasury Bonds and Treasury Indexed Bonds, operated by the RBA. The purpose of the facility is to enhance the efficiency of the bond markets by allowing bond market participants to borrow Treasury Bonds and Treasury Indexed Bonds when they are not readily available in those markets. Bonds are lent on an intra-day or overnight basis.

	2018 No.	2017 No.	**2018 $'m**	2017 $'m
Transactions completed during the financial year				
Overnight:				
Treasury Bonds	**28**	2	**1,220**	22
Treasury Indexed Bonds	**26**	47	**458**	355
Intra-day:				
Treasury Bonds	**8**	2	**738**	230
Treasury Indexed Bonds	**-**	-	**-**	-
Total - completed	**62**	51	**2,416**	607
Open transactions as at the end of the financial year				
Overnight:				
Treasury Bonds	**-**	-	**-**	-
Treasury Indexed Bonds	**-**	2	**-**	11
Total - open	**-**	2	**-**	11

Note 12: Quantitative impact of AASB 9 on 1 July 2018

From 1 July 2018 AASB 9 *Financial Instruments* will become operational for the AOFM. On first time adoption of AASB 9 reporting entities must revisit accounting treatments for financial assets and liabilities.

The AOFM has assessed that its term deposit investments with the RBA must be measured at amortised cost (based on the AOFM's business objective and the nature of the instruments) from 1 July 2018. As at 30 June 2018 term deposit investments were designated at fair value through profit or loss. AASB 9 allows entities to elect whether to restate comparative information. The AOFM does not plan to restate comparatives (i.e. 30 June 2018) figures in its 2018–19 annual financial statements. Instead the adjustments in carrying value will be recognised directly in opening equity as at 1 July 2018.

The adjustment of $4 million, is represented as follows:

	AASB 139 30 June 2018	Adjustment to equity 1 July 2018	AASB 9 1 July 2018
	$'m	$'m	$'m
Moving from fair value to amortised cost:			
Term deposits - carrying value	45,140	(4)	45,136
Total	45,140	(4)	45,136

DEPARTMENTAL NOTES

Departmental assets, liabilities, revenue and expenses are those items that an entity has control over and include ordinary operating costs and associated funding, and include salaries, accruing employee entitlements and operational expenses.

Note A: Expenses

	2018 $'000	2017 $'000
EMPLOYEE BENEFITS		
Wages and salaries	**5,384**	5,111
Superannuation	**943**	1,021
Leave entitlements	**197**	3
Other employee expenses	**298**	487
Total	**6,822**	6,622

Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. The Chief Executive Officer (CEO) (the Accountable Authority under the *Public Governance, Performance and Accountability Act 2013*), the Secretary to the Treasury and the Treasurer have been determined to be key management personnel for the AOFM. The CEO only is remunerated by the AOFM. The below table sets out the CEO's actual remuneration (on an accruals basis):

	2018 $'000	2017 $'000
Short-term employee benefits:		
Salary and other short-term benefits	**354**	345
Annual leave accrued	**29**	28
Long service leave accrued	**9**	9
Post-employment benefits:		
Superannuation	**51**	50
Total	**443**	432
Number of key management personnel	**1**	1

	2018 $'000	2017 $'000
SUPPLIER EXPENSES		
ANAO - notional audit fee	**290**	290
Corporate support services	**829**	805
Market data services	**555**	581
Operating lease payments - premises	**277**	258
Depository and transaction services	**168**	160
Travel	**316**	373
Workers compensation premium	**21**	17
Other	**1,004**	1,264
Total	**3,460**	3,748

Note B: Receivables

Accounting policy

Receivables are measured at fair value on initial recognition and at amortised cost on subsequent measurement.

Appropriations receivable are recognised at their nominal amounts. Appropriations receivable are appropriations controlled by the AOFM but held in the OPA under the government's 'just in time' drawdown arrangements.

	2018 $'000	2017 $'000
RECEIVABLES		
With related parties:		
Goods and services	**112**	187
Appropriations receivable	**24,474**	24,485
GST and other	**-**	1
Total	**24,586**	24,673
Receivables are expected to be recovered in:		
No more than 12 months	**12,570**	12,136
More than 12 months	**12,016**	12,537
Total	**24,586**	24,673
Receivables are aged as follows:		
Not overdue	**24,586**	24,673
Overdue	**-**	-
Total	**24,586**	24,673

Note C: Leasehold improvements

Accounting policy

Asset recognition threshold on acquisition

Purchases of leasehold improvements are recognised initially at cost except for purchases costing less than $1,000 which are expensed at the time of acquisition.

Revaluations

Following initial recognition at cost, valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not materially differ from fair value as at the reporting date. Fair value is determined by depreciated replacement cost for leasehold improvements.

Depreciation

Leasehold improvements are depreciated on a straight-line basis over the unexpired period of the lease.

	2018 $'000	2017 $'000
LEASEHOLD IMPROVEMENTS		
Gross value	**1,924**	1,914
Accumulated depreciation	**(247)**	(24)
Total	**1,677**	1,890
Reconciliation of gross value:		
Opening value	**1,914**	1,475
Purchases	**10**	1,914
Disposal	**-**	(1,475)
Revaluation	**-**	-
Total	**1,924**	1,914
Reconciliation of accumulated depreciation:		
Opening value	**(24)**	(1,475)
Depreciation charge for period	**(223)**	(24)
Disposal	**-**	1,475
Revaluation	**-**	-
Total	**(247)**	(24)

No indicators of impairment were identified for leasehold improvements.

Note D: Computer software

Accounting policy

Asset recognition threshold on acquisition

Purchases of computer software are recognised initially at cost except for purchases costing less than $10,000 which are expensed at the time of acquisition.

An item of software represents a software licence granted for greater than 12 months, or a developed software application.

Developed software is recognised by capitalising all directly attributable internal and external costs that enhance the software's functionality and therefore service potential.

Amortisation

Software assets are amortised on a straight-line basis over their anticipated useful lives, being three to ten years (2016–17: three to ten years).

Software assets are carried at cost and are not subject to revaluation.

	2018 $'000	2017 $'000
COMPUTER SOFTWARE		
Gross value:		
Debt management system	**1,521**	1,521
Accumulated amortisation	**(579)**	(417)
Total	**942**	1,104
Reconciliation of gross value:		
Opening value	**1,521**	1,619
Disposal	**-**	(98)
Total	**1,521**	1,521
Reconciliation of accumulated amortisation:		
Opening value	**(417)**	(347)
Amortisation charge for period	**(162)**	(168)
Disposal	**-**	98
Total	**(579)**	(417)

No indicators of impairment were identified for computer software.

Note E: Employee provisions

Accounting policy

Leave

The liability for employee benefits includes provisions for annual leave and long service leave. No provision has been made for sick leave as sick leave is non-vesting and the average sick leave taken in future years by employees of the AOFM is estimated to be less than the annual entitlement for sick leave.

Long service leave and annual leave are measured at the present value of the estimated future payments to be made. In determining the present value, the AOFM commissions a periodic actuarial assessment.

Superannuation

The AOFM contributes to defined benefit superannuation schemes (the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme) and accumulation plans (defined contribution schemes) on behalf of staff.

The AOFM accounts for its superannuation contributions as if they were defined contribution plans i.e. it has no ongoing liability to report. The superannuation benefits payable to an employee upon termination of employment with the Australian Government from defined benefit schemes is recognised in the financial statements of the Department of Finance and is settled by the Australian Government in due course.

An on-cost liability is recognised for superannuation contributions payable on accrued annual leave and long service leave as at the end of the financial year.

	2018 $'000	2017 $'000
EMPLOYEE PROVISIONS		
Annual leave	**524**	460
Long service leave	**1,583**	1,450
Superannuation	**247**	369
Total	**2,354**	2,279
Employee provisions are expected to be settled in:		
No more than 12 months	**489**	617
More than 12 months	**1,865**	1,662
Total	**2,354**	2,279

Note F: Other provisions

	2018 $'000	2017 $'000
OTHER PROVISIONS		
Make good on leasehold premises	**418**	418
Total	**418**	418
Other provisions are expected to be settled in:		
No more than 12 months	**-**	-
More than 12 months	**418**	418
Total	**418**	418
Reconciliation of movements in other provisions:		
Opening balance	**418**	160
Paid	**-**	(45)
Derecognised	**-**	(115)
New / re-measurements	**-**	418
Total	**418**	418

Note G: Cash flow reconciliation

The following table reconciles the AOFM's operating cash flows as presented in the statement of cash flows to its net cost of services presented in the statement of comprehensive income.

	2018 $'000	2017 $'000
Net cost of services	**(9,978)**	(9,631)
Add revenue from Government	**10,834**	11,198
Adjustments for non-cash items:		
Depreciation and amortisation	**433**	205
Asset disposal	**-**	14
Appropriations extinguished	**(1,631)**	(8,194)
Gain on make good provision derecognised	**-**	(115)
Asset accruals	**194**	(505)
Change in receivables for capital budget items	**500**	(816)
Adjustments for changes in assets:		
(Increase) decrease in receivables	**87**	6,962
(Increase) decrease in supplier prepayments	**(165)**	49
Adjustments for changes in liabilities:		
Increase (decrease) in supplier payables	**(374)**	386
Increase (decrease) in salary and superannuation	**(2)**	26
Increase (decrease) in other payables	**-**	(6)
Increase (decrease) in employee provisions	**75**	169
Increase (decrease) in other provisions	**-**	258
Net cash from operating activities	**(27)**	-

Note H: Appropriations

Annual appropriations

	2018 $'000	2017 $'000
DEPARTMENTAL ANNUAL APPROPRIATIONS		
Annual appropriations:		
Outputs	**10,867**	11,198
Departmental capital budget	**713**	720
Appropriation withheld (a)	**(33)**	-
Public Governance, Performance and Accountability Act 2013:		
Section 74 - retained receipts	**542**	588
Total available for payment	**12,089**	12,506
Appropriation applied (current and prior years)	**(10,496)**	(11,508)
Variance	**1,593**	998

(a) On 29 June 2018, $33,000 relating to savings measure announced at MYEFO 2017–18 was withheld via section 51 of the *Public Governance, Performance and Accountability Act 2013*.

The variance in departmental appropriations available to appropriations applied (spent) is explained by lower administrative costs than expected.

Unspent departmental annual appropriation

	2018 $'000	2017 $'000
UNSPENT DEPARTMENTAL ANNUAL APPROPRIATION		
Appropriation Act (No. 1) 2014–15 (a)	**-**	8,194
Appropriation Act (No. 1) 2015–16 (b)	**1,631**	11,948
Supply Act (No. 1) 2016–17	**4,966**	4,966
Appropriation Act (No. 1) 2016–17	**7,342**	7,521
Appropriation Act (No. 2) 2016–17	**150**	150
Appropriation Act (No. 1) 2017–18	**12,089**	-
Total	**26,178**	32,779
Represented By:		
Cash at bank	**73**	100
Appropriations receivable	**24,474**	24,485
Appropriations extinguished	**1,631**	8,194
Total	**26,178**	32,779

(a) The Appropriation Act was repealed on 1 July 2017 and unspent funds were no longer available for use at this time. Unspent funds were accounted for as a return of capital on 30 June 2017 (refer to statement of changes in equity).

(b) The Appropriation Act was repealed on 1 July 2018 and unspent funds were no longer available for use at this time. Unspent funds were accounted for as a return of capital on 30 June 2018 (refer to statement of changes in equity).

Note I: Budgetary report to outcome comparison

The budgetary comparison is to the original Budget released in May 2017. The Budget figures are not audited.

Statement of comprehensive income

	2018 $'000	2018 $'000	2018 $'000
NET COST OF SERVICES			
EXPENSES			
Employee benefits	**6,822**	6,476	346
Supplier expenses	**3,460**	5,072	(1,612)
Depreciation and amortisation	**433**	400	33
Total	**10,715**	11,948	(1,233)
OWN-SOURCE INCOME			
Revenue	**737**	681	56
Total	**737**	681	56
Net cost of services	**9,978**	11,267	(1,289)
APPROPRIATION FUNDING			
Revenue from government	**10,834**	10,867	(33)
Total	**10,834**	10,867	(33)
Surplus (deficit)	**856**	(400)	1,256

Note I: Budgetary report to outcome comparison (continued)

Statement of financial position

	Outcome	Budget	Variance
	2018 $'000	2018 $'000	2018 $'000
ASSETS			
Financial assets:			
Cash and cash equivalents	**73**	100	(27)
Receivables	**24,586**	30,545	(5,959)
Non-financial assets:			
Infrastructure, plant and equipment	**2,047**	2,507	(460)
Computer software	**942**	1,722	(780)
Supplier prepayments	**223**	107	116
Total	**27,871**	34,981	(7,110)
LIABILITIES			
Payables	**183**	130	53
Employee provisions	**2,354**	2,218	136
Other provisions	**418**	160	258
Total	**2,955**	2,508	447
Net assets	**24,916**	32,473	(7,557)
EQUITY			
Retained surplus	**30,467**	28,199	2,268
Contributed equity	**(5,551)**	4,274	(9,825)
Total	**24,916**	32,473	(7,557)

Statement of changes in equity

	Outcome	Budget	Variance
	2018 $'000	2018 $'000	2018 $'000
EQUITY			
RETAINED SURPLUS			
Opening balance	**29,611**	28,599	1,012
Surplus (deficit)	**856**	(400)	1,256
Total	**30,467**	28,199	2,268
CONTRIBUTED EQUITY			
Opening balance	**(4,633)**	3,561	(8,194)
Capital injections	**713**	713	-
Appropriations extinguished	**(1,631)**	-	(1,631)
Total	**(5,551)**	4,274	(9,825)

Note I: Budgetary report to outcome comparison (continued)

Statement of cash flows

	Outcome 2018 $'000	Budget 2018 $'000	Variance 2018 $'000
OPERATING ACTIVITIES			
Cash received	**10,798**	11,546	(748)
Cash used	**(10,825)**	(11,546)	721
Net cash from operating activities	**(27)**	-	(27)
INVESTING ACTIVITIES			
Cash received	**-**	-	-
Cash used	**(213)**	(713)	500
Net cash from investing activities	**(213)**	(713)	500
FINANCING ACTIVITIES			
Cash received - appropriations	**213**	713	(500)
Net cash from financing activities	**213**	713	(500)
Net change in cash held	**(27)**	-	(27)
+ cash held at the beginning of period	**100**	100	-
Cash held at the end of the period	**73**	100	(27)

Significant variances in the departmental financial statements

Employee expenses were higher than forecast at budget due to higher leave entitlements and other employee expenses.

During 2017–18, the AOFM incurred lower than anticipated supplier expenses (represented in supplier expenses) for undertaking its issuance program and managing its portfolio of financial assets and liabilities.

As at 30 June 2018, appropriations receivable was lower than projected at budget by $6.0 million. This is due to the sunsetting of appropriations funding from prior years not being factored into the Budget estimates of $9.8 million which was partially offset by higher cash surpluses than projected for both 2017–18 and the prior year.

The balance of infrastructure, plant and equipment was lower than at budget due to lower than anticipated capital expenditure.

The balance of computer software was lower than estimated at budget due to expenditure on the AOFM's upgrade of its debt management system being less than expected.

Note I: Budgetary report to outcome comparison (continued)

As at 30 June 2018, the AOFM reported higher other provisions than projected at Budget due to a reassessment of make good requirements arising from AOFM's new lease premises.

The balance of contributed equity as at 30 June 2018 was lower than budget forecasts due to the extinguishment of appropriations.

PART 5: OTHER INFORMATION

OTHER INFORMATION

Agency financial performance

The AOFM recorded an operating surplus on agency activities of $0.86 million for the 2017–18 financial year, comprising total revenue of $11.57 million and expenses of $10.71 million. The surplus in 2017–18 was due to lower than anticipated operating costs.

As at 30 June 2018, the AOFM was in a sound net worth and liquidity position, with net assets of $24.92 million, represented by assets of $27.87 million and liabilities of $2.95 million.

As at 30 June 2018, the AOFM had unspent appropriations totalling $24.47 million of which $0.07 million was held in cash. Unspent appropriations are available to settle liabilities as and when they fall due and for future asset replacements and improvements.

Agency resource statement and resources for outcomes

Table 1: Expenses and resources for Outcome 1

Agency Resource Tables

Outcome 1: The advancement of macroeconomic growth and stability and the effective operation of financial markets, through issuing debt, investing in financial assets and managing debt, investments and for the Australian Government	**Budget(a) 2017-18 $'000**	**Actual Expenses 2017-18 $'000**	**Variation $'000**
Program 1.1: Australian Office of Financial Management			
Departmental expenses			
Departmental appropriation and other receipts	10,295	9,992	303
Expenses not requiring appropriation in the Budget year	720	723	(3)
Administered expenses before re-measurements			
Ordinary annual services (Appropriation Bill No.1)	10	-	10
Expenses not requiring appropriation	546,883	523,561	23,322
Special appropriations expenses			
Commonwealth Inscribed Stock Act 1911	17,047,223	17,025,334	21,889
Financial Agreement Act 1994	7	7	-
Total expenses for program 1.1	**17,605,138**	**17,559,617**	**45,521**
	2017-18	**2017-18**	
Average staffing level (number)	**40**	**37**	**3**

(a) The Budget figure for 2017–18 is the estimated actual 2017–18 expenses, reported in Table 2.1 of the 2018–19 Portfolio Budget Statements.

Table 2: AOFM resource statement

Agency Resource Tables

		Actual available appropriation 2017-18 $'000	Payments made 2017-18 $'000	Appropriations extinguished 2017-18 $'000	= Balance 2017-18 $'000
Ordinary annual services					
Departmental appropriation(a)(b)		36,132	10,496	1,631	24,005
Receipts from other sources (s74)(c)		542		-	542
Total departmental		36,674	10,496	1,631	24,547
Administered expenses					
Outcome 1		10	-	-	10
Total administered		10	-	-	10
Total ordinary annual services	**A**	36,684	10,496	1,631	24,557
Other services					
Departmental non-operating		-	-	-	-
Total other services	**B**	-	-	-	-
Total available annual appropriations (A+B)		36,684	10,496	1,631	24,557
Special appropriations - operating					
Commonwealth Inscribed Stock Act 1911		19,619,273	19,619,273	-	-
Financial Agreement Act 1994		8	8	-	-
Subtotal		19,619,281	19,619,281	-	-
Special appropriations - investing and financing					
Commonwealth Inscribed Stock Act 1911		64,501,787	64,501,787	-	-
Public Governance, Performance and Accountability Act 2013		473,450,000	473,450,000	-	-
Subtotal		537,951,787	537,951,787	-	-
Total special appropriations	**C**	557,571,068	557,571,068	-	-
Total appropriations excluding special accounts (A + B + C)		557,607,752	557,581,564	1,631	24,557
Special Accounts					
Debt Retirement Reserve Trust Account		47	7		40
Total Special Account	**D**	47	7	-	40
Total net resourcing and payments for AOFM (A + B + C + D)		557,607,799	557,581,571	1,631	24,597

(a) Actual available appropriation comprises *Appropriation Act (No.1) 2017–18* plus carried forward appropriation balances as at 1 July 2017.
(b) Includes capital budget appropriation for 2017–18 of $0.713 million.
(c) Receipts received under section 74 of the PGPA Act.

Grant programs

Under the *Financial Agreement Act 1994*, the Commonwealth is required to contribute to the Debt Retirement Reserve Trust Account to assist the state and Northern Territory governments to redeem maturing debt on allocation to them. Monies standing to the credit of this Account are held for the purposes prescribed by the *Financial Agreement Act 1994*.

The contributions made by the Commonwealth are accounted for as grants in the AOFM's financial statements.

Advertising and market research

During 2017–18, the AOFM incurred expenditure of $13,200 for research into the wholesale financial market in Australia.

The AOFM incurred expenditure of $12,732 in advertising to promote the Australian Government Securities market to investors.

The AOFM incurred expenditure of $4,656 during 2017–18 to media advertising organisations for staff recruitment.

Freedom of information

Agencies subject to the *Freedom of Information Act 1982* (FOI Act) are required to publish information to the public as part of the Information Publication Scheme (IPS). Freedom of information (FOI) matters in respect of the AOFM are handled by the Treasury and all documents disclosed in response to FOI requests (other than personal or business information that would be unreasonable to publish) are published on the FOI Disclosure Log of the Treasury website. The Treasury reports on AOFM's FOI requests in an annual submission to the Office of the Australian Information Commissioner (OAIC) for inclusion in the OAIC's annual report. In 2017–18, the AOFM received no FOI requests.

An agency plan showing what information is published in accordance with the IPS requirements, including material relevant to the AOFM, is accessible from the Treasury's website at www.treasury.gov.au.

Ecologically sustainable development

The AOFM's operations have an impact on the environment typical of office operations generally. Procurement and facilities management services are provided to the AOFM by the Treasury under a memorandum of understanding. Information on the environmental impact of these services is published in the Treasury's Annual Report.

Management structure of the AOFM's debt and assets

The assets and liabilities managed by the AOFM and held on its administered balance sheet in 2017–18 were AGS (Treasury Bonds, Treasury Indexed Bonds and Treasury Notes), term deposits placed with the RBA, RMBS and housing advances to the states under the various Commonwealth-State Housing Agreements.

For financial and risk management purposes, these assets and liabilities are allocated between four financial portfolios: long-term debt, cash management, RMBS, and housing advances. This allocation recognises the different objectives, risks and management approaches required in each area.

The **long-term debt portfolio** includes all AGS, other than Treasury Notes, which are issued for cash management purposes. It contains debt denominated in Australian dollars and in foreign currencies. No borrowings have been undertaken in foreign currencies since 1987.

The **cash management portfolio** is used to manage within-year variability in the Australian Government's financing requirement due to differences in the timing of Government payments and receipts. It is also used to provide for contingency liquidity in the event of an unforeseen call on cash requirements separate to planned needs (such as reduced issuance capability during a major market dislocation event). It contains all the assets and liabilities not held in the other three portfolios.

The **RMBS portfolio** contains residential mortgage-backed securities purchased through a Government investment program that was operational during 2008–09 to 2012–13. The AOFM completed the divestment process for RMBS in February 2018.

The **housing advances portfolio** comprises loans for public housing made to the states and territories. These loans, which were not evidenced by the issue of securities, were made under previous Commonwealth-state financing arrangements. The last of these loans is due to mature on 30 June 2042.

AGS issuance for 2017–18

Table 3: Treasury Bond tender results — 2017–18

Tender date	Coupon and maturity	Face value amount allocated ($m)	Weighted average issue yield (%)	Spread to secondary market yield (basis points)	Range of bids accepted (basis points)	Times covered
5-Jul-17	3.25% 21-Apr-2029	800	2.7200	-1.17	0.00	4.47
7-Jul-17	2.00% 21-Dec-2021	600	2.1693	-1.07	1.00	5.46
19-Jul-17	2.75% 21 Nov-2028	900	2.7747	-0.58	0.50	2.82
21-Jul-17	2.00% 21-Dec-2021	500	2.1996	-0.80	0.25	6.58
28-Jul-17	2.25% 21-May-2028	700	2.7266	-0.59	0.50	3.84
2-Aug-17	2.75% 21 Nov-2028	900	2.7523	-0.48	0.50	2.93
4-Aug-17	1.75% 21-Nov-2020	500	1.9447	-0.96	0.75	5.04
9-Aug-17	2.75% 21-Nov-2027	900	2.6312	-0.13	0.50	3.04
11-Aug-17	5.75% 15-Jul-2022	500	2.1337	-0.70	0.50	4.69
14-Aug-17	2.25% 21-May-2028	500	2.6464	-0.23	0.25	4.85
16-Aug-17	3.25% 21-Apr-2029	900	2.7608	-0.44	0.50	2.96
18-Aug-17	2.00% 21-Dec-2021	500	2.1077	-0.68	0.25	5.62
21-Aug-17	2.75% 21 Nov-2028	800	2.6998	-0.39	0.25	2.99
25-Aug-17	1.75% 21-Nov-2020	600	1.9962	-0.63	0.50	5.75
28-Aug-17	2.75% 21-Jun-2035	400	3.1008	-0.54	0.50	4.16
30-Aug-17	2.25% 21-May-2028	900	2.7060	-0.27	0.50	2.76
1-Sep-17	2.00% 21-Dec-2021	500	2.1575	-1.45	0.00	7.82
6-Sep-17	2.75% 21-Nov-2027	900	2.6125	-0.40	0.50	3.16
8-Sep-17	5.75% 15-May-2021	500	2.0164	-0.86	0.25	7.04
11-Sep-17	4.50% 21-Apr-2033	500	2.9089	-0.36	0.75	2.52
13-Sep-17	2.75% 21 Nov-2028	900	2.7414	-0.48	0.25	4.03
18-Sep-17	3.25% 21-Apr-2029	700	2.8842	-0.49	0.25	3.39
20-Sep-17	2.00% 21-Dec-2021	600	2.3225	-1.82	0.00	7.48
22-Sep-17	2.25% 21-May-2028	800	2.8368	-0.45	0.50	3.70
27-Sep-17	2.75% 21-Nov-2027	700	2.7834	-0.54	0.25	4.34
29-Sep-17	2.75% 21 Nov-2028	800	2.8913	-0.49	0.25	5.43
4-Oct-17	4.75% 21-Apr-2027	700	2.7655	-0.60	0.50	4.46
6-Oct-17	2.25% 21-May-2028	700	2.8410	-0.57	0.50	4.56
11-Oct-17	2.25% 21-Nov-2022	3,500	2.4167	N/A	1.00	3.68
23-Oct-17	2.75% 21-Nov-2027	700	2.8162	-0.26	0.50	3.96
27-Oct-17	2.75% 21 Nov-2028	1,000	2.8556	-0.32	0.50	4.33
30-Oct-17	3.25% 21-Apr-2029	500	2.8110	-0.51	0.25	6.50
1-Nov-17	2.25% 21-May-2028	900	2.7273	-0.49	0.50	5.30
3-Nov-17	2.00% 21-Dec-2021	500	2.0919	-0.70	0.25	7.25
6-Nov-17	3.75% 21-Apr-2037	400	3.0580	-0.57	0.75	2.54
8-Nov-17	2.25% 21-Nov-2022	1,500	2.1756	-0.59	0.50	4.51
10-Nov-17	2.75% 21-Nov-2027	900	2.6201	-0.37	0.75	3.46
15-Nov-17	2.75% 21 Nov-2028	1,000	2.6867	-0.37	0.50	3.46
17-Nov-17	4.50% 21-Apr-2033	400	2.8774	-0.31	0.75	2.84
20-Nov-17	3.25% 21-Apr-2029	400	2.6437	-0.49	0.25	4.98
22-Nov-17	2.25% 21-May-2028	900	2.5746	-0.34	0.50	4.16
24-Nov-17	2.00% 21-Dec-2021	500	2.0281	-0.66	0.50	5.40
29-Nov-17	2.75% 21 Nov-2028	900	2.5563	-0.24	0.25	3.40
1-Dec-17	2.25% 21-Nov-2022	1,000	2.1577	-0.63	0.50	3.94

Table 3: Treasury Bond tender results — 2017–18 (continued)

Tender date	Coupon and maturity	Face value amount allocated ($m)	Weighted average issue yield (%)	Spread to secondary market yield (basis points)	Range of bids accepted (basis points)	Times covered
4-Dec-17	3.25% 21-Apr-2029	400	2.6438	-0.47	0.25	3.80
6-Dec-17	2.25% 21-May-2028	900	2.5846	-0.24	0.25	2.59
8-Dec-17	2.00% 21-Dec-2021	500	2.0730	-1.07	0.25	8.54
11-Dec-17	3.00% 21-Mar-2047	500	3.2948	-0.02	0.75	3.23
13-Dec-17	2.25% 21-Nov-2022	1,000	2.2218	-0.68	0.75	3.53
2-Feb-18	3.00% 21-Mar-2047	500	3.4359	0.19	1.00	2.53
5-Feb-18	4.50% 21-Apr-2033	400	3.0717	-0.13	1.00	1.87
7-Feb-18	2.75% 21 Nov-2028	600	2.8862	-0.25	0.75	5.43
9-Feb-18	5.75% 15-Jul-2022	400	2.2838	-0.19	0.50	5.79
14-Feb-18	2.25% 21-May-2028	600	2.8612	-0.21	0.50	3.66
16-Feb-18	2.00% 21-Dec-2021	400	2.2960	-0.40	0.50	5.03
21-Feb-18	2.75% 21 Nov-2028	600	2.9052	-1.04	2.25	4.50
23-Feb-18	5.75% 15-May-2021	400	2.1289	-0.41	0.25	6.12
26-Feb-18	2.75% 21-Nov-2027	400	2.7735	-0.54	0.50	5.96
28-Feb-18	2.25% 21-Nov-2022	1,000	2.3582	-0.43	0.50	4.10
7-Mar-18	4.75% 21-Apr-2027	500	2.7391	-0.47	0.25	3.85
9-Mar-18	3.25% 21-Apr-2029	500	2.8212	-0.41	0.25	4.36
16-Mar-18	2.75% 21 Nov-2028	500	2.7124	-0.41	0.25	4.46
19-Mar-18	2.25% 21-May-2028	800	2.7039	-0.36	0.25	3.35
21-Mar-18	2.25% 21-Nov-2022	1,000	2.3449	-0.38	0.25	3.95
28-Mar-18	3.25% 21-Apr-2029	500	2.6337	-0.25	1.50	3.47
4-Apr-18	2.25% 21-May-2028	600	2.6149	-0.34	0.25	4.17
6-Apr-18	2.00% 21-Dec-2021	400	2.2152	-0.73	0.50	7.69
11-Apr-18	2.75% 21 Nov-2028	600	2.7069	-0.43	0.25	4.25
13-Apr-18	2.25% 21-Nov-2022	1,000	2.3632	-0.72	0.50	4.38
18-Apr-18	3.00% 21-Mar-2047	600	3.3268	-0.57	0.75	3.00
20-Apr-18	2.75% 21-Nov-2027	400	2.7989	-0.34	0.50	5.95
23-Apr-18	3.25% 21-Apr-2029	500	2.8843	-0.44	0.25	5.88
27-Apr-18	2.25% 21-Nov-2022	500	2.4294	-0.78	0.50	6.08
2-May-18	3.00% 21-Mar-2047	400	3.2741	-0.34	0.50	3.07
4-May-18	2.75% 21-Nov-2029	600	2.8181	-0.44	0.50	3.57
7-May-18	2.25% 21-May-2028	400	2.7436	-0.37	0.25	4.73
11-May-18	3.25% 21-Apr-2029	1,000	2.7842	-0.33	0.25	3.91
21-May-18	2.25% 21-Nov-2022	400	2.4172	-0.65	0.50	7.11
25-May-18	2.75% 21-Nov-2029	500	2.8273	-0.39	0.25	5.21
8-Jun-18	2.50%21-May-2030	2,500	2.8934	N/A	1.50	3.41
18-Jun-18	2.75% 21-Nov-2029	800	2.7059	-0.53	0.50	3.62
20-Jun-18	2.25% 21-Nov-2022	700	2.2716	-0.59	0.25	4.03
22-Jun-18	3.00% 21-Mar-2047	300	3.1435	-0.27	0.25	3.97
27-Jun-18	2.50%21-May-2030	1,000	2.7083	-0.29	0.50	3.49
Average over year to June 2017				-0.51	0.49	4.44
Average over 3 years to June 2017				-0.44	0.64	3.57
Average over 10 years to June 2017				-0.24	0.92	3.64

Table 4: Treasury Bond syndication results — 2017–18

Syndication date	Coupon and maturity	Face value amount allocated ($m)	Issue yield (%)	Joint Lead Managers
17-Jan-18	2.75% 21-Nov-2029	9,600	2.860	Commonwealth Bank of Australia, Citi, Deutsche Bank AG and UBS AG Sydney Branch

Table 5: Treasury Bond buyback tender results — 2017–18

Tender date	Coupon and maturity	Face value amount repurchased ($m)	Weighted average accepted yield (%)	Spread to secondary market yield (basis points)	Range of offers accepted (basis points)	Times covered
10-Jul-17	3.25% 21-Oct-2018	230	1.6473	0.48	0.25	3.60
	5.25% 15-Mar-2019	270	1.7325	0.70	0.50	
14-Aug-17	3.25% 21-Oct-2018	400	1.6485	0.40	0.75	3.37
	5.25% 15-Mar-2019	100	1.6733	0.03	0.25	
28-Aug-17	3.25% 21-Oct-2018	320	1.6604	0.41	0.25	3.23
	5.25% 15-Mar-2019	80	1.7125	0.30	0.00	
11-Sep-17	3.25% 21-Oct-2018	368	1.6959	0.34	0.75	2.83
	5.25% 15-Mar-2019	132	1.7383	0.33	0.50	
18-Sep-17	3.25% 21-Oct-2018	148	1.7427	1.24	1.00	4.22
	2.75% 21-Oct-2019	552	1.9807	0.57	0.50	
27-Sep-17	5.25% 15-Mar-2019	296	1.8099	0.99	0.50	4.03
	2.75% 21-Oct-2019	404	1.9464	0.99	1.75	
11-Oct-17	3.25% 21-Oct-2018	162	1.7925	0.37	0.00	4.05
	2.75% 21-Oct-2019	738	1.9492	0.57	0.50	
23-Oct-17	5.25% 15-Mar-2019	444	1.8480	0.92	0.50	3.85
	2.75% 21-Oct-2019	256	1.9575	1.10	0.50	
30-Oct-17	3.25% 21-Oct-2018	207	1.7667	0.48	0.75	3.36
	5.25% 15-Mar-2019	293	1.7714	0.45	0.75	
6-Nov-17	3.25% 21-Oct-2018	350	1.7218	0.80	1.00	4.40
	2.75% 21-Oct-2019	50	1.7725	0.25	0.00	
20-Nov-17	5.25% 15-Mar-2019	180	1.7356	0.36	0.50	2.71
	2.75% 21-Oct-2019	220	1.7848	0.38	0.75	
4-Dec-17	3.25% 21-Oct-2018	215	1.6860	1.08	1.50	4.26
	5.25% 15-Mar-2019	185	1.7250	0.62	0.00	
11-Dec-17	3.25% 21-Oct-2018	400	1.7119	0.69	1.00	3.20
	5.25% 15-Mar-2019	100	1.7653	0.14	0.25	
5-Feb-18	5.25% 15-Mar-2019	300	1.7725	1.00	0.00	2.95
	2.75% 21-Oct-2019	100	1.8968	0.17	0.50	
26-Feb-18	5.25% 15-Mar-2019	192	1.8066	0.46	0.50	2.85
	2.75% 21-Oct-2019	208	1.8728	0.73	0.50	
19-Mar-18	5.25% 15-Mar-2019	358	1.8617	0.62	1.00	2.48
	4.50% 15-Apr-2020	442	1.9637	0.41	0.50	
11-Apr-18	2.75% 21-Oct-2019	500	1.9769	0.69	1.25	2.69
	4.50% 15-Apr-2020	100	2.0521	0.51	0.25	
23-Apr-18	2.75% 21-Oct-2019	219	2.0597	0.47	1.25	2.06
	4.50% 15-Apr-2020	281	2.1268	0.35	0.50	
7-May-18	5.25% 15-Mar-2019	189	1.8810	0.35	0.25	5.07
	2.75% 21-Oct-2019	211	1.9425	0.32	0.00	
21-May-18	2.75% 21-Oct-2019	272	1.9703	0.65	0.75	4.09
	4.50% 15-Apr-2020	128	2.0374	0.86	1.25	
8-Jun-18	2.75% 21-Oct-2019	554	2.0200	0.80	0.75	4.18
	4.50% 15-Apr-2020	246	2.0795	0.57	0.50	
18-Jun-18	2.75% 21-Oct-2019	643	1.9988	1.23	1.25	3.53
	4.50% 15-Apr-2020	157	2.0168	0.85	0.50	
Average over year to June 2018				0.59	0.60	3.50

Table 6: Treasury Indexed Bond tender results — 2017–18

Tender date	Coupon and maturity	Face value amount allocated ($m)	Weighted average issue yield (%)	Spread to secondary market yield (basis points)	Range of bids accepted (basis points)	Times covered
18-Jul-17	1.25% 21-Aug-2040	150	1.1158	-2.17	1.50	3.57
8-Aug-17	2.50% 20-Sep-2030	150	0.8959	-2.28	1.75	7.04
12-Sep-17	1.25% 21-Feb-2022	150	0.4025	-0.50	1.50	3.98
26-Sep-17	2.50% 20-Sep-2030	150	1.0024	-0.63	1.75	3.34
10-Oct-17	1.25% 21-Aug-2040	150	1.2167	-0.52	2.25	2.60
14-Nov-17	2.00% 21-Aug-2035	150	0.9732	-1.05	1.75	2.93
28-Nov-17	0.75% 21-Nov-2027	150	0.6407	-2.27	1.00	4.83
12-Dec-17	1.25% 21-Aug-2040	150	0.9236	-0.77	1.25	2.45
13-Feb-18	0.75% 21-Nov-2027	150	0.8533	-1.42	0.75	4.20
27-Feb-18	1.25% 21-Aug-2040	150	1.0266	0.16	3.25	2.37
13-Mar-18	0.75% 21-Nov-2027	150	0.8208	-0.85	1.00	3.07
27-Mar-18	1.25% 21-Aug-2040	150	1.0113	0.18	1.25	3.33
10-Apr-18	0.75% 21-Nov-2027	150	0.7075	-0.50	1.00	2.73
8-May-18	2.50% 20-Sep-2030	150	0.8357	-1.18	1.00	3.43
22-May-18	0.75% 21-Nov-2027	150	0.8822	-3.08	1.75	3.20
12-Jun-18	2.00% 21-Aug-2035	150	0.9803	-2.81	1.75	3.54
26-Jun-18	2.50% 20-Sep-2030	150	0.7029	-2.71	2.50	3.36
Average over year to June 2018				-1.32	1.59	3.53
Average over 3 years to June 2018				-1.14	1.72	3.45

Table 7: Treasury Indexed Bond syndication results — 2017–18

Syndication date	Coupon and maturity	Face value amount allocated ($m)	Issue yield (%)	Joint Lead Managers
23-Aug-17	0.75% 21-Nov-2027	3,000	0.8725	Citi, Deutsche Bank AG Sydney Branch, UBS AG Australia Branch and Westpac Institutional Bank

Table 8: Treasury Note tender results — 2017–18

Tender date	Maturity	Face value amount allocated ($m)	Weighted average issue yield (%)	Spread to OIS (basis points)	Range of bids accepted (basis points)	Times covered
6-Jul-17	27-Oct-17	500	1.6224	12.32	5.0	3.34
20-Jul-17	27-Oct-17	500	1.6356	13.39	6.0	2.89
3-Aug-17	27-Oct-17	500	1.6703	17.17	5.0	2.66
17-Aug-17	8-Dec-17	500	1.6501	15.08	6.0	3.25
24-Aug-17	8-Dec-17	500	1.6605	15.97	6.0	4.58
7-Sep-17	8-Dec-17	500	1.6630	16.30	4.0	1.00
21-Sep-17	8-Dec-17	500	1.7081	20.38	2.0	3.30
5-Oct-17	8-Dec-17	500	1.7124	20.71	3.0	3.94
19-Oct-17	23-Feb-18	500	1.7198	21.37	4.0	5.98
26-Oct-17	23-Feb-18	1,000	1.7262	22.19	5.0	3.74
9-Nov-17	23-Feb-18	500	1.7173	21.73	6.0	3.85
23-Nov-17	23-Feb-18	500	1.7244	22.94	3.0	4.46
7-Dec-17	27-Apr-18	1,000	1.7242	22.10	4.0	3.56
25-Jan-18	27-Apr-18	500	1.6774	17.21	2.0	5.15
8-Feb-18	27-Apr-18	500	1.6869	18.19	5.0	4.42
22-Feb-18	22-Jun-18	500	1.6924	17.38	6.0	6.06
8-Mar-18	22-Jun-18	500	1.6830	17.21	7.0	3.35
22-Mar-18	22-Jun-18	500	1.7354	23.54	6.0	3.77
5-Apr-18	22-Jun-18	500	1.9444	44.44	15.0	2.53
19-Apr-18	22-Jun-18	500	1.9666	46.66	3.0	5.44
26-Apr-18	24-Aug-18	500	1.9300	42.55	7.0	4.53
10-May-18	24-Aug-18	500	1.8894	38.85	5.0	6.63
24-May-18	24-Aug-18	500	1.8372	33.72	5.0	5.27
7-Jun-18	24-Aug-18	500	1.8809	38.09	8.0	2.85
21-Jun-18	12-Oct-18	500	1.8993	39.77	15.0	5.19
Average over year to June 2018				24.77	5.7	4.07
Average over 3 years to June 2018				13.40	5.7	3.48

Glossary

Accrual cost

A method of accounting based on recording revenue and expenses when they are incurred, regardless of when cash is exchanged.

Australian Government Securities (AGS)

Debt obligations of the Australian Government evidenced by the issue of securities or, nowadays, issued as inscribed stock. AGS on issue are predominantly Treasury Bonds, Treasury Indexed Bonds and Treasury Notes but also include small residual amounts of Australian Savings Bonds, Peace Saving Certificates and War Saving Certificates.

Bank Bill Swap (BBSW) rate

The mid-rate of the market for bank accepted bills and negotiable certificates of deposit issued by banks designated by the Australian Financial Markets Association as 'Prime Banks', that have a remaining maturity of between one and six months. BBSW is used as a reference rate for various financial products.

Basis point

One hundredth of one per cent.

Bid-ask spread

The difference between the price (or yield) at which a market maker is willing to buy and sell a particular financial product or instrument.

Book value (or carrying amount)

The amount at which an asset or liability is recognised in the balance sheet. Under a fair value methodology, measurement is by reference to current market rates. Under an historic cost methodology, measurement is by reference to market value rates at the time the original transaction was conducted. The AOFM's assets and liabilities are measured at fair value, except for advances to state and territory governments for public housing, which are measured at historic cost.

Cash Management Portfolio

The cash management portfolio is a part of the overall portfolio of assets and liabilities managed by the AOFM. It contains short-term assets and liabilities and is used to manage the within-year variability in government cash flows.

Coupon rate

A rate of interest paid on a bond, which is fixed for a specified period (usually the term of the bond). In the case of Treasury Bonds coupon interest is payable semi-annually, while for Treasury Indexed Bonds it is paid quarterly. In each case, the coupon rate is set on the date of announcement of first issuance of the bond line.

Credit risk

The risk of counterparty default creating financial loss. Credit risk is contingent on the combination of a default and there being pecuniary loss. The AOFM faces credit risk in relation to its settlement and investment activities (except in relation to its term deposits held with the RBA).

Credit spread

The difference in yields between securities of different credit qualities. The credit spread reflects the additional net yield required by an investor from a security with more credit risk relative to one with less credit risk.

Discount

An amount by which the value of a security on transfer is less than its face (or par) value.

Discounting

Calculating the present value of a future amount.

Duration

Duration (expressed in years) represents the 'effective term' of a bond. It is the weighted average life of a bond or a portfolio of bonds. The weights are the relative cash flows associated with the bond or portfolio (the coupon payments and principal), discounted to their present value. See also 'modified duration'.

Exposure

The amount of money at risk in a portfolio. Exposure to a risk is calculated by measuring the current mark-to-market value that is exposed to that risk.

Face value

The amount of money indicated on a security, or inscribed in relation to a security, payable to the holder on maturity and used to calculate interest payments. In the case of a Treasury Indexed Bond, the face value is the principal or par value, unadjusted for changes in the consumer price index.

Fixed rate

An interest rate calculated as a constant percentage of the face value or notional principal and generally payable quarterly, semi-annually or annually. Treasury Bonds pay a fixed coupon rate semi-annually.

Floating rate

An interest rate that varies according to a particular indicator, such as BBSW (the bank bill swap reference rate). For example, the floating leg of an interest rate swap may provide for the interest paid to be reset every six months in accordance with BBSW.

Funding risk

The risk that an issuer is unable to raise funds, as required, in an orderly manner and without financial penalty. For the Australian Government, funding risk encompasses the ability to raise term funding to cover future budget needs (including the maturities of Treasury Bonds and Treasury Indexed Bonds). This is distinct from re-financing risk, which relates to the ability to 'roll-over' or pay down short-term funding obligations.

Futures basket

A collection of like financial products or commodities, grouped together, that are used to define the benchmark for pricing a futures contract. The Australian Securities Exchange three-year, 10-year and 20-year Treasury Bond futures baskets consist of collections of Treasury Bond lines that have an average term to maturity of approximately three, ten and twenty years respectively.

Futures contract

An agreement to buy or sell an asset at a specified date in the future at a price agreed today. The agreement is completed by physical delivery or cash settlement, or alternatively is offset prior to the expiration date. In Australia, standardised futures contracts are traded on the Australian Securities Exchange. Futures contracts traded on the Australian Securities Exchange include contracts for three-year, 10-year and 20-year Treasury Bonds.

Historic cost

The basis of measurement where an asset or liability is recorded at fair value on initial recognition and, after initial recognition, by amortisation of the initial value using market rates at the time the transaction was conducted that gave rise to the asset or liability.

Interest

The charge for borrowing money, usually expressed as an annual percentage rate. For the AOFM financial statements, interest cost is the coupon payment (where relevant) adjusted for the amortised cost carrying value of a debt security. Where a debt security is issued at a premium or discount to its principal value, the premium or discount at issuance is recognised in amortised cost carrying value and amortised over the life of the security using the effective interest method. This amortisation is recognised in the interest cost.

For Treasury Indexed Bonds, the change in amortised cost carrying value includes capital accretion of the principal due to inflation. As capital accretion occurs, it is also recognised in the interest cost.

Interest rate risk

The risk that the value of a portfolio or security will change due to a change in interest rates. For example, the market value of a bond falls as interest rates rise.

Issuance

The sale of debt securities in the primary market.

Liquidity

The capacity for a debt instrument to be readily purchased or sold. A liquid market allows the ready buying or selling of large quantities of an instrument at relatively short notice and without significantly influencing its price.

Liquidity also refers to the ability to meet cash payment obligations.

Liquidity risk

The risk that a financial instrument will not be able to be readily purchased or sold.

Long-term debt portfolio (LTDP)

The long-term debt portfolio is the substantive part of the portfolio managed by the AOFM. It contains ongoing domestic and foreign currency liabilities.

Market risk

The risk that the price (value) of a financial instrument or portfolio of financial instruments will vary as market conditions change. In the case of a debt issuer and investor such as the AOFM, the principal source of market risk is from changes in interest rates.

Market value

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

Modified duration

A measure of the sensitivity of the market value of a debt security to a change in interest rates. It is 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. Portfolios with higher modified durations tend to have more stable interest costs through time, but more volatile market values. Modified duration is related to duration by the equation:

$$\text{Modified duration} = \frac{\text{duration (years)}}{1 + \text{yield to maturity}}$$

At times, 'modified duration' is abbreviated to 'duration', and desirably only in contexts where this will not lead to confusion.

Nominal debt

Debt that is not indexed to inflation. Treasury Notes and Treasury Bonds are examples of nominal debt.

Nominal interest rate

Interest rate that does not take account of the effects of inflation (in contrast to the 'real' interest rate).

Official Public Account (OPA)

The OPA is the collective term for the core bank accounts maintained at the RBA for Australian Government cash balance management.

Operational risk

The risk of loss, whether direct or indirect, arising from inadequate or failed internal business processes or systems.

Overnight cash rate

The interest rate charged on overnight loans between financial intermediaries. The RBA manages the supply of funds available in the money market to keep the cash rate as close as possible to a target set by the bank board as an instrument of monetary policy.

Overnight Indexed Swap (OIS)

A fixed for floating interest rate swap in which one party agrees to pay another party a fixed interest rate in exchange for receiving the average overnight cash rate recorded over the term of the swap. The term to maturity of such swaps is typically between one week and one year. Financial market participants enter into overnight indexed swaps to manage their exposures to movement in the overnight cash rate.

Physical debt

Securities that give rise to debt, in contrast to derivatives (which give rise to a contingent liability). Treasury Bonds, Treasury Indexed Bonds and Treasury Notes represent physical debt.

Present value

The value today of a payment to be received (or made) in the future. If the opportunity cost of funds, or discount rate is 10 per cent, the present value of $100 to be received in two years is $\$100 \times [1/(1 + 0.10)^2] = \$82.64$.

Primary market

The market where securities are issued for the first time and where the sale proceeds go to the issuer. For example, the primary market for Treasury Bonds is when the bonds are sold at tender or by syndication by the AOFM on behalf of the Australian Government.

Real interest rate

An interest rate that has been adjusted to take account of the effects of inflation.

Repricing risk

The risk that interest rates will have increased when maturing debt needs to be refinanced.

Residential mortgage-backed security (RMBS)

A debt instrument issued by a special purpose vehicle to finance the securitisation of a pool of loans that is secured by residential mortgages.

Risk premium

The difference between the return available on a risk-free asset and the return available on a riskier asset.

Secondary market

The market where securities are bought and sold subsequent to original issuance. Investors trade securities between themselves (usually via intermediaries such as banks) in the secondary market.

Securities lending

An activity whereby securities are lent to a financial market participant for a fee.

Securities lending facility

A facility established by the AOFM in 2004 that uses repurchase agreements to lend Treasury Bonds and Treasury Indexed Bonds to market participants for short periods. The facility is operated by the RBA on behalf of the AOFM. It supports the efficient operation of these markets as it facilitates trading by enabling dealers to obtain specific lines of stock when they are not readily available from other sources.

Short-dated exposure

The proportion of a portfolio that will have its interest rate reset in the short-term. A portfolio with a high short-dated exposure will tend to have more volatile annual interest payments than a portfolio with low short-dated exposure.

Spread

The difference between two prices or yields.

Syndication

Where an issuer arranges a primary market transaction through a panel of banks but the bonds that are issued are purchased as a result of direct orders from end-investors during the syndication process. The final price and volume of issuance are typically determined as part of the process, but either or both could be pre-set at specific levels prior to commencement of the process.

Tender

A method of issuance whereby debt is sold through auction. The amount, coupon and maturity date of the stock are announced by the issuer. Registered participants then bid for their desired amounts of stock at interest rates at which they are prepared to buy. Bids are accepted from lowest interest rate (yield) upward until the issue amount has been filled. Stock is therefore allocated in order of lowest yield (and highest price).

Tenor

The tenor of a financial instrument is its remaining term to maturity.

Term deposit

A deposit held at a financial institution that has a fixed (short) term. When a term deposit is purchased, the lender (the customer) understands that the money can only be withdrawn after the term has ended, or after having given a predetermined number of days' notice.

Term premium

The extra return investors demand for holding a longer-term bond as opposed to investing in a series of short-term bonds.

Treasury Bond

A medium to long term debt security issued by the Australian Government that carries an annual rate of interest (the coupon rate), which is fixed over the life of the security and payable in six-monthly instalments (semi-annually) on the face, or par, value of the security. The bonds are repayable in full at face value on maturity.

Treasury Indexed Bond

A security issued by the Australian Government for which the capital value is adjusted periodically according to movements in the consumer price index. Interest is paid quarterly at a fixed rate on the adjusted capital value. At maturity, investors receive the adjusted capital value of the bond — that is, the initial face value as adjusted for inflation over the life of the bond. Interest Indexed Bonds, another form of indexed bond, were also issued by the Commonwealth Government in the past but these have all now matured.

Treasury Note

A short-term debt security issued by the Australian Government 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.

Two-way price

A price (or yield) at which a market-maker is prepared to both buy and sell a particular financial product or instrument. That is, the simultaneous quoting of a bid and an offer.

Yield

The expected rate of return expressed as a percentage of the net outlay or net proceeds of an investment.

Yield curve

Graphical representation on a specific date of the relationship between the yield on debt securities of the same credit quality, but different terms to maturity. When securities with longer terms to maturity have a higher yield than securities with shorter terms to maturity, the curve is said to have a positive slope. In the opposite case, the slope is said to be negative or inverse.

Acronyms

AASB	Australian Accounting Standards Board
ADIs	Authorised Deposit-taking Institutions
AFMA	Australian Financial Markets Association
AGFIF	Australian Government Fixed Income Forum
AGS	Australian Government Securities
AML/CTF	Anti-Money Laundering and Counter-Terrorism Financing
ANAO	Australian National Audit Office
AOFM	Australian Office of Financial Management
APS	Australian Public Service
APSC	Australian Public Service Commission
AUD	Australian dollar
AUSTRAC	Australian Transaction Reports and Analysis Centre
BBSW	Bank Bill Swap Reference Rates
CEO	Chief Executive Officer
CPI	Consumer Price Index
CPRs	Commonwealth Procurement Rules
EL	Executive Level (APS Classification)
EU	European Union
FOI	Freedom of Information
FTE	Full-time equivalent
GST	Goods and Services Tax
IPS	Information Publication Scheme

IT	Information technology
LTDP	Long-Term Debt Portfolio
OAIC	Office of the Australian Information Commissioner
OIS	Overnight Indexed Swap
OPA	Official Public Account
PGPA	*Public Governance, Performance and Accountability Act 2013*
PSM	Portfolio Strategy Meeting
RBA	Reserve Bank of Australia
RMBS	Residential Mortgage-backed Security
SES	Senior Executive Service
SME	Small and Medium Enterprises
TIB	Treasury Indexed Bond
US	United States of America
USD	United States dollar

INDEX OF COMPLIANCE WITH REQUIREMENTS

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INDEX

R

S

T