Australian Government

Australian Office of Financial Management

AOFM

ANNUAL REPORT

2014-15

Australian Office of Financial Management

Australian Office of Financial Management

Annual Report 2014-15

© Commonwealth of Australia 2015

ISSN 2204-0838 (print)
ISSN 2204-0846 (online)

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Australian Government

Australian Office of Financial Management

30 September 2015

The Hon Scott Morrison 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 2015 for presentation to the Parliament.

The Report has been prepared in accordance with guidelines approved on behalf of the Parliament by the Joint Committee of Public Accounts and Audit.

Yours sincerely

Rob Nicholl

Rob Nicholl
Chief Executive Officer

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AOFM

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

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REVIEW BY THE CHIEF EXECUTIVE OFFICER

Context

Core to the Australian Office of Financial Management's (AOFM) responsibilities are financing the Government's budget requirements (through debt issuance), managing its daily cash balances in the Official Public Account (OPA) and managing the Australian Government Securities (AGS) portfolio. While global financial market conditions were volatile at times throughout the year, the overall circumstances were conducive to readily achieving the 2014-15 issuance task. On balance, AGS yields were appreciably lower towards the end of 2014-15 than at year commencement, with most of the bond market rally occurring in the latter part of 2014 and early part of calendar 2015. While lower than the previous year, the issuance programme for 2014-15 was still substantial at $78 billion in gross terms.

The issuance strategy for the year focused on further developing the 'long and very long-end' of the yield curve. This is consistent with the AOFM having gradually weighted new issuance into longer maturities, the purpose of which is to reduce the Government's medium to long-term exposure to interest rate volatility (through reducing the amount of funding it needs to raise overtime) and to 'smooth' the maturity profile of the outstanding stock of debt over a longer period. The average term to maturity of new issuance during 2014-15 was over 10 years. With interest rates very low compared to historical experience, the long issuance bias remains an appropriate strategy for managing the costs and risks of the growing AGS portfolio

While market conditions have proved conducive the AOFM has been steadily lengthening the yield curve. Consistent with this and the AOFM's stated aim of establishing a number of maturities around 20-years, two new maturities were introduced in the 'very long-end' during the year.

The United States (US) Federal Reserve began a wind-down of its asset buying programme in December of 2013 and since then there has been considerable speculation as to when it would begin to raise the Federal Funds rate. As AGS yields tend to track changes in US Treasury bond yields, broad financial market expectations imply that there will be an increase in AGS yields following the commencement of such action on the part of the US Federal Reserve; but by year end this action had not commenced. At the same time, further uncertainty in Europe related to the possible widespread implications of a sovereign default within the European Union, and continuing low interest rate settings in Japan, have created some countervailing influences on bond yields.

Issuance to support the financing task

The Government's budget financing requirement in 2014-15 was fully met through regular competitive tenders and the use of syndications to establish a number of new maturities for the Treasury Bond yield curve. The regular supply of bonds to the market is recognised as an important role of sovereign issuers, as is the transparent and predictable delivery of issuance programs while maintaining sensible operational flexibility to manage periods of heightened market volatility.

Gross Treasury Bond issuance for the year totalled approximately $74 billion. Favourable market opportunities were used to establish four new Treasury Bond lines. In the 'short-end' there were October 2019 and November 2020 maturities (to support the 3-year futures contracts; to assist with reducing growth in the amount outstanding in future years in surrounding bond lines; and to reduce future within year funding requirement peaks). The 10-year futures contract was supported by continuing issuance into existing maturities. In the 'very long-end' new bond lines with maturity dates in April 2037 and June 2035 were established.

The AGS market continues to exhibit a diversity of investor types (with a wide geographic spread) and has retained strong 'price making' competition amongst a number of (intermediary) banks. The proportion of outstanding AGS owned by non-resident investors appears to have peaked several years ago and the number of new central banks and sovereign wealth funds entering the market has diminished markedly. Domestic and non-resident investor interest in 'long' and 'very long' dated maturities continued to emerge though 2014-15 and this assisted in achieving a 'long-end' issuance bias.

For Treasury Indexed Bonds, gross issuance for the year totalled approximately $4 billion. No new maturities were established during the year, but a programme of regular bi-monthly competitive tenders was completed as planned. The Treasury Indexed Bond market for AGS continued to be dominated by domestic investor interest.

Once again the AOFM continued its programme of regular engagement with the market (both domestically and internationally). It also maintained its established practice of taking account of prevailing market conditions and feedback from financial market contacts about investor demand when selecting the bond lines to issue each week.

Portfolio management and outcomes

Throughout 2014-15 the AOFM continued with its aim of increasing the average term to maturity (and duration) of the debt portfolio. The weighted average term to maturity of the stock of Treasury Bonds outstanding at the end of the year was 6.5 years, which has been increasing steadily from around 4.8 years at the end of 2009-10.

Once again, sufficient periods of favourable market conditions and steadily growing interest by investors for longer dated AGS combined to allow for the overall portfolio objective to be further progressed. As noted above, this reduces the exposure of the Government to volatility in interest rates (and more specifically delays the impact on debt servicing costs of a future prolonged increase in the cost of borrowing). The issuance of Treasury Bonds with relatively long terms to maturity in a historically low interest rate environment remains a cost-effective means of achieving this aim. As an example, issuing $1 billion in 20-year bonds in a particular year avoids the need to issue and re-issue $4 billion in five-year bonds over the same period.

Residential mortgage-backed securities

Although the AOFM has ceased investment in new residential mortgage-backed securities (RMBS), it continues to manage the existing portfolio to maturity.

In May 2015 the Treasurer issued a Direction that instructed the AOFM to commence a regular programme of divestment of the remaining RMBS portfolio. A programme of monthly competitive auctions was developed and commenced in late June 2015. The rate at which the divestment programme can be achieved will be dependent on a number of factors. One noticeable factor is investor demand for RMBS via the secondary market as compared with new primary market issuance as it becomes available. Another influencing factor will be credit market conditions generally, which will have an impact on the prices investors are willing to pay for RMBS notes offered at the regular auctions.

Looking ahead

The AOFM remains mindful of the need to consider further AGS market developments. While driven in large part by portfolio management objectives, these considerations will also be influenced by a number of related factors and will cover options for further yield curve extensions and the establishment of new maturities (issuance points) within the existing yield curve structures. Issuing new maturities in support of the three-year and 10-year futures market contracts remains a priority, as is further consolidation of a 20-year benchmark. The establishment of a 20-year futures contract by the ASX is an important market development which the AOFM views as complementary to its 'long' strategic issuance bias. The AOFM will also continue to monitor liquidity and how that may be affected by the outstanding size of individual bond lines; the structure of the market; and further regulatory developments that may impact sovereign bond market liquidity.

Rob Nicholl
Chief Executive Officer

AOFM

PART 1
AOFM OVERVIEW

AOFM OVERVIEW

Role, function, outcome and programme structure

The Australian Office of Financial Management (AOFM) is responsible for the management of Australian Government debt. The AOFM also manages the Government's cash balances and invests in financial assets.

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, it maintains a securities lending facility that allows financial market participants to borrow bonds from the Reserve Bank of Australia (RBA).

The AOFM's cash management activities include the issuance of Treasury Notes for short-term funding, and investments in term deposits with the RBA.

The AOFM's investment management activities include managing investments in Australian residential mortgage-backed securities (RMBS) under a Government programme that supported competition in lending for housing. Under the Treasurer's Direction, the AOFM has not made new investments in RMBS since April 2013.

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 prescribed agency under the *Public Governance, Performance and Accountability Act 2013* 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 programme directed to achieve the following outcome on behalf of the Australian Government: — the advancement of macroeconomic growth and stability. This is pursued through the effective operation of financial markets by issuing debt and investing in financial assets; and managing debt, investments and cash. The AOFM aims to manage net debt for which it is responsible at least cost, subject to an acceptable level of risk. It also issues bonds taking into account the Government's policy objectives of supporting the Australian Government Securities market.

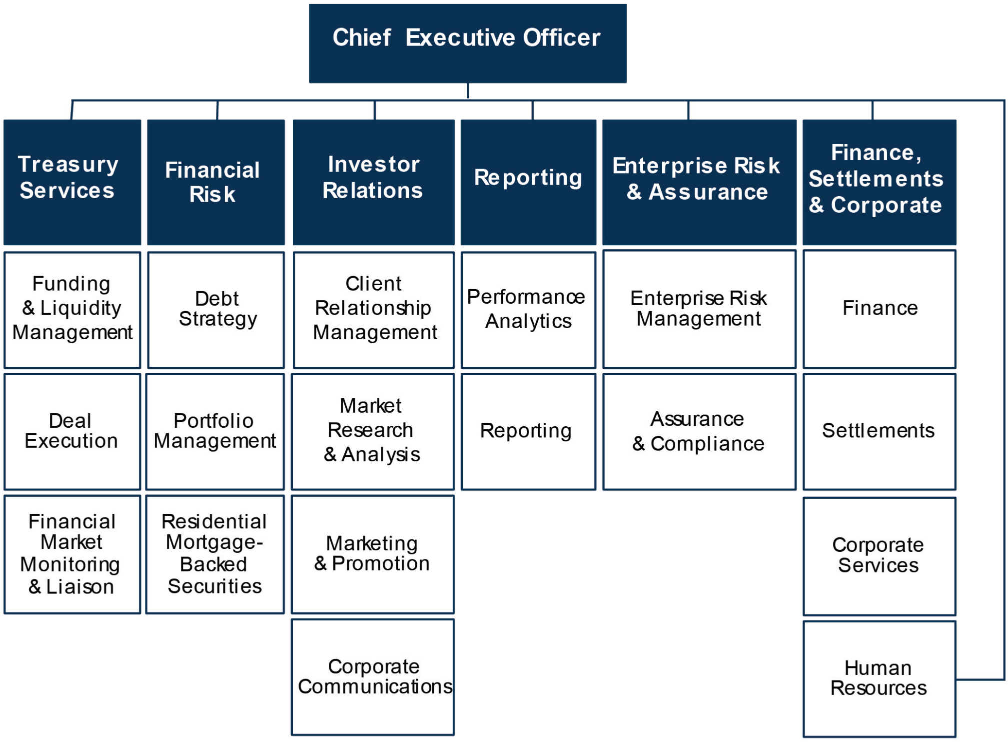
Organisational structure

During 2014-15, the AOFM used a six group operational structure, supported by a human resources manager. The allocation of roles and responsibilities within the Office ensures an appropriate segregation of duties and reporting lines. The six groups were:

- Treasury Services;
- Financial Risk;
- Investor Relations;
- Reporting;
- Finance, Settlements and Corporate; and
- Enterprise Risk and Assurance.

In addition, the AOFM supports the Australian Government's aims to transfer knowledge and skill to developing countries through related foreign aid programmes. In 2014-15, AOFM staff members worked on programmes organised by AusAID and the Department of Foreign Affairs and Trade under the *Strongim Gavman Program* in Papua New Guinea and the *Solomon Islands Economic and Public Sector Governance Program* in the Solomon Islands. Both programmes offer the host governments support for their debt and cash management activities.

Figure 1: AOFM organisational structure



AOFM

PART 2
OPERATIONS AND PEFORMANCE

OPERATIONS AND PERFORMANCE

Introduction

The principal functions of the AOFM are:

- issuance of Australian Government Securities (AGS) to support the Government's financing task (including maturing debt) in accordance with broader Government policy objectives (such as promoting liquidity);
- managing the Government's daily cash balances through borrowings and investments;
- undertaking investments in financial assets according to policy directives, or as part of broader portfolio management;
- developing risk assessments that support the effective cost management of the debt and asset portfolios; and
- supporting the efficient operation of the Australian financial system through its debt issuance choices.

This section outlines the activities undertaken in 2014-15 and reports on AOFM performance against these functions.

Treasury Bond and Treasury Indexed Bond issuance

Objective

The main objective of Treasury Bond and Treasury Indexed Bond issuance is to raise monies to fund the Australian Government Budget.

Another objective is to support the efficient ongoing operation of Australia's financial market. This second objective is achieved in the following ways:

- 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.

Achieving the objective

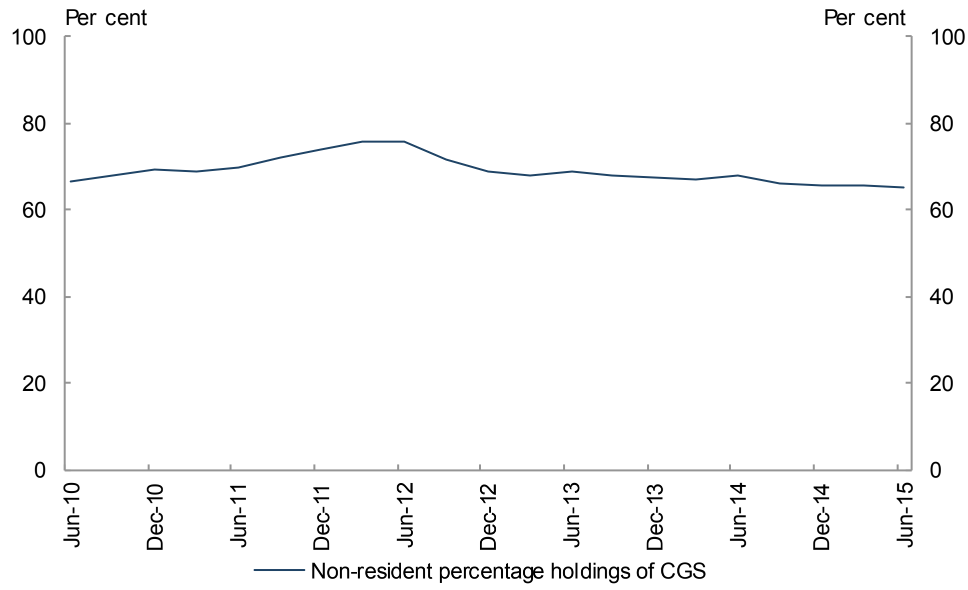
The 2014-15 debt issuance programme was successfully completed. The length of the nominal yield curve was consolidated at around 20 years, and liquidity was built in several new and existing bond lines.

In 2014-15 the Reserve Bank of Australia (RBA) reduced the target cash rate by 50 basis points to a record low 2 per cent. Over the course of 2014-15, AGS yields trended lower, with the implied yield on the ten-year Treasury Bond futures contract reaching a record low in February 2015. In the last quarter of 2014-15, AGS yields sold off sharply and the yield curve steepened in line with sovereign European and US Treasury bonds. The 2014-15 financial year ended with volatility around the Greek debt negotiations and uncertainty regarding the timing and size of the first expected US federal funds rate increase in nine years.

The higher yields on Australian bonds relative to other similarly rated sovereign bonds remained attractive to offshore investors, especially in the first three quarters of 2014-15. The steady offshore demand for AGS resulted in the ten-year spread to US Treasury yields contracting in March 2015 to the lowest level in more than a decade.

Non-resident holdings were on average around 66 per cent of the total AGS outstanding during 2014-15. The proportion of AGS held by offshore investors has declined slightly in recent years from a peak of around 76 per cent in June 2012, as illustrated in Chart 1.

Chart 1: Non-resident holdings of Commonwealth Government Securities



Treasury Bonds

Gross Treasury Bond issuance for the year totalled approximately $74 billion. The bulk of issuance was into existing bond lines in order to enhance their liquidity and in turn, the attractiveness of the AGS market. This seems to have been particularly important to international investors. In addition, four new Treasury Bond lines were launched in 2014-15:

- new bond lines with maturity dates in October 2019 and November 2020 were opened to support the operation of three-year Treasury Bond futures contracts and to assist in reducing growth in the amount outstanding in surrounding bond lines, which will make it easier to manage maturity of those bonds; and

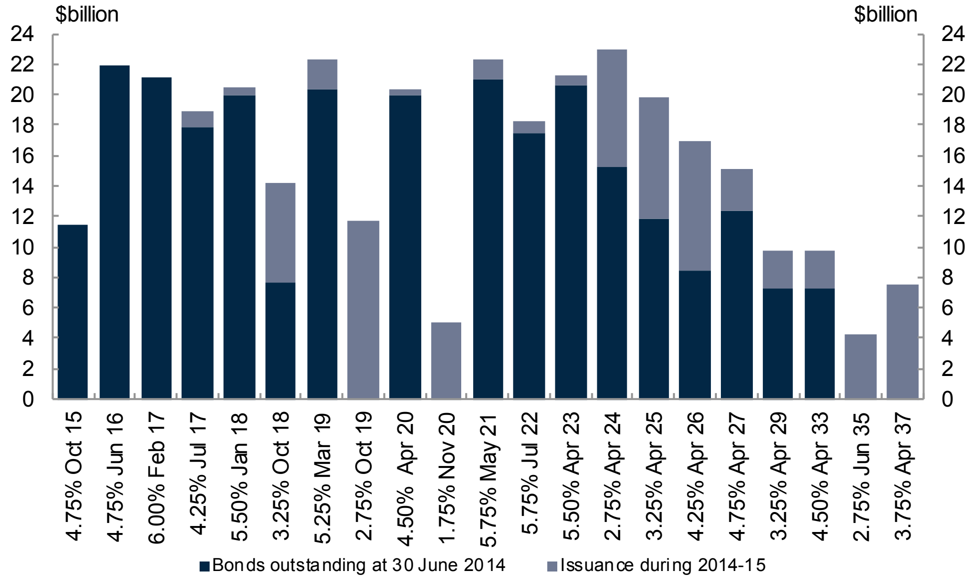
- new bond lines with maturity dates in April 2037 and June 2035 were issued to support lengthening of the yield curve to around 20 years.

In selecting the bond lines to issue each week, the AOFM took account of prevailing market conditions; information from financial market contacts about investor demand; relative value considerations; scope for increasing the liquidity of outstanding bond lines; and the need to manage the maturity structure to limit funding risk. Two tenders were held most weeks, typically comprising a tender of a long-dated bond line and a tender of a short-dated bond line, with the amount offered at each tender in the range $500 million to $2 billion.

Chart 2 shows Treasury Bonds outstanding as at 30 June 2015 and into which lines issuance was allocated during the 2014-15 financial year.

During the year, the total volume of Treasury Bonds outstanding increased by around $44 billion, to $335 billion. At the end of the year, there were 21 Treasury Bond lines with 16 of these lines having over $10 billion on issue.

Chart 2: Treasury Bonds outstanding as at 30 June 2015 and issuance in 2014-15



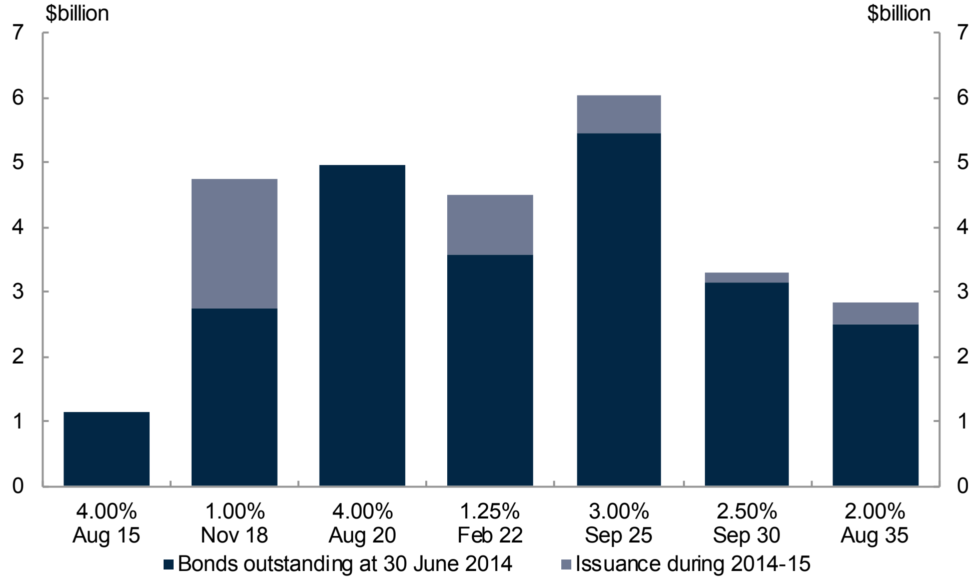
Treasury Indexed Bonds

Treasury Indexed Bond issuance for the year totalled $4 billion.

Tenders for the issue of Treasury Indexed Bonds were conducted twice a month, in most months. The volume of each line outstanding, relative yields and other prevailing market conditions were all considered in the selection of which line to offer.

Chart 3 shows seven Treasury Indexed Bond lines and the amounts outstanding as at 30 June 2015, together with the allocation of issuance during the 2014-15 financial year.

Chart 3: Treasury Indexed Bonds outstanding as at 30 June 2015 and issuance in 2014-15



Performance

Funding the Budget

The Government's budget financing requirement in 2014-15 was fully met.

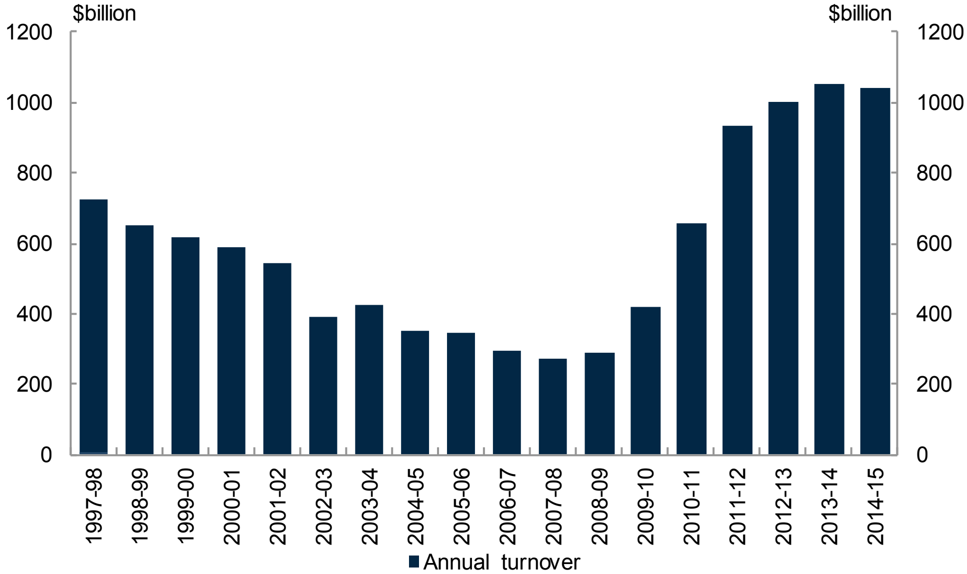
The budget underlying cash deficit for 2014-15 was higher than estimated at the time of the 2014-15 Australian Government Budget. The resulting larger than expected budget financing task was managed primarily by increasing Treasury Bond issuance.

Market liquidity and efficiency

The Treasury Bond and Treasury Indexed Bond markets operated smoothly throughout 2014-15 with liquidity again being maintained throughout the year.

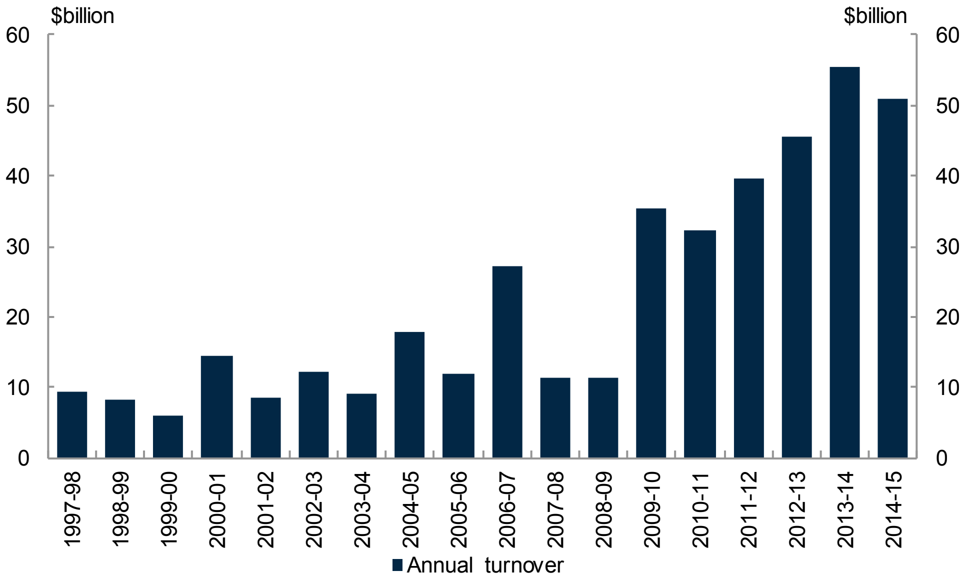
Financial market liquidity has a range of interpretations, however one indicator of liquidity is turnover in the secondary market. Charts 4 and 5 show the evolution of total secondary market turnover from 1998-99 through to 2014-15. In 2014-15, turnover was around $1 trillion for Treasury Bonds (1 per cent lower turnover than in 2013-14) and $50 billion for Treasury Indexed Bonds (8 per cent lower than in 2013-14). Strong liquidity is attractive to investors and reflects favourably on a sovereign bond market.

Chart 4: Treasury Bond secondary market turnover



Source: Based on data sourced from the Australian Financial Markets Association.

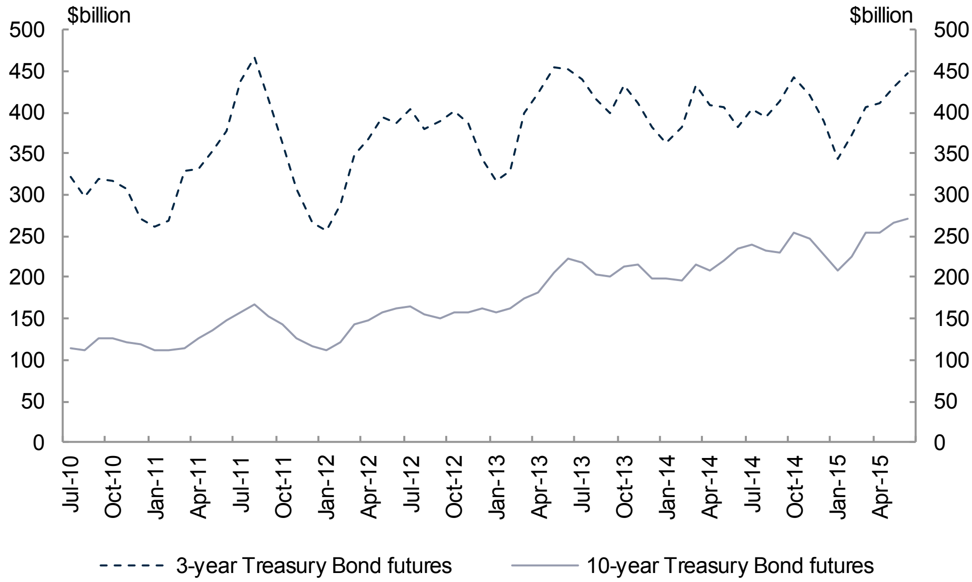
Chart 5: Treasury Indexed Bond secondary market turnover



Source: Based on data sourced from the Australian Financial Markets Association.

Turnover in the Treasury Bond futures market is significantly higher than in the underlying Treasury Bonds. The three-year Treasury Bond futures contract is amongst the ten most traded long term interest rate futures products in the world.[1] Treasury Bond futures continued to display strong liquidity in 2014-15 with the turnover of three-year Treasury Bond futures contracts increasing by 4 per cent over the previous year and turnover of the ten-year contracts increasing by 16 per cent. Turnover in recent years (on a three-month moving average basis) is illustrated in Chart 6. All Treasury Bond futures contract close-outs in 2014-15 occurred smoothly.

Chart 6: Treasury Bond Futures market turnover three-month moving average



Source: Based on data sourced from the Australian Securities Exchange.

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, and reduces the risk of settlement failures and supports market liquidity.

There was a relatively low usage of the securities lending facility throughout the year. The facility was used 13 times for overnight borrowing in 2014-15 compared with 18 times during 2013-14. The face value amount lent in 2014-15 was approximately $348 million.

1 Source: Australian Securities Exchange.

Efficiency of issuance

The AOFM used competitive tenders and syndications as the means by which all issuance of AGS was undertaken in 2014-15. The use of competitive tenders remains the mainstay of AOFM's issuance operations.

Tenders held during 2014-15 were well supported. Table 1 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 1: 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 2014	Up to 2022	14,600	2.8411	-0.69	4.59
	2023 - 2037	15,900	3.5124	-0.29	3.32
January - June 2015	Up to 2022	14,800	2.1012	-0.49	3.85
	2023 - 2037	17,000	2.7006	-0.25	3.10

The average ratio of the volume of bids received to the amount of stock on offer was 3.66 for Treasury Bonds in 2014-15, a slight decrease from 3.82 in 2013-14. The average tender size in 2014-15 of $724 million was slightly smaller than 2013-14 due to lower gross issuance in 2014-15. Shorter-dated bond tenders generally received a greater volume of bids, which reflects core investor base interest in the short-mid part of the AGS yield curve.

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

The average ratio of the volume of bids received to the amount of stock on offer was 4.61 for Treasury Indexed Bonds in 2014-15, a slight increase from 4.56 in 2013-14. At all tenders, the weighted average issue yields were below prevailing secondary market yields.

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

Cash management

Objective

The AOFM manages the daily cash balances of the Australian Government in the Official Public Account (OPA).[2] The AOFM's primary objective in managing these balances is to ensure that 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 holding the daily cash balances and to invest excess cash balances efficiently. In minimising cost, the AOFM also seeks to avoid any use of the overdraft facility provided by the RBA.[3]

Achieving the objective

Achieving the cash management objective involves developing and implementing an appropriate strategy regarding short-term investments and debt issuance.

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.

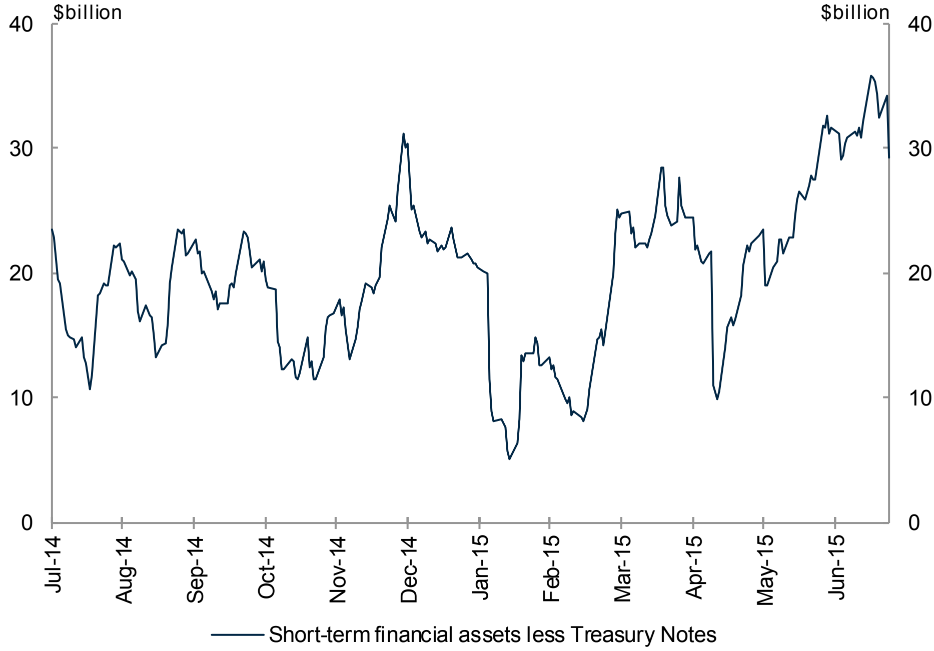
Treasury Notes are issued to assist with management of the within-year funding requirement. The volume of Treasury Notes on issue ranged from 4 to $9.5 billion during 2014-15.

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 7 shows movement in the funding requirement in 2014-15.

2 The Official Public Account is the collective term for the Core Bank Accounts maintained at the RBA for Australian Government cash balance management.

3 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.

Chart 7: Within-year funding requirement 2014-15



Performance

The task of meeting the Government's financial obligations as and when they fall due was fully met, with the overdraft facility provided by the RBA accessed only once in 2014-15 (in April 2015, with the facility cleared the next business day).

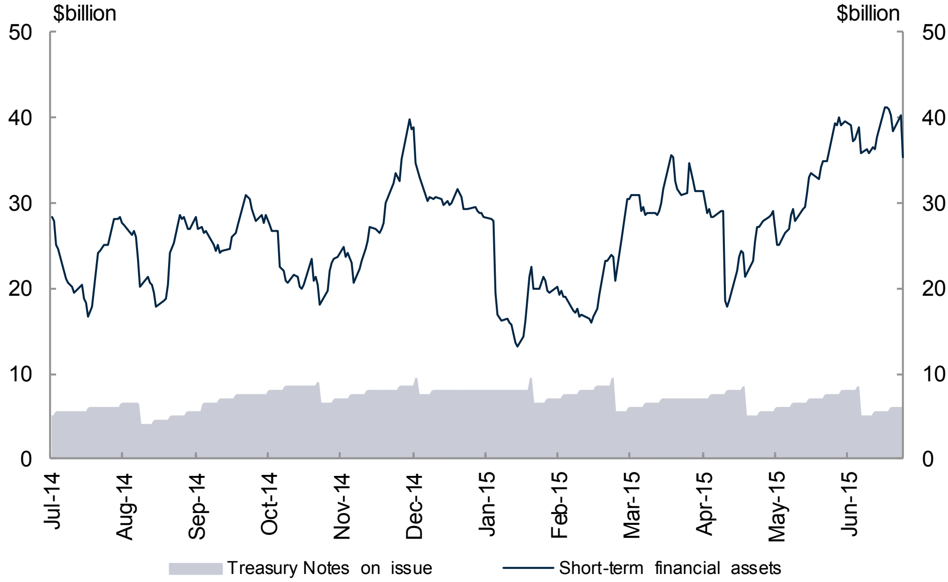
During 2014-15, the AOFM placed 326 term deposits with the RBA. The stock of term deposits fluctuated according to a range of factors influencing the AOFM's cash portfolio management needs and decisions. Term deposits ranged from a minimum of $12.6 billion in January 2015 to a maximum of $40.6 billion in June 2015.

The average yield obtained on term deposits during 2014-15 was 2.37 per cent, compared with 2.53 per cent in 2013-14. The decrease in average yield reflects the lower average level of interest rates that prevailed during 2014-15.

A total of $24.5 billion of Treasury Notes were issued in 2014-15 (in face value terms). The tenders were well supported with an average coverage ratio of 3.57. Yields were on average around three basis points higher than Overnight Indexed Swap (OIS) rates for corresponding tenors (compared to around three basis points lower than OIS rates in 2013-14). 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 2014-15 are shown in Chart 8.

Chart 8: Short-term financial asset holdings and Treasury Notes on issue 2014-15

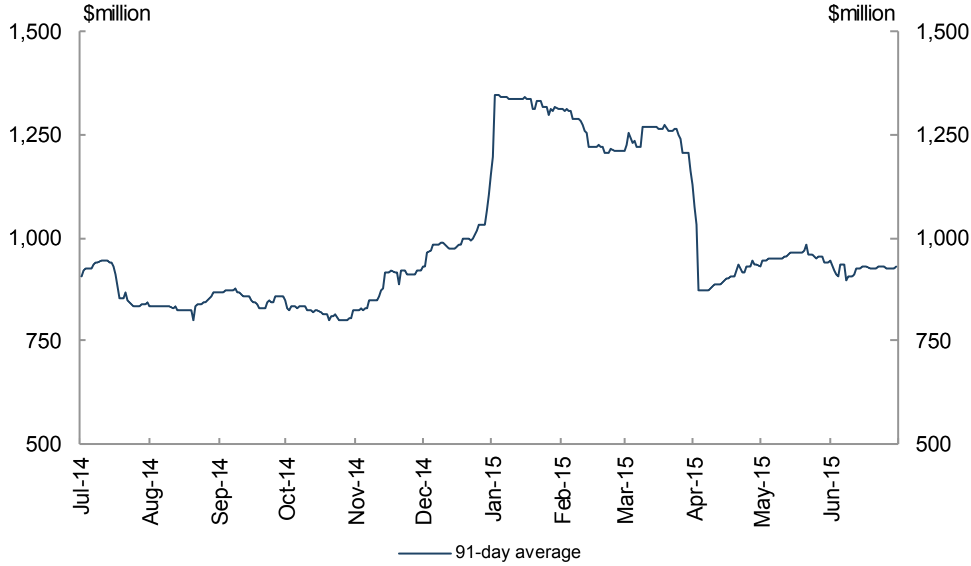


In undertaking its cash management activities, the AOFM was required to maintain the 91-day moving average of the daily OPA cash balance below the Ministerially approved upper limit of $1.5 billion.

The 91-day moving average OPA cash balance was maintained below the Ministerial limit, throughout the year.

Movements in the 91-day rolling average OPA cash balance over the year is shown in Chart 9.

Chart 9: 91-day moving average cash balance 2014-15



Minimising debt servicing costs subject to acceptable risk

Objective

In managing the Commonwealth's debt portfolio, the AOFM seeks to minimise debt servicing costs over the medium term at an acceptable level of risk, by which is meant an acceptable level of variability in (interest) cost outcomes. It also seeks to maintain liquid bond lines to facilitate the issuance of debt at acceptable cost and to manage the within year financing requirement risk that arises when bond lines mature, while also managing the impact of its issuance on the AGS market.

In order to meet its objective, the AOFM uses cost and risk measures that appropriately reflect the costs and risks faced by a sovereign debt manager. The primary cost measure used is historic accrual debt service cost. This includes interest payments made on AGS, realised market value gains and losses, 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. This measure of cost is the most appropriate in circumstances where financial assets and liabilities are intended to be held, or in the AOFM's case, to remain on issue until maturity. 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, that is 're-measurements'. Fair value is useful in circumstances where it is possible that changes in market value may be realised in the future.

Variability in cost outcomes, or risk, can be measured in several ways. The AOFM calculates and compares several metrics to assess risk. In general, the level of risk can be characterised as a level of variation in cost outcomes over time. Debt issuance decisions made today have an impact on the variability of future 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 therefore 're-priced' through time.

Achieving the objective

The AOFM influences the cost and risk profile of the portfolio primarily through its decision making regarding the composition and maturity structure of the debt securities it issues. These decisions are framed through an annual debt issuance strategy approved by the Treasurer, which identifies the overall scale of the issuance task and its breakdown into different instrument classes. Within these broad strategy parameters approved by the Treasurer, the AOFM separately determines issuance weightings (specified as a range) applicable to different segments of the yield curve which are approved by the AOFM Chief Executive. Operational issuance decisions such as determining if, when, how much and what lines to issue each week, are made by the AOFM over the course of the year and are influenced by a range of factors including general market conditions, relative value considerations and feedback from investors. It is the AOFM's standard practice to regularly test the ongoing suitability of its overarching strategy with the AOFM Advisory Board, which is chaired by the Secretary to the Treasury. A range of specific limits, thresholds, guidelines and targets governing the AOFM's debt and investment activities through the year are separately approved by the Secretary through an Annual Remit. Strategic decision making around the portfolio is supported by an ongoing research program focused on exploring the cost and risk characteristics of alternative portfolio structures and issuance strategies. Informed by this research and feedback from the Advisory Board, the AOFM continued to lengthen the nominal debt portfolio in 2014-15.

Chart 10: Treasury Bond issuance — average yield and term to maturity

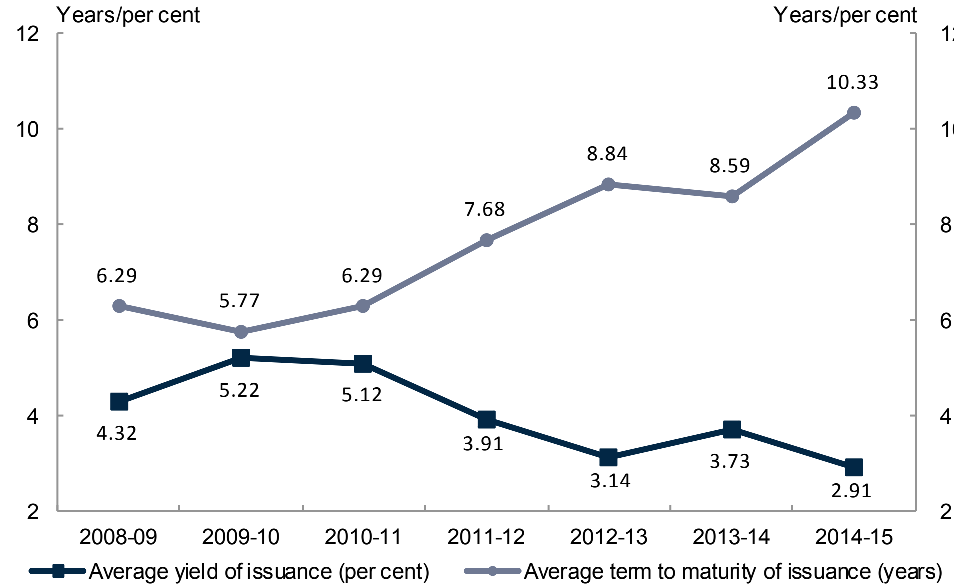


Chart 10 shows that the average Treasury bond issued by the AOFM in 2014-15 had a term to maturity of 10.33 years and a yield of 2.91 per cent. This had the effect of lengthening duration and average term to maturity while lowering the effective cost of funds on the Treasury Bond portfolio as a whole (as shown in the next chart which shows the 'stock' analogue to the above flow information).

Chart 11: Treasury Bond portfolio — modified duration, average term to maturity and cost of funds

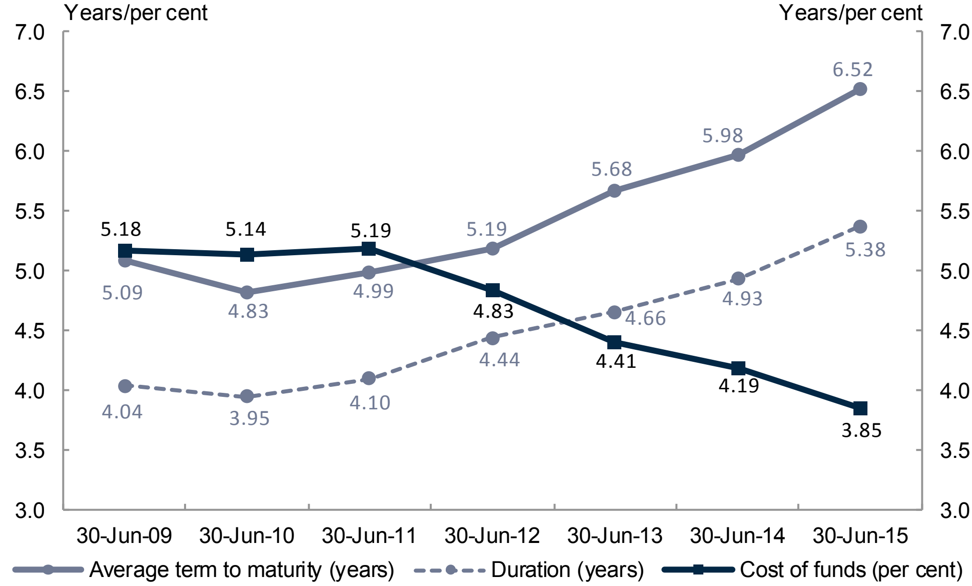
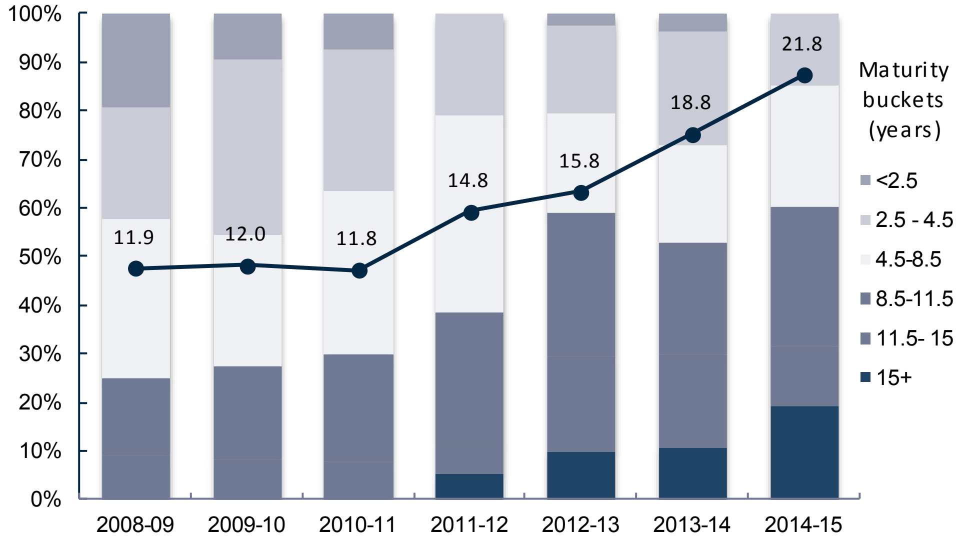


Chart 11 shows that the average term to maturity of the Treasury Bond portfolio increased by 0.54 years to 6.52 years while duration rose by 0.45 years to 5.38 years over the course of 2014-15. Meanwhile, the effective cost of funds or yield on the Treasury Bond portfolio fell from 4.19 to 3.85 per cent in the year to 30 June 2015. This outcome was influenced by several factors, not least the continuation of low outright yields and consistent investor demand for AGS, which provided the AOFM with a favourable environment to continue with its lengthening strategy.

Chart 12: Treasury Bond issuance distribution by financial year and term to maturity of longest line (years)



The AOFM's approach to lengthening has been twofold. Firstly, issuance has been skewed towards longer maturity bond lines. This is demonstrated in Chart 12 which shows that around 60 per cent of issuance in 2014-15 was allocated to longer bonds[4] compared with around 30 per cent in 2010-11. Secondly, the AOFM has been progressively extending the length of the Treasury Bond yield curve. As at 30 June 2015 it was out to 21.8 years (up from 11.8 years as at 30 June 2011), following the establishment of the April 2037 line. The 20-year part of the yield curve was further complemented by the launch of the June 2035 line in March 2015. Combined, these new lines deliver on the AOFM's commitment to establish and maintain a 20-year curve benchmark. Extending the yield curve has facilitated portfolio lengthening by providing the AOFM with additional long issuance points to select from, while also broadening the appeal of the AGS market to include longer duration investors.

4 Defined as 8.5 years or longer. The demarcation at this point reflects the typical term of the shortest bond in the ten year Treasury Bond futures basket.

Lengthening the debt portfolio — what if the AOFM had pursued a different strategy over the previous 4 years?

Charts 10, 11, and 12 clearly demonstrate the impact of the AOFM's decision to lengthen the tenor of issuance on the duration and average term to maturity of the Treasury Bond portfolio. The success or otherwise of the lengthening strategy cannot, however, be solely judged from the outright movement in these metrics. Success must also be judged in terms of how it has helped the AOFM achieve its primary cost and risk management objective to minimise debt servicing costs over the medium term at an acceptable level of risk. A plausible counterfactual strategy against which to frame this judgement is one where the AOFM met the Government's financing requirements over the four years to 30 June 2015 without having lengthened the average term to maturity of the Treasury Bond portfolio to the extent that is has. Such a strategy has been retrospectively modelled to facilitate a comparison with the strategy the AOFM actually executed.

Chart 13: Comparison of Treasury Bond funding costs and average term to maturity with and without lengthening and yield curve extension

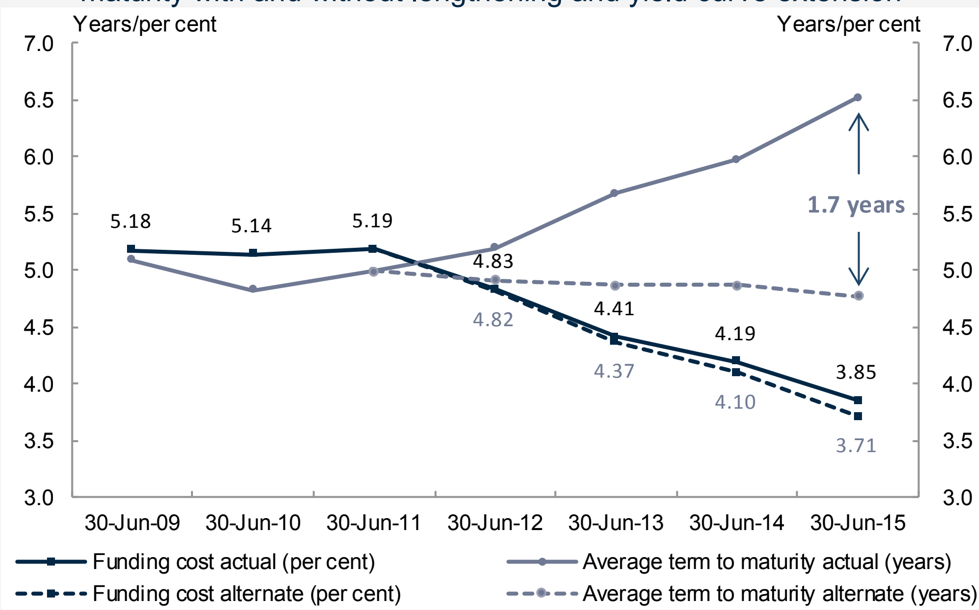


Chart 13 shows that as at 30 June 2015, the AOFM has added about 1.7 years to the average term to maturity of the Treasury Bond portfolio (1.3 years when assessed on a duration basis) compared to the alternative of maintaining what was the pre-lengthening status quo. As yield curves have generally been upwards sloping, the AOFM's strategy of issuing more longer term debt has resulted in a slightly higher cost structure compared to the alternative shorter strategy equal to about 14 basis points as at 30 June 2015. The benefit from adopting a higher cost structure through longer issuance, however, is a significant reduction in the degree of inherent risk in the portfolio.

Chart 14: Comparison of near maturity Treasury Bond lines on issue as at 30 June 2015 with and without lengthening (years)

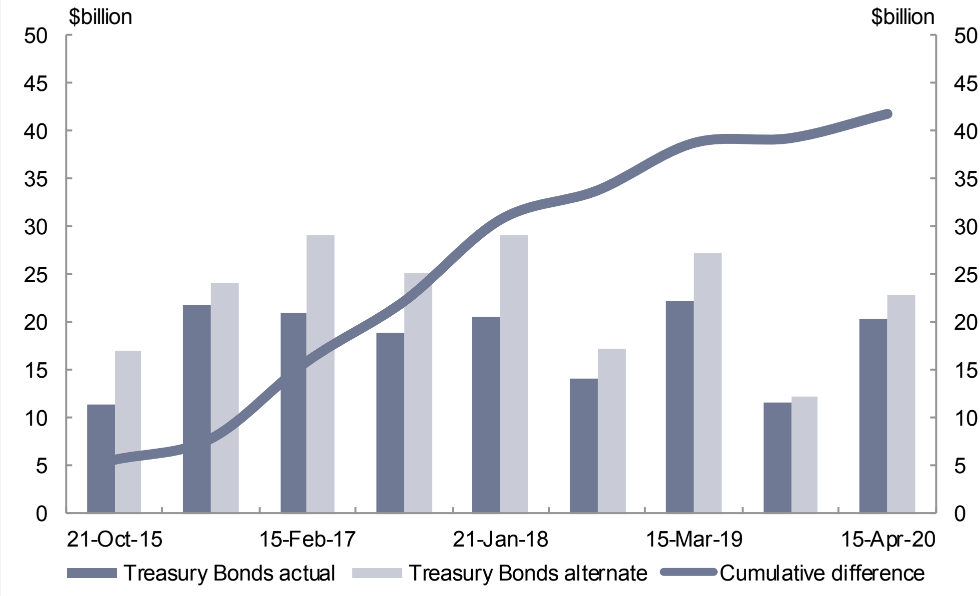
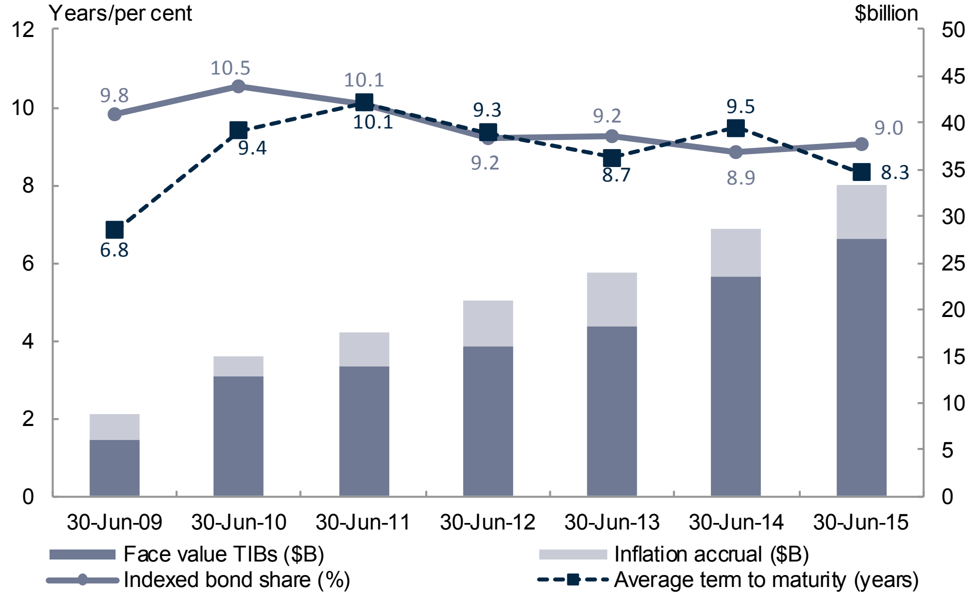


Chart 14 demonstrates that the AOFM's gross borrowing program is reduced by about $42 billion over the next 5 years compared to what it would otherwise have been. This is because less issuance needs to be allocated to refinancing maturing debt. The lengthening strategy has therefore reduced both refinancing and funding risk as it ensures gross issuance programs are smaller for any given fiscal path. Because gross issuance is smaller, this also means the portfolio is less exposed to future interest rate rises (which could erode or eliminate the cost advantage of the shorter alternative structure in time).

With the yield curve extended beyond 20 years, another benefit of the lengthening strategy is that the investor base for AGS is more diversified than it would otherwise have been. This is a positive for overall market liquidity and efficiency and enhances the AOFM's capacity to cost effectively meet the Government's financing requirements.

In summary, by lengthening, the AOFM now faces a lower annual refinancing task, is less exposed to future rate rises and benefits from a more diverse investor base. The additional cost of lengthening represents around 3 per cent of total interest expense on AGS. This is considered reasonable given the quantum of risk reduction and that the strategy has been executed through a period of historically low interest rates.

Chart 15: Treasury Indexed Bonds — average term to maturity and share of the long-term funding base



The AOFM's alternative long-term funding instrument to Treasury Bonds are Treasury Indexed Bonds. Indexed bonds, for which the capital value is adjusted periodically with changes in the Consumer Price Index, typically attract a different class of investor to nominal bonds and are thus a source of diversification in the funding base. The AOFM re-commenced issuance of indexed bonds in 2009-10 following an extended period of absence from this market and has issued regularly in the period since. While the indexed portfolio has been relatively stable as a share of the long term funding base for several years now, in absolute terms the stock of indexed bonds has continued to grow steadily (as shown in Chart 15).

Minimising debt servicing cost at an acceptable level of risk

The debt servicing cost[5] of the net AGS debt portfolio managed by the AOFM in 2014-15 was $13.59 billion on an average book volume of $325.51 billion, representing a net cost of funds of 4.15 per cent for the financial year. The largest component of net AGS debt is the Long Term Debt Portfolio (comprised primarily of Treasury Bonds and Treasury Indexed Bonds), which incurred debt servicing costs of $14.35 billion on an average book volume of $353.65 billion implying a cost of funds of 4.06 per cent. The difference between net AGS debt and the Long term Debt Portfolio (LTDP) is 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).

5 Debt servicing cost includes net interest expenses (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 16: Net AGS debt and Long Term Debt Portfolio cost of funds analysis (per cent)

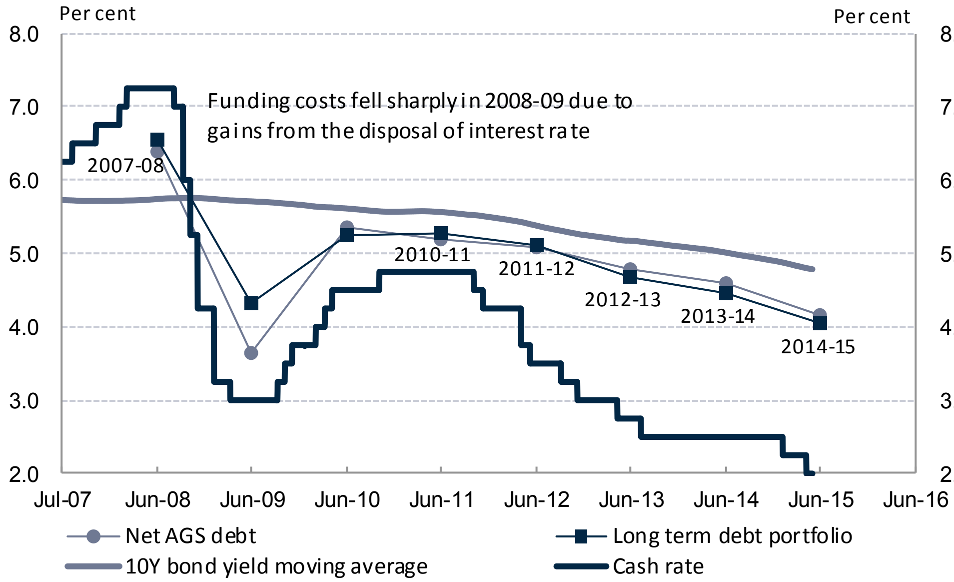


Chart 16 shows the funding cost profile of the net AGS debt portfolio and the LTDP back to 2007-08. These are contrasted with the cash rate and the 10 year moving average of the 10 year bond yield. In an environment where interest rates have been trending down, funding costs on the net debt portfolio and the LTDP have declined by 104 and 120 basis points respectively since 2010-11. This compares to declines of 275 basis points in the cash rate and 71 basis points in the ten 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 ten 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.[6]

Table 2 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 2013-14 and 2014-15.

6 Bond issuance over the past three financial years for instance accounts for around ¾ of the LTDP as at 30 June 2015. Bond yields over this period were on average significantly lower than the preceding years which largely explains why portfolio funding costs have fallen by more than the 10 year bond yield moving average.

Table 2: Commonwealth debt and assets administered by the AOFM

	Interest expense		**Book volume**		**Effective yield**	
	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15
	$ million		$ million		per cent per annum	
Contribution by instrument						
Treasury fixed coupon bonds	(11,811)	(13,078)	(274,666)	(321,839)	4.30	4.06
Treasury inflation indexed bonds	(1,650)	(1,266)	(27,661)	(31,804)	5.97	3.98
Treasury notes	(122)	(163)	(4,942)	(6,800)	2.46	2.39
Foreign loans (a)	(0)	(2)	(6)	(6)	6.89	28.39
Gross physical AGS debt	(13,583)	(14,508)	(307,275)	(360,449)	4.42	4.03
Term deposits with the RBA	608	604	23,996	25,471	2.53	2.37
RMBS investments	321	194	7,729	5,147	4.15	3.78
State Housing Advances	128	124	2,455	2,321	5.20	5.32
Gross assets	1,057	922	34,180	32,939	3.09	2.80
Net AGS debt	**(12,527)**	**(13,586)**	**(273,094)**	**(327,510)**	**4.59**	**4.15**
Contribution by portfolio						
Long Term Debt Portfolio	(13,462)	(14,345)	(302,332)	(353,649)	4.45	4.06
Cash Management Portfolio	486	441	19,054	18,671	2.55	2.36
RMBS Portfolio	321	194	7,729	5,147	4.15	3.78
State Housing Portfolio	128	124	2,455	2,321	5.20	5.32
Total debt and assets	**(12,527)**	**(13,586)**	**(273,094)**	**(327,510)**	**4.59**	**4.15**
Re-measurements (b)	(3,671)	(7,512)				
Total after re-measurements	**(16,198)**	**(21,098)**	**(273,094)**	**(327,510)**		

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 servicing cost of gross debt increased in dollar terms by $925 million compared to the previous year. This was primarily due to an increase in the average volume of debt on issue from $307.28 billion in 2013-14 to $360.45 billion in 2014-15. In percentage terms however, the funding cost of gross debt declined by 40 basis points (4.42 per cent to 4.03 per cent). This improvement was driven by the issuance of new bonds through the year at yields that were below the average of pre-existing (and maturing) debt. Low rates also reduced the yield on funds invested in term deposits from 2.53 to 2.37 per cent and RMBS investments from 4.15 to 3.78 per cent.[7]

The return on gross assets in dollar terms for the period was $922 million, a decrease of $135 million compared to 2013-14. This was largely driven by a $127 million reduction in income from RMBS resulting from the maturity of existing investments and lower interest rates. Income from term deposits was down only $4 million despite lower investment yields due to higher average holdings through the year.

[7] Additional information on the impact of re-measurements on the RMBS portfolio can be found in the Performance section under 'Residential Mortgage-Backed Securities'.

The net servicing cost of the combined portfolio of debt and assets was $13.59 billion. This was higher in dollar terms compared to 2013-14, due to the volume of debt on issue being higher than the previous year. As a percentage of net debt, servicing costs fell from 4.59 per cent to 4.15 per cent, a product of more expensive, historically issued debt maturing and continued issuance over the year into a low interest rate environment.

The difference between the return on gross and net debt narrowed to 13 basis points in 2014-15 from 17 basis points in 2013-14. This can mainly be attributed to continued growth through the year in gross debt on issue and decline in gross assets.

Movements in market interest rates had an unfavourable impact on the market value of the portfolio in 2014-15. Unrealised losses from re-measurements amounted to $7.51 billion. This compares to an unrealised loss of $3.67 billion in the previous year. About 90 per cent of re-measurement losses are attributable to the higher market value of Treasury Bonds. As bond prices move in opposite directions to bond yields, it can be seen that the same favourable, lower interest rate environment responsible for driving down the AOFM's overall portfolio funding costs in 2014-15 (expressed as a percentage), were also responsible for this negative re-measurement impact.

As re-measurement items are highly volatile from one year to the next, they 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 achieve the opposite outcome, through allocating a greater proportion of issuance to long dated lines.

Residential mortgage-backed securities

Objective

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.[8]

On 10th April 2013, the Treasurer directed the AOFM to cease investment in new RMBS. On 5th May 2015, the Treasurer issued a new Direction under the PGPA Act to divest the Government's RMBS portfolio through a regular competitive process.

8 Full details of each Direction are available on the AOFM website. Note that some sponsors underwent name changes over the relevant period.

According to this Direction, the AOFM should minimise potential market disruptions and is to exercise discretion on the timing and sale volume, subject to a $500 million upper limit in any one month. While the Treasurer's Direction allows for sales of up to $500 million per month in amortised face value terms, it also makes provision for periods of subdued or volatile market conditions. In the event that sales of less than $300 million are achieved in three consecutive months because acceptable pricing cannot be met on a higher volume, the AOFM is to report back to the Treasurer with an assessment of market conditions.

Achieving the objective

The Australian RMBS market initially strengthened in 2014-15. In the first quarter of the financial year, improving market conditions resulted in spreads on new primary transactions being at the lowest levels since before the financial crisis. While issuance volumes remained reasonably healthy throughout the financial year, spreads pushed higher as conditions deteriorated in line with a broad-based widening in credit margins globally.

Consistent with the 5 May 2015 Direction, the AOFM implemented a RMBS divestment program late in the 2014-15 financial year. The inaugural RMBS auction was held on the 24 June 2015 and over $1.3 billion dollars of bids were received, in amortised face value terms. Around $160.5 million was sold, or 12 per cent of bids, reflecting the AOFM exercising discretion to divest only at what it considers to be acceptable prices. The following table provides details of the first RMBS auction.

Table 3: RMBS divestments for 2014-2015

TRANCHE	AMORTISED FV ($m)	CLEAN VALUE ($m)	GAIN ($m)
Jun-15			
IDOL 2010-1 A2	74.17	74.61	0.44
PROGRESS 2011-1 A2	86.33	86.89	0.56
Total	**160.50**	**161.50**	**1.00**

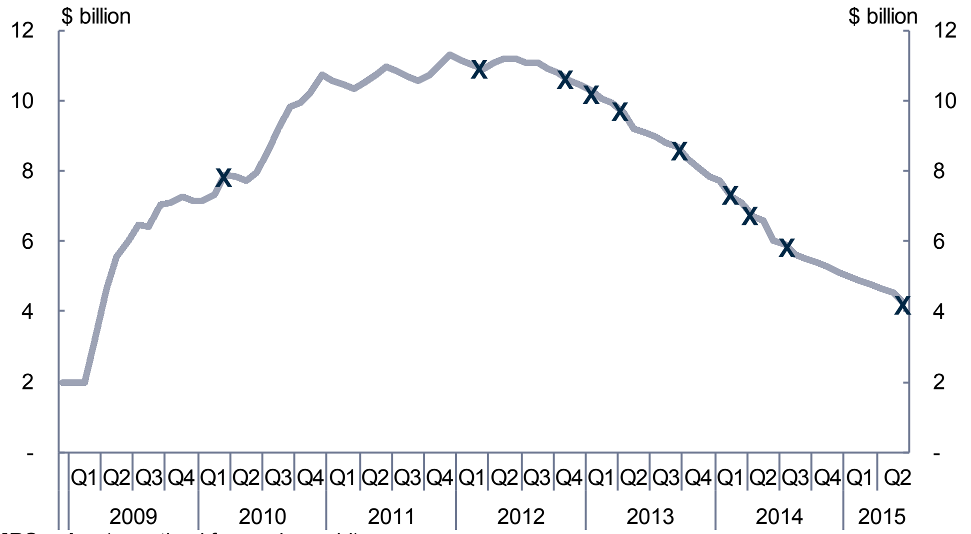
The sales occurring at the June 2015 auction realised a gain on disposal of around $1 million, or around 0.62 per cent of the amortised face value of the notes sold. This compares with sales between March 2010 and June 2014, in which the AOFM sold a total of around $1.5 billion worth of notes, in amortised face value terms, with an associated gain on disposal of $17.9 million, or 1.22 per cent of the face value of the notes sold.

Whilst the AOFM has been directed to divest the RMBS portfolio in the entirety, the time frame over which this is achieved will be dependent on market conditions. The inaugural auction, for example, coincided with a period of market volatility in global credit markets which may have had a bearing on the outcome of the auction and, in particular, the volumes sold.

Performance

Due to both sales and capital amortisation, the book value of the portfolio reduced in size from $6.0 billion to $4.3 billion over the course of the financial year. Chart 16 illustrates the evolution through time of the RMBS portfolio, in amortised face value terms, along with sales made since March 2010. As can be seen, the outstanding volume in the RMBS portfolio rose over the first two years to between $10 billion and $12 billion, where it remained for around two years, with new investments broadly matched by portfolio amortisation. Between mid-2012 and mid-2014, the portfolio reduced at a relatively steady rate as a result of both amortisation and sales. The rate slowed through 2014-15 due to both a reduction in the portfolio's natural rate of amortisation and the lack of sales prior to the last week of the financial year.

Chart 17: RMBS portfolio amortisation



RMBS sales (amortised face value sold)

Mar 2010	Mar 2012	Nov 2012	Feb 2013	May 2013	Oct 2013	Feb 2014	Mar 2014	Jun 2014	Jun 2015
$73.8m	$50.0m	$62.8m	$147.1m	$300.7m	$177.7m	$317.1m	$49.2m	$341.0m	$160.5m

The average margin over the one month bank bill rate (weighted by each of AOFM's investments) for the RMBS book remained stable over the financial year at around 127 basis points. Interest income in 2014-15 was $193.4 million and, as noted above, sales in June 2015 contributed a further $1 million in incremental income. Total accrual income of $194.4 million represented an annualised return of 3.78 per cent on the portfolio average book value of $5.1 billion. This is lower than the corresponding return in 2013-14, due largely to lower prevailing short term interest rates, but also as a result of the realisation of lower gains on disposal than in the previous financial year.

Losses or gains in the mark-to-market value of the portfolio change with prevailing conditions and therefore vary at any particular point in time. These are not realised returns and so are excluded from the accrual returns, but are included as re-measurements within the AOFM's comprehensive accounting treatment.

The RMBS securities held by the AOFM are valued using indicative 'bid' margins for secondary market trading as estimated by an independent valuation service provider. The cumulative unrealised gain on the portfolio was $20 million as at the end of the financial year, a reduction of around $12 million versus the year before. This reduction was due to a number of factors, including the reduction in both the size (through amortisation, and, to a lesser degree, sales) and average term to maturity of the portfolio, as well as the widening of revaluation spreads in line with the deterioration in credit conditions seen globally. The total return on the RMBS portfolio for 2014-15, including re-measurements, was around $182.2 million, or approximately 3.54 per cent of the portfolio average book value.

Further information on the AOFM's investments in RMBS is available in Part 5 of this annual report.

Investor relations

Objective

The AOFM Investor Relations strategy in 2014-15 again focused on undertaking activities which encourage diversity in the investor base while maintaining and managing engagement with current key investors. Investor engagement recognises both the domestic and non-resident investor groups.

The strategy was developed further in 2014-15, this involving a more selective focus on the investor base as well as modifications to the engagement approach taken.

There were four parts to this strategy:

- A greater focus on investors from specific geographic regions, sector and type;
- A lesser (although still regular) use of direct face-to-face investor meetings;
- Presenting to bank sponsored conferences or speaking events which attract investors relevant to the AGS market; and
- enhanced uses of technology to engage with investors.

Outcomes

The AOFM conducted fewer investor offshore roadshows this year. A similar number of large and regular conferences were again addressed by the AOFM. However a more select group of smaller events were also arranged and presented to this year as a substitute for a larger number of one-on-one meetings.

The AOFM has also engaged with a much wider spread of potential investors via a digital advertising campaign that was linked to roadshows in two targeted regions.

Although fewer investor roadshows were conducted this year, the number of face-to-face meetings were only slightly less than the year before at 117 (versus 124 for 2013-14). This was due to the greater focus on major financial centres such as Tokyo, London and Singapore where there is a very high concentration of AUD investors. Many of the investor institutions in these centres are already large, regular and long term investors in AGS however the greater pool of investors in these cities also allows for a widening number of potential investors that can be met and engaged with for the first time. For London and Tokyo in particular this includes investors with a developing interest in very long-dated AGS.

Specific regions or countries were again targeted as a part of the strategy to engage investors in locations that appeared to have a growing interest in AGS or were underweight AGS when compared to elsewhere.

Of the 117 face to face meetings undertaken this year, 40% were with accounts (47 institutions) which the AOFM had not met before. The majority of these institutions were not current although potential investors in AGS. This was an increase on the year before (34 from 124) and reflected the more targeted approach adopted in the strategy.

As well as face to face meetings and presentations, the AOFM conducted a number of phone meetings with international investors through-out the year. These were usually conducted when specific investors wished to engage in an update and they couldn’t feasibly be included in upcoming roadshow plans.

The AOFM also conducted its second Australian Government Fixed Income Forum in Tokyo in June. The format was also slightly different from the first forum. Together with the AOFM CEO, the CEOs of the State Borrowing authorities of New South Wales, Victoria, Queensland and Western Australia also participated again. The Treasurers of the four major Australian banks and two Senior Managers from AMP Capital and Colonial First State Global Asset Management also participated.

Sixty four investors from 45 different institutions attended the event, compared with 33 institutions at the first forum. The increased number of attendees and positive feedback and comments received in an exit survey, suggests that this event would probably be well supported by Japanese investors in the future.

Table 4: Summary of investor relations activities in 2014-15

Activity	Details
Conferences, speaking engagements and investor roadshows	14 events.
Approximate total audience size: Large Presentations	420 attendees.
Individual meetings	117 investor meetings.
Hosted roundtable/small presentations	8 presentations with 66 attendees.
Individual cities visited	22 cities.
Two AOFM staff members travel on each overseas trip	CEO, Head Investor Relations, Director Financial Risk, Head Portfolio Strategy & Research, Senior Analyst, Investor Relations.
Hosting banks: Investor roadshows, conferences, roundtable discussions	ANZ, Commonwealth Bank , Citi, Daiwa Securities, Deutsche Bank, Royal Bank of Canada, UBS, Westpac.
Hosting banks at Australian Government Fixed Income Forum, Tokyo	ANZ, Citi, Commonwealth Bank ,Daiwa Securities, Deutsche Bank, JP Morgan, NAB, Nomura, UBS, Westpac
Invited Institutions presenting at Australian Government Fixed Income Forum, Tokyo	NSW Treasury Corporation, Victorian Treasury Corporation, Queensland Treasury Corporation, Western Australian Treasury Corporation, AMP Capital, Colonial First State Global Asset Management, ANZ, Commonwealth Bank, NAB, Westpac.

Public register of government borrowing

The *Guarantee of State and Territory Borrowing Appropriation Act 2009* requires the AOFM to publish a register recording the beneficial ownership, by country, of all CGS and any Australian State or Territory government securities guaranteed by the Commonwealth.

The Act does not contain any mechanisms to compel the provision of information to the AOFM by the beneficial owners of these securities or persons holding these securities on their behalf. Nominee and custodial services firms have not provided information to the AOFM due to their fiduciary and contractual obligations to clients. Many investors wish for their holdings to remain confidential for commercial reasons.

This situation limits the information available to the AOFM to form an opinion on the extent of beneficial ownership of the securities. Without detail on the country of beneficial ownership, information on the holdings of nominee/custodial firms alone provides a limited indicator of 'offshore' CGS ownership.

During 2014-15, the AOFM published the register each quarter and following the latest update, the register contains monthly data up to 30 June 2015. The register indicates that around $380.4 billion of CGS, together with State and Territory securities guaranteed by the Commonwealth, were on issue at year end. Country of ownership could be identified for $122.3 billion or 32.2 per cent, of which $67.2 billion was identified as Australian and $55.1 billion was recorded as held offshore. Country of beneficial ownership could not be identified for around $258.0 billion or 67.8 per cent. Most of this unidentified component was held by nominee/custodial firms.

The Australian Bureau of Statistics (ABS) also collects and publishes information on the holdings of securities. The legal powers provided to the Australian Statistician enable the ABS to obtain information from nominee/custodial firms on security holdings; however, there are also set confidentiality requirements that can constrain how and to what extent the ABS publishes such information at the country specific level.

The quarterly ABS publication *5302.0 Balance of Payments and International Investment Position, Australia* indicates that 65.2 per cent of Commonwealth Government Securities were held by non-residents as at June 2015.[9]

The annual ABS publication *5352.0 International Investment Position, Australia* provides information on the country of domicile for portfolio investment in debt securities. This information covers a broader range of debt securities, issued in Australia and overseas, than that covered by the AOFM register (that is, State and Territory securities not guaranteed by the Commonwealth, as well as debt securities issued by financial intermediaries such as banks and those issued by companies).

The publication estimates that there was $1,065.9 billion of this foreign portfolio investment in debt securities at 31 December 2014. The survey indicated the country of investor domicile breakdown as: the United States of America, $278.3 billion; Belgium, $220.1 billion; United Kingdom, $178.2 billion; Japan, $57 billion; Luxembourg, $43.5 billion; Hong Kong, $31.3 billion; Singapore, $18.5 billion; Switzerland, $17.3 billion; Malaysia, $8.2 billion; Cayman Islands, $6.1 billion; France, $4.4 billion; Canada, $4.1 billion; Netherlands, $4.1 billion; Germany, $3.6 billion; New Zealand, $3.3 billion; Ireland, $1 billion; Austria, $0.7 billion; Papua New Guinea, $0.3 billion and Fiji, $0.2 billion. The remainder of holdings were attributed to international bond markets, were unspecified, or were not published for confidentiality reasons.

9 Note this does not cover Commonwealth guaranteed securities issued by the State and Territory governments under the Act.

Information technology operations

During 2014-15, AOFM moved to a shared services arrangement with the Treasury for all its information technology services with a Memorandum of Understanding (MOU) coming into effect on 1 July 2015. Under the MOU the Treasury provides AOFM with a secure, robust IT environment to support its business requirements. AOFM retains control over its core business specific applications.

Enterprise risk

The AOFM's enterprise risk management (ERM) framework enables the AOFM to evaluate and monitor risks from an organisational perspective, and to provide relevant and timely information to the CEO, Executive Group and the Audit Committee in support of their governance and decision making roles.

The AOFM's enterprise risks are classified as follows:

- strategic risks are managed by the Executive Group and impact on the AOFM's medium to long term strategies;
- portfolio risks involved in debt issuance, investment and portfolio management are managed pursuant to the AOFM's financial risk management framework; and
- operational risks relate to business as usual activities of the AOFM, and generally arise when opportunities or failures present in relation to internal factors, such as business processes, and/or systems.

The AOFM manages risks subject to its risk appetite, and cognisant of its business context. The AOFM adheres to high ethical standards, which are reinforced by regular in house training and adherence to the Australian Public Service Code of Conduct.

Responsibility for risk and assurance activities resides with the Enterprise Risk and Assurance Group.

Key enterprise risk activities undertaken in 2014 15 included:

- participating in whole-of-government benchmarking via the Comcover Risk Management Benchmarking Programme, and using the results to inform the ERM framework and AOFM's risk maturity profile;
- aligning the business impact analysis process with the ERM methodology and business continuity better practice; and
- recalibration of the AOFM's risk criteria to reflect a moderate overall appetite for risk.

In 2014-15, PricewaterhouseCoopers (PwC) undertook an internal audit to assess the design and implementation of the AOFM's ERM and fraud control frameworks. The internal audit rated the frameworks as demonstrating a strong control environment, being sound in design, and aligned with better practice and current legislative requirements.

The ERM framework is supported by assurance activities (refer below).

Assurance

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

During 2014-15, the AOFM implemented an assurance framework to provide structured assurance on the effective and/or efficient operation of its governance arrangements, risk management and internal control environment. The framework has been scaled to meet the needs of the AOFM and is modelled on better practice. Key assurance activities undertaken in 2014-15 included:

- framework reviews of enterprise risk management, fraud control, workforce planning, cash management processes and corporate performance reporting;
- project assurance for the AOFM's treasury system re-implementation;
- an internal assurance review of the AOFM's compliance with the Australian Government's Protective Security Policy Framework;
- reviews of the RMBS guiding principles and auction model;
- preparation of the annual report on compliance with the Public Governance, *Performance and Accountability Act 2013* (PGPA Act) and PGPA Rule 2014; and
- completion of an annual compliance assurance plan, with monthly reporting provided to the Executive Group and quarterly reporting provided to the Audit Committee.

Information derived from the ERM and assurance frameworks supports the CEO in meeting his obligations to maintain a sound system of risk management and internal control pursuant to the PGPA Act.

Settlement operations

The AOFM operates in a low-volume, high-value settlement environment. The AOFM's settlement operations achieved the following during 2014-15 (all figures are face value unless otherwise stated):

- 2,066 trades totalling $99.55 billion arising from issuance activities;
- $60.28 billion of interest and principal payments on AGS;
- $5.97 billion in repurchases of near-maturity AGS; and
- $160.5 million (amortised face value) of RMBS sold by the AOFM at auction.

In 2014-15, the AOFM settled on time and in full all payment obligations resulting from its debt and investment management activities.

The AOFM also works to ensure that its counterparties settle in full and on time all administered receipts relating to AOFM's investment management activities. The AOFM did not need to seek compensation from its counterparties because of a failure to settle payment obligations in line with their contractual obligations.

The AOFM conducts its settlement operations (that is, the settlement of trades and execution of corporate actions relating to its debt and investment management activities) via the Austraclear system. The Settlements Team has in place a number of measures to ensure the continuation of settlements operations in the event of disruptions to systems, premises and personnel. One measure in place is the maintenance of a stand-in agreement for Austraclear with the RBA. The agreement enables the RBA to perform actions in Austraclear on behalf of the AOFM in the event that AOFM is unable to do so. The business continuity arrangements for settlement operations were tested during 2014-15.

Transmutation facility

Trading of exchange-traded Australian Government Bonds ('eAGBs') commenced on the Australian Securities Exchange ('ASX') in May 2013, in the form of CHESS Depository Interests (CDIs). The creation of the eAGB market meant that there were two groups of retail investors holding Australian Government issued debt: eAGB investors and Australian Government Securities ('AGS') investors.

Upon the launch of eAGBs, AOFM advised that a facility was being developed to allow retail investors in AGS to exchange their holdings to eAGBs. The economic characteristics of an eAGB and its equivalent AGS line are identical. The process of converting an AGS to an eAGB is known as a transmutation.

There were a number of challenges in the development of this Facility. Specifically, no facility had ever been developed before in Australia allowing retail investors to exchange their holdings of a bond into a holding of CDIs.

A tax ruling was sought from the Australian Tax Office (ATO) specifically to find out whether the transmutation process would constitute a tax event under the *Income Tax Assessment Act 1997*. In July 2014, the ATO ruled that the process of transmutation would not give rise to a tax event for certain investors.

An Offer was made to all investors registered on the Inscribed Stock Register holding of AGS as at the Offer Date in February 2015. Participation in the Offer was invited on a voluntary basis. Investors who participated in the Offer did not incur any fees, commission or other costs in order to exchange their holdings.

If an investor chose to participate, they were not required to exchange their entire holdings of AGS into eAGBS. Instead, investors with multiple AGS lines could elect the lines of stock they wanted to exchange. Stock nominated for exchange, investors were required to exchange their entire holding of that line. AGS stock nominated for exchange was converted into the equivalent eAGB line. Furthermore, the exchange took place on a one-for-one basis; that is, an investor holding $10,000 face value of an AGS line would receive $10,000 face value of the equivalent eAGB line (or 100 units, with one unit equalling $100 face value). In the end, 139 lines of AGS (over $10 million face value) were exchanged for the equivalent eAGB line.

There were a range of benefits to be obtained through exchanging their AGS holdings for eAGBs. eAGB investors are able to buy or sell as little as one unit at a time ($100 face value) of eAGBs via the ASX's electronic trading platform where buyers and sellers can have their orders executed. Market makers are required to continuously quote buy and sell prices for all eAGB lines (although market makers are not required to provide prices during certain periods including when the wholesale market is closed or during important data releases). Prices are required to be in line with prices in the wholesale AGS market.

eAGB investors have access to an online investor centre provided by Computershare (who were appointed by the AOFM as the Registrar) facilitating fast and secure access to information about their holdings and enables investors certain information pertaining to their holdings to be updated.

The full range of AGS lines currently on issue can be purchased as eAGBs by retail investors in small or large parcels. All future AGS lines issued by the Australian Government will also be available for purchase as eAGBs.

Cooperation with other debt managers

In 2014-15 the AOFM continued to support the debt management activities of the Papua New Guinea and the Solomon Islands governments with a particular focus on capacity development. One staff member is seconded to each of these countries to help develop cash and debt management capabilities.

The sharing of information and perspectives with other sovereign debt managers has contributed positively to the AOFM's knowledge and in particular has enhanced the AOFM's portfolio research program.

Agency financial performance

The AOFM recorded an operating surplus on agency activities of $2.19 million for the 2014-15 financial year, comprising total revenue of $12.34 million and expenses of $10.15 million. The surplus in 2014-15 was largely due to lower than anticipated operating costs.

As at 30 June 2015, the AOFM was in a sound net worth and liquidity position, reporting net assets of $28.02 million, represented by assets of $30.66 million and liabilities of $2.64 million.

As at 30 June 2015, the AOFM had unspent appropriations totalling $28.74 million of which $0.10 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.

AOFM

PART 3
MANAGEMENT AND ACCOUNTABILITY

MANAGEMENT AND ACCOUNTABILITY

Corporate governance

The Secretary to the Treasury (Secretary) has responsibility for Government policies that determine specific authorities over the AOFM's operational activities. The Secretary is responsible for advising the Treasurer on Government policy relating to debt management and investment activities. The Secretary approves the parameters relating to debt management and investment policies and addresses any breaches of those limits. The Secretary is advised on related matters by the Chief Executive Officer (CEO) and the AOFM Advisory Board.

The CEO of the AOFM is responsible for the day-to-day management and direction of the AOFM and for the implementation of debt management and investment policies and day-today management of the Government's cash portfolio. The CEO exercises powers authorised by the Treasurer and the Secretary for debt creation and issuance, investment, portfolio management and management of the AOFM's staff. The CEO has responsibility for all aspects of the financial management of the AOFM (which is treated separately from the financial management of the Treasury as the AOFM is a listed entity under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). The AOFM reports to the Treasurer on issues pertaining to the management and performance of the portfolio, prepares this annual report for presentation to the Parliament and provides information about its activities on its website.

AOFM Advisory Board

The AOFM Advisory Board provides advice to the Secretary on debt management policy and the operational strategy and performance of the AOFM. The Board does not possess executive powers or decision-making authority. The Advisory Board members as at 30 June 2015 were:

- John Fraser, Secretary to the Treasury, Chair;
- Rob Nicholl, CEO, AOFM;
- Stein Helgeby, Deputy Secretary, Government and Resource Management Group, Department of Finance;
- Paul Bide, Consultant;

- Carol Austin, Consultant;
- Nigel Ray, Deputy Secretary, Macroeconomic Group, the Treasury; and
- Peter Warne, Consultant.

Other representatives included Dr Martin Parkinson PSM, the Treasury (November 2014 meeting), Dr David Gruen, the Treasury (as Acting Secretary, August 2014 meeting) and Rosemary Huxtable, Department of Finance (August 2014 meeting). The Advisory Board met on three occasions in 2014-15.

Senior management committees

Several senior management committees operate to assist the CEO in the management of the AOFM and to facilitate communication, coordination and the assessment of risk and compliance management.

AOFM Executive Group

The AOFM Executive Group advises the CEO on policies and procedures governing the conduct of AOFM operations. Its activities include the review and assessment of the AOFM's risk exposures; monitoring compliance obligations; determining and monitoring the implementation of HR policies; overseeing and advising the CEO on significant work, health and safety matters; overseeing the corporate planning process, including internal and aggregate resourcing needs; and advising the CEO on significant corporate matters as they may arise.

Portfolio strategy meeting

During 2014-15, regular Portfolio Strategy Meetings were conducted with the purpose of advising the CEO on operational debt policy and financial risk management issues, as well as reviewing deal execution and general financial market conditions. Its membership included the CEO, Director of Financial Risk, Head of Treasury Services and Head of Investor Relations, together with other senior staff holding relevant functional responsibilities.

Cash management meeting

A meeting was held each week to review the Government's cash position and short to medium term cash flow projections, including expected funding needs. The meeting was attended by the CEO, Head of Treasury Services, Director of Financial Risk, together with other staff from the Treasury Services and Investor Relations Units.

Information Technology Steering Committee

The Information Technology Steering Committee advises the CEO on overall IT system design, structure and security, and monitors IT service availability and security related incidents. It also oversees current and planned IT projects and operations. Its membership comprised of the CEO, Head of Reporting, Chief Financial Officer, Financial Risk Practice Leader, IT Security Advisor, and IT Technical Specialist. As at 30 June 2015 the AOFM had completed a transfer of the management of its IT business systems to Treasury as part of a shared-services arrangement; therefore, the composition of this committee will be reviewed in 2015-16.

Security Committee

The Security Committee performs an oversight role in respect of security management within the AOFM. Its membership is comprised of the CEO, Chief Risk and Compliance Officer, Agency Security Advisor, and IT Security Advisor. The head of the Treasury Security Team was invited to attend ex officio to assist in security harmonisation.

Other elements of the governance framework

Other elements of the AOFM's governance framework include:

- formal delegations, authorisations and directions from the Treasurer of powers under various Acts that provide the legal authority for the conduct of the AOFM's debt and cash portfolio management and related investment activities;
- formal delegations from the Minister for Finance through the Public Governance, Performance and Accountability (Finance Minister to Accountable Authorities of Non-Corporate Commonwealth Entities) Delegation 2014;
- formal delegations from the CEO to staff through the Accountable Authority Instructions and internal financial delegations;
- financial risk policies and an Annual (Debt Management) Remit approved by the Secretary of the Treasury;
- annual corporate and business group plans to support delivery of the AOFM's programme as stated in the 2014 15 Treasury Portfolio Budget Statement;
- human resource policies and procedures to establish the expectations and obligations of staff in relation to values, ethics and performance;
- enterprise risk and assurance frameworks, including an enterprise risk register and compliance assurance plan to support oversight of the management of risks, operation of controls and compliance with obligations; and

- a fraud risk assessment and fraud control plan that comply with the Commonwealth Fraud Control Framework and include appropriate fraud prevention, detection, investigation reporting and data collection procedures and processes.

The AOFM has taken all reasonable measures to optimise the management of risks, including minimising the risk of fraud. Controls are established to manage risk within specific risk appetite and tolerances that are established under the enterprise risk management (ERM) framework. A framework of internal policies (for matters including, but not limited to, procurement, security and conflicts of interest), internal controls, and a heightened level of mindfulness of the AOFM's obligations and commitments, facilitate the AOFM's compliance with its governance and legislative frameworks.

Audit

Audit Committee

The Audit Committee monitors and reviews the AOFM's risk management, internal control, governance and financial reporting processes. Through quarterly meetings, it oversees the audit and assurance programmes based on the information and reports it receives from AOFM management and internal and external auditors.

Key activities during 2014-15 included:

- reviewing the operation of the AOFM's risk and internal control environments, including implementation of an assurance framework;
- endorsement of the AOFM's 2014 15 internal audit plan;
- advice on the preparation and review of the AOFM's financial statements;
- monitoring progress of major projects and audit report recommendations; and
- reviewing the AOFM's readiness for performance reporting pursuant to the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

The operations of the Audit Committee are aligned with the requirements of the PGPA legislation and the revised Australian National Audit Office (ANAO) Better Practice Guide, Public Sector Audit Committees (2015).

Membership as at 30 June 2015 comprised:

- Peter Warne, independent member of the AOFM Advisory Board (Chair);
- David Lawler, independent member;
- Matthew King, Chief Financial Officer and Division Head, Financial and Parliamentary Division, Corporate Strategy and Services Group, the Treasury; and
- Samantha Montenegro, Chief Risk and Compliance Officer, AOFM.

The Audit Committee met on four occasions during 2014-15, with full attendance from all members.

External observers at audit committee meetings included the ANAO and its outsourced provider (KPMG), and the AOFM's internal auditor (PricewaterhouseCoopers). The AOFM Chief Financial Officer is an invited attendee. The AOFM CEO regularly attends meetings.

Internal auditor

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

The internal auditor completed five reviews during 2014-15:

- framework reviews for :
  - enterprise risk management and fraud control;
  - workforce planning;
  - cash management;
  - performance reporting.; and
- project assurance for the AOFM treasury system re-implementation.

In its annual report on internal controls, the internal auditor concluded that AOFM had 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. The internal auditor also found that the AOFM had appropriate processes in place to ensure that audit recommendations were actioned in a timely manner. At 30 June 2015, only one internal audit recommendation remained outstanding and this was being implemented in accordance with agreed timelines.

Business continuity arrangements

The AOFM has comprehensive business continuity plans to ensure that its critical functions can continue in the event of a major disruption or the outbreak of a pandemic. These arrangements include the provision of back up of full IT and related business services that can be implemented when the AOFM's office accommodation is not able to be used, or when AOFM staff are not available to perform key tasks. Business continuity plans were updated and tested during 2014-15.

In addition to business continuity plans, there is also an IT disaster recovery plan which sets out the processes required to restore critical functions in the aftermath of a significant disruption; and emergency procedures to manage response to a range of situations.

Judicial decisions

In 2014-15, 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 2014-15 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

As part of its corporate plan priority projects in 2014-15 the AOFM developed a workforce plan to cover the next four years. The *AOFM Workforce Plan 2014-2018* covers three topics: workforce risks, current workforce profile and future challenges.

AOFM staff are profiled on the basis of its three main work areas (front, middle and back office). AOFM's workforce is sufficiently diverse, but there appear to be career path blockages that are a product of AOFM's size.

The final element of the plan outlines future challenges for the AOFM business and actions to meet those. The main challenges identified relating to the AOFM business context are:

- maintaining sufficient skills and experience to conduct business as usual under a range of circumstances, while driving further efficiencies;

- responding quickly and seamlessly to any new additional mandate given to AOFM; and
- maintaining investor confidence and diversification in the AGS market.

Actions to meet these challenges have been identified and will be addressed over the life of the plan.

Enterprise Agreement

A new enterprise agreement was approved by the Fair Work Commission after the end of the 2014-15 reporting period.

Training and development

In 2014-15, 91 per cent of staff participated in some form of internal or external training and $2,646 per full-time equivalent (FTE) was paid to external providers for the period to cover this training. Of the 3.6 days per FTE invested in skill development, 2.8 days per FTE were external courses, 0.6 days were invested in training in-house and the balance was study. Including participant time, the AOFM's commitment to training and development activity in 2014-15 represented 3.1 per cent of gross salary.

The AOFM workforce

At 30 June 2015, the AOFM employed 35.7 FTE staff under the *Public Service Act 1999*. Table 1 shows this workforce by broadband classification.

Table 1: Operative and paid inoperative staff as at 30 June 2014 and 2015

	Ongoing				Non-ongoing				
	Full-time		Part-time		Full-time		Part-time		
Classification	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Total**
2015									
AOFM1	0	1	0	0	0	0	0	0	**1**
AOFM2	15	11	0	2	0	0	0	0	**28**
AOFM3	6	1	0	0	0	0	0	0	**7**
AOFM4	1	0	0	0	0	0	0	0	**1**
CEO	1	0	0	0	0	0	0	0	**1**
Total	**23**	**13**	**0**	**2**	**0**	**0**	**0**	**0**	**38**
2014									
AOFM1	0	2	0	1	0	0	0	0	**3**
AOFM2	17	10	0	3	0	0	0	0	**30**
AOFM3	5	1	0	0	0	0	0	0	**6**
AOFM4	1	0	0	0	0	0	0	0	**1**
CEO	1	0	0	0	0	0	0	0	**1**
Total	**24**	**13**	**0**	**4**	**0**	**0**	**0**	**0**	**41**

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.

Two positions were staffed by AOFM to support knowledge transfer and technical capacity building in sovereign debt management in Papua New Guinea and the Solomon Islands during 2014-15. These positions are arranged under the *Strongim Gavman Program* and the *Solomon Islands Economic and Public Sector Governance Program* respectively. Another staff member was seconded to the Department of The Treasury in 2014 to assist the Secretariat for the Financial System Inquiry.

Ninety two per cent of AOFM staff have degree qualifications, with 26 per cent holding higher degrees and 21 per cent holding double degrees. Forty six per cent have professional qualifications related to 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 changes to senior management.

Other staffing changes

One ongoing and one non-ongoing employee were recruited during 2014-15.

There were six staff departures during the year, all of whom were ongoing staff. Two staff moved to Treasury as a result of AOFM restructuring and outsourcing changes. Two went to finance industry roles in the private sector. The last two left to pursue careers in different sectors within the Australian Government. Staff departures represented 15.1 per cent of average staffing levels in 2014-15 (7 per cent in 2013-14).

The retention rate for 2014-15 was 86 per cent, with an average annual retention rate of 90 per cent over the last five years.

Employment arrangements

All non-SES staff had terms and conditions set during 2014-15 by the *AOFM Enterprise Agreement 2011-2014.*

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 2015 are shown in Table 2. These rates were set in accordance with the *AOFM Enterprise Agreement 2011-2014*.

Table 2: AOFM salary ranges

	30 June 2015	
	Band low	Band high
Classification	$	$
AOFM1	39,912	72,940
AOFM2	70,896	144,688
AOFM3	168,666	210,833
AOFM4	226,849	283,562

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 paid.

Non-salary benefits provided to 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. Executive remuneration is reported in Note 11 of Part 4: Financial Statements.

Work health and safety

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

Work health and safety is a standing agenda item at Executive Group meetings.

Flu vaccinations were made available to staff in 2014-15. Counselling and related support is available under an Employee Assistance Programme provided by Optum. Additional online resources are provided to all staff to assist with safety, health and wellbeing promotion.

There were no compensable injury claims in 2014-15.

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

Consultants

During 2014-15, eight new consultancy contracts were entered into involving total actual expenditure of $126,851. In addition, four ongoing consultancy contracts were active during 2014-15, involving total actual expenditure of $583,875. This is summarised in Table 3.

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 3: Consultancy contracts

	2011-12	2012-13	2013-14	2014-15
Number of consultancy contracts				
New contracts	7	15	11	8
Ongoing contracts	3	3	4	4
Expenditure (including GST)				
New contracts	$106,910	$93,060	$162,664	$126,851
Ongoing contracts	$239,480	$175,160	$91,287	$583,875

Purchasing

The AOFM's purchasing activities comply with legislative requirements and Government policy, in particular the CPRs.

The CPRs are applied to the AOFM's activities through the *Accountable Authority Instructions* and supporting internal policies and procedures.

ANAO access clauses and exempt contracts

Two 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.

One contract was for the syndicated issuance of $7.0 billion of Australian Government Treasury Bonds (an April 2037 maturity) in October 2014. The AOFM appointed Australia and New Zealand Banking Group Ltd, Citigroup Global Markets Australia Pty Limited, UBS AG (Australia Branch) and Westpac Banking Corporation.

The second contract was for the syndicated issuance of $4.3 billion of Australian Government Treasury Bonds (on June 2035 maturity) in March 2015. The AOFM appointed Australia and New Zealand Banking Group Ltd, Commonwealth Bank of Australia, Deutsche Bank AG (Sydney Branch) and UBS AG (Australia Branch).

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, $18.6 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

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 Commonwealth Procurement Rules, the AOFM's procurement practices provide appropriate opportunities for SMEs to compete and ensure that SMEs are not unfairly discriminated against.

Furthermore, the AOFM uses electronic systems to facilitate on-time payment performance and processes are in place to monitor payment deadlines and to ensure SMEs are properly compensated whenever payments are not made on-time.

AOFM

PART 4
FINANCIAL STATEMENTS

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Treasurer

I have audited the accompanying annual financial statements of the Australian Office of Financial Management (AOFM) for the year ended 30 June 2015, which comprise:

- Statement by the Chief Executive Officer and Chief Financial Officer;
- Statement of comprehensive income;
- Statement of financial position;
- Statement of changes in equity;
- Statement of cash flows;
- Schedule of commitments;
- Administered schedule of comprehensive income;
- Administered schedule of assets and liabilities;
- Administered reconciliation schedule;
- Administered schedule of cash flows;
- Administered schedule of commitments; and
- Notes to and forming part of the financial statements.

Accountable Authority's Responsibility for the Financial Statements

The Chief Executive Officer of the AOFM 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 is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial

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statements 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. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Accountable Authority of the entity, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting my audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Opinion

In my opinion, the financial statements of the AOFM:

(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 AOFM as at 30 June 2015 and its financial performance and cash flows for the year then ended.

Australian National Audit Office

Michael J Watson

Michael J. Watson

Group Executive Director

Delegate of the Auditor-General

Canberra

19 August 2015

Australian Office of Financial Management

Statement by the Chief Executive Officer and Chief Financial Officer

In our opinion, the attached financial statements for the year ended 30 June 2015:

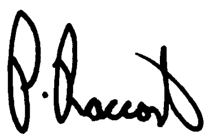
- comply with applicable Australian Accounting Standards issued by the Australian Accounting Standards Board;
- comply with requirements prescribed by the Public Governance, Performance and Accountability (Financial Reporting) Rule 2015;
- present fairly the Australian Office of Financial Management's financial position, financial performance and cash flows; and
- are based on properly maintained financial records.

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.

Signed

R Nicholl
Chief Executive Officer
19 August 2015

Signed



P Raccosta
Chief Financial Officer
19 August 2015

Statement of comprehensive income
for the period ended 30 June 2015

	Notes	2015 $'000	2014 $'000
NET COST OF SERVICES			
EXPENSES			
Employee benefits	4	**6,401**	6,940
Supplier expenses	4	**3,364**	3,435
Depreciation and amortisation	6	**377**	377
Write-down and impairment of assets		**11**	6
Total expenses		**10,153**	10,758
LESS:			
OWN-SOURCE INCOME			
Revenue:			
Staff secondments		**601**	473
Resources received free of charge		**320**	320
Other		**27**	91
Total own-source income		**948**	884
Net cost of services		**9,205**	9,874
APPROPRIATION FUNDING			
Revenue from government		**11,398**	11,479
Total appropriation funding		**11,398**	11,479
Surplus (deficit)		**2,193**	1,605
Total comprehensive income		**2,193**	1,605

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

Statement of financial position

as at 30 June 2015

	Notes	**2015 $'000**	2014 $'000
ASSETS			
Financial assets:			
Cash and cash equivalents		**100**	100
Receivables	5	**28,713**	25,551
Non-financial assets:			
Computers, plant and equipment	6	**252**	389
Leasehold improvements	6	**55**	165
Computer software	6	**1,454**	967
Supplier prepayments		**87**	952
Total assets		**30,661**	28,124
LIABILITIES			
Payables:			
Supplier payables		**153**	89
Salary and superannuation		**215**	194
Other payables		**10**	6
Provisions:			
Employee provisions	7	**2,105**	1,945
Other provisions	7	**156**	140
Total liabilities		**2,639**	2,374
Net assets		**28,022**	25,750
EQUITY			
Retained surplus		**26,051**	23,858
Contributed equity		**1,971**	1,892
Total equity		**28,022**	25,750

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

Statement of changes in equity

for the period ended 30 June 2015

	Notes	**2015 $'000**	2014 $'000
RETAINED SURPLUS			
Opening balance		**23,858**	22,253
Changes for period:			
Comprehensive income		**2,193**	1,605
Total retained surplus		**26,051**	23,858
CONTRIBUTED EQUITY			
Opening balance		**1,892**	4,931
Changes for period:			
Capital injection - capital budget	23	**732**	408
Return of capital	23	**(653)**	(3,447)
Total contributed equity		**1,971**	1,892
Total equity		**28,022**	25,750

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

Statement of cash flows

for the period ended 30 June 2015

	Notes	**2015 $'000**	2014 $'000
OPERATING ACTIVITIES			
Cash received:			
Appropriations		**8,370**	10,971
GST received		**3**	5
Goods and services		**662**	649
Cash used:			
Employees		**(6,205)**	(6,832)
Suppliers		**(2,167)**	(4,137)
GST paid		**(1)**	(7)
Transfers to Official Public Account (OPA)(a)		**(662)**	(649)
Net cash from (used by) operating activities	9	**-**	-
INVESTING ACTIVITIES			
Cash used:			
Purchase of computer software, property, plant and equipment		**(600)**	(1,167)
Net cash from (used by) investing activities		**(600)**	(1,167)
FINANCING ACTIVITIES			
Cash received:			
Appropriations - contributed equity		**600**	1,167
Net cash from (used by) financing activities		**600**	1,167
Net increase (decrease) in cash held		**-**	-
Plus cash held at the beginning of the reporting period		**100**	100
Cash at the end of the reporting period		**100**	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 prior to 1 July 2014 under section 30 and section 31 of the *Financial Management and Accountability Act 1997*) 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.

Schedule of commitments

as at 30 June 2015

	2015 $'000	2014 $'000
COMMITMENTS PAYABLE		
Operating leases payable in:		
One year or less	**178**	26
From one to five years	**79**	196
Over five years	**-**	-
Other commitments payable in:		
One year or less	**1,590**	1,675
From one to five years	**1,257**	2,726
Over five years	**-**	-
Total commitments payable	**3,104**	4,623
Less GST recoverable from the ATO	**(11)**	(8)
Net commitments	**3,093**	4,615

Note: Commitments are GST inclusive where applicable.

Operating leases are effectively non-cancellable and comprise:

- Lease for office accommodation—the lease term is for 15 years less one day with no option to renew and lease payments are subject to review on each second anniversary of the lease commencement date (22 December 2000).
- Motor vehicle leases—the novation of lease rental payments over motor vehicles.

Other commitments relate to contractual obligations for the provision of consultancies and contractors, market data and news services and service agreements with other parties, including Commonwealth bodies.

Administered schedule of comprehensive income

for the period ended 30 June 2015

	Notes	**2015 $'000**	2014 $'000
INCOME BEFORE RE-MEASUREMENTS			
Interest revenue	12	**920,836**	1,044,272
Other revenue		**59**	349
Total income before re-measurements		**920,895**	1,044,621
EXPENSES BEFORE RE-MEASUREMENTS			
Grants		**20**	20
Interest expense	13	**14,473,098**	13,389,975
Supplier expenses		**17,872**	23,819
Total expenses before re-measurements		**14,490,990**	13,413,814
GAINS (LOSSES) BEFORE RE-MEASUREMENTS			
Net foreign exchange gains (losses)		**(1,254)**	78
Net realised gains (losses)	14	**(32,996)**	(181,753)
Total gains (losses) before re-measurements		**(34,250)**	(181,675)
Surplus (deficit) before re-measurements		**(13,604,345)**	(12,550,868)
RE-MEASUREMENTS			
Net market revaluation gains (losses)	15	**(7,511,634)**	(3,670,817)
Total re-measurements		**(7,511,634)**	(3,670,817)
Surplus (deficit)		**(21,115,979)**	(16,221,685)
Total comprehensive income (loss)		**(21,115,979)**	(16,221,685)

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

Administered schedule of assets and liabilities
as at 30 June 2015

	Notes	2015 $'000	2014 $'000
ASSETS			
Financial assets:			
Cash and cash equivalents		**622**	622
Investments	16	**38,555,822**	33,175,900
Loans to State and Territory Governments	16	**2,033,155**	2,106,459
Total assets		**40,589,599**	35,282,981
LIABILITIES			
Interest bearing liabilities:			
Australian Government Securities	17	**409,936,490**	351,288,574
Other:			
Accrued expenses		**26**	31
Total liabilities		**409,936,516**	351,288,605
Net assets		**(369,346,917)**	(316,005,624)

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

Administered reconciliation schedule
for the period ended 30 June 2015

	2015 $'000	2014 $'000
OPENING ASSETS LESS LIABILITIES AS AT 1 JULY	**(316,005,624)**	(254,304,732)
Administered schedule of comprehensive income:		
Income before re-measurements	**920,895**	1,044,621
Expenses before re-measurements	**(14,490,990)**	(13,413,814)
Gains (losses) before re-measurements	**(34,250)**	(181,675)
Re-measurements	**(7,511,634)**	(3,670,817)
Administered transfers (to) from Australian Government:		
Special appropriations (unlimited)	**719,622,195**	736,734,699
Transfers to Official Public Account	**(751,847,409)**	(782,213,805)
Change in special account balance	**(100)**	(101)
Closing assets less liabilities as at 30 June	**(369,346,917)**	(316,005,624)

Administered schedule of cash flows
for the period ended 30 June 2015

	Notes	2015 $'000	2014 $'000
OPERATING ACTIVITIES			
Cash received:			
Interest receipts		**908,529**	1,026,687
Other		**4,944**	2,247
GST refunds		**1,292**	1,749
Cash used:			
Interest payments		**(15,657,767)**	(15,023,529)
Other		**(24,056)**	(27,917)
Net cash from (used by) operating activities	18	**(14,767,058)**	(14,020,763)
INVESTING ACTIVITIES			
Cash received:			
Capital proceeds from deposits		**646,050,000**	669,050,000
Capital proceeds from residential mortgage-backed securities		**1,756,309**	3,075,297
Repayments from advances and loans		**90,681**	88,675
Cash used:			
Acquisition of deposits		**(653,200,000)**	(676,000,000)
Net cash from (used by) investing activities		**(5,303,010)**	(3,786,028)
FINANCING ACTIVITIES			
Cash received:			
Capital proceeds from borrowings		**102,471,230**	108,126,825
Other receipts		**7,934**	1,490
Cash used:			
Repayment of borrowings(a)		**(50,183,780)**	(44,842,317)
Net cash from (used by) financing activities		**52,295,384**	63,285,998
TRANSACTIONS WITH OFFICIAL PUBLIC ACCOUNT			
Cash received from Official Public Account:			
Appropriations		**719,622,153**	736,734,660
Special accounts		**1**	-
Cash to Official Public Account:			
Receipts		**(751,847,409)**	(782,213,805)
Special accounts		**(61)**	(62)
Net cash from (to) official public account		**(32,225,316)**	(45,479,207)
Net increase (decrease) in cash held		**-**	-
Plus cash held at the beginning of the reporting period		**622**	622
Cash at the end of the reporting period		**622**	622

(a) Includes redemption of debt issued on behalf of the States (where relevant).
The above schedule should be read in conjunction with the accompanying notes.

Administered schedule of commitments
as at 30 June 2015

	2015 $'000	2014 $'000
COMMITMENTS PAYABLE		
Securities lending:		
One year or less	**-**	-
Other commitments:		
One year or less	**481**	457
From one to five years	**614**	995
Commitments payable	**1,095**	1,452
COMMITMENTS RECEIVABLE		
Securities lending:		
One year or less	**-**	-
Commitments receivable	**-**	-
Less GST recoverable from the ATO	**(65)**	(86)
Net commitments	**1,030**	1,366

Notes to and forming part of the financial statements
for the period ended 30 June 2015

Note 1: Summary of significant accounting policies

1.1 Basis of preparation of the financial statements

The Australian Office of Financial Management (AOFM), a 'listed entity' under the *Public Governance, Performance and Accountability Act 2013*, is a specialised agency responsible for the management of Australian Government debt and financial assets. The AOFM operates on a not-for-profit basis. The financial statements cover the AOFM as an individual entity and are for the reporting period 1 July 2014 to 30 June 2015. 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 (the Rule) made under section 101 of the Public Governance, Performance and Accountability Act 2013; and
- Australian Accounting Standards, including Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

Since 2005 the AASB has adopted International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) for the purposes of setting Australian Accounting Standards. In some instances the Australian Accounting Standards are modified for the private and public not-for-profit sectors.

The financial statements have been prepared on a 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 to the nearest thousand dollars unless otherwise stated.

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.

1.2 Significant accounting estimates and judgments

The preparation of financial statements requires the use of certain accounting estimates and assumptions that affect the reported carrying value of assets and liabilities and the value of reported revenue and expenses.

Financial instruments are predominantly carried on the Administered Schedule of Assets and Liabilities at fair value. Fair value is synonymous with market value and represents the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction in an active market under normal conditions between market participants. The AOFM's approach for determining fair value is discussed at Note 1.17.

1.3 Statement of compliance with International Financial Reporting Standards

(a) New Australian Accounting Standards applicable to the reporting period

During 2014-15 the AOFM adopted all applicable Australian Accounting Standards that became effective during the reporting period.

AASB 1055 *Budgetary Reporting* became operational in 2014-15 and requires disclosure of actual amounts (as reported in these accounts) against comparative budgetary information presented in budget reports to Parliament, with explanations of major variances between the two. This disclosure is presented at Note 25.

(b) 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 124 *Related Party Disclosures* 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 124 *Related Party Disclosures*

Currently, AASB 124 *Related Party Disclosures* is not applicable to the AOFM as not-for-profit public sector entities are exempted from the requirements of the standard. This exemption has been removed for 2016-17 and subsequent reporting periods.

AASB 9 Financial Instruments

Financial assets

Currently, all of the AOFM's administered financial assets, with the exception of loans to the State and the Northern Territory Governments, are designated at fair value through profit or loss. Loans to the State and the Northern 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 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 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.

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 to one of trading to earn capital profits.

The AOFM's current business model for its administered financial assets is to collect contractual cash flows. Accordingly, on adoption of AASB 9 the AOFM may need to change its accounting treatment for its financial assets from fair value through profit or loss to amortised cost.

Financial liabilities

The classification requirements for financial liabilities remain largely unchanged in AASB 9 from AASB 139. Furthermore, except in limited circumstances (which are not applicable to the AOFM), AASB 9 prohibits the revocation of a previous designation of a financial liability as measured at fair value through profit or loss. Accordingly, the AOFM will be required to maintain its existing accounting treatment for those administered financial liabilities it holds when AASB 9 becomes operative.

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 own credit risk. These changes require the gain or loss to be apportioned between changes in credit risk (recognised in other comprehensive income) and other changes (recognised in profit or loss).

1.4 Departmental and administered items

Departmental assets, liabilities, revenue and expenses are those items that are controlled by the AOFM and used or incurred to deliver goods and services to the Government, including:

- computers, plant and equipment;
- liabilities for employee entitlements;
- receipts deemed appropriated under the *Public Governance, Performance and Accountability Act 2013*; and
- employee expenses and other administrative expenses.

Administered assets, liabilities, revenue and expenses are those items which are controlled by the Government and managed or overseen by the AOFM on behalf of the Government. These items include debt issued to finance the Government's fiscal requirements, investments of funds surplus to the Government's immediate financing needs and investments in residential mortgage-backed securities to meet the Government's policy objectives.

The purpose of separating administered and departmental items is to enable assessment of the administrative efficiency of the AOFM in providing services to support the Government.

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

1.5 Revenue (Departmental)

(a) Revenue from Government — output appropriations

Amounts appropriated for departmental outputs for the year (adjusted for any formal additions and reductions) are recognised as revenue. Appropriation receivables are recognised (at their nominal amounts) for output appropriations that have not been drawn by the AOFM and have not extinguished.

Under the Government's 'net cash appropriation framework' the AOFM receives an output appropriation equivalent to budgeted expenses less depreciation, amortisation and make good expenses.

(b) Resources received free of charge

Resources received free of charge are recognised as revenue when, and only when, a fair value can be reliably determined and the services would have been purchased had they not been donated. Use of those resources is recognised as an expense.

(c) Other revenue

Revenue from the rendering of a service is recognised by reference to the stage of completion of contracts or other agreements to provide the service.

1.6 Transactions with the Government as owner (Departmental)

(a) Capital injections

Capital appropriations received under the Government's 'net cash appropriation framework' are recognised directly in Contributed Equity in the financial year that the appropriation takes effect.

(b) Distributions to owners

Distributions to owners are deducted from Contributed Equity unless the distributions are in the nature of a dividend. Dividends are deducted from Retained Surplus.

1.7 Employee benefits (Departmental)

Liabilities for services rendered by employees are recognised at the end of the financial year to the extent that they have not been settled.

(a) Salaries

Outstanding salaries, and superannuation in relation to those salaries, are recognised at their nominal (undiscounted) amounts.

(b) Leave

The liability for employee benefits includes provision 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.

Leave liabilities are calculated on the basis of each employees' remuneration at the end of the financial year adjusted for any expected increases in remuneration effective from 1 July.

Long service leave and annual leave are measured at the present value of the estimated future cash flows to be made in respect of all employees at the end of the financial year. In determining the present value of the long service leave liability, the AOFM commissions an annual actuarial assessment of the anticipated attrition rates and pay increases through promotion and inflation. As a small Australian Government entity the AOFM uses the shorthand method for probability weighting the long service leave liability for those employees who have not yet reached 10 years of service as at the reporting date.

(c) Superannuation

The AOFM contributes to the Commonwealth Superannuation Scheme (CSS; a defined benefit scheme), Public Sector Superannuation Scheme (PSS; a defined benefit scheme), Public Sector Superannuation Accumulation Plan (PSSap; an accumulation scheme) and other nominated schemes on behalf of staff.

The AOFM makes employer contributions to the CSS and PSS superannuation schemes at rates determined by an actuary to be sufficient to meet the current cost to the Government of the superannuation entitlements of its employees. The liability for defined superannuation benefits payable to an employee upon termination of employment with the Australian Government is recognised in the financial statements of the Department of Finance and is settled by the Australian Government in due course. This defined benefit liability is reported by the Department of Finance as an administered item. The AOFM accounts for its contributions to the CSS and PSS as if they were defined contribution plans.

An on-cost liability, based on actuarial assessment, has been recognised for employer superannuation contributions payable on accrued annual leave and long service leave as at the end of the financial year. Employer superannuation contributions are payable on leave benefits that are taken during service, but are not payable on leave benefits paid out on termination.

1.8 Leases (Departmental)

The AOFM holds operating leases only. Operating lease payments are charged as an expense as they are incurred over the lease term.

1.9 Cash (Departmental)

Cash means deposits held at call with a bank. Cash is recognised at its nominal amount.

1.10 Financial instruments (Departmental)

The AOFM recognises a financial asset or financial liability when and only when it becomes a party to the contractual provisions of the instrument. A financial asset is de-recognised when the right to receive cash flows from the financial asset has expired or the risks and rewards of ownership have been transferred to another party.

A financial liability is de-recognised when the obligation in the contract is discharged, cancelled or has expired.

The AOFM classifies its departmental financial assets as loans and receivables. Loans and receivables primarily comprise amounts due from other parties for the reimbursement of staff costs associated with staff secondments. Loans and receivables are initially recognised at fair value and are subsequently measured at amortised cost.

Amounts due from the OPA for undrawn departmental appropriations are not financial instruments as they are not contractually based. Appropriation receivables are recognised at their nominal amounts.

Financial liabilities represent trade creditors and accruals and are recognised at the amounts at which they are expected to be settled.

Departmental financial assets and financial liabilities are predominantly denominated in Australian dollars, are non-interest bearing and their fair values approximate their carrying values. Accordingly, the AOFM is not exposed to interest rate risk or significant exchange rate risk on its departmental financial instruments. The AOFM's maximum exposure to credit risk on departmental financial assets approximates their carrying values. The AOFM's exposure to credit risk on its departmental financial instruments is immaterial.

1.11 Leasehold improvements, computers and plant and equipment (Departmental)

(a) Asset recognition threshold on acquisition

Purchases of leasehold improvements, computers and plant and equipment are recognised initially at cost in the Statement of Financial Position, except for purchases costing less than $1,000 which are expensed at the time of acquisition. The asset recognition threshold is applied to each functional asset, that is, items or components that form an integral part of an asset are grouped as a single asset.

(b) 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 the assets' fair values as at the reporting date.

Fair value has been determined as depreciated replacement cost for leasehold improvements, and where available, market selling price in an active market for computers, plant and equipment.

Revaluation adjustments are made on a class basis. Revaluation increments for a class are credited directly to a revaluation reserve in Equity, except to the extent that they reverse a previous revaluation decrement for that class, in which case they are credited as revenue. Revaluation decrements for a class of assets are recognised as an expense, except to the extent that they reverse a previous revaluation increment for that class, in which case they are debited directly to a revaluation reserve in Equity.

For all assets, excluding leasehold improvements, revaluations are performed on a net basis. For leasehold improvements, revaluations are performed on a gross basis with accumulated amortisation on revaluation restated proportionately in accordance with the gross carrying amount of the asset.

Leasehold improvements, computers and plant and equipment assets are formally revalued every three years. The last revaluation conducted was as at 31 March 2015 by an independent qualified valuer.

(c) Impairment

Leasehold improvements, computers and plant and equipment assets were assessed for impairment at the end of the financial year. No allowance for impairment was required.

(d) Depreciation

The depreciable value of property, plant and equipment assets is written off over the estimated useful lives of the assets to the AOFM using the straight-line method of depreciation. Leasehold improvements are depreciated on a straight-line basis over the lesser of the estimated useful life of the improvements and the unexpired period of the lease. The depreciable value of leasehold improvements, computers and plant and equipment assets is based on a zero residual value.

Depreciation rates (useful lives) are reviewed at least annually and, if required, the remaining useful life of relevant assets is adjusted. Adjustments are recognised in the current, or current and future, reporting periods as appropriate.

Depreciation expenses have been determined by applying rates to new depreciable assets based on the following useful lives:

Sub-class of depreciable asset	**2015**	2014
Leasehold improvements	lease term	lease term
Artwork and bearer stock	100 years	-
Computers	3-5 years	3-5 years
Office equipment	5 years	5 years
Furniture	10 years	10 years

1.12 Computer software (Departmental)

Purchases of computer software are recognised at cost in the Statement of Financial Position 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.

Software assets are amortised on a straight-line basis over their anticipated useful lives, being three to ten years (2013-14: three to ten years). Software assets are carried at cost and are not subject to revaluation.

An impairment assessment was made as at the end of the financial year, and, an impairment allowance was not required.

1.13 Taxation (Departmental)

The AOFM is exempt from all forms of taxation except for Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST).

Revenue is recognised net of GST. Expenses are recognised net of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office.

Receipts and payments in the Statement of Cash Flows are recorded at their GST inclusive amounts.

All supplies provided by the AOFM are input taxed under the GST legislation. In accordance with applicable GST regulations the AOFM is entitled to a reduced input tax credit (equal to 75 per cent of the GST paid) on some purchases, such as security transaction services, which are applied in making input taxed supplies. Non-commercial supplies provided by other government agencies to the AOFM are GST-free.

1.14 Reporting of administered activities

Except where otherwise stated, administered items are prepared on the same basis of accounting and using the same policies as for departmental items, including the application of Australian Accounting Standards.

With the adoption of fair value through profit or loss measurement for certain classes of financial assets and financial liabilities the AOFM presents its administered revenue and expenses into two categories:

- Surplus (deficit) before re-measurements; and
- Re-measurements.

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 with portfolio restructuring a rarity and performed primarily for portfolio management, credit or liquidity purposes, rather than for profit making purposes). Where a financial asset is sold or a financial liability is bought back prior to maturity, the realised gain or loss, calculated on an amortised cost basis, is recognised within this category. Realised and unrealised foreign currency gains and losses are also included in this category.

The category 're-measurements' provides information on the unrealised changes in the market valuation of the portfolio of administered financial assets and financial liabilities 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.

1.15 Recognition and de-recognition of financial instruments

The AOFM recognises a financial asset or financial liability when and only when it becomes a party to the contractual provisions of the financial instrument. A financial asset is de-recognised when the right to receive cash flows from the financial asset has expired or the risks and rewards of ownership have been transferred to another party. A financial liability is de-recognised when the obligation in the contract is discharged, cancelled or has expired.

The AOFM accounts for purchases and sales of financial instruments on a trade date basis, that is, the date on which transactions are executed. Depending on the transaction type this may be several days prior to settlement.

1.16 Classification and measurement of financial instruments

The AOFM classifies its administered financial assets into the following categories: financial assets at fair value through profit or loss; and loans and receivables. The AOFM classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss; and other financial liabilities.

The AOFM has determined the classifications on the basis of how it manages and assesses the performance of its financial assets and financial liabilities. Where the AOFM's management monitors cost and risk in mark-to-market terms (but not necessarily only in those terms), the AOFM has classified the relevant financial assets and liabilities at fair value through profit or loss.

(a) Financial assets at fair value through profit or loss

This category comprises short-term Australian dollar denominated deposits and Australian dollar denominated residential mortgage-backed securities. Under section 58 of the *Public Governance, Performance and Accountability Act 2013* (for 2013-14 and prior years, section 39 of the *Financial Management and Accountability Act 1997)*, the AOFM invests public money to manage the balance of the OPA and to meet government policy objectives.

These assets are measured at fair value on initial recognition and at fair value on subsequent measurement. Changes in carrying value are attributed between changes in amortised cost of the asset and other changes.

Changes in carrying value attributable to amortised cost are recognised in Interest Revenue. Other changes in carrying value (including unrealised changes in valuation due to a change in interest rates) are recognised in Re-measurements.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The AOFM classifies a financial asset as a loan and receivable (as opposed to a financial asset at fair value through profit or loss) in circumstances where the cost and risk of the asset is not monitored in mark-to-market terms.

Currently, this category comprises debt on allocation to, and advances made to, the State and Northern Territory Governments.

Until July 1990, the Australian Government borrowed on behalf of the State and Northern Territory Governments and allocated a portion of the proceeds of its Treasury Bond raisings to those Governments. In addition to Treasury Bond allocations, there are outstanding balances on stock issued by the States prior to 1 January 1924 and taken over by the Australian Government in 1927 (under the original *Financial Agreement Act*). The States and the Northern Territory are responsible for meeting all obligations as to interest and principal on the debt on allocation to them in accordance with the provisions of the *Financial Agreement Act 1994* (the current agreement). As at 30 June 2015 approximately $8 million of perpetual debt with no fixed maturity date issued by New South Wales and Victoria remained outstanding under the arrangements governed by the *Financial Agreement Act 1994* (30 June 2014: $8 million). All other debt has been redeemed. Redemption of the perpetual debt is at the discretion of the relevant State.

In addition to debt governed by the *Financial Agreement Act 1994*, from 1945 to 1989 the Australian Government made concessional advances to the State and Northern Territory Governments under Commonwealth-State financing arrangements, which were not evidenced by the issue of securities (namely, housing advances and specific purpose capital advances).

Loans and receivables are measured at fair value on initial recognition and at amortised cost on subsequent measurement using the effective interest rate method. Changes in carrying value, including amortisation of premiums or discounts, are recognised in Interest Revenue.

(c) Financial liabilities at fair value through profit or loss

This category comprises all Australian Government Securities (AGS) debt with the exception of debt on allocation to State and Northern Territory Governments and overdues (debt that has reached maturity but has not been claimed by the investor). AGS primarily comprises Treasury Bonds, Treasury Indexed Bonds and Treasury Notes.

These liabilities are measured at fair value on initial recognition and at fair value on subsequent measurement. Changes in carrying value are attributed between changes in amortised cost of the liability and other changes. Changes in carrying value attributable to amortised cost are recognised in Interest Expense. Where a security is issued at a premium or discount to its par value, the premium or discount is recognised at that time and included in the carrying value of the liability. The premium or discount is amortised over the life of the security using the effective interest rate method and recognised in Interest Expense. Other changes in carrying value (including unrealised changes in valuation due to a change in interest rates) are recognised in Re-measurements.

For Treasury Indexed Bonds, the principal value appreciates over time in line with a six-month lagged consumer price index (the Weighted Average of Eight Capital Cities All-Groups Index). Capital accretion is recognised in Interest Expense over time.

As future inflation rates are uncertain, an estimate of the Australian Government's future redemption costs on maturity is not disclosed in the financial statements.

There are no options available to either the Australian Government or the holder of the securities to exchange or convert AGS. There are also no options to either party for early redemption.

(d) Other non-derivative financial liabilities

This category comprises perpetual debt on allocation to State and Northern Territory Governments and overdues.

These liabilities are measured at fair value on initial recognition and at amortised cost on subsequent measurement using the effective interest rate method. Changes in carrying value are recognised in Interest Expense.

1.17 Fair value estimation of financial instruments

Administered financial instruments are predominantly carried on the balance sheet at fair value. Where a financial instrument is traded in an active market, fair value is based on quoted market rates for the financial instrument as at the end of the financial year. Where market rates are unavailable because a financial asset or financial liability is not traded in an active market, valuation techniques are used, including quotes for similar instruments and discounted cash flow analysis. Fair value measurement requires maximising the use of market observable inputs and minimising the use of unobservable inputs. Where markets are distorted or illiquid, with pricing not necessarily reflective of underlying credit and cash flow fundamentals, assumptions may be necessary to derive the fair value of a financial instrument.

Financial instruments are classified in a three level valuation hierarchy which is disclosed at Note 20.

The fair value of Treasury Bonds is based on discounted cash flows using a zero coupon curve valuation methodology created from observable market rates. The zero coupon curve is based on market yields of the most liquid Treasury Bond lines as at the end of the financial year.

The fair values of Treasury Indexed Bonds are based on observable market quotes for each issue.

The fair value of term deposit investments with the Reserve Bank of Australia (RBA) 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. The valuation approach for Treasury Notes is largely equivalent.

For residential mortgage-backed securities each issue is modelled to determine its weighted average life, which is tested and compared against other sources where available. Fair value is determined using the weighted average life, market quotes (where available) and assumptions based on credit quality considerations.

As the secondary market for the Australian Government's foreign currency denominated debt is largely illiquid, the valuation approach for foreign currency denominated debt is based on deposit and swap rates in each relevant foreign currency.

1.18 Other significant administered accounting policies

(a) Revenue

Interest revenue is earned on loans to State and Northern Territory Governments, residential mortgage-backed securities and term deposits. Interest is credited to revenue as it accrues and is calculated on an amortised cost basis using the effective interest rate method.

(b) Grants

Under the *Financial Agreement Act 1994*, the Australian Government assists the State and Northern Territory Governments to redeem maturing debt on allocation to them. Payments made under these arrangements are recognised in grants expenses as and when they fall due and payable.

(c) Borrowing costs

Borrowing costs are expensed as incurred.

(d) Cash

The AOFM maintains a number of administered operational bank accounts with the RBA and the National Australia Bank. Interest is not paid on these accounts. Cash deposits are recognised at their nominal amounts.

(e) Securities lending facility

The AOFM has a securities lending facility available for Treasury Bonds and Treasury Indexed Bonds. The facility is operated by the RBA and is governed by the terms and conditions of an agency agreement between the RBA and the AOFM. The purpose of the facility is to enhance the efficiency of the bond market by allowing bond market participants to borrow Treasury Bonds and Treasury Indexed Bonds (generally for a period of no more than several days) when they are not readily available from other sources in the market.

The securities lending facility operates by entering into two simultaneous repurchase agreements with the party wishing to borrow securities — a repurchase agreement (the sale of securities to the party and agreement to buy them back at a future time at an agreed price) and a reverse-repurchase agreement (the purchase of securities from the party and agreement to sell them back at a future time at an agreed price). The net effect of these two transactions is that the Australian Government holds securities as collateral, and not cash, for securities loaned to bond market participants.

Interest is payable under the facility where lending is overnight. Interest is not payable on intra-day lending. The temporary sale of AGS under the facility is recorded off-balance sheet. See Note 22 for details of transactions undertaken during the financial year under the facility.

(f) Foreign currency

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables are translated at the exchange rates current as at the end of the financial year.

Net foreign exchange gains and losses (both realised and unrealised) arising from foreign currency transactions are reported in the Administered Schedule of Comprehensive Income.

Note 2: Objectives and activities of the AOFM

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 OPA which is surplus to immediate requirements by making investments in term deposits. It uses these instruments, together with the issue of Treasury Notes, 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. In managing its portfolio and undertaking these tasks it seeks to minimise accrual debt servicing costs over the medium term at an acceptable level of risk. Risk includes interest rate risk, liquidity risk and refinancing risk.

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. The forecast Budget outlook changed in the *Updated Economic and Fiscal Outlook* published on 3 February 2009 and the objective of issuance changed to funding the Budget. Since this 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 Bonds and Treasury Bonds futures markets, affording the AOFM with a greater level of flexibility in setting its issuance programme against an overarching objective of minimising cost subject to acceptable risk. In recent years the AOFM has lengthened the duration of its Treasury Bonds portfolio through longer term issuance as a means of reducing risk. The Treasury Bonds yield curve extends to 22 years currently (an extension of ten 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 also invests in term deposits with the RBA.

The OPA is recorded in the Department of Finance's financial statements and is not reported by the AOFM. The AOFM holds continuing balances of short-term assets to allow it to respond flexibly and quickly to swings in cash requirements.

Investments in residential mortgage-backed securities

In September 2008, the Government announced that the AOFM would invest $4 billion in residential mortgage-backed securities (RMBS) to support competition in the Australian residential mortgage market. The initiative was extended in October 2008 and again in November 2009 to a total program of up to $20 billion. In April 2013, the Government announced that due to improvements in market conditions, the AOFM would not make any new investments in RMBS. The AOFM invested $15.5 billion in RMBS over the life of the program.

On 5 May 2015, the Treasurer issued a direction to the AOFM to divest the RMBS portfolio through a regular competitive process. The AOFM is to use its discretion on the timing and sales volume to minimise potential market disruptions, however the sales volume must not exceed $500 million per month.

Trading of depository interests in Australian Government Securities

In November 2012, the *Commonwealth Inscribed Stock Act 1911* and the *Corporations Act 2001* were amended as part of the previous Government's Competitive and Sustainable Banking Package to enable trading of depository interests in Treasury Bonds and Treasury Indexed Bonds on financial markets in Australia. Ownership of a depository interest provides the investor with beneficial ownership of the underlying bond including the right to receive principal and interest.

The AOFM facilitated the establishment of infrastructure to allow these financial products to trade on the Australian Stock Exchange (ASX), where they are called Exchange-traded Treasury Bonds and Exchange-traded Treasury Indexed Bonds. Trading commenced on 21 May 2013.

The trading, settlement and administration of these financial products are governed by the Corporations Act, market integrity rules made by the Australian Securities and Investments Commission, ASX market rules and contractual arrangements between the AOFM and the ASX (the financial market operator) and the AOFM and Computershare Investor Services Pty Limited (the registry provider).

Under the ASX market rules the Australian Government has the obligation to make payments of principal and interest to depository interest holders.

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*, which represents the Australian Government's primary vehicle for the creation and issuance of domestic stock, including Treasury Bonds, Treasury Indexed Bonds and Treasury Notes. It also provides a standing authority to the Treasurer to borrow in Australian currency;
  - There is a requirement under the Act for the Treasurer to issue a direction as to the maximum face value of stock that may be on issue under the Act. On 11 December 2013 the Treasurer issued a direction under section 51JA of the Act permitting the AOFM to borrow up to $500 billion.
  - On 30 April 2015 the *Commonwealth Inscribed Stock Regulation 2015* became effective, replacing the *Commonwealth Inscribed Stock Regulations*, which were due to sunset on 1 April 2016. Provisions of the previous regulations were retained where necessary for the operation of the Act or where they may impact investors.
- the *Loans Securities Act 1919*, which includes provisions relating to overseas borrowings, and provides authority to enter into swaps, securities lending, repurchase agreements and other financial arrangements;
  - On 30 April 2015 the *Loans Securities Regulation 2015* became effective, replacing the *Loans Securities Regulations*, which were due to sunset on 1 October 2015. Provisions of the previous regulations were maintained to prescribe a mechanism for dealing with lost, stolen and destroyed bearer securities issued under the Act.
- the *Financial Agreement Act 1994*, which formalises debt consolidation and redemption arrangements applying since 1 July 1990 between the Australian Government and the states and territories; and
- section 58 of *Public Governance, Performance and Accountability Act 2013* (and prior to 1 July 2014, section 39 of the *Financial Management and Accountability Act 1997*), which gives the Treasurer the power to invest public money in authorised investments.

Note 3: Financial risk management

The AOFM is exposed to financial risks arising from its portfolio of financial assets and liabilities comprising interest rate risk, inflation risk, foreign exchange risk, liquidity and refinancing risk, credit risk and prepayment risk. These risks are controlled 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. The Secretary to the Treasury is advised by Treasury, the AOFM CEO and the AOFM Advisory Board.

Timing mismatches between the Australian Government's receipts and expenditures cause large fluctuations in the volume of short-term assets and liabilities held 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 its debt, long-term financing and short-term financing are managed through separate portfolios, the debt portfolio and the cash management portfolio. In addition, the AOFM's investments in residential mortgage-backed securities and advances to State and Northern Territory Governments (which were made under previous Commonwealth-State financing arrangements and were not evidenced by the issue of securities) are held in separate portfolios.

(a) 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. The AOFM largely holds its debt and assets until maturity (and with portfolio restructuring a rarity and performed primarily for portfolio management, credit or liquidity purposes, rather than for profit making purposes). Accordingly, in its ordinary course of business the primary measure used by the AOFM to assess cost and return is the accruals basis of accounting under the historic cost accounting convention. Market value measures (which include unrealised changes in the valuation of financial assets and financial liabilities due to changes in interest rates) are considered to be secondary.

Debt portfolio

The debt portfolio is used to meet the Australian Government's budget financing needs and to support efficient Treasury Bonds and Treasury Bonds futures markets. Issuance is the primary mechanism for managing interest rate risk of the debt portfolio. That is, the AOFM manages the interest rate 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 other considerations such as cost, perceived investor demand and financial market efficiency. The cost and interest rate risk of the debt portfolio is regularly measured and reported to senior management, the Secretary to the Treasury and the AOFM Advisory Board.

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 and interest rate risk.

Residential mortgage-backed securities

Interest earned on residential mortgage-backed securities comprises a floating interest rate (based on the one-month BBSW rate) plus a fixed margin set at the time each investment is acquired. The AOFM monitors movements in these interest rates as part of its management of the overall portfolio.

With the recent Government decision to divest the RMBS portfolio, market conditions are an important consideration in managing the sale of the portfolio.

See Note 20 for details of the AOFM’s interest rate risk profile.

(a) Inflation risk

Treasury Indexed Bonds have their principal value indexed against the (all Groups) Australian Consumer Price Index (CPI). The interest is a fixed real 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.

(b) Foreign exchange risk

Foreign exchange risk arises from debt denominated in a foreign currency and represents the risk to debt servicing costs and the value of debt caused by changes in foreign exchange rates. Only a small residual amount of such debt remains in the AOFM’s portfolio and the AOFM seeks to repurchase this debt when available on acceptable terms.

See Note 20 for details of the AOFM’s foreign exchange risk.

(c) Liquidity and refinancing risk

The AOFM manages liquidity risk by maintaining sufficient cash and short-term investments to ensure that the Government can meet its financial obligations, both planned and unplanned, 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 91-day rolling average balance of the OPA is kept below an upper limit set by the Treasurer and the Minister for Finance. 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. Should circumstances arise for the overdraft to exceed this limit, Ministerial approval is required.

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 (including the number of bond lines and the maturity gaps between lines) of its debt.

Senior management monitors the daily balance in the OPA, holdings of short-term assets and short-term and long-term debt issuance activity.

See Note 20 for details of the maturity profile of AOFM's obligations arising from its financial liabilities as at year end.

(d) 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. Section 58 of the *Public Governance, Performance and Accountability Act 2013* (and prior to 1 July 2014, section 39 of the *Financial Management and Accountability Act 1997*) and associated rules specify authorised investments. Directions from the Treasurer may further limit the class of acceptable assets. The Secretary to the Treasury sets class and individual issuer exposure limits, including credit rating requirements. The AOFM CEO may impose additional limits.

Authorised investments and their limits are as follows:

Authorised investments under Section 58 of the *Public Governance, Performance and Accountability Act 2013*	**Limits framework for 2014-15**
Securities issued or guaranteed by the Commonwealth, a State or Territory.	Class limit of zero.
A deposit with a bank, including a deposit evidenced by a certificate of deposit.	No limit on RBA term deposits.
Debt instruments with an investment grade credit rating that are issued or guaranteed by the government of a foreign country.	Class limit of zero.
Debt instruments with an investment grade credit rating that are issued or guaranteed by a financial institution whose members consist of foreign countries (which may also include Australia).	Class limit of zero.
Debt instruments with an investment grade credit rating that are denominated in Australian currency.	Class limit of zero.

See Note 20 for details of the AOFM's exposure to credit risk.

Residential mortgage-backed securities (RMBS)

The AOFM no longer makes new investments in RMBS, however, it continues to hold securities purchased prior to 9 April 2013. The credit quality of RMBS derives from the underlying quality of the mortgage assets and structural enhancements such as lenders' mortgage insurance, liquidity facilities, and the issue of different classes of securities. At the time of acquisition, each RMBS security was required to meet a range of eligibility criteria set by the AOFM, including AAA (or equivalent) credit rating by at least two ratings agencies and denomination in Australian dollars.

The AOFM monitors the performance of each RMBS issue through a monthly report by the issuer on mortgage portfolio characteristics as well as conducting due diligence on RMBS issues from time-to-time.

As at 30 June 2015 all RMBS securities held by the AOFM were rated at AAA or equivalent.

Other assets and credit exposures

The AOFM has a credit risk exposure on its advances to the State and Northern Territory Governments. This risk is regarded as minimal.

To protect the Australian Government's financial position with respect to securities lending arrangements, the market value of the collateral securities taken from counterparties is at least 2 per cent greater than the market value of the Treasury Bonds or Treasury Indexed Bonds lent. The AOFM has the right to seek additional collateral if there is a decline in the market value of the collateral securities relative to the lent securities.

(a) Prepayment risk

All RMBS currently held by the AOFM are fully amortising, pass through instruments. This means that the principal collections from the underlying portfolio of mortgages are repaid to the holders of the securities thereby reducing the principal outstanding on them.

Principal and interest on the underlying loans are received by the servicer and paid to an issuer bank account. On a scheduled basis, typically monthly, in accordance with a set priority of payments (a 'cash flow waterfall'), the cash collected is used to pay any taxes, fees and expenses of the issuer, and interest and principal due on each class of outstanding RMBS. Due to the pass through nature of the RMBS, the repayment of principal is dependent upon the timing of principal repayments on the underlying mortgages and the operation of the cash flow waterfall. Accordingly, the rate at which principal is repaid varies over time and the actual date that the securities will be repaid in full cannot be precisely determined (this is referred to as prepayment risk).

The AOFM monitors the performance of each RMBS issue through a monthly report by the issuer. The report provides details of cash received from payments on the underlying mortgages, payments made, the rate of the loan principal repayments ahead of scheduled principal payments and the estimated weighted average remaining life of the securities.

Note 4: Expenses

	2015 $'000	2014 $'000
EMPLOYEE BENEFITS		
Wages and salaries	**5,044**	5,570
Superannuation	**949**	1,049
Leave entitlements	**153**	90
Other employee expenses	**255**	231
Total employee benefits	**6,401**	6,940
SUPPLIER EXPENSES		
ANAO - notional audit fee	**320**	320
Corporate support services	**580**	553
Market data services	**504**	537
Operating lease payments - premises	**288**	288
Depository and transaction services	**144**	139
Travel	**260**	366
Workers compensation premium	**14**	12
Other	**1,254**	1,220
Total supplier expenses	**3,364**	3,435
Supplier expenses were with:		
Related parties	**1,472**	1,393
External parties	**1,892**	2,042
	3,364	3,435

Note 5: Financial assets

	2015 $'000	2014 $'000
RECEIVABLES		
With related parties:		
Goods and services	**70**	73
Appropriations receivable	**28,642**	25,473
GST and other	**1**	5
Total receivables	**28,713**	25,551
Receivables are expected to be recovered in:		
No more than 12 months	**3,694**	2,920
More than 12 months	**25,019**	22,631
	28,713	25,551
Receivables are aged as follows:		
Not overdue	**28,713**	25,551
Overdue	**-**	-
	28,713	25,551

Appropriations receivable are appropriations controlled by the AOFM but held in the OPA under the Government's 'just-in-time' drawdown arrangements.

Note 6: Non-financial assets

Computers, plant and equipment

	2015 $'000	2014 $'000
COMPUTERS, PLANT AND EQUIPMENT		
Gross value	**305**	632
Accumulated depreciation	**(53)**	(243)
Total computers, plant and equipment	**252**	389
Reconciliation of gross value:		
Opening value	**632**	462
Purchases	**2**	183
Disposal	**(70)**	(13)
Revaluation	**(259)**	-
	305	632
Reconciliation of accumulated depreciation:		
Opening value	**(243)**	(147)
Depreciation charge for period	**(134)**	(107)
Disposal	**59**	11
Revaluation	**265**	-
	(53)	(243)

Computers, plant and equipment are carried at fair value.

A valuation was conducted by an independent valuer, Australian Valuation Solutions as at 31 March 2015. A revaluation gain of $6,235 was recorded. As at 30 June 2015, the AOFM had cumulative net revaluation losses of $63,615 for computers, plant and equipment which were recognised as expenses in the Statement of Comprehensive Income.

No indicators of impairment were identified for computers, plant and equipment.

Leasehold improvements

	2015 $'000	2014 $'000
LEASEHOLD IMPROVEMENTS		
Gross value	**1,475**	1,138
Accumulated depreciation	**(1,420)**	(973)
Total leasehold improvements	**55**	165
Reconciliation of gross value:		
Opening value	**1,138**	1,137
Purchases	**-**	1
Disposal	**-**	-
Revaluation	**337**	-
	1,475	1,138
Reconciliation of accumulated depreciation:		
Opening value	**(973)**	(864)
Depreciation charge for period	**(113)**	(109)
Disposal	**-**	-
Revaluation	**(334)**	-
	(1,420)	(973)

Leasehold improvements are carried at fair value.

A valuation was conducted by an independent valuer, Australian Valuation Solutions as at 31 March 2015. A revaluation gain of $2,635 was recorded. As at 30 June 2015, the AOFM had cumulative net revaluation losses of $10,502 for leasehold improvements which were recognised as expenses in the Statement of Comprehensive Income.

No indicators of impairment were identified for leasehold improvements.

Computer software

	2015 $'000	2014 $'000
COMPUTER SOFTWARE		
Gross value:		
Debt management system	**4,179**	4,179
Work in progress	**585**	-
Other	**98**	66
Accumulated amortisation	**(3,408)**	(3,278)
Total computer software	**1,454**	967
Reconciliation of gross value:		
Opening value	**4,245**	3,342
Purchases	**617**	979
Disposal	**-**	(76)
	4,862	4,245
Reconciliation of accumulated amortisation:		
Opening value	**(3,278)**	(3,189)
Amortisation charge for period	**(130)**	(161)
Disposal	**-**	72
	(3,408)	(3,278)

Computer software is carried at cost.

No indicators of impairment were identified for computer software.

Note 7: Provisions

	2015 $'000	2014 $'000
EMPLOYEE PROVISIONS		
Annual leave	**417**	448
Long service leave	**1,474**	1,291
Superannuation	**214**	206
Total employee provisions	**2,105**	1,945
Employee provisions are expected to be settled in:		
No more than 12 months	**517**	361
More than 12 months	**1,588**	1,584
	2,105	1,945
OTHER PROVISIONS		
Make-good on leasehold premises	**156**	140
Total other provisions	**156**	140
Other provisions are expected to be settled in:		
No more than 12 months	**156**	-
More than 12 months	**-**	140
	156	140
Reconciliation of movements in other provisions:		
Opening balance	**140**	136
Re-measurement	**16**	4
	156	140

Note 8: Non-financial assets carried at fair value

Fair value measurements

The following table discloses the quality of significant inputs used to determine the fair value of non-financial assets measured at fair value as at year end, by assigning a 3 level hierarchy to those valuations, being:

- Level 1 — The fair value is determined using unadjusted prices in active markets for identical assets.
- Level 2 — The fair value is determined using market inputs, other than quoted prices included within Level 1, that are observable for the asset either directly or indirectly.
- Level 3 — The fair value is determined using unobservable inputs for the asset.

		Level 1 inputs	Level 2 inputs	Level 3 inputs
	Last revalued	**2015 $'000**	**2015 $'000**	**2015 $'000**
Computers, plant and equipment	Mar-15	-	252	-
Leasehold improvements	Mar-15	-	-	55
Total		**-**	**252**	**55**
	Last revalued	2014 $'000	2014 $'000	2014 $'000
Computers, plant and equipment	Mar-12	-	389	-
Leasehold improvements	Mar-12	-	-	165
Total		-	389	165

Valuation technique and inputs for level 2 and level 3 fair value measurements

Computers, plant and equipment (level 2 inputs) are revalued using a market approach by referencing recent market evidence of comparable items in second-hand markets.

Leasehold improvements (level 3 inputs) are revalued using a depreciated replacement cost approach. This approach estimates the gross cost to replace the service potential of the asset using observable market inputs (current replacement cost), *less* the estimated economic benefits consumed by the AOFM over the expected useful life of the asset (unobservable input). The gross replacement cost has been determined by an independent qualified valuer using industry based costing guidelines.

The consumed economic benefits is an unobservable valuation input, and was determined by the AOFM and an independent qualified valuer using judgment regarding physical, economic and external obsolescence factors.

Class	Category (Level 2 or Level 3)	Carrying value $'000	Valuation technique	Inputs used
Computers, plant and equipment	**2**	**252**	**Market approach**	**Reference to recent market evidence of comparable items in second-hand markets**
Leasehold improvements	**3**	**55**	**Depreciated replacement cost**	**Current gross replacement cost per sq. metre**
				Consumed economic benefits (unobservable input)

Level 3 fair value measurements — sensitivity analysis for non-financial assets

The significant unobservable input in relation to leasehold improvements is the consumed economic benefits of the asset represented by the estimated useful life of the asset to the AOFM. A significant increase (decrease) in this input would result in a higher (lower) net fair value.

The current property lease is for 15 years less one day and expires on 21 December 2015. There is no renewal option within the lease. Accordingly the AOFM is depreciating its leasehold improvements over a useful life period that will cease at the end of the contracted lease term. The AOFM may negotiate a new lease and continue to use its leasehold improvements beyond December 2015. A change to the lease term may have a material impact on the depreciated replacement cost of leasehold improvements. Each 1-year extension in the useful life of leasehold improvements equates to approximately a $70,000 increase in net fair value.

Reconciliation for level 3 fair value measurements

The following table reconciles the opening and closing balances of level 3 fair value measurements.

	2015 $'000	2014 $'000
LEASEHOLD IMPROVEMENTS		
Net opening balance	**165**	273
Depreciation	**(113)**	(109)
Revaluation	**3**	-
Purchases	**-**	1
Disposal	**-**	-
Transfers into Level 3	**-**	-
Transfers out of Level 3	**-**	-
Net closing balance	**55**	165

Note 9: 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.

	2015 $'000	2014 $'000
Net cost of services	**(9,205)**	(9,874)
Add revenue from Government	**11,398**	11,479
Adjustments for non-cash items:		
Depreciation and amortisation	**377**	377
Write-down and impairment of assets	**11**	6
Revaluation increments recognised in revenue	**(9)**	-
Assets not yet paid for	**(19)**	4
Appropriations extinguished	**(653)**	(3,447)
Change in receivables for capital budget items	**132**	(759)
Adjustments for changes in assets:		
(Increase) decrease in receivables	**(3,162)**	3,113
(Increase) decrease in supplier prepayments	**865**	(868)
Adjustments for changes in liabilities:		
Increase (decrease) in supplier payables	**64**	(148)
Increase (decrease) in salary and superannuation	**21**	12
Increase (decrease) in other payables	**4**	5
Increase (decrease) in employee provisions	**160**	96
Increase (decrease) in other provisions	**16**	4
Net cash from (used by) operating activities	**-**	-

Note 10: Contingent liabilities and assets

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

Remote contingencies

The AOFM has indemnified a number of contractors providing goods and services under contract for losses incurred by the contractor due to, amongst other things, the AOFM's failure to observe certain terms of contract, or for wrongful, unlawful or negligent acts committed by the AOFM. The AOFM is not aware of any event that has occurred that may trigger action under the indemnities. Furthermore, under a number of contracts, the contractor's liability to the AOFM for losses arising from certain circumstances is capped. The AOFM has assessed that the likelihood of significant losses above the liability cap is remote.

Note 11: Senior management personnel

Remuneration means any money, consideration or benefit including wages, salaries, accrued leave entitlements (excluding superannuation on-costs), superannuation contributions, the cost of motor vehicles, housing, commuting, fringe benefits tax and allowances. Remuneration does not include reimbursement of out-of-pocket expenses incurred for work related purposes. Where the AOFM is not entitled to an input tax credit, remuneration includes the non-recoverable GST amount. AOFM employees are not eligible to receive performance bonuses.

Remuneration expenses (on an accruals basis) for officers in the senior executive service

	2015 **$**	2014 $
Short-term employee benefits:		
Salary and other short-term benefits	**333,361**	332,531
Annual leave accrued	**27,066**	26,406
Long service leave accrued	**9,413**	9,152
Post employment benefits:		
Superannuation	**48,020**	46,930
Total	**417,860**	415,019
Number of senior executive officers	**1**	1

The value of the long service leave provision at the end of June is determined based on actuarial advice. The valuation includes the use of a discount rate to equate the expected future payments of the benefit to a net present value. The discount rate is determined based on differences between future expectations of long-term salary increases and the long-term bond rate. Changes from year to year in the discount rate used to value long service leave have an impact on the level of remuneration reported for a financial year. As at 30 June 2015 the discount rate was 100.0 per cent (30 June 2014: 97.7 per cent).

Note 12: Administered income before re-measurements

	2015 $'000	2014 $'000
INTEREST REVENUE		
Loans to State and Territory Governments:		
Perpetual debt	**239**	239
Advances	**123,567**	127,738
Investments:		
Deposits	**603,662**	607,854
Residential mortgage-backed securities	**193,368**	308,441
Total interest revenue	**920,836**	1,044,272

Note 13: Administered expenses before re-measurements

	2015 $'000	2014 $'000
INTEREST EXPENSE		
Australian Government Securities:		
Treasury Bonds	**13,043,830**	11,806,154
Treasury Indexed Bonds	**1,265,748**	1,460,836
Treasury Notes	**162,689**	121,751
Other debt	**809**	946
Other interest costs	**22**	288
Total interest expense	**14,473,098**	13,389,975

Note 14: Administered gains (losses) before re-measurements

	2015 $'000	2014 $'000
NET REALISED GAINS (LOSSES)		
Sale of residential mortgage-backed securities	**1,001**	12,576
Repurchase of debt	**(33,997)**	(194,329)
Total net realised gains (losses)	**(32,996)**	(181,753)

Total net realised gains (losses) on financial instruments represent the total proceeds paid or received from a sale of an asset or repurchase of debt prior to maturity, less the amortised cost carrying value using the effective interest method, at the time of sale or repurchase.

In accordance with the Treasurer's Direction of 5 May 2015 to divest the Australian Government's investments in residential mortgage-backed securities (RMBS), in late June 2015 the AOFM conducted its first monthly auction process to sell a tranche of its RMBS investments. The AOFM sold $160.5 million (in face value terms) across two securities.

As part of its cash management operations, and where appropriate, the AOFM may repurchase Australian Government Securities that are due to mature within the next 12 months. In March 2015 the AOFM repurchased $3,472.9 million (in face value terms) of the April 2015 Treasury Bonds series, and in May 2015 the AOFM repurchased $2,500 million (in face value terms) of the October 2015 Treasury Bonds series for cash management purposes.

Note 15: Administered re-measurements

	2015 $'000	2014 $'000
NET MARKET REVALUATION GAINS (LOSSES)		
Australian Government Securities:		
Treasury Bonds	**(6,754,896)**	(3,001,455)
Treasury Indexed Bonds	**(744,451)**	(683,841)
Other debt	**(204)**	(915)
Investments	**(12,083)**	15,394
Total net market revaluation gains (losses)	**(7,511,634)**	(3,670,817)

Net market revaluation gains (losses) represent the unrealised fair value gains (losses) on the portfolio of administered financial assets and financial liabilities. Changes in the carrying value of financial assets and financial liabilities are attributed between changes in the amortised cost carrying value and other changes in carrying value. Changes attributable to amortised cost are recognised in revenue before re-measurements or expenses before re-measurements. Other changes in carrying value (including due to a change in interest rates) are recognised as administered re-measurements. Where a financial asset is sold or a financial liability is repurchased during the financial year, the cumulative unrealised market value gain or loss at that time is reversed against administered re-measurements. The revaluation effect will net to zero over the life of a financial instrument, either at maturity or on de-recognition prior to maturity.

Note 16: Administered assets

	2015 $'000	2014 $'000
INVESTMENTS		
Designated at fair value through profit or loss:		
Deposits	**34,267,830**	27,116,335
Residential mortgage-backed securities	**4,287,992**	6,059,565
Total investments	**38,555,822**	33,175,900
Investments maturing:		
Within one year	**34,640,519**	27,300,967
In one to five years	**3,826,456**	5,485,300
In more than five years	**88,847**	389,633
	38,555,822	33,175,900

Investments were made under the authority of section 58 of the *Public Governance, Performance and Accountability Act 2013* (and prior to 1 July 2014, section 39 of the *Financial Management and Accountability Act 1997*).

The maturity profile is based on contractual maturity dates, with the exception of residential mortgage-backed securities. For residential mortgage-backed securities the maturity profile is based on the weighted average life of each investment.

The changes in deposits balances comprise:

	2015 $'000	2014 $'000
DEPOSITS		
Opening value	**27,116,335**	20,159,143
Acquisitions (face value)	**653,200,000**	676,000,000
Redemptions (face value)	**(646,050,000)**	(669,050,000)
Change in interest accruals and market value	**1,495**	7,192
	34,267,830	27,116,335

The changes in residential mortgage-backed securities balances comprise:

	2015 $'000	2014 $'000
RESIDENTIAL MORTGAGE-BACKED SECURITIES		
Opening value	**6,059,565**	9,113,022
Principal repayments	**(1,594,807)**	(2,177,699)
Sales (face value)	**(160,501)**	(885,000)
Change in interest accruals and market value	**(16,265)**	9,242
	4,287,992	6,059,565

	2015 $'000	2014 $'000
LOANS TO STATE AND TERRITORY GOVERNMENTS		
At amortised cost:		
Perpetual debt:		
Principal	**7,978**	7,978
Accrued interest	**93**	93
Balance of special account (see Note 24)	**(943)**	(843)
Advances:		
Principal	**2,275,272**	2,365,952
Unamortised net discounts	**(249,528)**	(267,015)
Accrued interest	**279**	290
Other	**4**	4
Total loans to State and Territory Governments	**2,033,155**	2,106,459
Loans to State and Territory Governments maturing:		
Within one year	**2,626**	2,720
In one to five years	**34,032**	31,315
In more than five years	**1,996,497**	2,072,424
	2,033,155	2,106,459
Loans to State and Territory Governments are aged as follows:		
Not overdue	**2,033,155**	2,106,459

Loans to State and Territory Governments are composed primarily of credit foncier loans. The maturity profile is based on the maturity date of each loan, disregarding principal repayments prior to that time.

The balance of the special account is for the repurchase of New South Wales and Victorian debt governed by the *Financial Agreement Act 1994*.

Note 17: Administered liabilities

	2015 $'000	2014 $'000
AUSTRALIAN GOVERNMENT SECURITIES		
Designated at fair value through profit or loss:		
Treasury Bonds	**365,760,903**	313,875,056
Treasury Indexed Bonds	**38,175,835**	32,418,652
Treasury Notes	**5,977,920**	4,974,038
Other debt	**7,976**	6,926
At amortised cost:		
Other debt	**13,856**	13,902
Total Australian Government Securities	**409,936,490**	351,288,574
Australian Government Securities maturing:		
Within one year	**42,148,193**	32,583,625
In one to five years	**145,547,086**	137,239,754
In more than five years	**222,241,211**	181,465,195
	409,936,490	351,288,574

The maturity profile is based on contractual maturity dates.

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.

As at 30 June 2015 the weighted average (*nominal*) issuance yield on Treasury Bonds was 3.87 per cent (2013-14: 4.22 per cent) and the weighted average market yield was 2.51 per cent (2013-14: 3.06 per cent).

	2015 $'000	2014 $'000
TREASURY BONDS		
Components of carrying value:		
Face value	**335,186,219**	290,936,151
Accrued interest	**3,787,053**	3,610,579
Unamortised net premiums	**7,208,240**	6,503,831
Market value adjustment	**19,579,391**	12,824,495
	365,760,903	313,875,056
Reconciliation of changes in carrying value:		
Opening value	**313,875,056**	253,157,332
Issuance (face value)	**73,550,000**	80,000,000
Maturities and redemptions (face value)	**(29,299,932)**	(22,603,349)
Changes in accruals and net premiums	**880,883**	319,618
Changes in market value adjustment	**6,754,896**	3,001,455
	365,760,903	313,875,056

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 paid quarterly in arrears, at a fixed rate, on the accreted capital value. At maturity, investors receive the adjusted capital value of the security.

As at 30 June 2015, the weighted average (*real)* issuance yield on Treasury Indexed Bonds was 1.97 per cent (2013-14: 2.21 per cent) and the weighted average market yield was 0.58 per cent (2013-14: 1.00 per cent).

	2015 $'000	2014 $'000
TREASURY INDEXED BONDS		
Components of carrying value		
Face value	**27,530,819**	23,531,353
Capital accretion	**5,881,648**	5,190,047
Accrued interest	**73,708**	67,454
Unamortised net premiums	**953,444**	638,033
Market value adjustment	**3,736,216**	2,991,765
	38,175,835	32,418,652
Reconciliation of changes in carrying value		
Opening value	**32,418,652**	27,092,922
Issuance (face value)	**4,000,000**	7,288,930
Maturities and redemptions (face value)	**(534)**	(2,076,577)
Changes in capital accretion	**691,601**	(442,264)
Changes in accruals and net premiums	**321,665**	(128,200)
Changes in market value adjustment	**744,451**	683,841
	38,175,835	32,418,652

During 2013-14 the AOFM converted $2,038.9 million face value of the August 2015 Treasury Indexed Bonds into the November 2018 Treasury Indexed Bonds.

Treasury Notes

Treasury Notes are a discount instrument, repayable at face value on maturity. During 2014-15, $22,000 million of Treasury Notes were issued (2013-14: $19,500 million) and $21,000 million matured (2013-14: $20,000 million). The average tenor of issuance was around 4 months (2013-14: 3 months).

As at 30 June 2015, $6,000 million of Treasury Notes were on issue (30 June 2014: $5,000 million).

Note 18: Administered cash flow reconciliation

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

	2015 $'000	2014 $'000
Surplus (deficit)	**(21,115,979)**	(16,221,685)
Adjustments for non-cash items:		
Amortisation and capital accretion of debt instruments	**(1,368,206)**	(1,046,085)
Amortisation of net discounts on Loans to State and Territory Governments	**(17,487)**	(17,733)
Net realised (gains) losses	**32,996**	181,753
Net foreign exchange (gains) losses	**1,254**	(78)
Re-measurements	**7,511,634**	3,670,817
Debt Retirement Reserve Trust Account contributions and interest payments	**40**	39
Other	**-**	220
Adjustments for cash items:		
Capital accretion costs on repurchase of debt	**(227)**	(1,329,288)
Accrual adjustments:		
Interest accruals on debt instruments	**186,222**	742,489
Interest accruals on financial assets	**2,700**	(1,029)
Accrued expenses	**(5)**	(183)
Net cash from (used by) operating activities	**(14,767,058)**	(14,020,763)

Note 19: Administered contingent liabilities and assets

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

Remote contingencies

The Government has indemnified agents of foreign currency denominated loans issued by the Australian Government outside Australia against any loss, liability, costs, claims, charges, expenses, actions or demands due to any misrepresentation by the Australian Government and any breach of warranties. The AOFM is not aware of any event that has occurred that may trigger action under the indemnities.

Note 20: Administered financial instruments

Interest rate risk

The AOFM's exposure to interest rate risk and corresponding weighted average effective interest rates from financial instruments as at the reporting date is set out below.

	Fixed interest rate	Floating interest rate	Non interest bearing	Weighted average interest
	2015 $'000	**2015 $'000**	**2015 $'000**	**2015 %**
Financial assets				
Cash	**-**	**-**	**622**	**-**
Loans to State and Territory Governments	**2,033,151**	**-**	**4**	**5.88**
Residential mortgage-backed securities	**-**	**4,287,992**	**-**	**3.31**
Deposits	**34,267,830**	**-**	**-**	**2.01**
Total financial assets	**36,300,981**	**4,287,992**	**626**	
Financial liabilities				
Treasury Bonds	**365,760,903**	**-**	**-**	**3.87**
Treasury Indexed Bonds	**38,175,835**	**-**	**-**	**1.97**
Treasury Notes	**5,977,920**	**-**	**-**	**2.02**
Other debt	**16,046**	**-**	**5,786**	**3.96**
Total financial liabilities	**409,930,704**	**-**	**5,786**	
	2014 $'000	2014 $'000	2014 $'000	2014 %
Financial assets				
Cash	-	-	622	-
Loans to State and Territory Governments	2,106,456	-	3	5.88
Residential mortgage-backed securities	-	6,059,565	-	3.93
Deposits	27,116,335	-	-	2.48
Total financial assets	29,222,791	6,059,565	625	
Financial liabilities				
Treasury Bonds	313,875,056	-	-	4.22
Treasury Indexed Bonds	32,418,652	-	-	2.21
Treasury Notes	4,974,038	-	-	2.51
Other debt	14,997	-	5,831	3.66
Total financial liabilities	351,282,743	-	5,831	

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 net debt portfolio to changes in debt servicing costs with changes in interest rates. The extent to which the AOFM can match the repricing profile of its financial assets with those of its financial liabilities is limited by the differences in the volumes and the need for assets to be available for cash management or other purposes. Interest rates are nominal interest rates with the exception of Treasury Indexed Bonds (which are real interest rates).

Foreign exchange risk

Foreign exchange risk arises from debt the AOFM holds in foreign denominated currencies and represents the risk to debt servicing costs and the value of the debt caused by changes in foreign exchange rates. Currently the AOFM's foreign exchange risk arises from contractual obligations on foreign currency loans and securities.

The Australian equivalent principal value of foreign currency loans and securities as at the reporting date is disclosed in the following table.

	2015 $'000	2014 $'000
FOREIGN CURRENCY DENOMINATED LIABILITIES		
Current:		
Pounds sterling	**106**	94
Japanese yen	**4**	4
Swiss francs	**71**	61
Euros	**8**	8
Non-current:		
United States dollars	**6,928**	5,649
Total foreign currency denominated liabilities	**7,117**	5,816
FOREIGN CURRENCY DENOMINATED ASSETS		
Current:		
Pounds sterling	**4**	4
Total foreign currency denominated assets	**4**	4

Contractual maturities of financial liabilities

The following table discloses the undiscounted value of the contractual maturities of financial liabilities as at the reporting date, including estimated future interest payments.

	Less than 1 year	1 to 2 years	2 to 5 years	5+ years	Total
	2015 $'000	**2015 $'000**	**2015 $'000**	**2015 $'000**	**2015 $'000**
Treasury Bonds	**48,131,060**	**34,617,366**	**138,521,417**	**210,376,630**	**431,646,473**
Treasury Indexed Bonds	**2,825,715**	**791,958**	**7,193,091**	**29,650,662**	**40,461,426**
Treasury Notes	**6,000,000**	**-**	**-**	**-**	**6,000,000**
Other debt	**580**	**7,509**	**-**	**-**	**8,089**
Total	**56,957,355**	**35,416,833**	**145,714,508**	**240,027,292**	**478,115,988**
	2014 $'000	2014 $'000	2014 $'000	2014 $'000	2014 $'000
Treasury Bonds	40,686,693	48,164,585	114,935,532	171,434,219	375,221,029
Treasury Indexed Bonds	795,447	2,720,216	4,918,428	27,455,961	35,890,052
Treasury Notes	5,000,000	-	-	-	5,000,000
Other debt	473	473	6,122	-	7,068
Total	46,482,613	50,885,274	119,860,082	198,890,180	416,118,149

For Treasury indexed Bonds, the interest payments and principal value are indexed against the CPI. There is a six month lag between the calculation period for the CPI and its impact on the value of interest and principal. Interest payments and principal value on redemption are projected at the CPI for the March quarter and held constant thereafter.

Perpetual debt and overdue debt have been excluded from the above table.

Credit risk

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

S&P or Fitch long-term rating Moody's long-term rating	AAA Aaa	AA+ Aa1	AA Aa2	 Total
	2015 $'000	**2015 $'000**	**2015 $'000**	**2015 $'000**
Cash	**622**	**-**	**-**	**622**
Loans to State and Territory Governments	**1,109,557**	**1,191,535**	**242,643**	**2,543,735**
Residential mortgage-backed securities	**4,287,992**	**-**	**-**	**4,287,992**
Deposits	**34,267,830**	**-**	**-**	**34,267,830**
Total	**39,666,001**	**1,191,535**	**242,643**	**41,100,179**
	2014 $'000	2014 $'000	2014 $'000	2014 $'000
Cash	622	-	-	622
Loans to State and Territory Governments	1,107,789	1,175,057	237,114	2,519,960
Residential mortgage-backed securities	6,059,565		-	6,059,565
Deposits	27,116,335	-	-	27,116,335
Total	34,284,311	1,175,057	237,114	35,696,482

In the table, where a counterparty has a split rating between the rating agencies, the AOFM's exposure to the counterparty is allocated to the lower credit rating.

Cash and deposits are held with the RBA. The RBA does not issue debt in the wholesale market and accordingly does not have a credit rating. However, as Australia's central bank it is deemed to have the same credit rating as the Australian Government.

Net fair values

	Principal value	Carrying value	Fair value
	2015	**2015**	**2015**
	$'000	**$'000**	**$'000**
FINANCIAL ASSETS			
Cash	**622**	**622**	**622**
Loans to State and Territory Governments	**2,282,311**	**2,033,155**	**2,542,793**
Deposits	**34,250,000**	**34,267,830**	**34,267,830**
Residential mortgage-backed securities	**4,261,351**	**4,287,992**	**4,287,992**
Total financial assets	**40,794,284**	**40,589,599**	**41,099,237**
FINANCIAL LIABILITIES			
Treasury Bonds	**335,186,219**	**365,760,903**	**365,760,903**
Treasury Indexed Bonds	**33,412,467**	**38,175,835**	**38,175,835**
Treasury Notes	**6,000,000**	**5,977,920**	**5,977,920**
Other debt	**20,692**	**21,832**	**21,832**
Total financial liabilities	**374,619,378**	**409,936,490**	**409,936,490**
Net financial assets	**(333,825,094)**	**(369,346,891)**	**(368,837,253)**
	2014	2014	2014
	$'000	$'000	$'000
FINANCIAL ASSETS			
Cash	622	622	622
Loans to State and Territory Governments	2,373,091	2,106,459	2,519,117
Deposits	27,100,000	27,116,335	27,116,335
Residential mortgage-backed securities	6,016,659	6,059,565	6,059,565
Total financial assets	35,490,372	35,282,981	35,695,639
FINANCIAL LIABILITIES			
Treasury Bonds	290,936,151	313,875,056	313,875,056
Treasury Indexed Bonds	28,721,400	32,418,652	32,418,652
Treasury Notes	5,000,000	4,974,038	4,974,038
Other debt	19,458	20,828	20,828
Total financial liabilities	324,677,009	351,288,574	351,288,574
Net financial assets	(289,186,637)	(316,005,593)	(315,592,935)

Principal value is the face value of financial instruments, with the exception of Treasury Indexed Bonds which is the inflation adjusted capital value.

Loans to State and Territory Governments are carried at amortised cost. These transactions are not traded and, especially for those with the longest terms to maturity, a direct market benchmark to underpin fair value measurement does not exist. In estimating aggregate net fair value, the AOFM based its valuation from data on Treasury Bonds.

The following table discloses the quality of significant inputs used to determine the fair value of financial instruments measured at fair value, by assigning a 3 level hierarchy to those valuations, being:

- Level 1 inputs — the fair value method is determined using unadjusted quoted prices in active markets for identical financial instruments.
- Level 2 inputs — the fair value is estimated by using market inputs other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs - The fair value is determined from inputs not based on observable market data, or significant adjustments to observable market data.

	Level 1	Level 2	Level 3	Total
	2015	**2015**	**2015**	**2015**
	$'000	**$'000**	**$'000**	**$'000**
FINANCIAL ASSETS				
Deposits	**-**	**34,267,830**	**-**	**34,267,830**
Residential mortgage-backed securities	**-**	**4,287,992**	**-**	**4,287,992**
Total	**-**	**38,555,822**	**-**	**38,555,822**
FINANCIAL LIABILITIES				
Treasury Bonds	**331,624,497**	**34,136,406**	**-**	**365,760,903**
Treasury Indexed Bonds	**38,175,835**	**-**	**-**	**38,175,835**
Treasury Notes	**-**	**5,977,920**	**-**	**5,977,920**
Other debt	**-**	**7,976**	**-**	**7,976**
Total	**369,800,332**	**40,122,302**	**-**	**409,922,634**
	2014	2014	2014	2014
	$'000	$'000	$'000	$'000
FINANCIAL ASSETS				
Deposits	-	27,116,335	-	27,116,335
Residential mortgage-backed securities	-	6,059,565	-	6,059,565
Total	-	33,175,900	-	33,175,900
FINANCIAL LIABILITIES				
Treasury Bonds	286,271,393	27,603,663	-	313,875,056
Treasury Indexed Bonds	32,418,652	-	-	32,418,652
Treasury Notes	-	4,974,038	-	4,974,038
Other debt	-	6,926	-	6,926
Total	318,690,045	32,584,627	-	351,274,672

Residential Mortgage-Backed Securities

From September 2008 to April 2013 the AOFM acquired a portfolio of AAA or equivalent rated RMBS with face value of $15,462.6 million. In April 2013, the Government announced it would not make any more new investments in RMBS. In May 2015, the AOFM was directed to divest the portfolio through a regular competitive process. In June 2015, the AOFM conducted its first monthly auction process to sell a tranche of its RMBS securities. The AOFM sold $160.5 million (in face value terms) across two securities.

The following table provides details of RMBS activity since this initiative was first announced in 2008:

	Opening Balance	Amount Invested	Principal Repayments	Sales	Closing Balance
	$'000	$'000	$'000	$'000	$'000
Financial Year					
2008-09	-	6,203,420	(179,281)	-	6,024,139
2009-10	6,024,139	2,819,540	(850,664)	(73,790)	7,919,225
2010-11	7,919,225	4,349,220	(1,438,640)	-	10,829,805
2011-12	10,829,805	1,930,430	(1,509,050)	(50,000)	11,201,185
2012-13	11,201,185	160,000	(1,771,242)	(510,585)	9,079,358
2013-14	9,079,358	-	(2,177,699)	(885,000)	6,016,659
2014-15	**6,016,659**	**-**	**(1,594,807)**	**(160,501)**	**4,261,351**
Total		**15,462,610**	**(9,521,383)**	**(1,679,876)**	

Note 21: Market risk sensitivity of administered financial instruments

Market risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices.

The main types of market risk the AOFM's portfolio of debt and financial assets is exposed to are domestic *interest rate risk* and domestic *inflation risk.* Moreover, by generally issuing/buying and holding to maturity, the market risk most relevant to the AOFM's activities is the risk of fluctuations to future interest and principal cash flows arising from changes in interest rates and inflation. The risk of fluctuations in the fair value of the AOFM's net debt portfolio is of a secondary order.

Accordingly, the AOFM has focused its market risk sensitivity analysis on an accruals (or amortised cost) basis of accounting under the historic cost accounting convention, as it provides the best predictive value of future cash flows (and hence costs and returns) arising from the AOFM's portfolio of debt and financial assets.

(a) Interest rate risk sensitivity analysis

Domestic interest rates impact on debt servicing costs when the AOFM enters the primary market to raise new borrowings or refinance maturing debt. When the AOFM borrows to repay maturing debt, there is a risk that debt servicing costs will change due to the interest rate on the new debt being higher or lower than the interest rate on the maturing debt. Furthermore, when the AOFM enters the market to raise new borrowings the interest cost locked-in will be dependent on the absolute level of market interest rates at that time.

Australian dollar denominated residential mortgage-backed securities investments pay a floating interest rate based on a benchmark interest rate plus a fixed margin set at the time each investment is acquired. When interest rates rise (fall), investment return will also rise (fall).

As the manager of the Government's liquidity, the AOFM holds a fluctuating portfolio of Australian dollar deposits. These investments have fixed interest rates and given their use for cash management purposes they have short terms to maturity (generally no more than a few months). When these investments mature and new investments are made the return may change due to re-investment at higher or lower interest rates.

Under previous Commonwealth-State financing arrangements the Australian Government made concessional Australian dollar loans to the States and the Northern Territory. These loans are of a fixed interest credit foncier nature. Changes in market interest rates do not cause changes in future cash flows of interest or principal.

If domestic interest rates had experienced an immediate 100 basis point parallel upward (downward) movement across the yield curve, and if that change were to persist for the 12 months to the next reporting date, with all other variables held constant, the effect on the AOFM's operating result before re-measurements (calculated on an accruals basis) and equity position would be as follows:

Interest rate risk sensitivity analysis	Interest rates	Impact in 2016 $'000	Impact in 2015 $'000
FINANCIAL ASSETS			
Deposits	-1%	**(338,203)**	(267,610)
Residential mortgage-backed securities	-1%	**(34,234)**	(50,684)
FINANCIAL LIABILITIES			
Treasury Bonds	-1%	**437,408**	269,308
Treasury Indexed Bonds	-1%	**-**	-
Treasury Notes	-1%	**48,808**	39,521
Net impact		**113,779**	(9,465)
FINANCIAL ASSETS			
Deposits	+1%	**338,203**	267,610
Residential mortgage-backed securities	+1%	**34,234**	50,684
FINANCIAL LIABILITIES			
Treasury Bonds	+1%	**(385,812)**	(230,082)
Treasury Indexed Bonds	+1%	**-**	-
Treasury Notes	+1%	**(48,808)**	(39,521)
Net impact		**(62,183)**	48,691

For the purposes of calculating the sensitivity analysis, it has been assumed that the AOFM will issue $74,000 million of Treasury Bonds during the 2015-16 financial year (2013-14 assumptions: $63,500 million in 2014-15). Residential mortgage-backed securities will have principal repaid based on internal modelling in relation to principal repayments and no sales are assumed.

Other financial assets and liabilities levels are held constant over the 12 month period. Interest earned on investments is assumed to be returned to the OPA when received and not re-invested.

(b) Inflation risk sensitivity analysis

Treasury Indexed Bonds have their principal value indexed against the CPI. The interest is a fixed real rate of interest payable on the accreted principal value. Accordingly these debt instruments expose the AOFM to cash flow risk on interest payments and on the value of principal payable on maturity (or on redemption prior to maturity). There is a six month lag between the calculation period for the CPI and its impact on the value of interest and principal. As the CPI increases, debt servicing costs and the principal payable on maturity also rises.

If the CPI were to experience an immediate 1 per cent increase (decrease) and that change were to persist for 12 months to the next reporting date, with all other variables held constant, the effect on the AOFM's operating result before re-measurements (calculated on an accruals basis) and equity position would be as follows:

Inflation risk sensitivity analysis	CPI	Impact in 2016 $'000	Impact in 2015 $'000
FINANCIAL ASSETS			
Deposits	-1% CPI	-	-
Residential mortgage-backed securities	-1% CPI	-	-
FINANCIAL LIABILITIES			
Treasury Bonds	-1% CPI	-	-
Treasury Indexed Bonds	-1% CPI	**362,995**	314,875
Treasury Notes	-1% CPI	-	-
Net impact		**362,995**	314,875
FINANCIAL ASSETS			
Deposits	+1% CPI	-	-
Residential mortgage-backed securities	+1% CPI	-	-
FINANCIAL LIABILITIES			
Treasury Bonds	+1% CPI	-	-
Treasury Indexed Bonds	+1% CPI	**(368,757)**	(309,272)
Treasury Notes	+1% CPI	-	-
Net impact		**(368,757)**	(309,272)

Inflation risk sensitivity has been measured assuming that for each quarter in the next financial year the CPI is 1 per cent higher and lower than the average rate of CPI experienced in the current financial year.

For the purposes of calculating sensitivity analysis, it has been assumed that the AOFM will issue $4,000 million of Treasury Indexed Bonds during the 2015-16 financial year (2013-14 assumptions: $3,500 million in 2014-15).

The sensitivity analysis does not consider possible adjustments that the AOFM might make to the composition of its portfolio in response to the assumed interest rate and inflation changes.

(c) Fair value sensitivity

Debt

The fair value sensitivity of gross debt to changes in domestic interest rates as at 30 June 2015 was $225.6 million per basis point (30 June 2014: $181.9 million per basis point). This means that a 1 basis point (or 0.01 per cent) parallel increase (decrease) in interest rates across the yield curve would result in a favourable (unfavourable) change in fair value of $225.6 million.

RMBS

The fair value sensitivity of RMBS to changes in domestic interest rates as at 30 June 2015 was $0.9 million per basis point (30 June 2014: $1.5 million per basis point). This means that a 1 basis point (or 0.01 per cent) parallel increase (decrease) in interest rates across the yield curve would result in an unfavourable (favourable) change in fair value of $0.9 million.

Note 22: 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 market by allowing bond market participants to borrow Treasury Bonds and Treasury Indexed Bonds when they are not readily available in the market. Bonds are lent on an intra-day or overnight basis. Where bonds are lent overnight the AOFM receives net interest income.

The following table details the security lending transactions completed during the reporting period.

	Number of transactions	Number of transactions	**Face value loaned**	Face value loaned
	2015 No.	2014 No.	**2015 $'000**	2014 $'000
SECURITIES LENT				
Overnight:				
Treasury Bonds	**12**	17	**335,350**	502,900
Treasury Indexed Bonds	**1**	1	**13,000**	30,000
Intra-day:				
Treasury Bonds	**23**	23	**1,266,700**	1,607,800
Treasury Indexed Bonds	**4**	-	**85,500**	-
Securities lent	**40**	41	**1,700,550**	2,140,700

	2015 $'000	2014 $'000
INCOME ON OVERNIGHT LENDING		
Treasury Bonds	**44**	58
Treasury Indexed Bonds	**1**	3
Total income on overnight lending	**45**	61

Note 23: Disclosures of appropriations

The AOFM delivers a single outcome to Government:

> 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.

Annual appropriations (recoverable GST exclusive)

	2015 $'000	2014 $'000
DEPARTMENTAL ANNUAL APPROPRIATIONS		
Annual appropriations		
Outputs	**11,402**	11,485
Departmental capital budget	**732**	408
Annual reductions/withheld(a)	**(4)**	(6)
Public Governance, Performance and Accountability Act 2013:		
Section 74 - retained receipts	**662**	-
Financial Management and Accountability Act 1997(b)		
Section 30 - repayments	**-**	15
Section 31 - retained receipts (GST excluded)	**-**	634
Total departmental appropriations	**12,792**	12,536
Appropriation applied (current and prior years)	**(8,970)**	(12,138)
Variance	**3,822**	398

(a) The 2015 figure represents a savings measure from Budget Paper No.2, Budget Measures 2014-15.The appropriation was reduced via section 51 of the *Public Governance, Performance and Accountability Act 2013*.

(b) Under transitional arrangements enacted, sections 30A and 31 of the *Financial Management and Accountability Act 1997* continued to apply until 30 June 2015.

For 2014-15, the variance in departmental appropriations to appropriations applied (spent) is explained by lower staff costs, administrative costs and capital expenditure than expected.

Annual appropriations (recoverable GST exclusive)

	2015 $'000	2014 $'000
DEPARTMENTAL CAPITAL BUDGET		
Annual appropriations	**732**	408
Total departmental capital budget	**732**	408
Appropriation applied (current and prior years):		
Payments for non-financial assets	**(600)**	(1,167)
Payments for other purposes	**-**	-
Total payments	**(600)**	(1,167)
Variance	**132**	(759)

For 2014-15, the variance in departmental capital budget appropriations to appropriations applied (spent) is explained mainly by lower than estimated expenditure for the reimplementation of the AOFM's debt management system.

Unspent departmental annual appropriation

	2015 $'000	2014 $'000
UNSPENT DEPARTMENTAL ANNUAL APPROPRIATION		
Appropriation Act 1 2011-12 (a)	**-**	653
Appropriation Act 1 2012-13 (b)	**3,623**	12,399
Appropriation Act 1 2013-14 (b)	**12,327**	12,521
Appropriation Act 1 2014-15 (b)	**12,792**	-
Total	**28,742**	25,573
Represented By:		
Cash at Bank	**100**	100
Appropriation receivable	**28,642**	25,473
Total	**28,742**	25,573

(a) On 1 July 2014, *Appropriation Act 1 2011-12* became unavailable for the AOFM, as its provisions were not amended with the end of the *Financial Management and Accountability Act 1997* to reference the *Public Governance, Performance and Accountability Act 2013*. The Act was repealed on 17 October 2014 by the *Omnibus Repeal Day (Autumn 2014) Act 2014*.

(b) On 1 July 2014, the *Public Governance, Performance and Accountability (Consequential Modification of Appropriation Acts) Acts 2014* commenced. To support the transition to the PGPA Act, the Acts contain certain consequential amendments to the 2012-13, 2013-14 and 2014-15 Appropriation Acts to replace references to or reliance on provisions in the FMA Act with equivalent provisions in the PGPA Act.

Departmental appropriations extinguished

	2015 $'000	2014 $'000
APPROPRIATIONS EXTINGUISHED		
Statute Stocktake (Appropriations) Act 2013 effective 1 July 2013	**-**	3,447
Omnibus Repeal Day (Autumn 2014) Act 2014 effective 17 October 2014	**653**	-
Total appropriations extinguished	**653**	3,447

Administered annual appropriations (recoverable GST exclusive)

	2015 $'000	2014 $'000
ADMINISTERED ANNUAL APPROPRIATIONS		
Annual appropriations	**10**	10
Total administered appropriations	**10**	10
Appropriation applied	**-**	-
Variance	**10**	10

Unspent administered annual appropriation

	2015 $'000	2014 $'000
UNSPENT ADMINISTERED ANNUAL APPROPRIATION		
Appropriation Act 1 2013-14	**-**	10
Appropriation Act 1 2014-15	**10**	-
Total	**10**	10

Administered special appropriations (unlimited amount)

	2015 $'000	2014 $'000
SPECIAL APPROPRIATIONS EXPENDITURE		
Commonwealth Inscribed Stock Act 1911, sec 13AA		
Purpose: payment of principal and interest on money raised by Stock issued under the Act and principal and interest due to holders of depository interests in Stock issued under the Act	**60,277,366**	55,593,579
Commonwealth Inscribed Stock Act 1911, sec 13A		
Purpose: payment of costs and expenses incurred in relation to issuing and managing debt and issuing and managing depository interests	**19,170**	25,750
Commonwealth Inscribed Stock Act 1911, sec 13B		
Purpose: payment of costs and expenses incurred in repurchasing debt prior to maturity	**6,119,956**	5,112,705
Financial Agreement Act 1994, sec 5		
Purpose: 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)	**279**	278
Financial Management and Accountability Act 1997, sec 28		
Purpose: refunds of monies received by the Australian Government	**-**	1,899
Financial Management and Accountability Act 1997, sec 39(9)		
Purpose: to make investments in the name of the Commonwealth of Australia	**-**	676,000,000
Loans Securities Act 1919, sec 4		
Purpose: payment of principal and interest on money raised by stock issued under the Act	**535**	488
Public Governance, Performance and Accountability Act 2013, sec 58(7)		
Purpose: to make investments in the name of the Commonwealth of Australia	**653,200,000**	-
Public Governance, Performance and Accountability Act 2013, sec 77		
Purpose: refunds of monies received by the Australian Government	**4,887**	-
Total	**719,622,193**	736,734,699

(a) The 2014-15 amount includes $40,358 paid into the Debt Retirement Reserve Trust Account (2013-14: $39,524).

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* (from 1 July 2014) and section 39 of the *Financial Management and Accountability Act 1997* (prior to 1 July 2014).

	2015 $'000	2014 $'000
INVESTMENTS MADE IN THE NAME OF THE COMMONWEALTH		
Opening value	**33,116,659**	29,229,358
Acquisitions	**653,200,000**	676,000,000
Redemptions and sales	**(647,805,308)**	(672,112,699)
Closing value	**38,511,351**	33,116,659

The following table details administered special appropriations that are available but were not used by the AOFM during the period:

	2015 $'000	2014 $'000
SPECIAL APPROPRIATIONS NOT USED		
Australian National Railways Commission Sale Act 1997, sec 67AW		
Purpose: payment of principal and interest on former debts of the National Railways Commission	**-**	-
Financial Management and Accountability Act 1997, sec 30A		
Purpose: payments of recoverable GST	**-**	-
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 repurchase agreement 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	**-**	-
Snowy Hydro Corporatisation Act 1997, sec 22		
Purpose: payment of principal and interest on former debts of the Snowy Mountains Hydro Electricity Authority	**-**	-
Treasury Bills Act 1914, sec 6		
Purpose: payment of principal and interest on money raised by issuance of Treasury Bills	**-**	-

Note 24: Special accounts (Administered)

Debt Retirement Reserve Trust Account (DRRTA)

Establishing Instrument — *Public Governance, Performance and Accountability Act 2013*, section 80 (prior to 1 July 2014 *Financial Management and Accountability Act 1997*, section 21).

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.

	2015 $'000	2014 $'000
DEBT RETIREMENT RESERVE TRUST ACCOUNT		
Opening balance	**843**	742
Appropriation for reporting period:		
Commonwealth contributions	**20**	20
Interest amounts credited	**20**	19
Other receipts:		
State contributions	**61**	62
Available for payments	**944**	843
Payments made:		
Debt repayments	**(1)**	-
Balance	**943**	843
Balance represented by:		
Cash - held in the Official Public Account	**943**	843
Total balance carried to the next period	**943**	843

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 25: Budgetary report to outcome comparison

Explanations are provided for major variances between actual results for 2014-15 and the original budget, as reported in the 2014-15 Portfolio Budget Statements. Major variances are those relevant to the accountability and performance of the AOFM and are typically those amounts greater than $1 million for departmental activities and $20 million for administered activities.

Departmental

Comparison of the Outcome and Budget 2014-15 statement of comprehensive income

	Outcome 2015 $'000	Budget 2015(a) $'000	Variance 2015 $'000
NET COST OF SERVICES			
EXPENSES			
Employee benefits	**6,401**	7,854	(1,453)
Supplier expenses	**3,364**	4,679	(1,315)
Depreciation and amortisation	**377**	500	(123)
Write-down and impairment of assets	**11**	-	11
Total expenses	**10,153**	13,033	(2,880)
LESS:			
OWN-SOURCE INCOME			
Revenue	**948**	1,131	(183)
Total own-source income	**948**	1,131	(183)
Net cost of services	**9,205**	11,902	(2,697)
APPROPRIATION FUNDING			
Revenue from government	**11,398**	11,402	(4)
Total appropriation funding	**11,398**	11,402	(4)
Surplus (deficit)	**2,193**	(500)	2,693
Total comprehensive income	**2,193**	(500)	2,693

(a) Original Budget released in May 2014. The Budget figures are not audited.

Comparison of the Outcome and Budget 2014-15 statement of financial position

	Outcome 2015 $'000	Budget 2015(a) $'000	Variance 2015 $'000
ASSETS			
Financial assets:			
Cash and cash equivalents	**100**	100	-
Receivables	**28,713**	24,410	4,303
Non-financial assets:			
Infrastructure, plant and equipment	**307**	648	(341)
Computer software	**1,454**	2,633	(1,179)
Supplier prepayments	**87**	84	3
Total assets	**30,661**	27,875	2,786
LIABILITIES			
Payables:	**378**	237	141
Provisions:			
Employee provisions	**2,105**	2,124	(19)
Other provisions	**156**	137	19
Total liabilities	**2,639**	2,498	141
Net assets	**28,022**	25,377	2,645
EQUITY			
Retained surplus	**26,051**	22,753	3,298
Contributed equity	**1,971**	2,624	(653)
Total equity	**28,022**	25,377	2,645

(a) Original Budget released in May 2014. The Budget figures are not audited.

Comparison of the Outcome and Budget 2014-15 statement of changes in equity

	Outcome 2015 $'000	Budget 2015(a) $'000	Variance 2015 $'000
RETAINED SURPLUS			
Opening balance	**23,858**	23,253	605
Changes for period:			
Comprehensive income	**2,193**	(500)	2,693
Total retained surplus	**26,051**	22,753	3,298
CONTRIBUTED EQUITY			
Opening balance	**1,892**	1,892	-
Changes for period:			
Capital injection - capital budget	**732**	732	-
Return of capital	**(653)**	-	(653)
Total contributed equity	**1,971**	2,624	(653)
Total equity	**28,022**	25,377	2,645

(a) Original Budget released in May 2014. The Budget figures are not audited.

Comparison of the Outcome and Budget 2014-15 statement of cash flows

	Outcome 2015 $'000	Budget 2015(a) $'000	Variance 2015 $'000
OPERATING ACTIVITIES			
Cash received	**9,035**	13,425	(4,390)
Cash used	**(9,035)**	(12,183)	3,148
Net cash from (used by) operating activities	**-**	1,242	(1,242)
INVESTING ACTIVITIES			
Cash used	**(600)**	(1,974)	1,374
Net cash from (used by) investing activities	**(600)**	(1,974)	1,374
FINANCING ACTIVITIES			
Cash received	**600**	732	(132)
Net cash from (used by) financing activities	**600**	732	(132)
Net increase (decrease) in cash held	**-**	-	-
Plus cash held at the beginning of the reporting period	**100**	100	-
Cash at the end of the reporting period	**100**	100	-

(a) Original Budget released in May 2014. The Budget figures are not audited.

Significant variances in the Departmental financial statements

During 2014-15, the AOFM's average staffing level (ASL) was lower than forecast at Budget. The AOFM had an ASL of 39 during the reporting period against an ASL of 43 estimated at Budget. In addition, during 2014-15 the AOFM capitalised employee costs of $210,780 arising from the reimplementation of its debt management system. The Budget figures did not include an estimate for staff capitalisation costs.

During 2014-15 the AOFM incurred lower than anticipated administrative costs (represented in supplier expenses) for undertaking its issuance program and managing its portfolio of financial assets and liabilities.

During 2014-15 the AOFM incurred capital expenditure on the reimplementation of its debt management system (represented in computer software). The AOFM incurred significantly less expenditure than forecast at Budget on this project, including through reduced reliance on vendor resources and consultants to achieve project outcomes.

As at 30 June 2015, appropriations receivable (represented in receivables) were higher than forecast in the 2014-15 Budget by $4.4 million. This was due to a higher operating surplus than forecast and lower capital expenditure than forecast.

Administered

The AOFM produces budget estimates of Australian Government Securities (AGS) debt for the Australian Government's 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 AGS debt 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 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 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 will be 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).

2014-15 Budget

In the 2014-15 Budget (released in May 2014) the Government estimated a Headline Cash Deficit of $33.5 billion for 2014-15. Together with maturing AGS debt of $26.8 billion and the financing requirements of other agencies in the general government sector, the debt issuance program was set at $67 billion (in face value terms).

At the time of the Mid-Year Economic and Fiscal Outlook (released in December 2014) the debt issuance program for 2014-15 was revised to $72 billion. The Budget position deteriorated due to lower than forecast taxation revenue and higher expenses. The larger than expected financing task was managed primarily through increased Treasury Bonds issuance.

At the time of the 2015-16 Budget (released in May 2015) the debt issuance program for 2014-15 was revised to $76 billion, which included a small amount of pre-funding for the 2015-16 financing task.

By 30 June 2015 the debt issuance program reached $77.6 billion, slightly higher than forecast at the time of release of the 2015-16 Budget. In late May 2015 the AOFM repurchased $2.5 billion (in face value terms) of the October 2015 Treasury Bonds series.

Comparison of the Outcome and Budget 2014-15 administered schedule of comprehensive income

	Outcome	Budget(a)	Variance
	2015	2015	2015
	$'mil	$'mil	$'mil
INCOME BEFORE RE-MEASUREMENTS			
Interest revenue	**921**	813	108
Other revenue	**-**	-	-
Total income before re-measurements	**921**	813	108
EXPENSES BEFORE RE-MEASUREMENTS			
Grants	**-**	-	-
Interest expenses	**14,473**	14,707	(234)
Supplier expenses	**18**	1	17
Total expenses before re-measurements	**14,491**	14,708	(217)
GAINS (LOSSES) BEFORE RE-MEASUREMENTS			
Net foreign exchange gains (losses)	**(1)**	-	(1)
Net realised gains (losses)	**(33)**	-	(33)
Total gains (losses) before re-measurements	**(34)**	-	(34)
Surplus (deficit) before re-measurements	**(13,604)**	(13,895)	291
RE-MEASUREMENTS			
Net market revaluation gains (losses)	**(7,512)**	364	(7,876)
Total re-measurements	**(7,512)**	364	(7,876)
Surplus (deficit)	**(21,116)**	(13,531)	(7,585)
Total comprehensive income (loss)	**(21,116)**	(13,531)	(7,585)

(a) Original Budget released in May 2014. The Budget figures are not audited.

Significant variances in income before re-measurements

During 2014-15 the AOFM held significantly higher term deposit balances with the RBA than was forecast in the 2014-15 Budget figures; hence the higher interest earnings. This was due to conducting a greater issuance speed than forecast in the early part of the year, and a more conservative cash management approach with regards to estimating the timing of certain Government expenditures.

A 50 basis point reduction in the overnight cash rate over the second half of the 2014-15 financial year was not forecast in the 2014-15 Budget figures. This resulted in a partial offset against the higher interest earnings attained from holding higher average investment balances.

Significant variances in expenses before re-measurements

Whilst Treasury Bonds on issue as at 30 June 2015 were $7.5 billion (in face value terms) higher than forecast in the 2014-15 Budget (due to a higher financing task), interest costs were slightly lower than forecast. This was due to significantly lower Treasury Bond issuance yields (by around 80 basis points on average) than forecast.

This resulted in lower interest costs on new borrowings to meet the financing task and lower interest costs on borrowings raised to repay maturing debt. The early repurchases of debt also had a favourable impact on interest cost, due to earlier refinancing of debt (than would otherwise be the case if the debt were held until maturity) at lower interest rates.

Significant variances in gains (losses) before re-measurements

During 2014-15, as part of its cash management operations, the AOFM repurchased $5,972.9 million of Treasury Bonds prior to maturity. The AOFM incurred a loss (in accrual terms) of $34 million. The early redemption of debt was not incorporated into Budget figures. The decision to repurchase debt was based on a number of factors, including prevailing market conditions.

Significant variances in re-measurements

A technical assumption is made about future AGS interest rates in the Budget. 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). Actual interest rates as at 30 June 2014 and 30 June 2015 were significantly lower than at Budget. It should be noted that there is an inverse relationship between yield and price.

Comparison of the Outcome and Budget 2014-15 administered schedule of assets and liabilities

	Outcome	Budget(a)	Variance
	2015	2015	2015
	$'mil	$'mil	$'mil
ASSETS			
Financial assets:			
Cash and cash equivalents	**1**	1	-
Investments	**38,556**	29,353	9,203
Loans to State and Territory Governments	**2,033**	2,033	-
Total assets	**40,590**	31,387	9,203
LIABILITIES			
Interest bearing liabilities:			
Australian Government Securities	**409,936**	387,775	22,161
Other:			
Accrued expenses	**-**	-	-
Total liabilities	**409,936**	387,775	22,161
Net assets	**(369,346)**	(356,388)	(12,958)

(a) Original Budget released in May 2014. The Budget figures are not audited.

Significant variances in investments

As at 30 June 2015 the AOFM held $9.6 billion (in face value terms) more term deposits than forecast in the 2014-15 Budget. This is due to a more conservative cash management approach with regards to estimating the timing of certain Government expenditures and due to imprecisions in forecasting the highly volatile daily flows of revenue, expenditure and financing items across the general government sector.

Significant variances in Australian Government Securities

As at 30 June 2015, AGS on issue was $7.594 billion (in face value terms) higher than forecast in the 2014-15 Budget; due to a larger financing task. In addition, lower nominal and real issuance yields during 2014-15 (as compared to Budget yields) contributed additional issuance premiums of around $1.5 billion. The lower interest rate environment also added around $14 billion as at 30 June 2015 to the market value of debt compared to Budget estimates.

Note 26: Compliance with statutory conditions for payments from the consolidated revenue fund

Section 83 of the Constitution provides that no amount may be paid out of the Consolidated Revenue Fund except under an appropriation made by law. The Department of Finance provided information to all agencies in 2011 regarding the need to conduct risk assessments in relation to compliance with the statutory conditions on payments from special appropriations, including special accounts. Non-compliance with statutory conditions on payments may constitute a breach of section 83 of the Constitution.

On 2 July 2013 the AOFM received further advice from the Department of Finance in relation to possible breaches of section 83 of the Constitution for what it called certain 'generic' payments. These are payments made by agencies pursuant to the *Remuneration Tribunal Act 1973*, the *Long Service Leave (Commonwealth Employees) Act 1976* and section 30A of the *Financial Management and Accountability Act 1997*.

- Under the *Public Governance, Performance and Accountability Act (Consequential and Transitional Provisions) Act 2014*, section 30A of the *Financial Management and Accountability Act 1997* continued to apply until 30 June 2015.

The AOFM undertook a constitutional risk assessment for the 2014-15 financial year. No breaches of Section 83 were identified and the overall risk of a breach was considered low.

The Australian Government continues to have regard to developments in case law, including the High Court's most recent decision on Commonwealth expenditure in *Williams v Commonwealth [2014] HCA 23*, as they contribute to the larger body of law relevant to the development of Commonwealth programs. In accordance with its general practice, the Government will continue to monitor and assess risk and decide on any appropriate actions to respond to risks of expenditure not being consistent with constitutional or other legal requirements.

Note 27: Events subsequent to reporting date

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 2015) and the date of signing this report that has significantly affected or may significantly affect the AOFM's operations.

AOFM

PART 5
OTHER INFORMATION

OTHER INFORMATION

Agency resource statement and resources for outcomes

Table 1: Expenses and resources for Outcome 1

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 cash for the Australian Government	**Budget(a) 2014-15 $'000**	**Actual Expenses 2014-15 $'000**	**Variation $'000**
Programme 1.1: Australian Office of Financial Management			
Departmental expenses			
Departmental appropriation	9,909	9,445	464
Expenses not requiring appropriation in the Budget year	820	708	112
Administered expenses before re-measurements			
Ordinary annual services (Appropriation Bill No.1)	10	-	10
Expenses not requiring appropriation	7,199	34,250	(27,051)
Special appropriations expenses			
Commonwealth Inscribed Stock Act 1911	14,466,644	14,485,254	(18,610)
Loans Securities Act 1919	942	570	372
Financial Agreement Act 1994	20	279	(259)
Public Governance, Performance and Accountability Act 2013	4,886	4,887	(1)
Total expenses for Programme 1.1	**14,490,430**	**14,535,393**	**(44,963)**
	2014-15	**2014-15**	
Average staffing level (number)	**42**	**38**	**4**

(a) The Budget figure for 2014-15 is the estimated actual 2014-15 expenses, reported in table 2.2 of the Portfolio Budget Statements 2015-16.

Table 2: AOFM resource statement

		Actual available appropriation 2014-15 $'000	Payments made 2014-15 $'000		= Balance 2014-15 $'000
Ordinary annual services					
Departmental appropriation(a)(b)		37,703	8,961	(c)	28,742
Receipts from other sources (s74)(d)		662	662		-
Total departmental		38,365	9,623		28,742
Administered expenses					
Outcome 1		10	-		10
Total administered		10	-		10
Total ordinary annual services	**A**	38,375	9,623		28,752
Other services					
Departmental non-operating		-	-		-
Total other services	**B**	-	-		-
Total available annual appropriations (A+B)		38,375	9,623		28,752
Special appropriations non-capital					
Commonwealth Inscribed Stock Act 1911		16,232,713	16,232,713		-
Financial Agreement Act 1994		279	279		-
Public Governance, Performance and Accountability Act 2013		4,887	4,887		
Loans Securities Act 1919		535	535		-
Subtotal		16,238,414	16,238,414		-
Special appropriations capital					
Commonwealth Inscribed Stock Act 1911		50,183,779	50,183,779		-
Public Governance, Performance and Accountability Act 2013		653,200,000	653,200,000		-
Subtotal		703,383,779	703,383,779		-
Total special appropriations	**C**	719,622,193	719,622,193		-
Total appropriations excluding special accounts (A + B + C)		719,660,568	719,631,816		28,752
Special Accounts					
Debt Retirement Reserve Trust Account					
Opening balance		843	-		-
Appropriation receipts		20	-		-
Non-appropriation receipts to special account					-
Interest amount credited		20	-		-
State and Territory contributions		61	-		-
Payments made		(1)	-		-
Total Special Account	**D**	943	-		943
Total net resourcing and payments for AOFM (A + B + C + D)		719,661,511	719,631,816		29,695

(a) Actual available appropriation comprises Appropriation Bill (No.1) 2014-15 plus carried forward appropriation balances as at 1 July 2014.
(b) Includes capital budget appropriation for 2014-15 of $0.732 million.
(c) Payments made include appropriations returned to Budget on 1 July 2014 of $0.653 million.
(d) Receipts received under section 74 of the *Public Governance, Performance and Accountability Act 2013*.

Grant programmes

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 2014-15, the AOFM made no payments to market research organisations, polling organisations or direct mail organisations.

The AOFM incurred expenditure of $77,155 in campaign advertising to promote Australian Government debt to investors. This was paid to Zoo advertising ($24,631) for branding development and to Mitchell and Partners Australia Pty Ltd ($52,524) for the placement of advertisements.

The AOFM incurred nil expenditure during 2014-15 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). This requirement is in Part II of the FOI Act and has replaced the former requirement to publish a section 8 statement in an annual report. 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 2014-15, the AOFM received three FOI request.

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 Service Level Agreement. Information on the environmental impact of these services is published in the Treasury's Annual Report.

Structure of the AOFM's portfolio

The assets and liabilities managed by the AOFM and held on its administered balance sheet in 2014-15 were Australian Government Securities (Treasury Bonds, Treasury Indexed Bonds, Treasury Notes and other securities), term deposits placed with the RBA, residential mortgage-backed securities (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** contains debt denominated in Australian dollars and in foreign currencies. It includes all Australian Government Securities, other than Treasury Notes, which are issued for cash management purposes.

As no borrowings have been undertaken in foreign currencies since 1987, the Long-Term Debt Portfolio holds only a small residual amount of foreign currency debt.

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 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 programme.

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.

Residential mortgage-backed securities portfolio

The AOFM's investments in residential mortgage-backed securities up to 30 June 2015 are shown in Table 4.

Table 4: AOFM's RMBS investments up to 30 June 2015

Pricing date	Settlement date	Issuer	Issue name	Tranche	Expected WAL* at closing (years)	Coupon (per cent)	Original face value ($m)
14-Nov-08	21-Nov-08	FirstMac	FirstMac Mortgage Funding Trust Series 2-2008	Class A1	0.7	1M BBSW + 1.25%	132.00
14-Nov-08	21-Nov-08	FirstMac	FirstMac Mortgage Funding Trust Series 2-2008	Class A2	3.5	1M BBSW + 1.50%	325.00
14-Nov-08	21-Nov-08	FirstMac	FirstMac Mortgage Funding Trust Series 2-2008	Class AB	5.0	1M BBSW + 1.80%	39.00
17-Nov-08	9-Dec-08	Members' Equity Bank	SMHL Securitisation Fund 2008-2	Class A1	2.8	1M BBSW + 1.30%	500.00
4-Dec-08	12-Dec-08	Challenger	Challenger Millennium Series 2008-2 Trust	Class A	2.8	1M BBSW + 1.35%	481.00
4-Dec-08	12-Dec-08	Challenger	Challenger Millennium Series 2008-2 Trust	Class AB	4.5	1M BBSW + 1.75%	19.00
10-Dec-08	15-Dec-08	RESIMAC	RESIMAC Premier Series 2008-1	Class A2	1.5	1M BBSW + 1.20%	280.00
10-Dec-08	15-Dec-08	RESIMAC	RESIMAC Premier Series 2008-1	Class A3	4.5	1M BBSW + 1.40%	204.75
10-Dec-08	15-Dec-08	RESIMAC	RESIMAC Premier Series 2008-1	Class AB	4.5	1M BBSW + 1.70%	15.25
6-Mar-09	26-Mar-09	CUA	Series 2009-1 Harvey Trust	Class A1	3.6	1M BBSW + 1.40%	350.00
13-Mar-09	18-Mar-09	Bendigo and Adelaide Bank	TORRENS Series 2009-1 Trust	Class A2	4.2	1M BBSW + 1.35%	475.00
23-Mar-09	30-Mar-09	AMP Bank	Progress 2009-1 Trust	Class A2	4.0	1M BBSW + 1.30%	425.00
3-Apr-09	21-Apr-09	Bank of Queensland	Series 2009-1 REDS Trust	Class A1	4.2	1M BBSW + 1.30%	500.00
9-Apr-09	20-Apr-09	Liberty Financial	Liberty Prime Series 2009-1	Class A1	0.1	1M BBSW + 0.90%	14.50
9-Apr-09	20-Apr-09	Liberty Financial	Liberty Prime Series 2009-1	Class A2	0.9	1M BBSW + 1.20%	164.70
9-Apr-09	20-Apr-09	Liberty Financial	Liberty Prime Series 2009-1	Class A3	3.2	1M BBSW + 1.40%	283.00
9-Apr-09	20-Apr-09	Liberty Financial	Liberty Prime Series 2009-1	Class AB	4.0	1M BBSW + 1.65%	37.80
15-Apr-09	24-Apr-09	Challenger	Challenger Millennium Series 2009-1 Trust	Class A2	0.5	1M BBSW + 1.00%	38.20
15-Apr-09	24-Apr-09	Challenger	Challenger Millennium Series 2009-1 Trust	Class A3	1.5	1M BBSW + 1.30%	152.50
15-Apr-09	24-Apr-09	Challenger	Challenger Millennium Series 2009-1 Trust	Class A4	4.3	1M BBSW + 1.45%	289.00
15-Apr-09	24-Apr-09	Challenger	Challenger Millennium Series 2009-1 Trust	Class AB	4.4	1M BBSW + 1.70%	20.30
11-May-09	14-May-09	Members' Equity Bank	SMHL Securitisation Fund 2009-1	Class A2	3.7	1M BBSW + 1.35%	500.00
21-May-09	28-May-09	RESIMAC	RESIMAC Premier Series 2009-1	Class A2	0.5	1M BBSW + 1.00%	10.00
21-May-09	28-May-09	RESIMAC	RESIMAC Premier Series 2009-1	Class A3	2.9	1M BBSW + 1.40%	435.00
21-May-09	28-May-09	RESIMAC	RESIMAC Premier Series 2009-1	Class AB	4.1	1M BBSW + 1.70%	13.80
1-Jun-09	5-Jun-09	FirstMac	FirstMac Mortgage Funding Trust Series 1-2009	Class A3	2.9	1M BBSW + 1.40%	458.00
1-Jun-09	5-Jun-09	FirstMac	FirstMac Mortgage Funding Trust Series 1-2009	Class AB	5.0	1M BBSW + 2.20%	40.62
9-Jul-09	16-Jul-09	Wide Bay Australia	WB Trust 2009-1	Class A1	0.5	1M BBSW + 1.10%	16.00
9-Jul-09	16-Jul-09	Wide Bay Australia	WB Trust 2009-1	Class A2	3.5	1M BBSW + 1.40%	282.50
9-Jul-09	16-Jul-09	Wide Bay Australia	WB Trust 2009-1	Class AB	5.4	1M BBSW + 1.60%	1.00
14-Jul-09	28-Jul-09	Australian Central Credit Union	Light Trust No. 2	Class A1	4.0	1M BBSW + 1.30%	190.00
20-Aug-09	4-Sep-09	Suncorp Metway	APOLLO Series 2009-1 Trust	Class A3	3.6	1M BBSW + 1.30%	499.20
28-Aug-09	11-Sep-09	Greater Building Society	GBS Receivables Trust No. 4	Class A1	4.3	1M BBSW + 1.35%	190.00

Table 4: AOFM's RMBS investments up to 30 June 2015 (continued)

Pricing date	Settlement date	Issuer	Issue name	Tranche	Expected WAL* at closing (years)	Coupon (per cent)	Original face value ($m)
14-Oct-09	21-Oct-09	Liberty Financial	Liberty Prime Series 2009-2	Class A2	1.0	1M BBSW + 0.90%	35.00
14-Oct-09	21-Oct-09	Liberty Financial	Liberty Prime Series 2009-2	Class A3	3.3	1M BBSW + 1.40%	58.50
14-Oct-09	21-Oct-09	Liberty Financial	Liberty Prime Series 2009-2	Class AB	4.0	1M BBSW + 1.65%	6.30
21-Oct-09	28-Oct-09	RESIMAC	RESIMAC Premier Series 2009-2	Class A2	3.3	1M BBSW + 1.40%	38.10
21-Oct-09	28-Oct-09	RESIMAC	RESIMAC Premier Series 2009-2	Class AB	3.5	1M BBSW + 1.95%	18.30
10-Nov-09	24-Nov-09	FirstMac	FirstMac Mortgage Funding Trust Series 2-2009	Class A2	3.5	1M BBSW + 1.40%	195.40
10-Nov-09	24-Nov-09	FirstMac	FirstMac Mortgage Funding Trust Series 2-2009	Class AB	5.0	1M BBSW + 1.95%	19.74
22-Jan-10	29-Jan-10	AMP Bank	Progress 2010-1 Trust	Class AB	5.2	1M BBSW + 1.80%	36.00
9-Feb-10	17-Feb-10	Bank of Queensland	Series 2010-1 REDS Trust	Class A	3.1	1M BBSW + 1.30%	250.00
25-Feb-10	10-Mar-10	CUA	Series 2010-1 Harvey Trust	Class A1	2.9	1M BBSW + 1.35%	143.00
5-Mar-10	15-Mar-10	Members' Equity Bank	SMHL Securitisation Fund 2010-1	Class A	2.6	1M BBSW + 1.35%	250.00
17-Mar-10	24-Mar-10	Bendigo and Adelaide Bank	TORRENS Series 2010-1 Trust	Class A	2.8	1M BBSW + 1.35%	123.00
26-Mar-10	31-Mar-10	IMB	Illawarra Series 2010-1 RMBS Trust	Class A	3.0	1M BBSW + 1.35%	157.50
12-May-10	17-May-10	RESIMAC	RESIMAC Premier Series 2010-1	Class A	2.4	1M BBSW + 1.65%	10.00
28-May-10	9-Jun-10	Suncorp Metway	APOLLO Series 2010-1 Trust	Class A2	6.0	1M BBSW + 1.10%	300.00
2-Jul-10	14-Jul-10	Members' Equity Bank	SMHL Securitisation Fund 2010-2E	Class A3	5.7	1M BBSW + 1.10%	250.00
8-Jul-10	20-Jul-10	Bendigo and Adelaide Bank	TORRENS Series 2010-2 Trust	Class A3	3.0	1M BBSW + 1.10%	19.50
8-Jul-10	20-Jul-10	Bendigo and Adelaide Bank	TORRENS Series 2010-2 Trust	Class A4	5.8	1M BBSW + 1.10%	476.50
23-Jul-10	4-Aug-10	MyState Financial	ConQuest 2010-2 Trust	Class A2	1.5	1M BBSW + 1.40%	20.00
23-Jul-10	4-Aug-10	MyState Financial	ConQuest 2010-2 Trust	Class A3	5.0	1M BBSW + 1.30%	139.25
23-Jul-10	4-Aug-10	MyState Financial	ConQuest 2010-2 Trust	Class AB	3.7	1M BBSW + 1.85%	10.75
11-Aug-10	18-Aug-10	Liberty Financial	Liberty Prime Series 2010-1	Class A2	3.3	1M BBSW + 1.25%	90.00
11-Aug-10	18-Aug-10	Liberty Financial	Liberty Prime Series 2010-1	Class AB	4.0	1M BBSW + 1.65%	10.40
18-Aug-10	27-Aug-10	Bank of Queensland	Series 2010-2 REDS Trust	Class A2	6.2	1M BBSW + 1.10%	497.60
26-Aug-10	2-Sep-10	Macquarie Bank	PUMA Masterfund P-16	Class A3	6.3	1M BBSW + 1.15%	247.50
6-Sep-10	9-Sep-10	FirstMac	FirstMac Mortgage Funding Trust Series 1-2010	Class A3	4.7	1M BBSW + 1.30%	164.00
6-Sep-10	9-Sep-10	FirstMac	FirstMac Mortgage Funding Trust Series 1-2010	Class AB	3.6	1M BBSW + 2.20%	26.77
23-Sep-10	28-Sep-10	Members' Equity Bank	SMHL Securitisation Fund 2010-3	Class A2	6.1	1M BBSW + 1.10%	290.00
14-Oct-10	20-Oct-10	ING Bank (Australia)	IDOL Trust Series 2010-1	Class A2	7.5	1M BBSW + 1.10%	250.00
10-Nov-10	18-Nov-10	Australian Central Credit Union	Light Trust No. 3	Class A3	5.4	1M BBSW + 1.20%	243.50
19-Nov-10	25-Nov-10	RESIMAC	RESIMAC Premier Series 2010-2	Class A2	4.8	1M BBSW + 1.25%	148.00
26-Nov-10	3-Dec-10	Police and Nurses Credit Socie	Pinnacle Series Trust 2010-T1	Class A2	7.2	1M BBSW + 1.25%	96.50
26-Nov-10	3-Dec-10	Police and Nurses Credit Socie	Pinnacle Series Trust 2010-T1	Class AB	6.7	1M BBSW + 2.00%	14.60

Table 4: AOFM's RMBS investments up to 30 June 2015 (continued)

Pricing date	Settlement date	Issuer	Issue name	Tranche	Expected WAL* at closing (years)	Coupon (per cent)	Original face value ($m)
10-Dec-10	16-Dec-10	Bendigo and Adelaide Bank	TORRENS Series 2010-3 Trust	Class A5	4.6	1M BBSW + 1.10%	395.00
10-Dec-10	16-Dec-10	Bendigo and Adelaide Bank	TORRENS Series 2010-3 Trust	Class AB	4.7	1M BBSW + 1.80%	20.00
15-Dec-10	21-Dec-10	Wide Bay Australia	WB Trust 2010-1	Class A2	6.6	1M BBSW + 1.25%	81.20
15-Dec-10	21-Dec-10	Wide Bay Australia	WB Trust 2010-1	Class AB	6.2	1M BBSW + 2.00%	23.00
17-Mar-11	24-Mar-11	Members' Equity Bank	SMHL Securitisation Fund 2011-1^				0.00
7-Apr-11	14-Apr-11	Community CPS	Barton Series 2011-1 Trust	Class A2	6.5	1M BBSW + 1.25%	90.90
8-Apr-11	13-Apr-11	Liberty Financial	Liberty Prime Series 2011-1	Class A2	4.0	1M BBSW + 1.30%	50.75
15-Apr-11	20-Apr-11	Macquarie Bank	PUMA Masterfund P-17	Class A2	5.6	1M BBSW + 1.15%	157.50
13-May-11	19-May-11	RESIMAC	RESIMAC Premier Series 2011-1	Class A	2.9	1M BBSW + 1.25%	170.00
13-May-11	19-May-11	RESIMAC	RESIMAC Premier Series 2011-1	Class AB	2.4	1M BBSW + 1.75%	22.00
20-May-11	27-May-11	AMP Bank	Progress 2011-1 Trust	Class A2	5.8	1M BBSW + 1.15%	138.00
10-Jun-11	17-Jun-11	ING Bank (Australia)	IDOL Trust Series 2011-1	Class A1	3.6	1M BBSW + 1.10%	206.00
11-Jul-11	14-Jul-11	Heritage Building Society	HBS Trust 2011-1	Class AB	5.5	1M BBSW + 1.95%	21.60
14-Jul-11	21-Jul-11	Bendigo and Adelaide Bank	TORRENS Series 2011-1(E) Trust	Class A3	6.6	1M BBSW + 1.20%	195.00
14-Jul-11	21-Jul-11	Bendigo and Adelaide Bank	TORRENS Series 2011-1(E) Trust	Class AB	5.6	1M BBSW + 1.75%	27.50
12-Oct-11	19-Oct-11	Members' Equity Bank	SMHL Securitisation Fund 2011-2	Class A	3.0	1M BBSW + 1.25%	175.25
12-Oct-11	19-Oct-11	Members' Equity Bank	SMHL Securitisation Fund 2011-2	Class AB	5.3	1M BBSW + 2.10%	25.25
28-Oct-11	4-Nov-11	Bendigo and Adelaide Bank	TORRENS Series 2011-2 Trust	Class A2	6.3	1M BBSW + 1.50%	163.75
28-Oct-11	4-Nov-11	Bendigo and Adelaide Bank	TORRENS Series 2011-2 Trust	Class AB	6.3	1M BBSW + 2.50%	26.25
11-Nov-11	18-Nov-11	ING Bank (Australia)	IDOL Trust Series 2011-2	Class A1	2.7	1M BBSW + 1.35%	146.50
11-Nov-11	18-Nov-11	ING Bank (Australia)	IDOL Trust Series 2011-2	Class A2	5.0	5.50%	50.00
23-Nov-11	8-Dec-11	Suncorp Metway	APOLLO Series 2011-1 Trust	Class A2	5.9	1M BBSW + 1.50%	250.00
23-Nov-11	8-Dec-11	Suncorp Metway	APOLLO Series 2011-1 Trust	Class AB	5.9	1M BBSW + 2.50%	63.00
20-Dec-11	22-Dec-11	FirstMac	FirstMac Mortgage Funding Trust Series 2-2011	Class A3	7.0	1M BBSW + 1.65%	87.70
20-Dec-11	22-Dec-11	FirstMac	FirstMac Mortgage Funding Trust Series 2-2011	Class AB	5.7	1M BBSW + 2.75%	11.70
29-Mar-12	12-Apr-12	ING Bank (Australia)	IDOL Trust Series 2012-1	Class A1	3.2	1M BBSW + 1.45%	200.00
13-Apr-12	23-Apr-12	Members' Equity Bank	SMHL Securitisation Fund 2012-1	Class A3	2.8	1M BBSW + 1.50%	123.50
17-May-12	29-May-12	AMP Bank	Progress 2012-1 Trust	Class A	3.4	1M BBSW + 1.55%	195.65
17-May-12	29-May-12	AMP Bank	Progress 2012-1 Trust	Class AB	5.9	1M BBSW + 2.85%	30.78
1-Jun-12	14-Jun-12	RESIMAC	RESIMAC Premier Series 2012-1	Class A2	2.4	1M BBSW + 1.65%	137.00
2-Aug-12	9-Aug-12	FirstMac	FirstMac Mortgage Funding Trust Series 1-2012	Class A2	6.1	1M BBSW + 2.10%	129.10
2-Aug-12	9-Aug-12	FirstMac	FirstMac Mortgage Funding Trust Series 1-2012	Class AB	6.1	1M BBSW + 3.00%	13.40
24-Aug-12	30-Aug-12	AMP Bank	Progress 2012-2 Trust^				0.00

Table 4: AOFM's RMBS investments up to 30 June 2015(continued)

Pricing date	Settlement date	Issuer	Issue name	Tranche	Expected WAL* at closing (years)	Coupon (per cent)	Original face value ($m)
30-Aug-12	12-Sep-12	Suncorp Metway	APOLLO Series 2012-1 Trust	Class AB	5.9	1M BBSW + 3.00%	17.50
13-Sep-12	25-Sep-12	Members' Equity Bank	SMHL Securitisation Fund 2012-2^				0.00
27-Sep-12	10-Oct-12	ING Bank (Australia)	IDOL Trust Series 2012-2^				0.00
2-Nov-12	15-Nov-12	People's Choice	Light Trust No. 4^				0.00
12-Dec-12	18-Dec-12	FirstMac	FirstMac Mortgage Funding Trust Series 3-2012^				0.00
							15462.61

* Weighted average life.
^ The AOFM final allocation was zero.

Table 5: Treasury Bond tender results — 2014-15

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
2-Jul-14	4.50% 21-Apr-2033	600	4.0926	-0.36	0.50	3.12
4-Jul-14	4.25% 21-Apr-2026	600	3.7224	-0.31	0.50	3.64
9-Jul-14	2.75% 21-Apr-2024	700	3.5370	0.30	1.00	3.10
11-Jul-14	3.25% 21-Oct-2018	500	2.8022	-0.65	0.50	4.61
16-Jul-14	4.25% 21-Apr-2026	600	3.5922	-0.18	0.50	3.39
18-Jul-14	2.75% 21-Oct-2019	1,500	2.8736	N/A	2.00	2.59
25-Jul-14	3.25% 21-Apr-2025	600	3.5280	-0.18	1.00	2.86
30-Jul-14	2.75% 21-Apr-2024	700	3.4238	-0.17	0.50	3.01
1-Aug-14	3.25% 21-Oct-2018	500	2.9200	-1.12	1.00	3.97
6-Aug-14	4.25% 21-Apr-2026	700	3.6292	-0.27	0.50	2.71
8-Aug-14	4.50% 15-Apr-2020	500	2.9522	-0.33	1.00	3.21
13-Aug-14	3.25% 21-Apr-2025	600	3.5296	-0.19	1.00	3.23
15-Aug-14	2.75% 21-Oct-2019	1,500	2.9426	-0.66	0.50	2.81
20-Aug-14	2.75% 21-Apr-2024	700	3.4164	-0.14	1.00	2.57
22-Aug-14	4.25% 21-Jul-2017	500	2.6903	-0.97	1.00	7.01
27-Aug-14	3.25% 21-Apr-2029	600	3.7184	-0.16	0.50	3.46
29-Aug-14	3.25% 21-Oct-2018	600	2.7961	-1.01	0.50	5.01
3-Sep-14	4.25% 21-Apr-2026	600	3.5548	-0.47	1.00	3.33
5-Sep-14	2.75% 21-Oct-2019	1,500	3.0350	-0.75	1.00	2.63
10-Sep-14	5.75% 15-May-2021	600	3.2650	-0.25	0.00	4.39
12-Sep-14	5.50% 21-Jan-2018	600	2.9094	-0.74	0.50	4.81
17-Sep-14	4.25% 21-Apr-2026	600	3.7644	-0.51	1.00	4.60
19-Sep-14	3.25% 21-Oct-2018	600	3.0681	-0.65	0.50	4.01
24-Sep-14	4.75% 21-Apr-2027	600	3.7698	-0.58	1.00	3.93
26-Sep-14	2.75% 21-Oct-2019	1,500	3.0542	-0.75	1.00	2.90
1-Oct-14	5.50% 21-Apr-2023	700	3.3933	-0.67	0.50	3.62
3-Oct-14	5.25% 15-Mar-2019	500	2.8706	-0.94	1.00	6.02
8-Oct-14	4.25% 21-Apr-2026	700	3.4582	-0.45	0.50	3.83
10-Oct-14	3.25% 21-Oct-2018	500	2.7472	-0.73	0.50	5.65
17-Oct-14	4.25% 21-Jul-2017	500	2.5295	-0.43	0.50	3.94
24-Oct-14	2.75% 21-Apr-2024	600	3.3028	-0.22	1.00	4.03
29-Oct-14	3.25% 21-Apr-2029	600	3.6260	-1.06	0.50	4.85
31-Oct-14	2.75% 21-Oct-2019	600	2.8185	-1.05	0.50	6.13
5-Nov-14	4.50% 21-Apr-2033	600	3.7374	-0.53	1.00	3.00
7-Nov-14	4.25% 21-Apr-2026	600	3.4418	-0.49	0.50	3.67
12-Nov-14	3.25% 21-Apr-2025	700	3.4139	-0.23	0.50	2.90
14-Nov-14	2.75% 21-Oct-2019	500	2.8270	-0.55	0.50	5.38
19-Nov-14	3.25% 21-Apr-2029	600	3.5578	0.06	1.00	4.53
21-Nov-14	3.25% 21-Oct-2018	600	2.6500	-0.50	0.00	6.13
26-Nov-14	2.75% 21-Apr-2024	700	3.1397	-0.21	1.00	2.96
28-Nov-14	2.75% 21-Oct-2019	500	2.5796	-0.41	1.00	4.77
3-Dec-14	3.25% 21-Oct-2018	500	2.4910	-0.65	0.50	5.92
5-Dec-14	4.25% 21-Apr-2026	700	3.1408	-0.42	1.00	2.16
10-Dec-14	4.50% 21-Apr-2033	600	3.4022	0.14	1.00	1.85

Table 5: Treasury Bond tender results — 2014-15 (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
12-Dec-14	2.75% 21-Apr-2024	600	2.9180	0.17	0.50	2.58
14-Jan-15	3.25% 21-Apr-2029	700	2.8567	-0.49	1.00	2.42
16-Jan-15	2.75% 21-Oct-2019	700	2.1532	-0.93	0.50	3.05
21-Jan-15	4.50% 21-Apr-2033	700	2.9281	0.51	1.50	1.88
23-Jan-15	3.25% 21-Apr-2025	700	2.6134	-0.35	0.50	3.10
30-Jan-15	2.75% 21-Apr-2024	700	2.4315	0.08	0.50	3.84
4-Feb-15	3.25% 21-Apr-2025	800	2.3998	-0.18	1.00	3.02
6-Feb-15	2.75% 21-Oct-2019	600	1.9977	-0.85	0.50	4.58
11-Feb-15	2.75% 21-Apr-2024	800	2.5556	-0.23	1.00	3.27
13-Feb-15	4.25% 21-Apr-2026	600	2.5992	-0.05	1.50	2.89
18-Feb-15	3.25% 21-Apr-2025	800	2.6139	0.02	0.50	2.94
20-Feb-15	5.25% 15-Mar-2019	600	1.9235	-0.65	0.50	4.55
25-Feb-15	2.75% 21-Apr-2024	700	2.4382	-0.13	0.50	2.99
27-Feb-15	2.75% 21-Oct-2019	700	1.9170	-0.45	0.50	4.82
4-Mar-15	4.75% 21-Apr-2027	700	2.7209	-0.31	1.00	2.17
6-Mar-15	5.75% 15-Jul-2022	700	2.3850	-0.58	1.00	2.63
11-Mar-15	3.25% 21-Apr-2025	700	2.5889	0.12	0.50	3.57
13-Mar-15	2.75% 21-Oct-2019	700	1.9991	-0.51	0.50	3.21
18-Mar-15	4.25% 21-Apr-2026	700	2.5432	-0.22	0.50	3.86
20-Mar-15	3.25% 21-Oct-2018	700	1.8195	-0.32	0.50	4.74
1-Apr-15	2.75% 21-Apr-2024	700	2.2677	-0.23	0.50	3.01
8-Apr-15	3.75% 21-Apr-2037	500	2.8421	-0.17	1.00	2.69
10-Apr-15	1.75% 21-Nov-2020	2,000	2.0007	N/A	3.00	3.14
15-Apr-15	4.75% 21-Apr-2027	700	2.3834	-0.25	0.50	3.93
17-Apr-15	2.75% 21-Oct-2019	700	1.8806	-0.79	1.00	5.78
24-Apr-15	4.25% 21-Apr-2026	700	2.5891	-0.96	0.50	3.69
29-Apr-15	3.25% 21-Apr-2025	700	2.6077	-0.48	0.50	3.23
1-May-15	3.25% 21-Oct-2018	700	1.9377	-0.73	1.00	4.09
6-May-15	2.75% 21-Apr-2024	700	2.8308	-0.87	1.50	2.67
8-May-15	1.75% 21-Nov-2020	1,500	2.4114	-0.04	1.00	2.32
13-May-15	3.25% 21-Apr-2025	700	3.0065	-0.35	1.00	3.98
15-May-15	5.75% 15-May-2021	700	2.4560	-0.43	0.50	3.15
20-May-15	4.25% 21-Apr-2026	700	3.0561	-0.14	1.00	2.94
22-May-15	3.25% 21-Oct-2018	700	2.1082	-0.68	0.50	4.71
27-May-15	3.25% 21-Apr-2025	700	2.8450	-0.41	0.00	3.48
29-May-15	2.75% 21-Oct-2019	700	2.0487	-0.88	1.00	4.31
3-Jun-15	4.75% 21-Apr-2027	700	2.9805	-0.10	1.50	2.19
5-Jun-15	1.75% 21-Nov-2020	1,500	2.4527	0.52	2.00	2.10
10-Jun-15	4.25% 21-Apr-2026	700	3.1360	-0.29	0.50	2.91
12-Jun-15	3.25% 21-Oct-2018	700	2.1152	-0.13	1.00	3.57
17-Jun-15	3.25% 21-Apr-2025	900	2.9799	-0.43	0.50	3.74
24-Jun-15	5.25% 15-Mar-2019	900	2.1144	-0.46	0.50	4.73
Average over year to June 2015				-0.41	0.78	3.66
Average over 3 years to June 2015				-0.32	0.82	3.81
Average over 10 years to June 2015				-0.12	1.06	3.65

Table 6: Treasury Indexed Bond tender results — 2014-15

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
8-Jul-14	1.00% 21-Nov-2018	300	0.5971	-2.29	2.00	3.07
29-Jul-14	1.25% 21-Feb-2022	100	0.8620	-1.30	2.00	6.62
12-Aug-14	3.00% 20-Sep-2025	100	1.0156	-0.44	2.50	5.47
26-Aug-14	1.00% 21-Nov-2018	200	0.6798	-1.52	1.25	7.20
9-Sep-14	1.25% 21-Feb-2022	200	1.0099	-1.51	2.00	4.37
23-Sep-14	2.50% 20-Sep-2030	150	1.4683	-0.17	2.50	4.28
14-Oct-14	1.00% 21-Nov-2018	300	0.6348	-1.02	0.75	3.68
28-Oct-14	1.25% 21-Feb-2022	200	0.8749	-1.01	1.50	3.73
11-Nov-14	2.00% 21-Aug-2035	150	1.4194	-1.06	1.50	4.44
25-Nov-14	1.25% 21-Feb-2022	200	0.7445	-2.05	0.50	5.10
9-Dec-14	1.00% 21-Nov-2018	300	0.5528	-2.22	2.00	5.05
10-Feb-15	3.00% 20-Sep-2025	150	0.3604	-2.96	2.50	5.58
24-Feb-15	1.00% 21-Nov-2018	200	0.0042	-3.08	3.00	5.03
10-Mar-15	3.00% 20-Sep-2025	150	0.4001	-0.99	1.00	4.49
24-Mar-15	1.25% 21-Feb-2022	200	0.0542	-1.58	1.25	4.36
14-Apr-15	1.00% 21-Nov-2018	200	-0.0763	-2.13	1.50	4.63
28-Apr-15	2.00% 21-Aug-2035	200	0.5808	-0.42	2.50	2.88
26-May-15	1.00% 21-Nov-2018	200	0.0427	-2.23	1.75	5.05
9-Jun-15	3.00% 20-Sep-2025	200	0.6870	-1.30	1.75	3.62
23-Jun-15	1.00% 21-Nov-2018	300	0.0384	-2.66	1.75	3.55
Average over year to June 2015				-1.60	1.78	4.61
Average over 3 years to June 2015				-1.79	N/A	4.34

Table 7: Treasury Note tender results — 2014-15

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
3-Jul-14	5-Dec-14	500	2.5320	5.20	8.0	2.76
17-Jul-14	5-Dec-14	500	2.5398	7.55	9.0	3.68
31-Jul-14	5-Dec-14	500	2.5393	4.06	3.0	4.18
14-Aug-14	23-Jan-15	500	2.5069	3.94	4.0	5.24
21-Aug-14	23-Jan-15	500	2.4800	1.00	0.0	4.55
28-Aug-14	23-Jan-15	500	2.4900	1.00	0.0	4.37
4-Sep-14	5-Dec-14	500	2.5329	3.29	5.0	2.78
4-Sep-14	23-Jan-15	500	2.5249	3.49	5.0	2.80
11-Sep-14	23-Jan-15	500	2.5508	6.08	5.0	2.22
18-Sep-14	23-Jan-15	500	2.5730	7.30	3.0	1.50
2-Oct-14	27-Feb-15	500	2.5698	6.98	4.0	2.77
9-Oct-14	27-Feb-15	500	2.5641	6.41	3.0	3.34
23-Oct-14	27-Feb-15	500	2.4970	0.70	5.0	4.78
30-Oct-14	27-Feb-15	500	2.4894	-1.06	10.0	4.13
6-Nov-14	27-Feb-15	500	2.5089	1.53	7.0	3.09
13-Nov-14	27-Feb-15	500	2.5461	5.00	6.0	2.53
27-Nov-14	27-Feb-15	500	2.4991	0.82	2.0	5.72
4-Dec-14	27-Feb-15	500	2.4640	-2.03	4.0	4.05
4-Dec-14	24-Apr-15	500	2.4400	-0.76	0.0	5.67
11-Dec-14	24-Apr-15	500	2.4026	-1.60	3.0	5.45
22-Jan-15	24-Apr-15	1,000	2.3820	2.32	7.0	2.54
22-Jan-15	12-Jun-15	500	2.3524	5.10	7.0	2.79
29-Jan-15	24-Apr-15	500	2.3490	5.13	14.0	2.80
5-Feb-15	24-Apr-15	500	2.2327	4.67	10.0	2.46
12-Feb-15	24-Apr-15	500	2.1770	2.17	2.0	3.55
19-Feb-15	12-Jun-15	500	2.0784	1.63	6.0	4.84
26-Feb-15	12-Jun-15	1,000	2.0827	1.69	5.0	2.57
5-Mar-15	12-Jun-15	500	2.1224	-0.19	6.0	3.13
12-Mar-15	12-Jun-15	500	2.1310	1.55	5.0	4.39
19-Mar-15	12-Jun-15	500	2.1445	4.63	6.0	3.70
9-Apr-15	7-Aug-15	500	1.9947	-5.01	5.0	3.24
16-Apr-15	7-Aug-15	500	1.9986	-3.75	8.0	3.68
23-Apr-15	7-Aug-15	500	2.0563	-2.47	8.0	4.67
30-Apr-15	7-Aug-15	500	2.0645	0.86	6.0	3.26
7-May-15	7-Aug-15	500	2.0260	4.51	4.0	3.27
14-May-15	7-Aug-15	500	2.0331	5.01	6.0	2.99
21-May-15	7-Aug-15	500	2.0246	3.94	1.0	4.23
28-May-15	23-Oct-15	500	2.0066	4.66	3.0	3.54
4-Jun-15	23-Oct-15	500	2.0030	3.88	2.0	3.59
11-Jun-15	23-Oct-15	500	2.0005	3.76	4.0	3.31
18-Jun-15	23-Oct-15	500	1.9927	4.40	2.0	2.83
25-Jun-15	23-Oct-15	500	2.0054	4.54	3.0	3.07
Average over year to June 2015				2.67	4.90	3.57
Average over 3 years to June 2015				1.25	5.30	4.45

GLOSSARY

Accrual cost

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

Bank Bill Swap Reference Rates (BBSW)

Reference rates for bank bills accepted by approved banks published each business day by the Australian Financial Markets Association.

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

(Also known as 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 Australian Government advances to State and Territory governments for public housing, which are measured at historic cost.

Bullet security

A security that repays principal owing to investors as a lump sum at a predetermined future date.

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.

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.

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.

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.

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 the 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 the BBSW.

Foreign Debt Portfolio

The non-domestic currency component of the Long-Term Debt Portfolio. Following the elimination of the foreign currency derivatives exposure, this portfolio now consists of a single US dollar denominated loan that was issued in the 1980s.

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 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 ASX 3-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 between two parties that commits one party to buy an underlying financial instrument or commodity and another (counter) party to sell a financial instrument or commodity at a specific price at a future date. The agreement is completed at a specified expiration date by physical delivery or cash settlement, or alternatively is offset prior to the expiration date. In Australia, standardised futures contracts are traded on the Sydney Futures Exchange. Futures contracts traded on the Sydney Futures Exchange include contracts for 3-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 its 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 drops as interest rates rise.

Issuance

The sale of debt securities in the primary market; either through competitive tender or by syndication.

Kangaroo bonds

Australian dollar denominated bonds issued in the Australian capital market by foreign borrowers.

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, in reasonable volume and without significant movement in 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

The Long-Term Debt Portfolio is a part of the overall portfolio of assets and liabilities managed by the AOFM. It contains ongoing domestic and foreign currency liabilities and assets.

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).

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.

Overnight indexed swaps are quoted by reference to the fixed interest rate leg of the swap. For example, the 3-month OIS rate is the interest rate for the fixed leg of an overnight indexed swap with a term to maturity of 3 months. Interest rates for term deposits placed by the AOFM with the RBA are set by reference to quoted rates for overnight interest swaps.

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

The interest rate that has been adjusted to take account of the effects of inflation. For example, if the coupon interest rate on a bond is 6.5 per cent and the inflation rate is 3.0 per cent then the real rate of interest on that bond is 3.5 per cent.

Repurchase agreement (Repo)

An agreement under which the seller of a security agrees to buy it back at a specified time and price.

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.

Securitisation

The process of converting a pool of assets into marketable financial instruments. The rights and obligations relating to the assets are assigned or transferred to a special purpose vehicle (typically a trust), which issues securities to pay for the assets. The cash flow from the asset pool is used to service the securities and any other costs of the special purpose vehicle.

Semi-government bond

A bond issued by Australian State or Territory governments.

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.

Special purpose vehicle (SPV)

A financial trust established for a special purpose. A special purpose vehicle used in an Australian RMBS transaction is typically a bankruptcy-remote trust established for the sole purpose of acquiring a pool of mortgages from a mortgage lender and then issuing RMBS to finance those mortgages.

Spread

The difference between two prices or yields.

Swap

A financial transaction in which two counterparties agree to exchange streams of payments occurring over time according to predetermined rules.

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 term. These are generally short-term with maturities ranging anywhere from a month to a few years. 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 margin over the expected path of cash rates that investors require as compensation for having invested at greater terms to maturity.

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. Treasury Notes are issued to cover short-term mismatches between the Australian Government's payments and receipts. They are used in circumstances in which cash holdings may be temporarily low such as changes in the AOFM's holdings of term deposits with the RBA; soon after a large maturity; or at long intervals ahead of large revenue collections.

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
ANAO	Australian National Audit Office
AOFM	Australian Office of Financial Management
APS	Australian Public Service
AUD	Australian dollar
BBSW	Bank Bill Swap Reference Rates
CEO	Chief Executive Officer
CGS	Commonwealth Government Securities
CPI	Consumer Price Index
EL	Executive Level (APS Classification)
FBT	Fringe Benefits Tax
FMA Act	*Financial Management and Accountability Act 1997*
FMO	Finance Minister's Orders
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GST	Goods and Services Tax
HR	Human resources
IT	Information technology

OECD	Organisation for Economic Co-operation and Development
OIS	Overnight Indexed Swap
OPA	Official Public Account
RBA	Reserve Bank of Australia
RMBS	Residential Mortgage-backed Security
SES	Senior Executive Service
TIB	Treasury Indexed Bond
US	United States of America
USD	United States dollar

INDEX OF COMPLIANCE WITH REQUIREMENTS

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