AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT

ANNUAL REPORT 2019-20

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22 September 2020

The Hon Joshua Frydenberg MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

Please find attached the Annual Report of the Australian Office of Financial Management (AOFM) for the year ended 30 June 2020.

The report has been prepared in accordance with all applicable obligations of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) including section 46, which requires that you, as the relevant Minister, table the report in Parliament.

The annual performance statement in Part 2 of this report is prepared in accordance with section 39 of the PGPA Act and accurately reflects the AOFM's performance for 2019-20. The report includes the AOFM's audited financial statements prepared in accordance with the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*.

I confirm that the AOFM has in place appropriate fraud prevention, detection, investigation and reporting mechanisms, including fraud risk assessments and a fraud control plan. The AOFM has taken all reasonable measures to appropriately deal with fraud.

Yours sincerely

Rob Nicholl

Chief Executive Officer

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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CONTEXT AND ISSUANCE CONDITIONS

The AOFM remains focused on ensuring government expenditure obligations are able to be met at all times and that Budget financing needs are delivered cost effectively without undue risk. A focus is also maintained on ensuring a flawless approach to settlement operations and recording and reporting transactions. Additionally, management of the Australian Government Securities (AGS) portfolio is undertaken with a view to promoting market integrity while balancing a range of medium- to long-term portfolio considerations. The AOFM has also been given responsibility for implementing two investment programs on behalf of government: the Australian Business Securitisation Fund (ABSF) and the Structured Finance Support Fund (SFSF), the latter of which arose from the government's response to the COVID-19 pandemic.

The government's funding requirements were considerably higher than during last year due specifically to the impact of the COVID-19 pandemic. A balanced Budget was originally forecast for 2019-20, however the pandemic associated fiscal response packages led to a dramatically increased the Budget financing task.

Throughout the first half of 2019-20, central banks maintained a trend of monetary policy easing in response to persistent low global economic growth outcomes and forecasts, including below target inflation outcomes. Coming into the year AGS yields across all maturities out to 30 years traded below equivalent maturities for US Treasuries. While this reflected a range of global market influences and represented relatively favourable borrowing costs for the Australian Government, it had the effect of dampening offshore investor demand for AGS. This was reflected by a noticeable increase in offshore investor allocations into USD investments — including US Treasuries — during the preceding 18 months. Of particular note was a shift in the preferences of the Japanese investor cohort toward USD investments. While this influence, together with other market dynamics, didn't make it difficult for AOFM issuance at the time, it resulted in AGS yields trading within a relatively steady range. However, a yield differential reversal between AGS and US Treasuries during May triggered the beginning of notable offshore investor flows again toward AUD (AGS and state-government bonds).

The second half of 2019-20 was clearly defined by the global economic, fiscal and market impacts of the COVID-19 pandemic, which began in late February and fully emerged in mid-March in the form of severe funding market dislocation. During this period there was a mass sell-off in equity markets due to concerns about underlying valuations, which in turn led to a sell-off in bond markets as investors looked for ways to liquidate a range of asset positions. As sovereign bond markets maintained liquidity for longer into this process they became the focus of mass selling by investors, driven in large part by a need to access large amounts of cash (for redemptions and other purposes). The AGS market was drawn into this quickly with very little warning. For several weeks the AOFM effectively lost access to the bond issuance market.

As soon as the US Treasuries market regained a functional trading status other advanced economy sovereign bond markets began to 'clear'; at the same time the global economic outlook rapidly deteriorated and investors began to focus on buying defensive assets (in the form of a 'flight to quality'). This together with broad central bank responses in the form of reduced cash rates, announcements of large bond buying programs, and a number of measures to support liquidity in financial markets, resulted in sovereign bond yields reaching historic lows. Yields on AGS did not decline as much as in most other markets, which has left them again trading above US Treasuries; this remains an important factor in having attracted a surge in offshore investor support for AGS issuance since April. Throughout this period the RBA also purchased around $40 billion of AGS with tenors up to 10 years. This market-clearing operation removed much of the congestion amongst the trading banks, while at the same time supporting the RBA's monetary policy objective of achieving a three-year AGS yield of 0.25 per cent.

In the event, the financing task for 2019–20 was met through a combination of $128.2 billion in Treasury Bonds, $1.65 billion in Treasury Indexed Bonds , and a net increase to Treasury Notes outstanding of $56 billion. This compares with planned issuance at the time of the 2019–20 Budget of around $58 billion for Treasury Bonds and $2.5 billion for Treasury Indexed Bonds (with no appreciable change in Treasury Notes outstanding).

Absorption of the materially higher issuance was smooth and achieved via regular weekly tenders, together with some large syndication transactions. Initially the

AOFM faced very limited demand for maturities longer than three-four years, but 'followed' the market recovery out along the yield curve as market conditions gradually improved during the period early April to late May. During this period the domestic investor base was relatively quick to re-engage with the AGS market, with the offshore investor cohort taking longer to re-engage (and this happening more gradually).

Securitisation investment funds

Australian Business Securitisation Fund (ABSF)

The ABSF is a $2 billion investment fund that was established in April 2019. It is backed by a policy aim to enhance access to finance for small to medium enterprises (SMEs) through targeted investments in the securitisation market. Investments from the ABSF will allow for smaller lenders to compete more effectively with the major banks, and to fill niche gaps in the lending market that are otherwise underserved in Australia. A considerable amount of work was undertaken by the AOFM throughout the first half of 2019-20 to establish arrangements (including legal and specialist technical advice) to support the assessment of proposals for investment by the Fund. This also included detailed liaison with the industry to better understand how the ABSF could be used to develop the market and the development of a set of principles to guide such development. The AOFM also published a market development strategy so that the industry would be clear as to how the AOFM's approach to implementing the program would link to the underlying policy aim.

At present, the Australian SME securitisation market is constrained by a lack of borrowing and lending 'scale'. Potential investors are reluctant (and in some cases unwilling) to conduct the due diligence needed to enter the market where only low volume issuance is concerned. The aim is to use the ABSF to invest in SME loan securitisations that will help to establish a track record in lending against types of collateral that are new to the securitisation market, and where the ability to obtain credit ratings and attract broad investor interest is currently very limited.

Structured Finance Support Fund (SFSF)

The SFSF provides for up to $15 billion for investments to ensure continued access to funding markets by SME lenders impacted by the economic effects of the COVID-19 pandemic. In particular, the policy aim is to compensate for where smaller lenders lose access to reasonably priced funding from markets during the period of pandemic disruption. The program was established very quickly with the primary aim being to complement the support offered through a range of measures announced by the Government and the RBA during the initial stages of the pandemic impact.

The AOFM devised three key elements to the SFSF implementation strategy:

- supporting new issuance of public securitisations sponsored by smaller lenders;
- investing in revolving warehouse facilities of small lenders (to counter the withdrawal of investors from existing facilities and support the call on lenders for credit enhancements); and
- establishing a 'forbearance trust' whereby SFSF investments would provide cash flow support to eligible small lenders against loans experiencing temporary COVID-19 related hardship.

Taken together, by 30 June 2020 the AOFM had invested or committed $2.7 billion of SFSF funds that have either catalysed or maintained private sector investment of $18 billion since the onset of the impacts of the pandemic. This provided support for 21 business and consumer lenders (one ADI and 20 Non-ADIs).

LOOKING AHEAD

The financial market outlook continues to be dominated by the potential for periods of extreme volatility. Although the last few years have attracted varied speculation about non-uniform global economic growth and inflation prospects, there is now heightened uncertainty about the global outlook with no clearly defined path for a recovery out of the COVID-19 pandemic situation. In addition, global trade tensions remain elevated as do a number of major geopolitical risks that could lead to the outbreak of regional conflicts. These, amongst other factors, remain relevant to the AOFM's deliberations given how they could impact funding markets and investor preferences. The risk outlook for issuance remains heightened due to the potential for periods of extreme market volatility, and global funding markets will remain 'crowded' due to the large financing tasks many governments and businesses need to achieve. Furthermore, the prospect (for a range of reasons) of AGS yield differentials dissipating could reduce the relative attractiveness of AGS to offshore investors.

Much of the AOFM's planning for risk events was tested and proved effective during the events of late February through until late April. While these were not events anyone would like to see repeated, they did provide a useful opportunity to test AOFM thinking on market access dynamics, including how funding markets recover from sharp and deep dislocations. Managing liquidity risk is something that has already attracted close attention from the AOFM. This, together with maintaining enhanced monitoring of funding markets for signs of stress will remain key amongst our tasks in the year ahead. Revisions to how the long-term debt portfolio should be shaped to accommodate substantially higher issuance programs over the coming years than were forecast less than even a year ago will also be central to AOFM’s thinking. Furthermore, supporting investor diversity and market liquidity through issuance decisions do not diminish in importance.

Finally, the AOFM will need to continue its monitoring of securitisation markets in order to adjust its expectations about what implications may lie ahead for the smaller lending sector from the ongoing pandemic situation, and how that could translate into additional calls on the SFSF. The corollary to this is that with improved market conditions that would reduce future calls on the SFSF, this will trigger a re-commencement of the ABSF program that has been in abeyance since the onset of the financial market impacts of the pandemic. A key objective underpinning the AOFM’s expectation of success for this program will be the completion of work being undertaken with industry on a loan-level data template for SME lending that will facilitate credit agency ratings beyond the more traditional securitisation transactions; this will encourage/support a broader investor base. This project was initiated by the AOFM during 2019-20 and is being undertaken jointly with the Australian Securitisation Forum, rating agencies, and other industry representatives.

Rob Nicholl
Chief Executive Officer

PART 1: AOFM OVERVIEW

AOFM OVERVIEW

ROLE, FUNCTION, OUTCOME AND PROGRAM STRUCTURE

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

The objectives of the AOFM are to:

- Meet the Budget financing task while managing the trade-offs between cost and risks for the cash and debt portfolios over the medium-long term.
- Facilitate government cash outlay requirements as and when they fall due.
- Operate in the Australian Government Securities (AGS) market in a manner consistent with being a credible custodian.
- To capably and efficiently manage the Australian Business Support Fund (ABSF) and Structured Finance Securitisation Fund (SFSF).

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

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

For budgetary purposes, the AOFM's activities comprise one program that is 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 (through the ABSF and SFSF programs); and managing debt, investments and cash. The AOFM aims to manage the debt for which it is responsible at least cost, subject to an acceptable level of risk. It also takes into account the Government's policy objectives of supporting the AGS market when planning and executing issuance programs.

ACCOUNTABLE AUTHORITY

Mr Robert Nicholl, CEO, has been the accountable authority of AOFM for the entire reporting period.

ORGANISATIONAL STRUCTURE

AOFM's business structure remains broadly unchanged from the previous reporting period with its core operational activities segregated into three broad areas.

Front Office

Portfolio management and transaction assessment and execution are situated within the 'front office' — these activities encompass: meeting the financing and cash management tasks through AGS issuance; monitoring and assessing financial market conditions (including investor behaviour); managing the long-term debt portfolio; assessing and executing investments under the ABSF and SFSF programs; global market research (including monitoring and anticipating regulatory impacts on financial markets); and investor engagement (Funding, Markets and Strategy).

Middle Office

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

Back Office

Business Operations comprise transaction settlements, together with all associated payment obligations and the monitoring and financial statement reporting of the AOFM's transactions (and balance sheet activity) on behalf of the Australian Government. These activities form what is typically viewed in the financial sector as the 'back office' (Accounting Services). This is effectively two separate teams. AOFM governance, corporate related functions and support to the Chief Executive sit within a Corporate Development business unit. Advice on issues regarding the AOFM's staff development objectives and APS specific issues are provided directly to the Chief Executive through a dedicated role.

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

AOFM seconded staff members to:

- the Treasury for a 2 month period commencing in October 2019,
- the North Queensland Livestock Industry Recovery Agency for a period of 9 months commencing in March 2019,
- the North Queensland Livestock Industry Recovery Agency for a period of 9 months commencing in December 2019, and
- the North Queensland Livestock Industry Recovery Agency for a period of 6 months commencing in August 2019.

PART 2: PERFORMANCE AND OUTCOMES

PERFORMANCE AND OUTCOMES

INTRODUCTION

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

SECTION 1: ANNUAL PERFORMANCE STATEMENT

The 2019-20 Annual Performance Statement of the Australian Office of Financial Management (AOFM) is presented as required under paragraph 39(1)(a) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

In my opinion as accountable authority of the AOFM the statement accurately reflects the performance of the Australian Office of Financial Management, is based on properly maintained records, and complies with subsection 39(2) of the PGPA Act.

Rob Nicholl

Chief Executive Officer

23 October 2020

Purpose

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

During 2019-20 the agency commenced implementation of two investment programs on behalf of government; the Australian Business Securitisation Fund (ABSF) and the Structured Finance Support Fund (SFSF). The ABSF is a $2 billion investment fund with a policy aim to enhance access to finance for SMEs through targeted investments in the securitisation market (with a specific focus on smaller lenders). The SFSF was implemented as part of the Government's Coronavirus Economic Response Package. It provides for up to $15 billion to ensure continued access to funding markets by SME lenders impacted by the pandemic. This, in accordance with the mandate, is being achieved through targeted government investments in structured finance markets.

The AOFM has adopted three key objectives to achieve its purpose:

- meet the Budget financing task while managing the trade-offs between cost and risks for the cash and debt portfolios over the medium-long term;
- facilitate government cash outlay requirements as and when they fall due by managing liquidity risk; and
- be a credible custodian of the Australian Government Securities (AGS) market and other portfolio responsibilities, including the ABSF and SFSF.

The AOFM balances cost and risk considerations but its overriding aim is to ensure that the financing requirements of government are able to be met in full and on time. The AOFM has minimal appetite for failure in any function associated with debt issuance, settlement and cash management. The design and conduct of core business processes (including business continuity arrangements) reflects this risk appetite.

The AOFM monitors its performance against the performance indicators presented in Table 1, sourced from the AOFM's Corporate Plan 2019-20 and Portfolio Budget Statements 2019-20. Sections 2 and 3 of this part of the Annual Report provide detail on a range of outcomes important to the achievement by the AOFM of its annual and longer-term aims. This detail is provided separately to the Performance Statement because it is aimed at financial market participants as the relevant audience. Performance indicators for the two investment programs (the ABSF and SFSF) are not included in this Annual Report but indicators have been developed for reporting purposes next year. These indicators are published in the AOFM's corporate plan for 2020-21 (published on the AOFM website).

Table 1: Performance Information 2019-20

Performance Indicator[a]	Measure [b]
Objective 1: Meet the budget financing task in a cost effective manner subject to acceptable risk	
1. Term issuance	Shortfall in volume ($) between actual Treasury Bond issuance and planned issuance announced at the Budget and subsequent releases.
2.1 Financing cost (portfolio)	The cost of the long-term debt portfolio compared to the 10 year average of the 10-year bond rate.
2.2 Financing cost (issuance)	The cost of Treasury Bond issuance over the past 12 months compared to the average 10-year bond rate over the same period.
3. New issuance yields	Weighted average issue yield at Treasury Bond and Treasury Indexed Bond tenders less prevailing secondary mid-market yields.
Objective 2: Facilitate the government's cash outlay requirements as and when they fall due	
4. Use of the overdraft facility	Number of instances the RBA overdraft facility was utilised to the extent that it required Ministerial approval during the assessment period.
Objective 3: AOFM is a credible custodian of the AGS market and other portfolio responsibilities	
5. A liquid and efficient secondary market	Annual turnover in the secondary market for Treasury Bonds and Treasury Indexed Bonds.
6. Market commitments	Number of times the AOFM failed to take actions consistent with public announcements.

Source: AOFM Corporate Plan 2019-20; Portfolio Budget Statements 2019-20 Budget Related Paper No. 1.16 — Treasury Portfolio, p. 109
Source: AOFM measures performance against indicators using data captured from its market transactions; its financial systems recording portfolio composition; official notices to the market; and secondary financial market turnover data requested from intermediaries.

PERFORMANCE RESULTS 2019-20

Objective 1: Meet the budget financing task in a cost effective manner subject to acceptable risk

Indicator 1	Term Issuance: Shortfall in volume ($) between actual Treasury Bond issuance and planned issuance announced at the Budget and subsequent releases
Target	Zero
Result	Target met

In 2019-20, the AOFM issued $128.2 billion of Treasury Bonds, compared to a planned $55.0 billion. The AOFM also issued $1.65 billion of Treasury Indexed Bonds, compared to a planned $2.0 to $2.5 billion. There was no shortfall between actual and planned issuance announced at the Budget and subsequent releases. Issuance of Treasury Bonds was well in excess of the planned amounts. This reflects a significant unforeseen increase in financing needs due to the Government's coronavirus related fiscal response. Deferral of the 2020-21 Budget from May to October 2020 meant that the AOFM was unable to update a planned gross annual issuance program to reflect the escalation in the financing task (an official financing task was not available until after the end of the year). The Treasurer provided the first official update as part of an Economic and Fiscal Update Statement in July. Prior to this the AOFM had been taking the approach of providing issuance guidance in the form of a weekly rate of issuance, which was updated several times as better information became available. The financing task in any year comprises: funding for maturing AGS; the Budget deficit; and off-Budget funding requirements.

Indicator 2.1	Financing cost (portfolio): The cost of the long-term debt portfolio compared to the 10 year average of the 10-year bond rate
Target	Lower
Result	Target met

The effective yield of the long term debt portfolio for 2019-20 was 2.95 per cent (2018-19: 3.26 per cent). This is an expected outcome and is below the 10 year average of the 10 year bond rate of 3.09 per cent.

The trajectory and level of financing costs are important considerations for the AOFM. In an environment of declining interest rates (which characterises most of the period since the GFC), the financing cost of the long term debt portfolio will, all other things equal, decline as the AOFM issues new debt at lower rates. The maturity profile of the portfolio is also relevant. The financing cost of the long term debt portfolio will also fall as debt issued in prior years when rates were higher matures and is repaid. The AOFM monitors the cost of the debt portfolio against the 10 year average of the 10-year bond rate because this is a globally relevant benchmark indicator. It is also closely associated with AOFM's aim of supporting the 10-year futures contract and it represents a highly liquid part of the AGS market.

Indicator 2.2	Financing cost (issuance): The cost of Treasury Bond issuance over the past 12 months compared to the average 10-year bond rate over the same period
Target	Lower
Result	Target met

The average yield of Treasury Bond issuance (accounting for the bulk of long term issuance) for 2019-20 was 0.81 per cent (2018-19: 2.29 per cent). This compares to the 2019-20 average of the 10 year bond rate of 1.04 per cent (2018-19: 2.26 per cent). The AOFM monitors issuance cost outcomes against the 10-year bond rate because it is a market relevant benchmark indicator and represents a highly liquid part of the AGS yield curve (making it a useful cost indicator of market conditions for the year overall). The 12 basis point outcome deviation from the indicator is just outside the AOFM's expectation of a range of around plus/minus 10 basis points.

The average term of new issuance in 2019-20 was 8.75 years, which was shorter than planned issuance of 11 years average term to maturity (2018-19 actual: 11.27 years).

The average yield on Treasury Bonds issued during 2019-20 was lower than the average 10 year bond rate during the year. This outcome reflected the shorter average tenor of issuance of 8.75 years (compared with the 10 year cost performance indicator) and the 'back-loading' of the issuance program in the second half of the year in response to the coronavirus and what was a significant rally in bond yields through the second half of the year. The AOFM also faced a period of severe market dislocation in March, which prevented any meaningful issuance of bonds. Once financial markets globally began to recover, most sovereign issuers were constrained to issuing only short-term maturities as there was widespread investor aversion to taking on the interest rate risk associated with buying long-dated maturities. The combination of market conditions and unforeseen materially higher issuance requirement made the AOFM's planned target of 11 years average-term-to-maturity of issuance unachievable.

Indicator 3	New issuance yields: Weighted average issue yield at Treasury Bond and Treasury Indexed Bond tenders less prevailing secondary mid-market yields
Target	Issuance yields at or below the secondary mid-market rate
Result	Target met

Average tender yields were below secondary mid-market yields for both Treasury Bonds (0.32 basis points) and Treasury Indexed Bonds (1.01 basis points). This compares to 0.23 basis points and 1.37 basis points respectively in 2018-19. In 2019-20, the AOFM held 79 Treasury Bond tenders with a combined face value of $94.2 billion and 14 Treasury Indexed Bond tenders with a combined face value of $1.65 billion. This compares to 62 Treasury Bond tenders (for $51.4 billion) and 15 Treasury Indexed Bond tenders in 2018-19 (for $2.15 billion).

How AOFM achieves this objective

The financing task is achieved through issuance of AGS, the mix of which is usually pre-determined through an annual issuance strategy that balances debt portfolio risks (such as future interest rate volatility and funding risks) against differences in short and long-term borrowing costs. Flexibility within the strategy is also important. The volume and mix of AGS issuance to achieve the financing task can be adjusted in response to changing circumstances (such as unforeseen changes in funding requirements). Such was the case in 2019-20 where the AOFM faced (from March 2020 onwards) a material increase in the Government's financing requirements during a period of considerable stress in the AGS market. The AOFM responded by increasing the volume and frequency of Treasury Bond tenders (with more reliance on shorter maturity bonds), launching two large Treasury Bond syndicate issues and upscaling short term Treasury Note issuance.

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

Of the $129.9 billion in gross term issuance for the year, $94.2 billion was issued via competitive tender, with new issuance yields consistently lower than secondary market yields. The remainder was issued via syndication. Financing costs on the overall portfolio also compared favourably against market indicator rates. More detail on each of these aspects is provided in Section 2 below.

Objective 2: Facilitate the government's cash outlay requirements as and when they fall due

Indicator 4	Use of overdraft facility: Number of instances the RBA overdraft facility was utilised to the extent that it required Ministerial approval during the assessment period
Target	Zero
Result	Target met

There were two occasions in 2019-20 where the overdraft facility was utilised. On both occasions the overdraft drawing amount was below the limit of $1 billion and did not require Ministerial approval. The use of the RBA overdraft facility was consistent with its purpose for covering infrequent, unexpected shortfalls in the overnight cash balance in the OPA group of accounts (even though more than sufficient assets will be held in term deposits with the RBA).

How AOFM achieves this objective

This objective is achieved through management of the cash portfolio with the AOFM forecasting daily revenue collections and expenditure. At times there are significant mismatches between expenditure needs and revenue collected, which the AOFM accommodates through managing cash reserves by placing term deposits and the use of short-term borrowing. The AOFM aims to keep cash in the OPA sufficiently only to cover forecast outlays (plus a margin of error) while placing remaining cash as interest earning assets in term deposits with the RBA.

Objective 3: AOFM is a credible custodian of the AGS market and other portfolio responsibilities

Indicator 5	A liquid and efficient secondary market: Annual turnover in the secondary market for Treasury Bonds and Treasury Indexed Bonds
Target	Greater than previous year
Result	Target met for Treasury Bonds; not met for Treasury Indexed Bonds

AGS liquidity remained strong in 2019-20. Turnover of Treasury Bonds totalled $1.5 trillion (a 19 per cent increase from the previous year). Annual Treasury Indexed Bond turnover decreased by 7 per cent, to $49 billion. There were no new Treasury Indexed Bond lines established in 2019-20, and there was significant market disruption in this market in the March and June quarters also. Strong secondary market liquidity is a reflection of a range of factors but importantly includes regular AGS issuance by the AOFM that, amongst other factors, takes account of prevailing market conditions. The AOFM also plans issuance with the aim of supporting the futures contracts, promoting active market making by intermediaries, and supporting diversity of the AGS investor base.

Indicator 6	Market commitments: Number of times the AOFM failed to take actions consistent with public announcements
Target	Zero
Result	Target met

The AOFM's actions were consistent with its public announcements throughout the year.

The Government's response to the coronavirus unusually led to the AOFM revising and updating guidance multiple times over the final four months of the fiscal year. This included announcements on 12 March 2020, 3 April 2020 and 22 May 2020, which progressively updated the AOFM's AGS issuance intentions including plans for new lines and weekly issuance rates. The AOFM's actions were always consistent with the most recent public guidance in place. The regular changes to public guidance was driven by the evolving nature of the Government's coronavirus response package and the fact that the measures were announced in stages. The AOFM considers operational flexibility to be an important enabler of achieving its market custodianship aims. This was reflected by the AOFM suspending issuance through mid-late March when the Treasury Bond market was at its most stressed, and periodically revising issuance guidance.

The AOFM considers the above actions were consistent with public announcements but notes that revisions were necessarily made multiple times over the latter part of the year (a departure from the preferred and traditional approach of only updating guidance at the time of official Budget updates).

How AOFM achieves this objective

That the AOFM is judged by financial markets to be a credible custodian of the AGS market can be assessed from a number of perspectives. However, it is important to note that the AOFM does not have any regulatory or statutory authority and any influence it has in the market is only by virtue of its guidance and issuance operations (although it recognises the potential for this influence to be significant at times).

Good market liquidity is a key consideration for most investors because it reflects an ability to transact in the market (either through buying or selling AGS) in a timely manner and in volumes to meet their needs, without market prices being materially moved as a result of those transactions. Liquidity is a product of a number of factors, including having a wide range of active 'price makers' in AGS, regular issuance, and a large, diverse (and active) investor base. The AOFM supports liquidity through: restricting the number of individual bond lines so that each can have greater volume outstanding; regular and consistent issuance into maturities that are chosen to reflect investor demand; clear communication and transparency regarding the AOFM's operations and issuance strategy; and a long-standing focus on the development of a functional and resilient AGS market.

High levels of secondary market turnover and regular feedback from investors attesting to their capacity to buy and sell large parcels of AGS at acceptable prices are strong indicators of liquidity for 2019-20. When the bond market was stressed in March and early April, the AOFM was forced to notably change its planned issuance activities to relieve pressure on the bond market. This was done by suspending issuance initially and then cautiously resuming with a focus on low risk (generally shorter term to maturity) lines and increased financing through Treasury Notes. This approach also reflected favourably on the AOFM's credibility as a sovereign issuer and custodian of the AGS market.

SECTION 2: OUTCOMES

Debt issuance

Aims

The AOFM currently has three different debt instrument choices — nominal Treasury Bonds, Treasury Indexed Bonds and Treasury Notes. The primary objectives of issuance are to cost-effectively meet the Government's budget financing task (including both deficit financing and repayment of maturing debt obligations) and to assist in managing portfolio level financial risks such as interest rate, liquidity, funding and debt refinancing risk.

Treasury Bonds are used as the primary funding tool to meet the budget financing task. Treasury Indexed Bonds make up a small part of budget financing and issuance is primarily to support the inflation-linked market. Treasury Notes are typically issued as a within-year financing tool but may also serve as a funding tool in times of heightened, unforeseen liquidity requirements (such as those experienced from March 2020).

Through its operations the AOFM aims to be a credible custodian of the AGS market and support the efficient functioning of Australia's financial markets more broadly, with careful consideration to:

- the role of AGS and Treasury Bond futures as reference points for the pricing of other capital market instruments and to manage interest rate risk; and
- the importance of active and efficient sovereign debt markets (both the physical and futures markets) to the robustness of the broader financial system and its resilience to economic shocks.

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

Approach to achieving these aims and market influences

The AOFM uses competitive tenders and syndications to conduct debt issuance. Competitive tenders are the mainstay of AOFM's issuance operations. In 2019-20 there were 79 Treasury Bond tenders, 14 Treasury Indexed Bond tenders and 50 Treasury Note tenders. Two new Treasury Bond lines were launched by syndication and one new Treasury Bond line was launched by tender.

The Government's funding requirements were considerably higher than last year. A balanced budget was expected for 2019-20. However, the COVID-19 crisis and associated fiscal response packages dramatically increased the budget financing task.

Through the first half of 2019-20, Treasury Bond yields traded within a 50 basis point range (at all tenors). Below target inflation and a gradual rise in the unemployment rate resulted in central banks easing monetary policy settings in Australia and abroad. Yields fell to historic lows early due to low inflation, but ultimately followed global yields higher. AGS yields at all tenors remained lower than US Treasury Bonds.

The second half of 2019-20 was defined by the global economic, fiscal and market impacts of the COVID-19 pandemic. With the onset of the crisis, a flight to high quality defensive assets drove sovereign yields to historic lows. Muted expectations of economic output and inflation due to worldwide economic shutdowns exacerbated this trend. As a result, a combination of factors including restricted access to funding channels, an abrupt and widespread requirement for redemptions and asset reallocations together triggered a wave of selling in the month of March. Market intermediaries struggled to absorb the large volume investor selling and some reached balance sheet risk limits, which created severe domestic market congestion. The yield on 10 year bonds increased by around 100 basis points in just two weeks. The bid-offer spread on 10 year bonds reached as high as 10 basis points compared to a pre-COVID-19 norm of on average 1 basis point (indicative of market function).

In response, the AOFM suspended issuance into the Treasury Bond market to allow congestion to clear. The Treasury Note market remained open for issuance throughout the crisis and proved vital in meeting the financing task. The RBA stepped in with a range of announcements on 19 March, including an operation to purchase AGS in the secondary market so as to help clear trading congestion due to the market dislocation, and to achieve a 3 year yield target of around 0.25 per cent.

The RBA's announcement and the commencement of its operations together with the AOFM's issuance decisions immediately helped lower yields, clear intermediary balance sheets and reopen the Treasury Bond primary market. Throughout the remainder of 2019-20 the RBA purchased around $40 billion of AGS with tenors up to 10 years. This, together with the issuance suspension, removed much of the dislocation in the market.

The fiscal support in response to the COVID-19 crisis and decreased tax revenues drastically impacted the budget position. The AOFM was subsequently tasked with issuing at a record rate to meet the increased financing task in the final quarter. Treasury Bonds and Treasury Notes were tendered at record pace in conjunction with record size syndications into 3 and 10 year basket lines.

Monetary policy easing and government purchases around the world in response to the COVID-19 crisis resulted in global bond yields falling. AGS yields did not fall as much as in some other countries leaving the AGS curve higher yielding and relatively steeper compared with other highly rated sovereigns, most notably the US. The steepness and the positive spread to US Treasuries drew strong offshore interest in AGS and helped to support AOFM's increased issuance task.

Buybacks of short-dated Treasury Bonds were conducted via tenders until mid-March 2020. The AOFM ceased all buyback tenders when the RBA began purchasing AGS in the open market and this operation remained inactive at the end of the year.

Outcomes

Meeting the Budget financing task

The financing task for 2019–20 was fully met. A total of $128.2 billion of Treasury Bonds and $1.65 billion of Treasury Indexed Bonds were issued during the year. Treasury Notes outstanding were increased to over $58 billion. Issuance was considerably higher than expected at the time of the 2019–20 Budget, where in face value terms around $58 billion for Treasury Bonds and $2.5 billion for Treasury Indexed Bonds had been forecast (planned).

Treasury Bonds

- Gross Treasury Bond issuance for the year totalled $128.2 billion. This was a significant increase from the $55.0 billion of Treasury Bonds issued in 2018–19. New bond lines maturing in November 2024, December 2030 and May 2032 were established over the year. Around 44% of 2019-20 Treasury Bond issuance was into these new bond lines. Syndications of the November 2024 and December 2030 accounted for a quarter of the 2019-20 program alone.

In selecting the bond lines to issue each week, the AOFM continued to follow its standard practice of taking into account prevailing market conditions, liaison with financial market contacts, relative value considerations, and the liquidity of outstanding bond lines. Between July 2019 and March 2020, one or two tenders were held each week. Usually this was in the form of a larger tender for a 10 year basket stock and a smaller tender for a longer-dated bond. From April 2020 onwards both tender sizes and frequency were increased reflecting the need to scale up funding to meet the increased financing task. Issuance from April to June was concentrated into 3 and 10 year basket bonds, which contributed to a drop in the average issuance tenor.

At the end of the year, there were 26 Treasury Bond lines, with 6 of these lines having over $30 billion on issue and a further 11 having over $20 billion on issue. Chart 1 shows Treasury Bonds outstanding as at 30 June 2020 and the allocation of issuance across bond lines during 2019–20.

Chart 1: Treasury Bonds outstanding as at 30 June 2020 and issuance in 2019–20

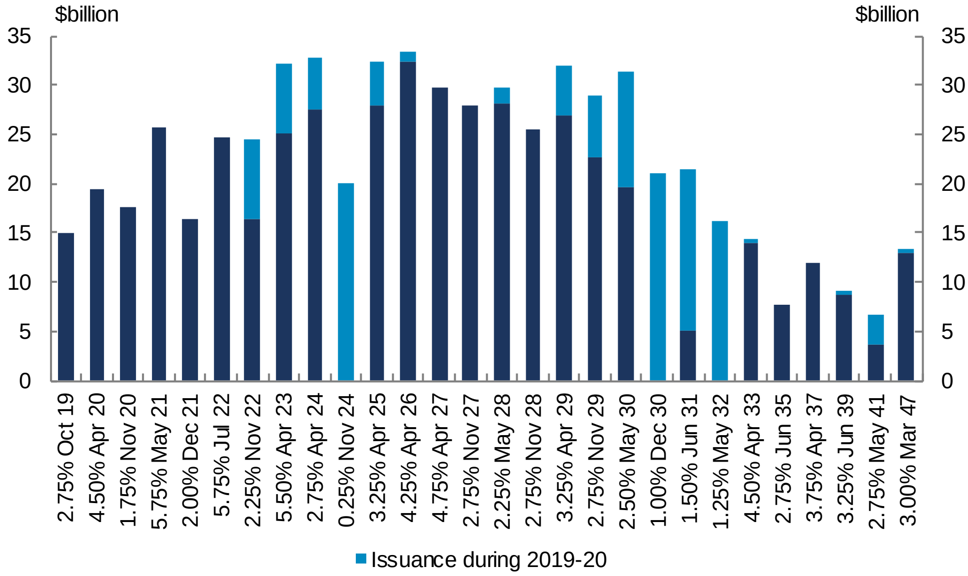


Table 2 summarises the results of Treasury Bond tenders conducted during the year. The results are shown as averages for each half-year and grouped by the maturity dates of the bonds offered.

Table 2: Summary of Treasury Bond tender results

Period	Maturity	Face value amount allocated ($m)	Weighted average issue yield[1] (%)	Average spread to secondary market yield (basis points)	Average times covered
July — December 2019	Up to 2027	900	0.8030	-0.20	3.99
	2028 – 2032	24,600	1.1073	-0.13	3.24
	2033 – 2047	1,700	1.6012	-0.22	1.93
January — June 2020	Up to 2027	31,900	0.3438	-0.79	5.18
	2028 – 2032	34,700	0.9862	-0.23	3.39
	2033 – 2047	400	0.9832	-0.08	4.15

1 Shown is the simple average of the face value-weighted issue yield across all tenders within the tenor range and tender date range indicated, consistent with past annual reports.

The average coverage ratio for all Treasury Bond tenders in 2019–20 was 3.67, an increase from 3.57 in 2018–19. The average tender size of $1.2b billion was higher than in 2018-19 ($829 million). A total of 79 tenders were held in 2019-20, an increase from 62 in 2018-19.

An increase in the funding requirement led to an increase in all metrics between the first and second half. Tender sizes were larger, more tenders were held, and they were spread more evenly across the curve in the second half of the year. Increased issuance was met with increased demand by intermediaries. Tenders in the second half of the year attracted higher coverage ratios and lower spread to secondary market yields.

Shorter-dated bond tenders generally received a greater volume of bids (higher than average coverage ratios), which reflected both core investor base interest and ability of intermediaries to warehouse shorter dated bonds.

The strength of bidding at tenders was also reflected in issue yield spreads relative to secondary market yields. At most Treasury Bond tenders the weighted average issue yields were below prevailing secondary market yields (a competitively stronger outcome for the government).

Treasury Bonds were again repurchased ahead of maturity in 2019-20 (as had been the case the previous year), all of which were bonds maturing after 30 June 2020; this included:

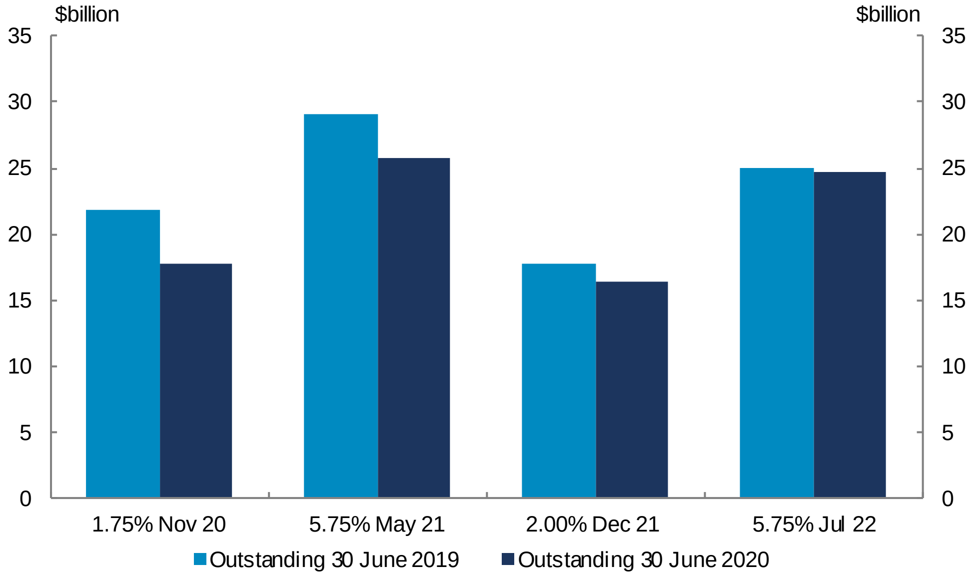
- 20 Treasury Bond buyback tenders were conducted, at which $9.0 billion of bonds were repurchased; and
- a small amount of bonds were repurchased from retail investors who sold their holdings via the Australian Government Securities Buyback Facility.

In response to the market dislocation of March the RBA began purchasing AGS in the secondary market under its Long-Dated Open Market Operations program. The AOFM subsequently ceased all buyback tenders until further notice (since revised to be no earlier than 2021-22). The RBA may also repurchase near-maturing AGS in its Open Market Operations.

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

The volume outstanding in short-dated Treasury Bonds was reduced as illustrated in Chart 2.

Chart 2: Volume outstanding in short-dated Treasury Bonds as at 30 June 2019 and 30 June 2020



Treasury Notes

Treasury Notes on issue increased by $58 billion in 2019-20. There were 50 Treasury Note tenders conducted during the year.

In the first half of 2019-20, Treasury Notes were primarily used as a within-year financing tool. Issuance tenors were focused around 3 and 6 month maturities.

In the second half of 2019-20, the increased financing task (at short notice) required Treasury Notes to be used as a funding tool. Issuance rates were increased to record pace and maturities up to 11 months were issued. The AOFM's increase in issuance was met with strong investor demand.

Chart 3: Treasury Notes outstanding (by maturity) as at 30 June 2020 and issuance in 2019–20

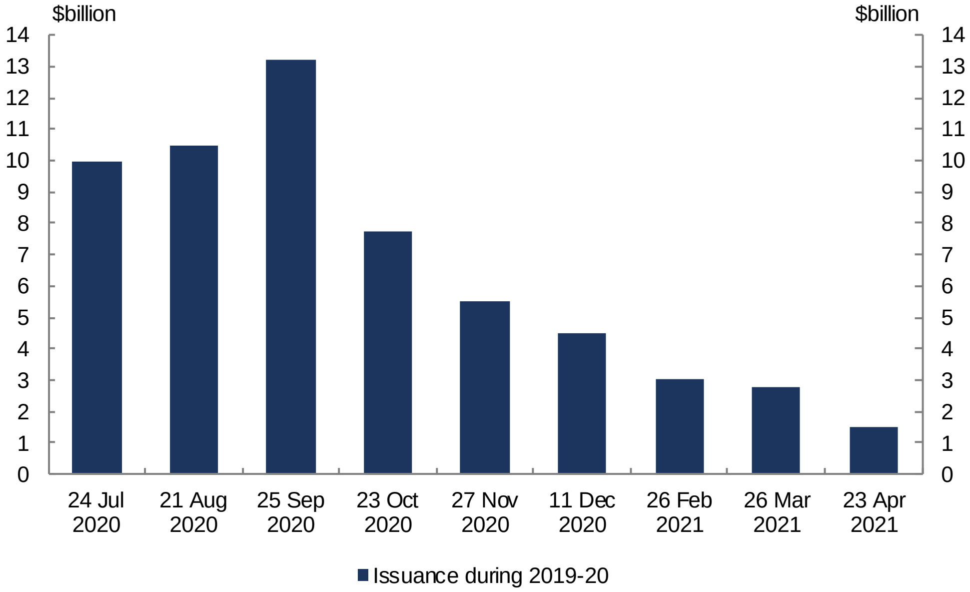


Table 3 summarises the results of Treasury Note tenders conducted during the year. The results are shown as averages for each half-year and grouped by the maturity dates of the notes offered.

Table 3: Summary of Treasury Note tender results

Period	Maturity	Face value amount allocated ($m)	Weighted average issue yield[2] (%)	Average spread to Overnight Indexed Swap (basis points)	Average times covered
July — December 2019	Up to 120 days	13,936	0.9877	20.00	3.53
	121 days 210 days	10,500	0.9537	30.87	3.93
	Longer than 210 days	—	—	0.00	—
January — June 2020	Up to 120 days	27,000	0.4409	14.86	3.69
	121 days 210 days	27,750	0.4652	18.85	4.19
	Longer than 210 days	10,750	0.2697	13.05	4.67

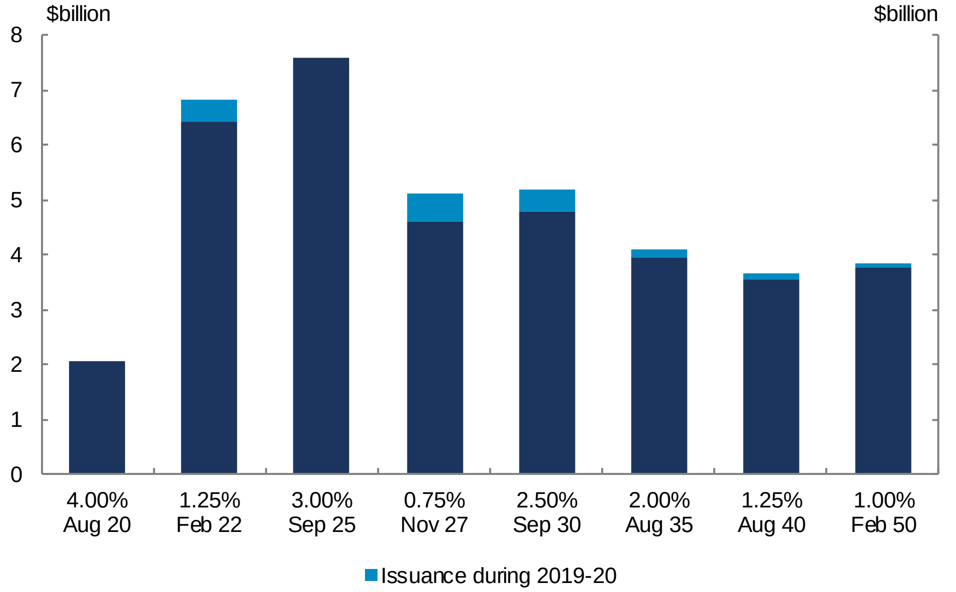
Treasury Indexed Bonds

Treasury Indexed Bond issuance for the year totalled $1.65 billion over 14 tenders. The volume of each line outstanding, relative yields and other prevailing market conditions were considered in fortnightly issuance decisions. Low CPI expectations in Q3 2019 associated with (and in fact exacerbated by) the COVID-19 crisis decreased demand for Treasury Indexed Bonds. Several tenders were cancelled and tender sizes were decreased in response to the decrease in demand.

Chart 4 shows the amount outstanding in each of the eight Treasury Indexed Bond lines as at 30 June 2020, and the allocation of issuance during the 2019–20 year.

2 Shown is the simple average of the face value-weighted issue yield across all tenders within the tenor range and tender date range indicated, consistent with past annual reports.

Chart 4: Treasury Indexed Bonds outstanding as at 30 June 2019 and issuance in 2019–20



Just less than 10 per cent of the long-term debt portfolio is in the form of Treasury Indexed Bonds, the capital values of which are adjusted with changes in the CPI. The issuance of these bonds typically attracts a different (and predominantly domestic) class of investor compared to Treasury Bonds. When the market was reopened during the GFC the objective was to broaden the AGS investor base; Indexed Bonds continue to provide a source of diversification in the funding base (although this has diminished in importance as the size of the financing tasks has grown). While the Indexed Bond portfolio has declined as a share of the long term funding, the total stock outstanding of indexed bonds has continued to grow.

Tender coverage ratios were slightly higher in 2019-20 (4.70 compared with 4.40 in 2018-19). This is a function of the decision to lower the overall issuance volume in 2019-20 in response to market conditions and to reduce tender sizes (the average tender size was $118 million in 2019-20 compared with $143 million in 2018-19). At most tenders, the weighted average issue yields were below prevailing secondary market yields.

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

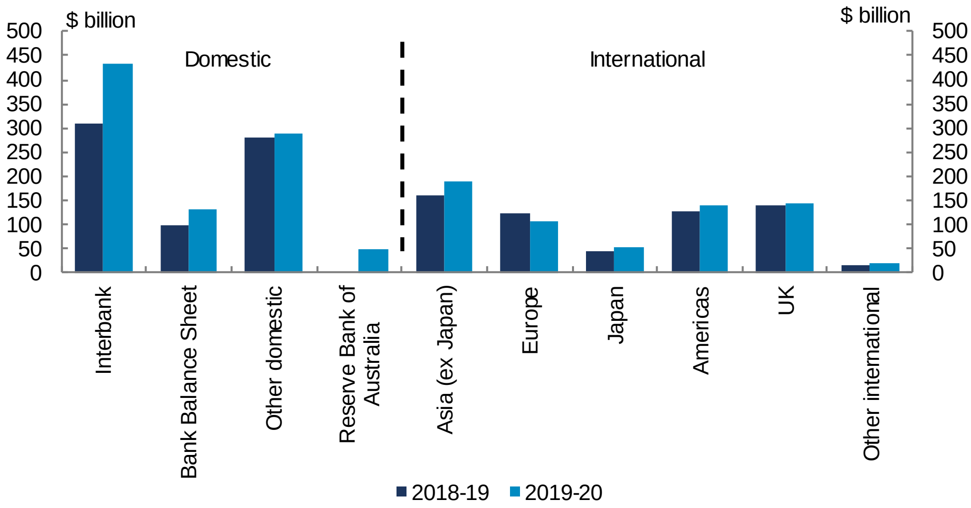
AGS market liquidity and efficiency

Treasury Bond market liquidity was significantly impeded for around six weeks by the COVID-19 financial crisis. Market liquidity was strong in the first half of 2019-20 with 10-year Bid-Offer spreads around 1 basis point and price discovery efficient.

The onset of the COVID-19 crisis in March resulted in a significant wave of Treasury Bond selling by investors, which hampered intermediaries' ability to make prices. Bid-offer spreads widened to around 10 basis points at the height of the market dislocation. During this period the AOFM was unable to meaningfully issue Treasury Bonds. The dislocation prompted the RBA to introduce a bond purchase program to 'clear the market'. This helped alleviate the balance sheet pressures of intermediaries (by relieving volume and risk limit related constraints on trading) and allowed the market to get back to more efficiently making prices. Liquidity slowly returned to the market but this was mainly in the futures basket bonds. Ultra-long bonds, which were generally less liquid pre-crisis, traded poorly despite the steepness of the yield curve. By the end of the year bid-offer spreads had returned to pre-crisis levels.

Turnover of Treasury Bonds increased 19 per cent from the 2018-19 volume. This was facilitated primarily by increased AOFM primary issuance.

Chart 5: Annual Treasury Bond Turnover



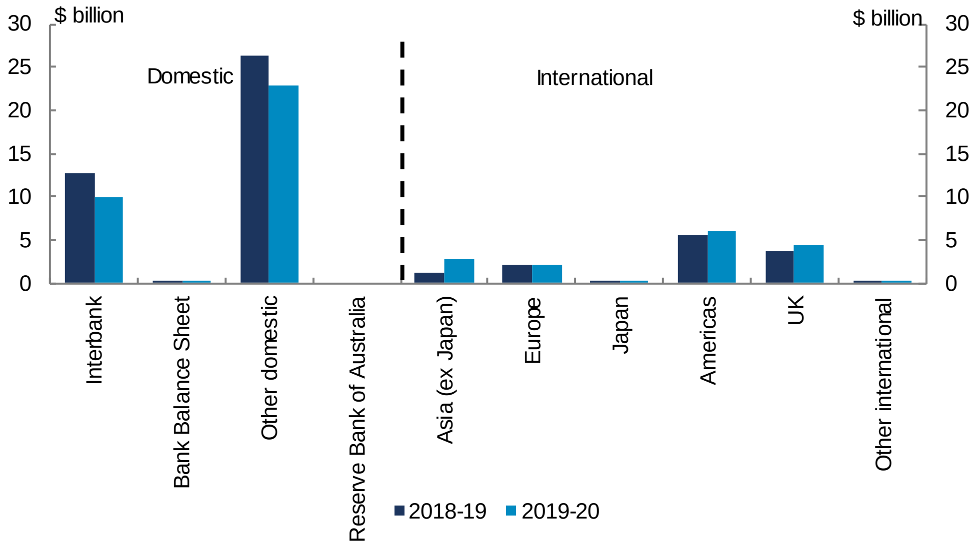
AOFM monitoring of the market indicates that liquidity in Treasury Indexed Bonds has continued to prove more challenging than for Treasury Bonds (although it has tended to vary appreciably throughout in year). This is consistent with the experiences of other sovereign inflation-linked markets. Treasury Indexed Bond turnover in 2019-20 was around $49 billion, a decrease of 7 per cent from the 2018-19 volume.

Treasury Indexed Bond market liquidity deteriorated in the first-half of 2019-20. A decrease in break-even inflation led to a fall in investor demand. Fewer intermediaries actively made prices as a result. During this period the AOFM took extended breaks between tenders on occasions.

The COVID-19 crisis subsequently led to a large wave of selling in inflation linked bonds. Break-even inflation fell to record lows, but liquidity slowly returned as markets and break-even inflation rebounded.

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

Chart 6: Annual Treasury Indexed Bond Turnover



Treasury Bond Futures Turnover

Turnover in the Treasury Bond futures market is significantly higher than in the underlying Treasury Bonds. The three and 10 year Treasury Bond futures contracts are highly liquid: over 58 million three year contracts (representing $5.8 trillion face value of bonds) and over 56 million 10 year contracts ($5.6 trillion face value of bonds) were traded in 2019–20. Turnover in the 20 year contract is considerably lower: around 190,000 contracts (or just over $12.0 billion face value of bonds) were traded.

In the first half of 2019-20, the futures baskets traded very near the underlying bonds in basket bonds. All contract close-outs occurred smoothly.

In the second half of the year, bond futures liquidity was hampered. The baskets traded cheap to the underlying bonds, and contract close-outs were significantly congested. Three-year Treasury Bond futures contract volume began to decline following implementation of the RBA's three-year bond yield target operation.

Securities Lending Facility

The AOFM Securities Lending Facility allows market participants to borrow Treasury Bonds and Treasury Indexed Bonds for short periods when they are not otherwise available in the secondary market. This enhances the efficiency of the market by improving the capacity of intermediaries to continuously make two-way prices, reduces the risk of settlement failures, and supports market liquidity. The facility was used 163 times for overnight borrowing in 2019–20 compared with 21 times during 2018-19. The volumes borrowed were also higher than in 2018–19, with the total face value amount lent in 2019–20 being $2,653 million, an increase from $393 million in the previous year. Treasury Indexed Bonds of all tenors are the main security borrowed from the Securities Lending Facility owing to the lower liquidity in the Treasury Indexed Bond repo market. Ultra-long and short-dated Treasury Bonds were also borrowed from the Securities Lending Facility. This is expected as these bonds generally exhibit lower liquidity and have less stock available for trading in the secondary market.

Cost across AOFM portfolios

Debt portfolio cost outcomes according to a number of perspectives are presented in this section.

Aim

The AOFM is tasked with meeting the Budget financing task while managing the trade-offs between cost and risks for the cash and debt portfolios over the medium-long term. Funds in the investments for policy purposes portfolio have investment return considerations as described later in this section.

Approach to achieving the aims

The AOFM utilises cost and risk measures that reflect considerations faced by sovereign debt managers generally. The primary cost measure used by the AOFM is historic accrual debt servicing cost. This includes interest payments made on AGS, realised market value gains and losses on repurchases, capital indexation of indexed debt, and the amortisation of issuance premiums and discounts. The effective yield of the portfolio is the total accrual debt servicing cost expressed as a percentage of the stock of debt outstanding. 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 debt and assets. Debt service cost outcomes are presented in the AOFM’s financial statements on this basis. A comprehensive income format is used that allows revenues and expenses on an historic basis to be distinguished from the effects of unrealised market value fluctuations. Fair value facilitates an assessment of financial risk exposures and changes in those exposures from year to year, the value of transactions managed and the economic consequences of alternative strategies. It is most useful in the context of trading for profit making purposes (which does not relate to the AOFM's core operations).

Outcomes

The debt servicing cost[3] of the net portfolio managed by the AOFM in 2019–20 was $17.02 billion on an average book volume of $569.32 billion, representing a net cost of funds of 2.99 per cent for the financial year. The largest component of the overall portfolio is the Long Term Debt Portfolio (LTDP), comprised primarily of Treasury Bonds and Treasury Indexed Bonds, which incurred debt servicing costs of $17.01 billion on an average book volume of $575.70 billion, implying a cost of funds of 2.95 per cent. The difference between the total cost measure and the cost of the LTDP is attributable to the short term assets and liabilities the AOFM uses for liquidity management purposes (term deposits and Treasury Notes) and returns on other assets.

Table 4 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 2019-20 and 2018–19.

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

Table 4: Commonwealth debt and assets administered by the AOFM

	Debt servicing cost		Book volume		Effective yield	
	2018-19	2019-20	2018-19	2019-20	2018-19	2019-20
	$ million		$ million		per cent per annum	
Contribution by instrument						
Treasury Bonds	(16,136)	(15,538)	(505,825)	(530,342)	3.19	2.93
Treasury Indexed Bonds	(1,785)	(1,468)	(44,337)	(45,360)	4.03	3.24
Treasury Notes	(63)	(136)	(3,398)	(19,963)	1.85	0.68
Gross AGS	(17,984)	(17,142)	(553,560)	(595,665)	3.25	2.88
Term deposits with the RBA	459	170	24,748	24,598	1.85	0.69
ABSF investments		-		0	0.00	0.00
SFSF investments		(2)		142	0.00	-1.41
State housing advances	106	(50)	1,801	1,604	5.89	-3.10
Gross assets	565	118	26,548	26,344	2.13	0.45
Net portfolio	**(17,419)**	**(17,024)**	**(527,011)**	**(569,321)**	**3.31**	**2.99**
Contribution by portfolio						
Long Term Debt Portfolio	(17,921)	(17,006)	(550,162)	(575,702)	3.26	2.95
Cash Management Portfolio	396	34	21,350	4,635	1.85	0.73
Investments for Policy Purposes Portfolio	106	(52)	1,801	1,746	5.89	-2.96
Total debt and assets	**(17,419)**	**(17,024)**	**(527,011)**	**(569,321)**	**3.31**	**2.99**
Re-measurements (a)	(43,550)	(9,193)				
Total after re-measurements	**(60,969)**	**(26,217)**	**(527,011)**	**(569,321)**		

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) Re-measurements refer to unrealised gains and losses from changes in the market valuation of financial assets and liabilities.

The cost of gross AGS on issue decreased by $0.84 billion compared to the previous year. This was despite an increase in the average volume of debt on issue of $42.11 billion; it reflects the funding cost of gross debt having declined by 37 basis points to 2.88 per cent. This improvement was driven by the issuance of new bonds at yields that were below the average of debt on issue.

The return on gross assets in dollar terms for the period was $118 million, a decrease of $447 million compared to 2018–19. This was driven by a $289 million decrease in income from term deposits (resulting from lower interest rates) as well as a $156 million reduction in income on state housing advances following the recorded loss in relation to the waiver of Tasmanian housing loan advances (a policy decision taken by the Australian Government). SFSF investments also recorded a loss due to the recognition of the economic impact of providing below-market (concessional) financing. In percentage terms the return on gross assets decreased by 168 basis points to 0.45 per cent.

The net cost of the combined portfolio of debt and assets was $17.02 billion. This was lower in dollar terms than in 2018–19, primarily due to the issuance of new bonds at yields that were below the average of debt on issue. In percentage terms, net debt servicing costs fell from 3.31 per cent to 2.99 per cent, slightly less than the decrease in gross debt servicing costs.

Movements in market interest rates increased the market value of outstanding debt in 2019–20. Unrealised losses from re-measurements amounted to $9.19 billion. This compares to an unrealised loss of $43.55 billion in the previous year. Most of the re-measurement losses are attributable to changes in the market value of Treasury Bonds. Re-measurement items are highly volatile from one year to the next and have no bearing on the AOFM's debt issuance strategy. Indeed, were the AOFM to adopt a strategy designed to minimise the volatility of the market value of debt, issuance would be limited to only very short-term debt securities. However, this would create a portfolio structure that would maximise expected variability in debt servicing costs when measured in cash, accrual and public debt interest terms, while also maximising exposure to refinancing and funding risk. In practice the AOFM has been seeking to reduce these risks through allocating a greater proportion of issuance to long-dated bond lines.

Long-Term Debt Portfolio management

Aims

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

Approach to achieving the aims

The AOFM influences the cost and risk profile of the LTDP through the maturity structure of the securities it issues (and to a lesser extent, the mix between nominal and inflation-linked securities). Issuing longer-term securities will typically involve paying higher debt servicing costs (in the presence of a positive term premium)[4] although this is compensated by reduced variability in future interest cost outcomes and lower exposure to refinancing risk.[5] Issuing shorter-term debt securities will typically incur less interest cost (avoiding a term premium), but result in higher variability in cost outcomes through time and a greater debt refinancing task. Striking the right balance between these cost and risk considerations, while providing consistent and transparent stewardship of the bond market, is a debt manager's ongoing challenge.

Developing a medium- to long-term view on appropriate portfolio management and then translating that into annual issuance strategies is informed by an ongoing research program. This explores the cost and risk characteristics of alternative portfolio structures and issuance strategies under a wide range of scenarios; the program takes into account prevailing fiscal and economic conditions, as well as an assessment of broader market trends. The AOFM 2019-20 issuance strategy was approved by the Treasurer at the time of the Budget. A range of complementary limits, thresholds, guidelines and targets governing AOFM operations were endorsed by the Secretary to the Treasury. These governance arrangements provide oversight for the impact of AOFM's gross issuance decisions each year. In March 2020 the strategy was revised to reflect the substantive changes to the fiscal outlook and market conditions as a result of the COVID-19 pandemic.

Weekly decisions focus on method (tender or syndication), volume and maturities to be issued. These operational decisions are influenced by several factors including prevailing market conditions, progress toward achieving the annual issuance strategy, relative value considerations and feedback from intermediaries and investors.

Long-Term Debt Portfolio issuance strategy

The issuance strategy for 2019-20 was formulated and approved amid a strengthening global economic environment, and was in large part influenced by a continuation of low outright bond yields (from a historical perspective), and a low term premium. The strategy required a bias toward longer-term issuance and further lengthening of the average term to maturity of the debt portfolio.
The strategy also aimed to support diversity in the AGS investor base (offshore

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

5 Refinancing risk, also referred to as rollover risk or re-pricing risk, is the risk that borrowing to replace maturing debt occurs on unfavourable terms (or perhaps not at all).

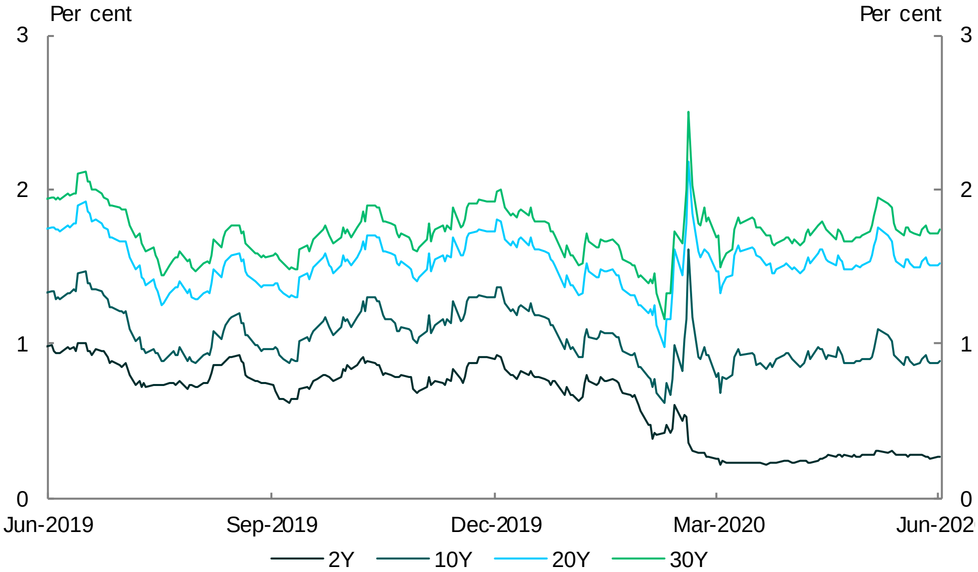
investors for example ted to have a stronger presence in the long-end of the yield curve) and was complemented by a regular program of bond buyback tenders.

The 2019–20 strategy was also designed to preserve the AOFM's operational flexibility under a wide variety of circumstances, while continuing to benefit from the relatively low interest rates on offer. Operational flexibility was utilised when the AOFM temporarily suspended issuance at the height of the financial market volatility in March 2020. The annual issuance strategy was subsequently revised in response to the rapid increase in the Budget financing task, heightened bond market volatility, and shifts in investor demand preferences. The focus of the updated strategy was on achieving the large volumes of financing required to meet the government's immediate needs at short notice and under highly stressed market conditions.

Outcomes

Debt cost outcomes are driven in large part by the level of bond yields, which fell during 2019-20. Major central banks increased monetary 'easing' leading to lower government bond yields (Chart 7). The outlook changed again and abruptly in March 2020. AGS yields decreased markedly and the yield curve steepened significantly through the second half of 2019-20 as interest rate markets reflected the highly uncertain economic outlook. The RBA responded to the pandemic by: cutting the cash rate target to 0.25 per cent; setting a three-year Treasury Bond

Chart 7: Evolution of Treasury Bond benchmark yields



yield target at the same (cash rate) level; purchasing government bonds (AGS and semi-government bonds) to address the dislocation observed in these markets; and introducing measures designed to lower funding costs and support the supply of credit across the economy through the banking and financial sector. The 10-year and 30-year benchmark yields ended the financial year at 0.88 and 1.74 per cent respectively (near historic lows).

The average term to maturity of Treasury Bond issuance in 2019-20 was 8.78 years[6]. The average tenor for July 2019 to February 2020 was 12.01 years (with $38.9 billion issued in this period), and 7.31 years for the period March to June 2020 ($89.3 billion issued).

Chart 8 shows how the issuance program benefitted from low interest rates, with an average yield on new issuance of 0.82 per cent[7]. The average issuance yield was 1.16 per cent from July 2019 to February 2020, and 0.66 per cent from March to June 2020.

Chart 8: Treasury Bond issuance — average yield and term to maturity

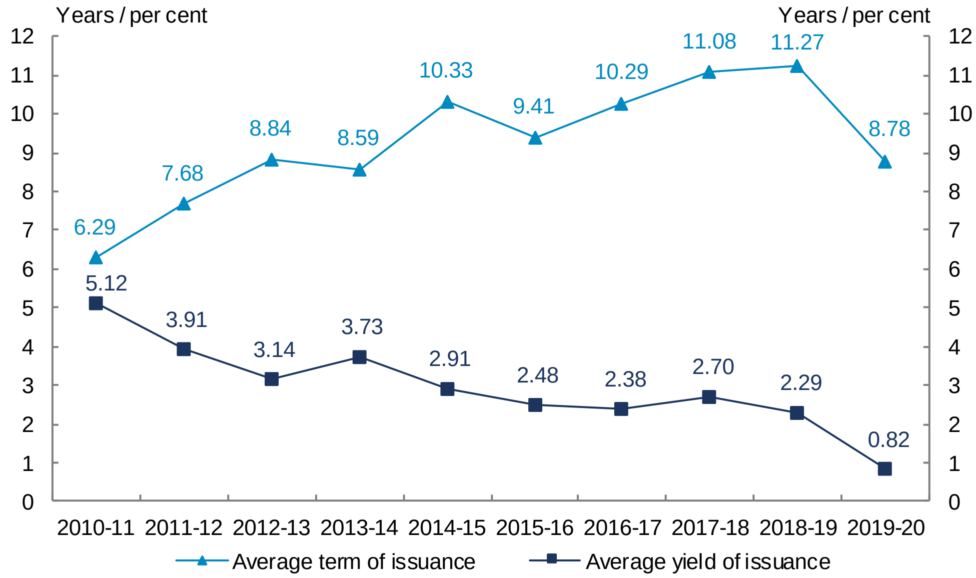


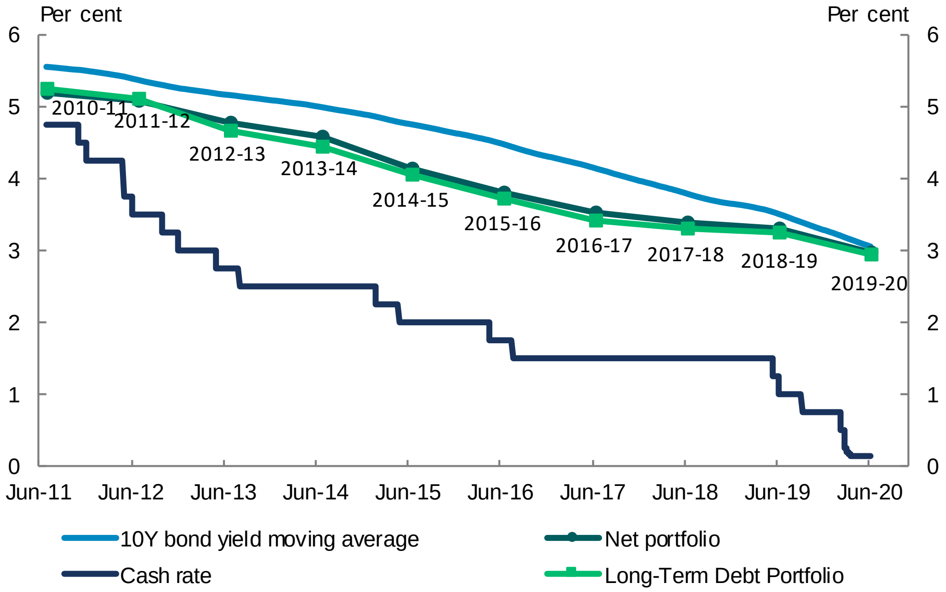
Chart 9 shows the funding cost profile of the LTDP and the net outcome overall (i.e. the AGS portfolio net of assets) over the past decade. These profiles are

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

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

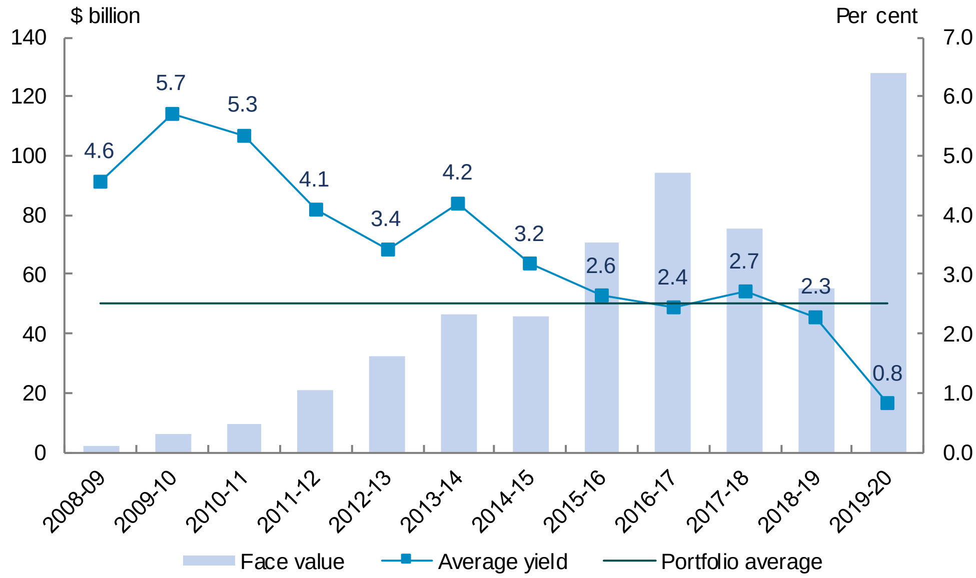
compared to the cash rate and the 10-year moving average of the 10-year bond yield. With interest rates trending down, funding costs on the LTDP and for the net outcome have declined by 231 and 220 basis points respectively since 2010-11. This compares to declines of 450 basis points in the cash rate target and 250 basis points in the 10 year average of the 10-year bond rate over the same period. Given the largely fixed cost structure of the LTDP and for the net outcome, changes in funding costs lag changes in the cash rate (changing only when existing debt securities or assets mature or new securities are issued/investments made).

Chart 9: LTDP and net portfolio cost of funds analysis



The structure and effective yield on the Treasury Bond portfolio as at 30 June 2020 is a product of issuance undertaken since the 2008-09 fiscal year. Around 60 per cent of the current portfolio was issued in the last four financial years at average yields significantly below the portfolio average of around 2.5 per cent, as depicted in Chart 10.

Chart 10: Treasury Bond portfolio — composition and average yield by issuance year, as at 30 June 2020

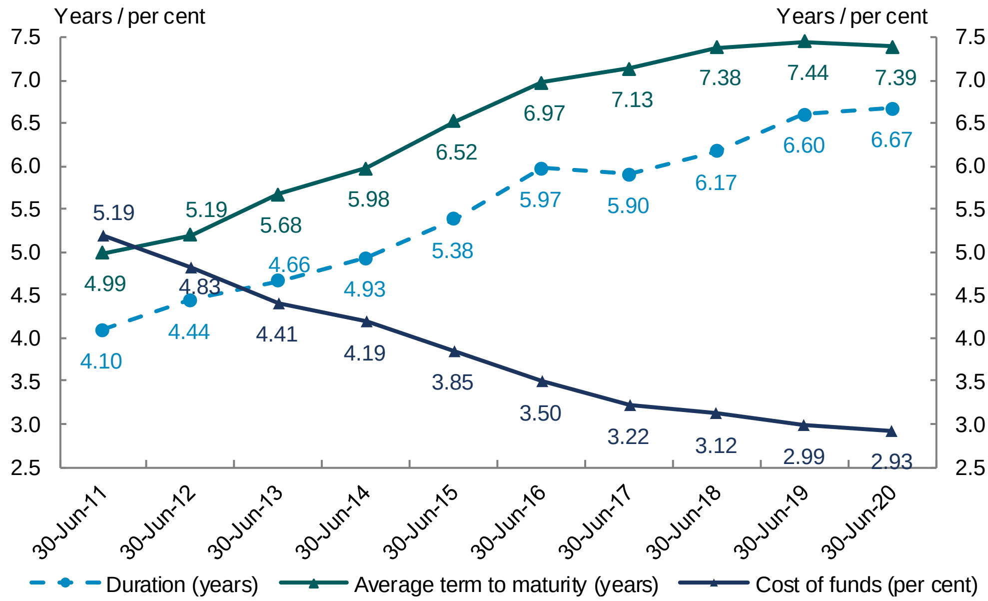


Long-Term Debt Portfolio risk outcomes

The average term to maturity of the Treasury Bond portfolio shortened by 0.05 years to 7.39 years over 2019-2020 (Chart 11). Duration was higher by 0.07 years (finishing at 6.67 years). The effective cost of funds for the Treasury Bond portfolio decreased from 2.99 to 2.93 per cent.[8]

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

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



The change in risk levels of the portfolio in terms of funding, refinancing and interest rate risk over time are demonstrated in Chart 12 below. The chart shows a steady decline in the short to medium-term Treasury Bond refinancing task, measured as the proportion of the stock of Treasury Bonds on issue through time.[9] At 30 June 2011 38 per cent and 58 per cent of bonds required refinancing over the next three and five year periods respectively; these shares have now fallen to 24 per cent and 39 per cent.

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

Chart 12: Treasury Bond portfolio — maturity profile

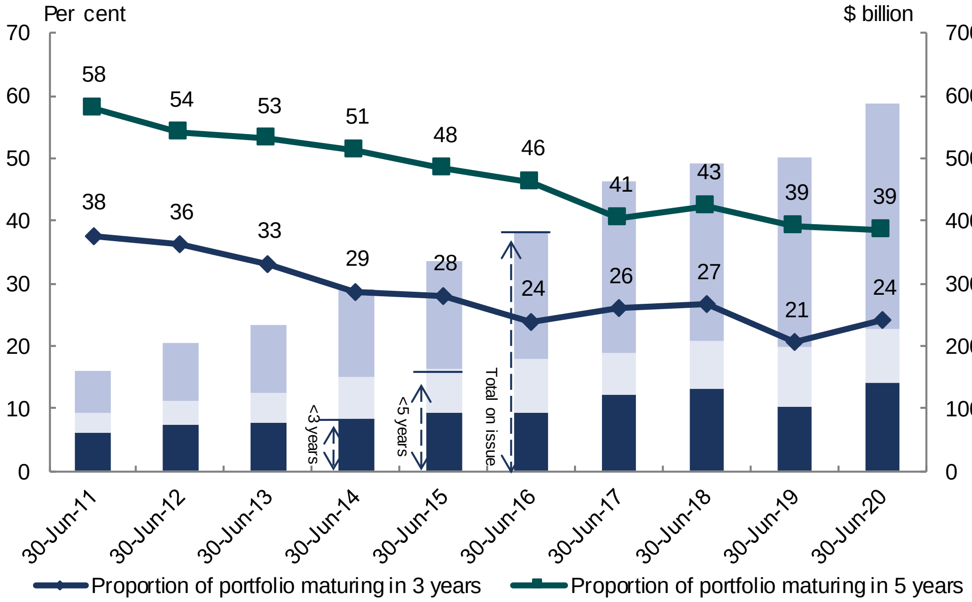
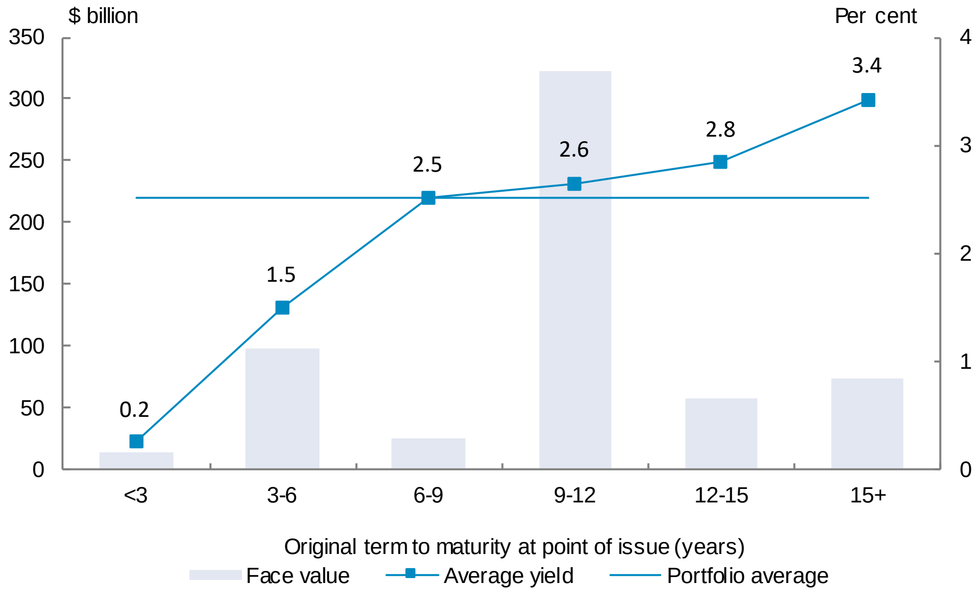


Chart 13 shows that more than half of all currently outstanding Treasury Bonds were issued with an original term to maturity of between nine and 12 years. Around three quarters of the portfolio was issued with an original term to maturity of nine years or longer. The predominance of longer term bonds in the portfolio is reflective of long-dated issuance biases since the start of the decade. This has contributed considerably to investor diversity, reducing funding risk, and the potential for high volatility in future interest rate outcomes.

Chart 13: Treasury Bond portfolio — composition and average yield by original term to maturity, as at 30 June 2020

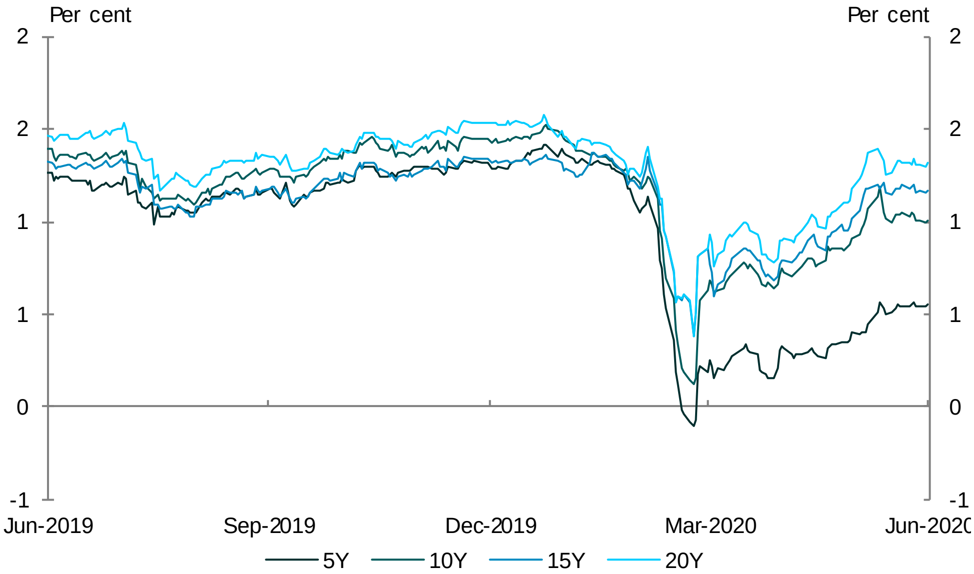


Inflation exposure outcomes

The strategy for the indexed bond proportion of the portfolio centres on providing sufficient supply to meet investor requirements while supporting liquidity and the continuing development of the market over time. Issuance of Treasury Indexed Bonds in 2019-20 totalled $1.65 billion.

Real yields moved in line with nominal yields through the first half of 2019-20. In March 2020 expectations for global growth and inflation were sharply lowered. The break-even inflation curve, that is the difference between nominal and real yields, both fell (in line with a strong decline in nominal yields and a diminished inflation outlook) and steepened significantly. Break-even inflation recovered during the last quarter of 2019-20 and 10-year break-even inflation ended the financial year at 1.01 per cent.

Chart 14: Evolution of Treasury Indexed Bond benchmark break-even inflation



Treasury Indexed Bonds comprised around 7 per cent of total term debt (nominal and indexed bonds) on issue as at 30 June 2020. This share declined in 2019-20 as a result of the increased volume of nominal issuance since March.

Cash management

Aims

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

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

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

Approach to achieving the aims

Achieving the cash management objective involves formulating, monitoring and regularly revising forecasts of government cash flows (revenue and outlays), and developing and implementing appropriate strategies for short-term investments and debt issuance.

A precautionary asset balance is maintained to manage the forecasting risk associated with potentially large unexpected cash requirements (or shortfalls in revenue collections) and the funding risk associated with market constraints. The liquidity risks associated with large changes in cash requirements were amplified in the latter part of the year with the advent of the COVID-19 pandemic and associated Government fiscal response. This has necessitated holding higher precautionary asset balances; this adjustment was achieved over the period April-July by weekly issuance rates above that required for 'just-in-time' cash flow needs.

Cash balances not required at short notice were invested in term deposits at the RBA, with the magnitudes and tenors of the term deposits determined by the AOFM. The interest earned on term deposits is used to defray the cost of a precautionary cash buffer. 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.

In the past Treasury Notes have primarily been issued to assist with management of within-year funding requirements and as such are not typically viewed as a source of funding toward the Budget financing task. However, the volume on issue during 2019-20 ranged from a low of $3 billion to a peak of $63 billion, which represented a significant upscaling in usage compared to prior years ($2.5 to $5.0 billion in 2018-19). With the onset of the market dislocation of March the AOFM leaned heavily on shorter term Treasury Notes, particularly between March and June 2020. Treasury Notes served a dual role through this period. They were used for Budget financing purposes, and to contribute to building a precautionary buffer of liquid assets.

Outcomes

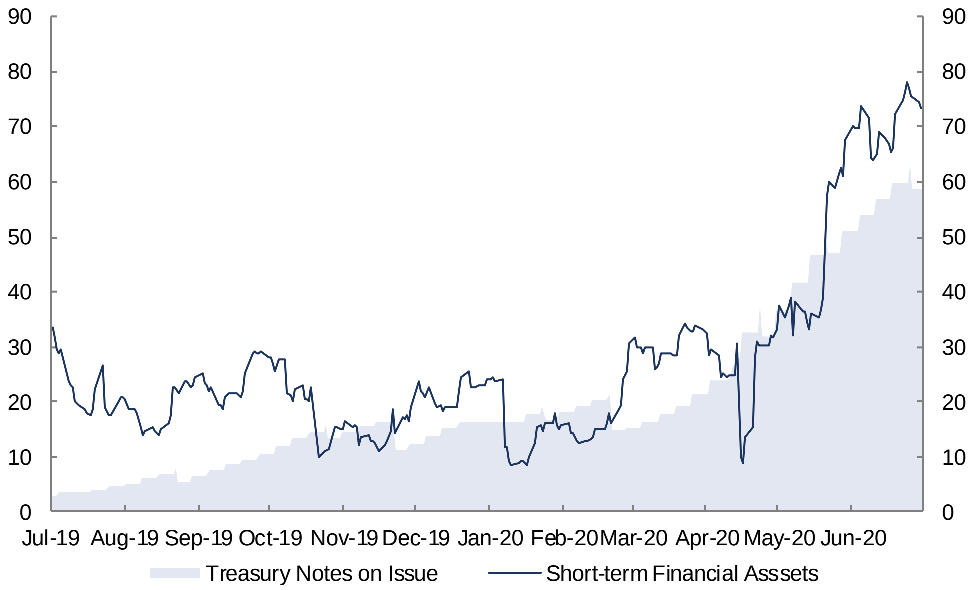
The task of meeting the government's financial obligations as and when they fall due was met in full. The overdraft facility was utilised twice in 2019–20, consistent with the principles guiding the use of the facility.

During 2019–20, 484 term deposits were placed with the RBA. The stock of term deposits fluctuated according to a range of factors influencing cash portfolio management needs. The average yield obtained on term deposits during 2019–20 was 0.85 per cent, compared with 1.85 per cent in 2018–19. The decrease in average yield reflects the lower average level of short-dated interest rates that prevailed during 2019–20.

A total of $89.9 billion of Treasury Notes were issued in 2019–20 (in face value terms) an increase of $76.4 billion on 2018-19. The average coverage ratio at tenders was 3.96, a decrease from 4.61 in 2018–19. Yields were on average around 20 basis points higher than Overnight Indexed Swap (OIS) rates for corresponding tenors (compared to around 35 basis points higher than OIS rates in 2018–19). This reflected the lower spreads across Australian short-dated funding rates. Details are available in Part 5 of this 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 2019–20 are shown in Chart 15.

Chart 15: Short-term financial asset holdings and Treasury Notes on issue 2019-20



The AOFM was required to adhere to a set of cash management principles that: required balances in the OPA to be sufficient to meet government operational needs without being excessive; and use of the RBA overdraft facility to be unplanned, infrequent and in general only to cover unexpected events (due to timing or quantum or both). The average OPA balance for the year was $2.351 billion.

Market Engagement

Aims

Consistent and regular market engagement assists the AOFM in achieving its core goals. In order to meet those goals the AOFM maintains a comprehensive understanding of market related issues including: changing global circumstances; major government announcements and policies; influences on the global flow of capital; changing investor preferences; and the performance of intermediaries — particularly in the primary AGS market.

The AOFMs investor and intermediary engagement continues to place a strong emphasis on maintaining regular lines of communication with these stakeholders. This is done directly with bank intermediaries and with investors, and indirectly, with investors through feedback from the banks and via the AOFM website. Ongoing engagement assists greatly in understanding how investors are viewing the market, how demand for AGS might be changing, and how intermediaries interact with and deal with investors. Frequent liaison provides the AOFM with the up-to-date assessments it needs to effectively and efficiently execute the issuance program through its related weekly decisions.

Approach to achieving the aims

Communication with intermediaries and investors remains a business-as-usual activity and, with investors, is based on an investor relations program. The investor engagement program is year specific and is underpinned by a strategy that is reviewed annually in response to changes in market conditions, investor activity, notable changes to the investor base, and the AOFM issuance strategy.

The Investor Relations strategy has three themes:

- collecting and analysing market intelligence;
- managing and maintaining updates to planned AOFM operations; and
- focusing on engagement with new or potentially new investors.

Outcomes

Up to MYEFO and into the early part of 2020, investor engagement was underpinned by communicating AOFM plans to manage the forecast ongoing reduction in issuance.

Prior to February 2020, contact with investors involved the usual methods of engagement. These included face to face meetings (domestically and offshore), presenting at conferences and roundtables, and phone and video conferencing. A regular 'Investor Insights' series (providing an AOFM perspective on issues central to the AGS market) was initiated in May 2019.

However, from mid-March (in response to the severe market dislocation) the AOFM quickly switched to daily calls to intermediaries and investors to help it in understanding what the impact on issuance from the market disruption could be. In early April (and immediately following the Government's pandemic fiscal response announcements) an investor update briefing was out together as the basis of an impromptu round of briefings (more detail below). The initial effects of the lead-up to the spread of the pandemic on investor engagement related activities lead to a cessation of all travel. This included cancellation by the AOFM of an overseas investor trip to Europe and the UK that had been planned for March. It also involved cancellations of all regular investor conferences and events held in Australia that the AOFM would annually participate in. Postponement of the May Budget meant the annual Australia Business Economists (ABE) speech, presented by the CEO was postponed to late July and was conducted by webinar. It remains an important opportunity to give guidance on the planned approach by AOFM to a range of operational issues that investors use to factor into their views for engaging with the AGS market.

In the first half of the year, 69 face to face meetings were conducted with domestic and Asian investors. Meetings were conducted on two occasions with different groups of domestic investors. The first set of meetings were conducted with those investors that typically buy short-dated securities (and specifically Treasury Notes). The second group of meetings was the AOFMs standard annual domestic investor meetings. They were held with 21 domestic investors mainly in Sydney and Melbourne.

Phone and video conference calls were also made to 36 major offshore primary investors over 4 weeks in August and September; they were located in 21 cities from 17 different countries.

Asian investors were met face-to-face on two occasions via a North Asian trip to Japan China, Korea and Taiwan in November. An ADB Central Bank, Reserve Management conference in Singapore was presented to and 8 investor meetings were also conducted.

Based on the format of the annual primary investor calls, the AOFM conducted a modified version of this approach during the period of market volatility in mid-April to early May 2020. Investors were provided with guidance on initial estimates of the fiscal response to the pandemic and how the AOFM was planning to manage the sharp uplift in issuance ahead. It was also an opportunity to for investors to ask questions (mostly about any clarity that could be provided on the RBA’s market interventions) and for them to share their views. The ability to speak to a wide range of investors individually and in a compressed time frame was valuable to the AOFM and well received and appreciated by investors. It allowed the AOFM to form reasonably reliable assessments of how global funding markets were recovering.

During this program 77 phone and video calls were delivered and relevant feedback was received. The calls were conducted with a wide range investor types from 17 different countries. It included institutions that normally would only be met face to face, such as the 26 domestic investors. The number and diversity of this group across geography and type, provided useful insight and market intelligence.

As well as face-to-face meetings and phone and video conferencing, the AOFM continued regular engagement with international and domestic investors throughout the year as and when they directly approached the AOFM o raise specific issues.

Regular fortnightly calls with 10 domestic Treasury Indexed Bond investors assisted in the selection of individual lines to tender. Regular calls were also commenced during the March and April disruption with another group of large investors in Treasury Bonds and Treasury Notes given the significance of the raid and large change in AOFM’s issuance of the latter.

Two international publication round tables were participated in. The first in January was a part of an annual event that brings the AOFM together with the state government borrowing authorities. The second roundtable conducted late in the year was done via teleconference.

Table 5: Summary of investor relations activities in 2019-20

Activity	Details
Conferences, speaking engagements and investor roadshows	7 events
Presentations: large engagements/ roundtables	3 presentations (1 large presentation, 2 round tables)
Approximate total audience size: large presentations	200 attendees
Individual investor meetings Individual investor Tele/ Video Calls	64 investor meetings 113
Individual cities visited	7 cities
AOFM staff participating in investor relation activities	CEO, Head of Investor Relations, Head Funding & Liquidity, Senior Analyst, Investor Relations, Communications Officer, Investor Relations, Senior Analyst Funding and Liquidity, Analyst Funding and liquidity
Hosting banks: Investor roadshows, conferences, roundtable discussions	ANZ, Citi Commonwealth Bank of Australia, Deutsche Bank UBS, Westpac

Establishing the Structured Finance Support Fund (SFSF)

Aim

On 19 March 2020, the Government announced the establishment of a $15 billion fund, the SFSF, to enable eligible smaller lenders to access finance via investments in structured finance products such as residential and commercial mortgage backed securities (RMBS, CMBS), asset backed securities (ABS) and securities issued by revolving warehouse finance facilities.

The SFSF enabling legislation was introduced to parliament and passed on 23 March and received royal assent on 24 March. The Treasurer issued supporting instruments (Rules, Delegations and Directions) setting out the AOFM’s mandate on 26 March. This section sets out how the AOFM has approached the task of establishing the SFSF as a vehicle to achieve the Government’s objective of maintaining access to finance for Non-ADI lenders and ADIs that are unable to access the RBA’s Term Funding Facility (TFF) using self-securitised assets as collateral.

Approach to achieving the Aim

The legislation, Rules and Directions set out the eligibility requirements and provide guidance to the delegate (the CEO of the AOFM) on investment prioritisation. Importantly, the delegate must aim to receive a positive return on each investment after expected credit losses are taken into consideration. In addition, the Directions require the delegate to place a high priority on investments that catalyse rather than displace private sector investment.

The AOFM has identified three distinct priorities for the SFSF:

(i) Maintaining access to primary (term) securitisation markets for Non-ADI lenders across all collateral types (RMBS, CMBS and ABS);
(ii) Maintaining eligible smaller lenders' access to finance via supporting revolving warehouse facilities; and
(iii) Supporting the establishment of a mechanism that will assist eligible smaller lenders to provide forbearance to their client base.

Maintaining access to primary funding markets provides confidence to Non-ADI lenders that they can continue to originate new loans, and provides confidence to their warehouse financiers that the natural exit strategy to their investments remains open. A dual approach has been taken to keeping primary markets open: undertaking direct investment in term transactions to fill gaps as required; and providing third party investors the capacity to 'switch' out of existing investments to recycle the proceeds into primary market transactions.

The warehouse finance market experienced significant disruption, with some senior financiers restricting lending to existing clients and in some cases seeking additional credit enhancement at a time when mezzanine financiers[12] have been unwilling or unable to increase their commitments, or have exercised their option to withdraw finance at the earliest opportunity. Consistent with the Directions, the SFSF investments have been used to fill gaps in these facilities, typically but not exclusively within mezzanine tranches, consistent with the objective of maximising the extent to which private sector investment is retained.

The third limb to the AOFM's SFSF activities has been to work with industry via the Australian Securitisation Forum (ASF) to establish a 'forbearance special purpose vehicle' (*f*SPV). This will allow participating lenders to maintain an income stream from loans that have been granted a payment holiday due to COVID-19 related hardship. The *f*SPV is intended to mitigate yield strain, buffer returns on securitisation trusts and support participating originators' income flows. Support is to be provided retrospectively from 1 March 2020 to 31 March 2021 and will cover 90 per cent of missed interest payments on loans that are in COVID-19 hardship.

12 Mezzanine financiers are typically specialist credit investors who provide additional credit enhancement between the 'skin in the game' or 'first loss' equity investment retained by the (eligible small lender) originator and the senior note held by the warehouse provider (typically a bank).

From April 2021, participating originators will be required to start repaying drawn amounts from excess spread. Consistent with the SFSF Rules, the SFSF is to be the senior financier and will not hold the 'first loss' securities issued by the SPV.

Outcomes

The first SFSF investment was made by the AOFM in a primary market transaction that priced on 27 March 2020. Primary market activity abated in April but picked up again in May. Non-ADI term securitisation issuance steadily improved through the remainder of the financial year. In all, nine Non-ADI primary transactions were supported by the SFSF between March and June, with a total issuance volume of $6 billion. The following table sets out the level of support provided by the AOFM through SFSF investments in each, decomposed into direct investment and secondary market 'switch' purchases. As can be seen, transactions supported by the SFSF were able to attract around four times the volume of SFSF investment from the private sector. To place this in context, the AOFM's investments in RMBS during the Global Financial Crisis averaged around 77 per cent of primary market volumes for the first nine months of the program.[13]

13 *AOFM Annual Report 2010-11*, page 30.

Table 6: Analysis of Primary Market Support

Pricing Date	Sponsor	Type	Issue Name	Primary ($)	Secondary ($)	($) Total	Deal volume ($)	SFSF Share
27 March 2020	FirstMac	RMBS	FirstMac 2020-1	189,140,000	—	189,140,000	1,000,000,000	18.91%
8 May 2020	Liberty	RMBS	Liberty 2020-1	64,500,000	45,573,349	110,073,349	500,000,000	22.01%
12 May 2020	La Trobe	RMBS	LTFCMT 2020-1	—	119,382,467	119,382,467	1,250,000,000	9.55%
27 May 2020	Resimac	RMBS	Resimac Premier 2020-2	—	85,461,000	85,461,000	500,000,000	17.09%
5 June 2020	Columbus Capital	RMBS	Triton 2020-2	—	119,451,831	119,451,831	600,000,000	19.91%
10 June 2020	Pepper	RMBS	Pepper PRS 26	—	296,165,182	296,165,182	700,000,000	42.31%
17 June 2020	Liberty	RMBS	Liberty 2020-2	63,900,000	23,636,600	87,536,600	800,000,000	10.94%
18 June 2020	Red Zed	CMBS	RedZed STC 2020-1	77,100,000	—	77,100,000	300,000,000	25.70%
30 June 2020	Bluestone	RMBS	Sapphire XXIII 2020-1	—	95,318,469	95,318,469	350,000,000	27.23%
Total / average:				394,640,000	784,988,897	1,179,628,897	6,000,000,000	19.66%

The AOFM publishes details of its primary and secondary market investments in a timely manner to support the price discovery process.[14] By 30 June, the AOFM had noted that conditions had improved within the term securitisation market and liquidity was less of a concern to traditional investors in this asset class, but pricing in Non-ADI RMBS had not improved to the same extent as it had for RMBS sponsored by ADIs, most likely due to the lack of issuance of the latter, given the ability of ADIs to access relatively cheap sources of finance such as the TFF. The outstanding balance of term securitisations held by the SFSF stood at around $1.2 billion as at 30 June 2020, of which around three quarters is rated AAA by one of the major ratings agencies and 99.7 per cent has an investment grade credit rating.

The first warehouse investment by the SFSF was announced on 2 April 2020. This is expected to be a temporary investment in a warehouse sponsored by Judo Bank with co-investment from the ABSF.[15] By 30 June 2020 the delegate had provided in-principle approval to SFSF investment in 24 warehouses sponsored by 18 originators with a total SFSF investment limit of around $1.5 billion.[16] The total capacity of these warehouses is $12.4 billion, suggesting that over seven dollars of private sector investment has been retained for every dollar of SFSF commitment. As at 30 June, 16 warehouse agreements had been executed and the drawn amount of SFSF investment stood at around $594 million. The majority of these warehouse investments are unrated.

By 30 June, the AOFM was close to finalising the documentation and other requirements for the establishment of the fSPV. BNY Mellon was selected as trustee, trust manager and security trustee and the procurement of a collateral verification agent and standby trustee were close to completion. The AOFM expects the originator on-boarding process to commence in July 2020, with investments following shortly thereafter.

14 The AOFM also highlights investments where it is the sole third party investor in a security and thus has influence over pricing. In its first two primary transactions, the AOFM was prepared to accept a lower than market return on its relatively senior (AAA rated) investments to provide a buffer within the underlying trust that would benefit other investors, the originator and ultimately their borrowers. In time it became clear that this level of ongoing support was not required, particularly as progress was being made towards implementation of the fSPV.

15 The arranger of this transaction has been granted an option to replace the SFSF as A1 note investor by December 2020.

16 This excludes one warehouse for which the proposal was withdrawn after delegate approval.

Establishing the Australian Business Securitisation Fund (ABSF)

Aim

In November 2018, the Government announced plans to establish the ABSF to increase competition within the small and medium enterprise (SME) lending market by improving access to securitisation for smaller SME lenders.

The ABSF's enabling legislation was passed by parliament in April 2019 and the first tranche of $250 million (of a total of $2 billion) was credited to the ABSF's special account on 1 July 2019. This section sets out how the AOFM has approached the task of establishing the ABSF as a vehicle to achieve the Government's objective of opening securitisation markets to SME lenders.

Approach to achieving the Aim

Following the Government's announcement of the ABSF, the AOFM and Treasury undertook extensive market engagement to gain insights into the SME lending market and to ascertain whether there were barriers to investment activity that might explain the underrepresentation of SME loans within collateral pools supporting Australian securitisation products.

A potential barrier that emerged from the consultations was a lack of standardisation in arrangements that support securitisation of SME loans. Examples included a lack of standard documentation of revolving warehouse finance facilities, and the absence of a standardised SME loan performance reporting template. Other features that emerged were the lack of homogeneity in lending products offered to SMEs and a lack of scale within specialist lenders that constrained their ability to price loans at close to the marginal risk-adjusted cost of delivery.

The AOFM's efforts have been focused on the establishment of a track record for various types of SME lending. In time, it is expected that such a track record would support ratings agencies and investors, attract new capital and provide for an expansion in the existing collateral types underpinning the Australian asset backed securities (ABS) market to include new types of SME lending.

Key to the ABSF establishment has been working with industry to define a suitably broad data template that, once populated, will form the basis for the recording of this SME loan performance track record. The Australian Securitisation Forum (ASF) supported the initiative by establishing a working group to undertake this work.

The working group comprised industry-wide representation including from trustees, data analytics firms, rating agencies, originators and investors.

In parallel with this work, the AOFM has indicated that it will seek to use the ABSF's ability to invest with subsidy to offset the costs to participating lenders of updating systems to adequately capture loan level data in a manner that is consistent with the reporting template.

Outcomes

The ASF working group had made significant progress towards the design of a loan level template for SME lending when activity was temporarily suspended in March 2020 due to the onset of the COVID-19 pandemic.

During the course of 2019-20 the AOFM also laid the foundations for the ABSF investment management task. These included setting out investment guidelines, hiring specialist staff and procuring the services of an investment management firm to undertake credit analysis and due diligence on shortlisted investment proposals. The first call for investment proposals was released in December 2019. Following extensive assessment and due diligence, the AOFM announced in April 2020 that the ABSF's initial allocation of $250 million would be allocated to an investment in securities issued by a warehouse facility sponsored by Judo Bank, an SME specialist lender. The documentation process was finalised in June 2020 and the first draw on the facility was made late in that month, such that the ABSF's investment stood at $14.7 million on 30 June 2020.

The AOFM will monitor market conditions, call for a second round of investment proposals and re-engage with the ASF working group as circumstances allow.

PART 3: MANAGEMENT AND ACCOUNTABILITY

MANAGEMENT AND ACCOUNTABILITY

GOVERNANCE OF THE AOFM

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

- corporate and tactical business planning processes;
- enterprise-wide risk management, assurance and compliance activities with oversight by an independently chaired Audit Committee;
- performance frameworks for ongoing monitoring and review; and
- delegations, instructions and internal guidance regarding powers and duties to ensure adherence with relevant legislation, regulations, and policies.

OVERVIEW OF ACCOUNTABILITIES

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

The Secretary to the Treasury is responsible for advising the Treasurer on policy relating to debt management and investment. For the purpose of operational efficiency, the AOFM CEO is delegated powers and authorisations by the Treasurer for debt creation and issuance, investment, and portfolio management.

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

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

COMMITTEES

Executive Group

The AOFM CEO leads the agency in accordance with its purpose and objectives and uses an Executive Group (comprising the CEO and business unit heads) for guidance and discussion on a range of corporate related matters. The Executive Group also develops strategic plans and tracks progress against performance targets, reviews the AOFM's risk profile and sets risk appetite, monitors financial performance and compliance, and builds organisational capability and capacity to support high levels of performance.

Audit Committee

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

Key activities of the Committee during 2019–20 included:

- advising on the preparation and review of the AOFM's financial statements;
- considering developments in the AOFM's risk profile and compliance performance, as reported through quarterly risk and assurance (including audit) reports;
- reviewing the adequacy of fraud control strategies and monitoring activities;
- monitoring progress of the implementation of the ABSF and SFSF;
- monitoring implementation of audit recommendations; and
- reviewing reporting on performance obligations in line with PGPA Act requirements, including the approach to monitoring key performance indicators and their incorporation into the Annual Performance Statement.

The Audit Committee met four times during 2019–20 and also conducted in camera sessions with the internal auditors and external auditors during the year. Details regarding each Committee member are provided in Table 7.

Table 7: Audit Committee for 2019-20

Members	Qualifications	Skills and Experience	Attendance	Remuneration[(a)]
Will Laurie, Independent Member, Chair	BEc Grad.Dip. Applied Finance and Investment	30-year career with Price Waterhouse and PricewaterhouseCoopers, including as Managing Partner, Canberra. 20 years' experience in chairing Commonwealth and ACT Government Audit Committees, including ANAO, Defence, Treasury, Attorney-General's and ACT Chief Ministers. Private sector board experience in retailing, property and not-for-profit education.	4/4	$19,437.11
Stephen Knight, Independent Member	BA, FAICD	35-year executive career in finance industry across private and public sectors in a variety of senior roles including 10 years as CEO. Extensive experience across financial markets, government finance, investment banking, funds management and risk management. Non-executive director roles covering ASX listed, non-listed and government entities.	4/4	$17,815.73

Jan Harris, Independent Member	BEc (Hons)	An extensive career in the Australian Public Service of over 30 years, including as Deputy Secretary of the Treasury. Experienced non-executive director. Broad experience in policy development, economics, governance and risk management.	4/4	$16,324.87
Erin Martin, Chief Risk and Assurance Officer, AOFM	BComm, CA	25-year career in the Australian Public Service, including 20 years in sovereign debt management. Experience spans accounting, audit, governance and risk management.	4/4	N/A (b)

(a) Remuneration includes superannuation.
(b) As an employee of the Australian Public Service, remuneration is not applicable.

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

The responsibilities and functions of the Audit Committee are outlined in the Audit Committee Charter[17].

Other management committees

Cash Management Meeting

The Cash Management Meeting is held each week to review the near-term outlook for liquidity risk (several months ahead) and to track that against the AOFM's broader considerations in managing the government's cash portfolio. The main focus is on: monitoring actual versus forecast revenue collections and outlays; frequent re-evaluations of short to medium term cash flow projections, including expected funding needs; and emerging risks to the cash portfolio profile. Prevailing financial market conditions are also discussed, particularly during periods of high funding market volatility or recent abrupt changes. In periods of high weekly issuance rates the forward projected call on financial markets through debt issuance may also be a factor of close interest. The meeting is chaired by the

17 The Audit Committee Charter is published on AOFM's website at https://www.aofm.gov.au/about/compliance-reports/audit-committee-charter

CEO, and attended by the Head of Funding and Liquidity and other front office staff.

Security Committee

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

Portfolio Strategy Meeting

At Portfolio Strategy Meetings (PSMs), the CEO is advised on operational debt portfolio and financial risk management issues, financial market conditions, deal execution and other topical issues. The forum focuses on medium to longer-term trends and risks. Membership during 2019–20 included the CEO, Head of Portfolio Strategy and Research, Head of Funding and Liquidity, Head of Investor Relations, and Head of Global Markets and Business Strategy, with other senior staff holding relevant functional responsibilities invited as contributors and observers. Meetings are generally convened on a quarterly basis.

MANAGEMENT OF FRAUD RISK

The AOFM has a minimal appetite for fraud, and has taken comprehensive steps to prevent the occurrence of fraud. These include the application of a fraud control plan and processes and systems to ensure regular identification, assessment and treatment of fraud risk vulnerabilities. Mandatory annual fraud awareness training is provided to all staff and is also provided to new staff on induction. The AOFM's approach to fraud risk management complies with the PGPA Act and Rule and the Commonwealth Fraud Control Framework.

The AOFM reports fraud information annually to the responsible minister and the Australian Institute of Criminology. For 2019–20, the AOFM did not identify any instances of fraud or suspected fraud.

ENTERPRISE RISK

Risk management is integral to the AOFM's activities and is the responsibility of all staff. The Executive Group fosters a strong risk-aware culture and supports staff in making appropriate risk-informed decisions. The risk and assurance functions guide staff on the design, implementation and effective operation of appropriate risk treatments and controls.

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

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

- Strategic risks — opportunities and exposures that impact the AOFM's medium to long term objectives. These risks are monitored and reviewed by the Executive Group on a semi-annual basis, with a comprehensive review of the context in which the AOFM operates undertaken as part of the annual corporate planning process,

- Portfolio risks — impact on portfolio management, investment and debt issuance activities. These risks are managed pursuant to the AOFM's financial risk management framework and reviewed at least quarterly, and

- Operational risks — relate to business processes and corporate activities of the AOFM. They generally deal with matters of compliance, the availability, integrity and/or actions of staff, providers, systems and internal processes. These risks are reviewed at least quarterly.

The key areas of risk to achievement of the AOFM's purpose and objectives arise from uncertainty relating to external factors (most notably the potential for sudden changes in the financing task, and/or economic or financial market conditions), or the implementation of major business initiatives. Key entity risks under management include the:

- potential negative impact of market trends or disruptive technologies on the successful issuance of AGS necessary to meet funding requirements;

- ongoing management of actions and messaging by the AOFM to maintain AGS investor confidence, as well as a positive view of the AGS market; and
- potential disruptions to third party suppliers or failure of internal systems and controls, which may negatively impact the AOFM's ability to deliver outcomes in accordance with its objectives.

In 2019, the AOFM commissioned a risk culture review to assess maturity relative to benchmark results established from the previous review (conducted in 2017). The findings identified that AOFM's policies, procedures and process-led operations continued to help reinforce a strong risk-aware environment. Staff demonstrated strong appreciation of risk as an enabler of business and viewed the Enterprise Risk and Assurance Group as a strategic business partner.

BUSINESS CONTINUITY ARRANGEMENTS

Business continuity management is integral to the AOFM's risk management arrangements, especially given the critical operational nature of the agency. The AOFM has a comprehensive business continuity plan to ensure that its key functions can continue in the event of a major disruption. These arrangements include multiple levels of redundancy that can be employed when the AOFM's day-to-day business systems or office accommodation are not accessible, or when AOFM staff are not available to perform key tasks. The most time critical functions covered by the plan relate to tenders, settlements, budget estimates and AGS payment obligations (coupons and maturity redemptions).

Business continuity plans were updated and tested in 2019–20 to ensure staff familiarity with processes and procedures in the event of a business disruption. During 2019-20, the AOFM strengthened its resiliency by implementing a Pandemic Management Plan in response to the global pandemic. Business continuity arrangements are supplemented by a crisis management framework to enhance business resiliency.

ASSURANCE

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

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

In 2019-20, assurance and compliance activities provided structured assurance on the effectiveness and efficiency of the AOFM's governance arrangements, risk management and internal control environment. Key activities undertaken in 2019-20 included:

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

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

Internal audit

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

The internal auditor completed three reviews in 2019–20:

- a review of AOFM's cash management, with a focus on the processes designed to manage and monitor the government's cash balances;
- a review of AOFM's financial risk policy framework; and
- a review of AOFM's information security awareness.

Two reviews from the 2019–20 strategic internal audit plan were deferred:

- a review of AOFM's implementation of the Australian Business Securitisation Fund was deferred to the first quarter of 2020-21 to align with completion of the first transaction; and
- a business continuity exercise was deferred to 2022-23 as there was extensive business continuity testing during 2019-20 (for example, the January bushfires and the pandemic).

In its annual report on internal controls, the internal auditor concluded that the AOFM continues to have a mature control environment (demonstrated by the nature and type of findings reported). Audit recommendations were aimed at enhancing the efficiency of the current control environment or clarifying current settings. At 30 June 2020, four internal audit recommendations remained outstanding and are being addressed in accordance with agreed timelines.

JUDICIAL DECISIONS

In 2019–20, 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 2019-20 on the operations of the AOFM by the Auditor-General (other than the report on financial statements), a Parliamentary committee, or the Commonwealth Ombudsman.

MANAGEMENT OF HUMAN RESOURCES

Workforce planning

The AOFM *Workforce Plan 2019-2023* was developed during the last reporting period. The Plan is attuned to AOFM's strategic context and aims to maintain organisational resilience and guide succession planning and the development of staff.

There have been significant external factors that have prevented smooth implementation of plan actions. The bush fires in January 2020 and the impact of

COVID-19 on AOFM operations have caused some delays in providing a number of out-of-office training and development opportunities that are being sought under the plan. The ability of AOFM staff to pivot and respond to changing circumstances has been tested in action this reporting period.

Enterprise Agreement

The *AOFM Enterprise Agreement 2015-2018* was approved by the Fair Work Commission and came into effect on 17 July 2015 and continues to apply. The CEO has authorised adjustments to AOFM pay rates via two determinations under subsection 24(1) of the *Public Service Act 1999;* one in November 2015 and the other in July 2018.

Training and development

In 2019–20, all staff participated in some form of training. This included presentation skills workshops, compliance training, leadership programmes, and financial markets related courses. The AOFM also supported further individual professional development activities and an internal seminar series. Payments to external providers for training and development during the period averaged $2,926 per full-time equivalent employee (FTE).

No staff participated in face to face training in the second half of the year as a result of the COVID-19 pandemic.

Eighty-nine per cent of AOFM staff have degree qualifications, with 28 per cent holding higher degrees and 24 per cent holding double degrees. Twenty-eight per cent have professional qualifications related to the technical aspects of their role with the AOFM.

The AOFM workforce

As at 30 June 2020, AOFM employed 44.1 FTE. Table 8 shows the paid head count of the workforce by broadband classification as at the beginning and end of 2019-20.

Table 8: Operative and paid inoperative staff as at 30 June 2020 and 2019

	Ongoing				Non-ongoing				
	Full-time		Part-time		Full-time		Part-time		
Classification	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Total**
2020									
AOFM1	-	1	-	1	-	-	-	-	**2**
AOFM2	18	6	-	4	3	-	-	1	**32**
AOFM3	5	2	1	-	2	-	-	-	**10**

	Ongoing				Non-ongoing				
	Full-time		Part-time		Full-time		Part-time		
Classification	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Total**
AOFM4	1	-	-	-	-	-	-	-	**1**
CEO	1	-	-	-	-	-	-	-	**1**
Total	**25**	**9**	**1**	**5**	**5**	**-**	**-**	**1**	**46**
2019									
AOFM1	-	1	-	1	-	-	-	-	**2**
AOFM2	17	6	1	4	-	-	-	1	**29**
AOFM3	5	2	-	-	-	-	-	-	**7**
AOFM4	1	-	-	-	-	-	-	-	**1**
CEO	1	-	-	-	-	-	-	-	**1**
Total	**24**	**9**	**1**	**5**	**-**	**-**	**-**	**1**	**40**

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

During 2019-20 three employees were seconded to the National Drought and North Queensland Flood Response and Recovery Agency with arrangements extending outside this reporting period. One secondment commenced prior to the current reporting period and finished in mid-December 2019. One ran from mid-August 2019 through early January 2020. The third commenced early December 2019 and ran through the end of the reporting period.

From early October to early November 2019 another employee was seconded to the Department of The Treasury to assist with a review of learnings from the Hayne Royal Commission.

Two secondments to AOFM commenced prior to 2019-20 and concluded during the year. One person seconded from the Department of Finance to AOFM's Finance Unit ended the secondment at the end of July 2019. The other person, seconded from the Department of the Treasury to staff a position in the Funding and Liquidity group, ended the secondment in mid-May 2020.

Most staff are based in Canberra including those on the secondments noted above. Three non-ongoing staff are based in Sydney.

Employees who identify as indigenous

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

Changes to senior management

During 2019-20 two members of the AOFM Executive Group departed AOFM. The Head of Funding and Liquidity resigned in November 2019 to take up a role with a state financing authority. In December 2019 the Chief Risk and Compliance Officer was promoted to an SES Band 1 position in another agency. Both positions were filled on a temporary basis and recruitment activity planned outside the reporting period.

Other staffing changes

Four ongoing employees and seven non-ongoing employees were recruited during 2019–20. Another employee was moved on a temporary basis to AOFM in 2019-20 and remained employed at the end of the reporting period.

Including the Executive Group departures noted above, four ongoing staff left during the year, along with two non-ongoing employees.

Staff departures represented 14.3 per cent of average staffing levels in 2019–20 (2.7 per cent in 2018–19).

The retention rate for 2019–20 was 87.5 per cent, with an average annual retention rate of 90.8 per cent over the last five years.

Employment arrangements

All non-SES staff had terms and conditions set during 2019–20 by the *AOFM Enterprise Agreement 2015-2018* and two all-staff determinations made under subsection 24(1) of the *Public Service Act 1999* by the CEO.

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

Remuneration

Pay rates as at 30 June 2020 are shown in Table 9. These rates were set in accordance with the *AOFM Enterprise Agreement 2015-2018* and determinations made under subsection 24(1) of the *Public Service Act 1999*.

Table 9: AOFM salary ranges

	30 June 2020	
Classification	Band low $	Band high $
AOFM1	44,068	80,534
AOFM2	78,376	159,751
AOFM3	186,226	232,783
AOFM4	250,466	313,083

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

Non-salary benefits provided to employees 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. Remuneration for key management personnel is reported in Note A of Part 4: Financial Statements.

Disability reporting mechanism

The National Disability Strategy 2010–2020 is Australia's overarching framework for disability reform. It acts to ensure the principles underpinning the United Nations Convention on the Rights of Persons with Disabilities are incorporated into Australia's policies and programs that affect people with disability, their families and carers.

All levels of government will continue to be held accountable for the implementation of the strategy through biennial progress reporting to the Council of Australian Governments. Progress reports can be found at dss.gov.au

Disability reporting is included the Australian Public Service Commission's State of the Service reports and the APS Statistical Bulletin. These reports are available at www.apsc.gov.au.

Work health and safety

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

The AOFM has one Health and Safety Representative who assists staff in accordance with the *Work Health and Safety Act 2011*.

All staff were briefed on workstation ergonomics in late 2019. Staff were also encouraged to get flu vaccinations in early 2020. Counselling and related support is available under an Employee Assistance Programme provided by Benestar Group. Additional online resources are provided to all staff to assist with safety, health and wellbeing promotion.

In December 2019 and January 2020 smoke from the 2019-20 bushfires engulfed Canberra. Procedures to monitor and ensure indoor air quality were undertaken. Emergency preparedness was tested and particulate masks purchased for use by the business continuity teams.

In response to the COVID-19 pandemic, the AOFM developed a communicable disease policy and established work from home guidelines. All staff were provided with remote access and conducted self-assessments of their home-based work areas. Where required, additional equipment was provided to meet safety standards. From March 2020 all travel was restricted, office social activities banned, and visitors stopped. Hand sanitiser and cleaning products were distributed within the office. A high standard of personal hygiene and social distancing is required in the office. Disposable face masks were purchased to assist in infection control. No AOFM staff were diagnosed as COVID-19 positive in 2019-20.

There were no compensable injury claims or notifiable incidents in 2019–20.

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

REPORTABLE CONSULTANCY CONTRACTS

During 2019-20, 10 new reportable consultancy contracts were entered into with total actual expenditure of $409,739. No ongoing reportable consultancy contracts were active during 2019–20. This is summarised in Table 10.

Annual reports contain information about actual expenditure on reportable consultancy contracts for consultancies. Information on the value of reportable consultancy 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 10: Consultancy contracts

	2016–17	2017–18	2018-19	2019-20
Number of consultancy contracts				
New contracts	1	2	1	10
Ongoing contracts	3	2	2	0
Expenditure (including GST)				
New contracts	$14,614	$13,200	$24,200	$409,739
Ongoing contracts	$221,822	$261,715	$188,814	$ -

Additional information

Table 11 lists the names of the organisations who received the 5 largest shares of the entity's total expenditure on consultancy contracts during the period, and the name of any organisation that, during the period, received one or more amounts under one or more consultancy contracts equal in total to at least 5% of AOFM's total expenditure on consultancy contracts during the period, and the total amount the organisation received.

Table 11: Additional information for consultancy contracts

Name of organisation	Amount received	% of total expenditure
Challenger Investment Partners Limited	$ 137,500.00	34%
King & Wood Mallesons	$ 95,079.93	23%
North Consulting Pty Ltd	$ 94,930.00	23%
Whitehelm Capital Limited	$ 49,500.00	12%
Eticore SD Services Pty Ltd	$ 28,462.50	7%

REPORTABLE NON-CONSULTANCY CONTRACTS

During 2019-20, 23 new reportable non-consultancy contracts were entered into with total actual expenditure of $34,309,677. In addition 21 additional reportable non-consultancy contracts were active during 2019–20 with a total actual expenditure of $1,254,992. This is summarised in Table 12.

Annual reports contain information about actual expenditure on reportable consultancy contracts for consultancies. Information on the value of reportable consultancy 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 12: Non-consultancy contracts

	2019-20
Number of consultancy contracts	
New contracts	23
Ongoing contracts	21
Expenditure (including GST)	
New contracts	$34,309,677
Ongoing contracts	$ 1,254,992

Additional information

Table 13 lists the names of the organisations who received the 5 largest shares of the entity's total expenditure on non-consultancy contracts during the period, and the name of any organisation that, during the period, received one or more amounts under one or more non-consultancy contracts equal in total to at least 5% of AOFM's total expenditure on non-consultancy contracts during the period, and the total amount the organisation received.

Table 13: Additional information for non-consultancy contracts

Name of organisation	Amount received	% of total expenditure
UBS AG	$ 8,497,500.00	24%
Commonwealth Bank of Australia	$ 5,280,000.00	15%
Australia and New Zealand Banking Group Limited	$ 4,180,000.00	12%
Citibank Limited	$ 4,180,000.00	12%
ANZ	$ 3,217,500.00	9%
Deutsche Bank AG Australia	$ 3,217,500.00	9%
Westpac	$ 3,217,500.00	9%

PURCHASING

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

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

PROCUREMENT INITIATIVES TO SUPPORT SMALL BUSINESS

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

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

Consistent with paragraph 5.5 of the CPRs, the AOFM's procurement practices provide appropriate opportunities for SMEs to compete and ensure that SMEs are not unfairly discriminated against.

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

ANAO ACCESS CLAUSES AND EXEMPT CONTRACTS

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

The first contract was for the syndicated issuance of $2 billion of Treasury Bonds (a May 2041 maturity) in February 2020. The AOFM appointed Commonwealth Bank of Australia, JP Morgan Securities Australia and UBS AG (Australia Branch) to act as managers for the issuance.

The second contract was for the syndicated issuance of $13 billion of Treasury Bonds (a November 2024 maturity) in April 2020. The AOFM appointed Westpac Institutional Bank, Deutsche Bank AG, UBS AG (Australia Branch) and ANZ Banking Group Pty Ltd to act as managers for the issuance.

The third contract was for the syndicated issuance of $19 billion of Treasury Bonds (a December 2030 maturity) in May 2020. The AOFM appointed Citigroup Global Markets Australia, Deutsche Bank AG, ANZ Banking Group Pty Ltd, and Commonwealth Bank of Australia to act as managers for the issuance.

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, $32.89 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.

PART 4: FINANCIAL STATEMENTS

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 2020 comply with subsection 42 (2) of the *Public Governance, Performance and Accountability Act 2013*, and are prepared from properly maintained financial records as required by subsection 41 (2) of the *Public Governance, Performance and Accountability Act 2013*.

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

No matter, transaction or event of a material or unusual nature has arisen in the interval between the end of the reporting period (30 June 2020) and the date of signing this report that has significantly affected or may significantly affect the AOFM's operations.

Signed	Signed
R Nicholl Chief Executive Officer 25 August 2020	P Raccosta Chief Financial Officer 25 August 2020

OBJECTIVES AND ACTIVITIES OF THE AOFM

The AOFM's activities are focused on delivering to the following policy outcome:

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

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

- meeting the budget financing task while managing the trade offs between cost and risks for the cash and debt portfolios over the medium-long term;
- facilitating the government's cash outlay requirements as and when they fall due; and
- being a credible custodian of the Australian Government Securities market and other portfolio responsibilities, including the Australian Business Securitisation Fund (ABSF) and the Structured Finance Support Fund (SFSF).

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

FINANCING THE BUDGET

In the absence of budget deficits debt issuance by the AOFM had previously been used to maintain the Treasury Bond and Treasury Bond futures markets. Since the onset of the Global Financial Crisis in 2008-09 the AOFM has had to significantly increase debt issuance and intensify its engagement with investors (including overseas investors) and intermediaries.

In 2018-19, the Australian Government general government sector recorded a net operating balance surplus of $8.7 billion, the first surplus since 2007-08. However, the outbreak of the Covid-19 pandemic has created a significant deterioration in global economic conditions, arising from government policy responses to protect the health of citizens and to support their economies. In March and April 2020, the Australian Parliament passed measures to implement the Government's economic response to the spread of the coronavirus. A significant weakening of the fiscal position has required pronounced increases in debt issuance to meet funding requirements. There remains a high degree of uncertainty about the extent of the impact of the pandemic on the Australian economy and therefore the extent to which increased debt issuance will be required is also uncertain.

The short-term and long-term net issuance program rose from $14 billion as announced in the 2019-20 Budget, to an actual net issuance program of $142 billion (in face value terms) in 2019-20. Gross issuance rose from $68 billion at Budget to $220 billion.

PORTFOLIO MANAGEMENT

The cost and risk of the debt portfolio is managed through debt issuance and (where appropriate) investment activities. Since early 2009, budget deficits have required debt issuance volumes that have exceeded those necessary to maintain liquidity in Treasury Bond and Treasury Bond futures markets, affording the AOFM with a greater level of flexibility in setting its issuance program against an overarching objective of minimising cost over time subject to acceptable risk. In recent years the AOFM has lengthened the duration of its Treasury Bond portfolio through longer term issuance as a means of reducing refinancing risk and the variability of debt servicing costs over time. The Treasury Bond yield curve extends to 27 years as at 30 June 2020 (an extension of 15 years since 2011). At the start of the Covid-19 pandemic the AOFM was well-advanced in achieving the issuance program it announced following the 2019-20 MYEFO, and which represented a continuation of the debt issuance strategy conducted in recent years (being one of long-term debt portfolio management). From early April 2020 issuance was conducted with volume a primary objective so as to manage liquidity risk in the cash portfolio.

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 and invests OPA cash surplus to immediate requirements in term deposits with the RBA, although it is not restricted to this approach. The AOFM holds continuing balances of highly liquid assets to allow it to respond flexibly and quickly to meet unexpected expenditure requirements and disruptions in the markets. Consistent with the AOFM's expectations as to where market access would be most readily available in a time of crisis, a material increase in Treasury Notes issuance was used to complement a rapid increase in issuance of short-maturity Treasury Bonds to meet the government's cash requirements from early April 2020.

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

AUSTRALIAN BUSINESS SECURITISATION FUND (ABSF)

In November 2018 the Government announced the establishment of the Australian Business Securitisation Fund (ABSF) to foster competition in the small and medium enterprise (SME) lending market with the aim of improving access to, and over time reducing the cost of finance to SMEs.

In April 2019, the *Australian Business Securitisation Fund Act 2019* was passed by Parliament and received Royal Assent. The Act is supported by the *Australian Business Securitisation Fund Rules 2019* and the *Australian Business Securitisation Fund Investment Mandate Directions 2019*.

The ABSF consists of:

- the ABSF Special Account; and
- investments in authorised debt securities.

A Special Account is a legal construct for hypothecating expenditure for specific purposes and for setting financial limits on that expenditure. The ABSF Special Account is to be credited over a period of 5 years (in accordance with a schedule set out in the Act) with $2 billion to meet the purposes set out in the Act. The ABSF Special Account received its first credit of funding on 1 July 2019 for an amount of $250 million. It received a further $250 million credit on 1 July 2020. The final tranche of funding will be credited on 1 July 2023.

All eligible expenditure of the ABSF is to be made from the ABSF Special Account. Eligible expenditure comprises investments in authorised debt securities and costs incurred exclusively in connection with the ABSF. For each of its eligible investments, the AOFM (on behalf of the Commonwealth of Australia) enters into an agreement with the issuer to provide a level of commitment for a period of time, subject to the continued satisfaction of warranties, representations and conditions precedent.

All receipts of the ABSF (such as interest earned and proceeds from the redemption and sale of investments) must be credited to the ABSF Special Account. This allows the ABSF to reinvest associated capital and earnings.

An authorised debt security comprises a debt security issued:

- by a trustee of a trust or a special purpose vehicle;
- expressed in Australian dollars;
- relating to amounts of credit of less than $5 million (secured or unsecured) provided predominantly for business purposes;
- where the credit is not provided by a major bank (as defined in the *Major Bank Levy Act 2017*) or a subsidiary of a major bank; and
- that is not a first loss security.

The AOFM has responsibility for administering the ABSF and over the past year has been working to operationalise it. In 2018-19 the AOFM received additional departmental funding to conduct this initiative. In June 2020 the AOFM made its first investment in which it committed $250 million to SME warehouse financing facilities.

STRUCTURED FINANCE SUPPORT FUND (SFSF)

In March 2020 the Australian Parliament passed the *Structured Finance Support (Coronavirus Economic Response Package) Bill 2020*. Its purpose is to ensure continued access by smaller lenders (ADIs that do not have access to the term funding facility offered by the RBA and non-ADI lenders) to funding markets to mitigate any impacts arising from the economic effect of the Covid-19 pandemic. This was achieved by the AOFM making targeted investments in the structured finance market.

The Act is supported by the *Structured Finance Support (Coronavirus Economic Response Package) Rules 2020* and the *Structured Finance Support (Coronavirus Economic Response Package) (Delegation) Direction 2020*.

The Act established the Structured Finance Support Fund (SFSF) which consists of:

- the Structured Finance Support (Coronavirus Economic Response) Fund Special Account; and
- investments, being authorised debt securities or other investments prescribed by the Rules.

The SFSF Special Account was credited with $15 billion on the commencement of the Act. All receipts of the SFSF (such as interest receipts and proceeds from the redemption and sale of investments) must be credited to the SFSF Special Account. All eligible expenditure of the SFSF is to be made from the SFSF Special Account. Eligible expenditure comprises investments and costs incurred exclusively in connection with administering the SFSF.

The AOFM has responsibility for administering the SFSF and expects to receive additional departmental funding in the 2020-21 Budget to conduct this initiative. During the period from April 2020 to June 2020 the AOFM invested in $1,839 million of debt securities issued by way of public term ($1,239 million) and private warehouse ($600 million) capital market securitisation offerings. In relation to the private warehouse transactions conducted, as at 30 June 2020 total committed support to these facilities was $935 million.

LEGISLATION

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

- the *Commonwealth Inscribed Stock Act 1911* represents the Australian Government's primary vehicle for the creation and issuance of stock, including Treasury Bonds, Treasury Indexed Bonds and Treasury Notes. It also provides a standing authority to the Treasurer to borrow in Australian currency;
  - On 20 March 2020 the Treasurer issued a direction under section 51JA of the Act permitting the AOFM to borrow up to $850 billion in total face value of stock and securities. The decision repeals and replaces the 2017 decision which previously set the maximum at $600 billion;
- the *Loans Securities Act 1919* includes provisions relating to overseas borrowings, securities lending, repurchase agreements and other financial arrangements;

- the *Financial Agreement Act 1994* formalises debt consolidation and redemption arrangements applying since 1 July 1990 between the Australian Government and the State and Northern Territory Governments;
- section 58 of the *Public Governance, Performance and Accountability Act 2013* allows the Treasurer to invest public money in authorised investments;
- the *Australian Business Securitisation Fund Act 2019* provides for investments in authorised debt securities and other eligible expenditures to meet the purposes of the Act; and
- the *Structured Finance Support Fund (Coronavirus Economic Response Package) Act 2020* provides for investments in authorised debt securities and other investments and other eligible expenditures to meet the purposes of the Act.

ADMINISTERED ACCOUNTS

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

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

ADMINISTERED SCHEDULE OF COMPREHENSIVE INCOME ($M)

for the period ended 30 June 2020

	Notes	2020	2019
EXPENSES			
Interest expense:			
Treasury Bonds	2	**15,139**	15,560
Treasury Indexed Bonds	3	**1,468**	1,465
Treasury Notes		**136**	63
		16,743	17,088
Other expenses:			
Debt repurchases		**399**	896
Supplier expenses		**32**	12
Waiver of Tasmanian Government housing debt	8	**144**	—
Total expenses		**17,318**	17,996
INCOME			
Interest revenue:			
Loans to State and Territory Governments		**94**	106
Deposits		**170**	459
Structured Finance Securities	7	**(4)**	—
Total income		**260**	565
Surplus (deficit) before re-measurements		**(17,058)**	(17,431)
RE-MEASUREMENTS (net market revaluation)			
Treasury Bonds		**(9,190)**	(41,160)
Treasury Indexed Bonds		**29**	(2,390)
Treasury Notes		**(32)**	—
Total re-measurements		**(9,193)**	(43,550)
Surplus (deficit)		**(26,251)**	(60,981)

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

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

'Debt repurchases' represent the total proceeds paid from repurchasing debt prior to maturity *less* the amortised cost carrying value of the debt using the effective interest method. The AOFM conducts these transactions at market rates.

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

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

ADMINISTERED SCHEDULE OF ASSETS AND LIABILITIES ($M)

as at 30 June 2020

	Notes	2020	2019
LIABILITIES			
Interest bearing liabilities at fair value:			
Treasury Bonds	**2**	**673,729**	573,557
Treasury Indexed Bonds	**3**	**52,500**	49,813
Treasury Notes	**4**	**58,738**	2,993
Interest bearing liabilities at amortised cost:			
Loan commitments	**5**	**1**	—
Other debt		**6**	6
Other liabilities:			
Securities purchased not delivered		**121**	—
Total liabilities		**785,095**	626,369
FINANCIAL ASSETS			
Cash at bank		**1**	1
Assets at amortised cost:			
Term deposits with the RBA	**6**	**69,952**	31,112
Structured finance securities	**7**	**1,815**	—
Loans to State and Territory Governments	**8**	**1,492**	1,711
Total assets		**73,260**	32,824
Net assets (liabilities)		**(711,835)**	(593,545)

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

The Treasurer has issued a direction under the *Commonwealth Inscribed Stock Act 1911* permitting the AOFM to borrow up to a limit of $850 billion in face value terms. As at 30 June 2020 the face value on issue was $684 billion. The schedule above reports the carrying value of debt in fair value (synonymous with market value) terms.

Current/non-current balances reported ($m)

	2020	2019
Current assets	**70,084**	31,197
Non-current assets	**3,176**	1,627
Current liabilities	**107,655**	38,162
Non-current liabilities	**677,440**	588,207

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

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

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

ADMINISTERED RECONCILIATION SCHEDULE ($M)

for the period ended 30 June 2020

	Notes	2020	2019
NET ASSETS			
Opening value		**(593,545)**	(528,516)
Adjustment due to the implementation of AASB 9		**—**	(4)
Revised opening value		**(593,545)**	(528,520)
Surplus (deficit)		**(26,251)**	(60,981)
Transactions with the OPA			
Special appropriations (unlimited)	**10**	**1,913,353**	548,336
Transfers to OPA		**(2,007,091)**	(552,380)
Contributed equity — special accounts	**10**	**15,250**	—
Special account balances	**10**	**(13,551)**	—
Net assets		**(711,835)**	(593,545)

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

ADMINISTERED SCHEDULE OF CASH FLOWS ($M)

for the period ended 30 June 2020

	Notes	2020	2019
NET CASH FROM OPERATING ACTIVITIES			
Interest receipts		272	581
GST refunds from ATO		2	1
Interest paid on Treasury Bonds	2	(17,643)	(18,042)
Interest paid on Treasury Indexed Bonds	3	(886)	(2,966)
Interest paid on Treasury Notes		(107)	(62)
Interest paid on other debt instruments		(11)	(9)
Other payments		(34)	(13)
Net cash from operating activities	9	(18,407)	(20,510)
NET CASH FROM INVESTING ACTIVITIES			
Capital proceeds from deposits		1,777,516	475,350
Capital proceeds from structured finance securities		26	—
State and Territory loan repayments		91	98
Acquisition of structured finance securities		(1,726)	—
Acquisition of deposits		(1,816,366)	(461,350)
Net cash from investing activities		(40,459)	14,098
NET CASH FROM FINANCING ACTIVITIES			
Capital proceeds from borrowings		228,637	75,892
Other receipts		54	87
Repayment of borrowings		(77,732)	(65,436)
Other payments		(54)	(87)
Net cash from financing activities		150,905	10,456
TRANSACTIONS WITH OPA			
Appropriations — unlimited special		1,913,353	548,336
Appropriations — special accounts		1,727	—
Receipts to OPA — special accounts		(28)	—
Receipts to OPA — other		(2,007,091)	(552,380)
Net cash from OPA		(92,039)	(4,044)
Net change in cash held		—	—
+ cash held at the beginning of period		1	1
Cash held at the end of the period		1	1

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

NOTE 1: FINANCIAL RISK MANAGEMENT

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

Timing mismatches between the Australian Government's receipts and expenditures cause large fluctuations in the volume of short term assets and liabilities managed by the AOFM, and thus in the overall size of its net portfolio, relative to the gross volume of debt outstanding. To provide stability in the management of the longer term component of debt, long term financing and short term financing are managed through separate portfolios, the debt portfolio and the cash management portfolio. In addition, those assets held for policy purposes — loans to State and Territory Governments and structured finance securities — are held in separate portfolios.

Debt portfolio

The debt portfolio is used to meet the Australian Government's budget financing needs, to support efficient Treasury Bond and Treasury Bond futures markets, and to promote depth and breadth in the investor base. Issuance is the primary mechanism for managing interest rate risk of the debt portfolio. That is, the AOFM manages the cost structure of the debt portfolio through the choice of instruments and bond series in issuing debt. The annual debt issuance strategy is informed by qualitative and quantitative factors to achieve an interest rate profile that appropriately balances cost and cost variability, investor demand and diversification, the refinancing task and financial market efficiency. Since the start of the Covid-19 pandemic the AOFM's issuance decisions have been considerably more constrained by market conditions.

Cash management portfolio

The cash management portfolio is used to manage within year timing mismatches between Australian Government receipts and expenditures. The cash management portfolio holds a fluctuating portfolio of short term investments and short term liabilities. The portfolio is managed to achieve an appropriate balance between refinancing risk, liquidity risk and interest rate risk. In line with the weakening of the government's fiscal position, a significant increase in cash holdings in late 2019-20 reflected the AOFM's usual approach of holding sufficient cash portfolio asset reserves to meet at least four weeks of forecast outlays following the dislocation of funding markets in March. The change to the size of these reserves reflects an increase in forecast outlays as a result of the fiscal response to the pandemic.

Interest rate risk

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

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

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

Interest exposure of assets and liabilities ($m)

	2020	2019
Fixed rate exposures		
Assets	**71,444**	32,823
Liabilities	**(784,967)**	(626,363)
Floating rate or non-interest bearing exposures		
Assets	**1,816**	1
Liabilities	**(128)**	(6)

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

Sensitivity of 30 June balances to a +9 basis points change (2019: +20) ($m)

	2020	2019
Financial Liabilities		
Changes in fair value:		
Treasury Bonds	**4,022**	7,485
Treasury Indexed Bonds	**428**	963
Treasury Notes	**15**	1
Financial Assets		
Changes in interest revenue:		
Structured finance securities	**2**	-

Sensitivity of 30 June balances to a -9 basis points change (2019: -20) ($m)

	2020	2019
Financial Liabilities		
Changes in fair value:		
Treasury Bonds	**(4,059)**	(7,651)
Treasury Indexed Bonds	**(434)**	(995)
Treasury Notes	**(15)**	(1)
Financial Assets		
Changes in interest revenue:		
Structured finance securities	**(2)**	-

In undertaking the sensitivity analysis a parallel shift in interest rates (real and nominal) is applied to instruments with all other variables held constant.

For fixed rate instruments, a shift in market interest rates on 30 June balances only has an effect on those instruments carried at fair value, by altering their fair value carrying amount as at 30 June. Fixed rate instruments carried at fair value include Treasury Bonds and Treasury Indexed Bonds.

For floating rate instruments, the impact on interest revenue or interest expense represents an annualised estimate calculated as if the positions as at the period end were outstanding for the entire year.

A sensitivity of 9 basis points (20 basis points for 2019) has been used for domestic interest rates as per standard parameters mandated by the Department of Finance.

Inflation risk

Treasury Indexed Bonds have their principal value indexed against the all Groups Australian Consumer Price Index (CPI). Interest is paid at a fixed rate on the accreted principal value. Accordingly, these debt instruments expose the government 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.

Treasury Indexed Bonds lines index value for next interest payment as at 30 June 2020

	First issued	**2020**	2019	2018	2017
21 Nov 18 — 1.00%	Apr-14			108.65	106.61
20 Aug 20 — 4.00%	Oct-96	**176.55**	173.05	170.40	167.19
21 Feb 22 — 1.25%	Feb-12	**116.97**	114.63	112.87	110.75
20 Sep 25 — 3.00%	Sep-09	**125.97**	123.47	121.57	119.29
21 Nov 27 — 0.75%	Aug-17	**105.60**	103.50	101.91	
20 Sep 30 — 2.50%	Sep-10	**122.89**	120.45	118.60	116.37
21 Aug 35 — 2.00%	Sep-13	**113.90**	111.63	109.92	107.86
21 Aug 40 — 1.25%	Aug-15	**109.29**	107.12	105.48	103.49
21 Feb 50 — 1.00%	Sep-18	**103.60**	101.55		

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 comprised of term deposits acquired for cash management purposes and structured (securitisation) finance securities to support the purposes of the Australian Business Securitisation Fund (ABSF) and the Structured Finance Support Fund (SFSF).

Investments acquired for cash management purposes are made in accordance with legislative requirements, delegations and directions from the Treasurer and policies and limits established by the Secretary to the Treasury. For 2019-20 and 2018-19, investments in term deposits with the RBA were the only eligible investments the AOFM was permitted to acquire under the authority of section 58 of the *Public Governance, Performance and Authority Act 2013*. Investments with the RBA are considered to carry zero credit risk.

The AOFM invests in debt securities issued by way of capital market securitisation offerings under the authority of either section 12 of the *Australian Business Securitisation Fund Act 2019* or section 12 of the *Structured Finance Support (Coronavirus Economic Response Package) Act 2020*.

- Securitisation is a process in which assets with an income stream are pooled and converted into tranches of debt securities, with each tranche having different risk and return characteristics. In the case of the ABSF investments the underlying assets are secured and unsecured loans to small and medium enterprises. In the case of the SFSF investments the underlying assets may be residential loans, commercial loans, car loans and leases, credit card liabilities and buy-now-pay-later liabilities.

The prediction of the performance of a pool of assets through a structured product is difficult given that creditworthiness is heavily reliant on the specific characteristics of each pool and economic conditions. A deep history of performance data may not be available, and new entrants to this market may have little or no performance history. Furthermore, the structured (securitisation) finance securities in which the AOFM may invest may not be publicly rated by a credit rating agency.

In circumstances in which the AOFM is proposing to acquire a structured finance security that is not publicly rated, it will engage an advisor to undertake pre-trade loan pool analysis and credit risk assessment.

Post-trade performance monitoring of each security acquired is also conducted, including defaults, prepayment rates, losses, profitability and level of credit enhancement. The actual historical performance of loan pools may guide revisions of expected future performance. This information is used to gauge whether credit risk has increased significantly since acquisition and to provide an estimate as to expected future credit losses (either for the next 12 months or full life to maturity, depending on the circumstances).

- When performance falls and credit risk increases significantly, certain contractual provisions may be triggered to protect the AOFM's investments. Accordingly, a revision to expected future performance will take these matters into account.

Debt securities acquired through the ABSF and the SFSF must be made in accordance with the relevant Act, Rules, Directions and Investment Policy.

The maximum exposure to the credit risk of structured (securitisation) finance securities acquired by the AOFM through the ABSF and the SFSF is the principal outstanding plus the total amount of undrawn commitments remaining over the life of the respective facilities. However, the likely amount of loss arising from undrawn commitments may be less than the total amount committed as the commitments are contingent on maintenance of specific credit standards.

The table below shows the credit exposure to structured (securitisation) finance facilities as at 30 June 2020:

Credit exposure to structured (securitisation) finance facilities as at 30 June 2020 ($m)

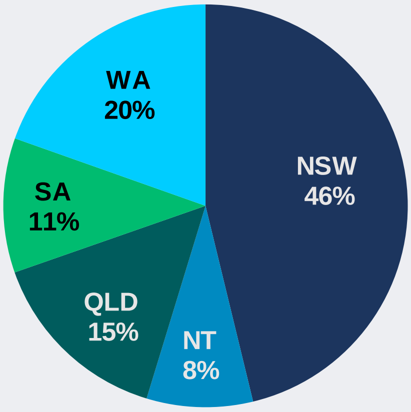
Fund	Current exposure	Undrawn commitments	Total credit committed
Australian Business Securitisation Fund			
Public term transactions (a)	-	-	-
Private warehouse transactions (b)	15	235	250
Sub-total	15	235	250
Structured Finance Support Fund			
Public term transactions (a)	1,219	-	1,219
Private warehouse transactions (b)	594	341	935
Sub-total	1,813	341	2,154
Total	1,828	576	2,404

(a) Debt securities (backed by underlying collateral) issued by way of public offer by special purpose vehicles for the purposes of funding their lending activities.

(b) Temporary lines of credit (backed by underlying collateral) provided to special purpose vehicles for the purposes of funding their lending activities.

Under Commonwealth-State financing arrangements between 1945 and 1989, the Australian Government made concessional loans (not evidenced by the issuance of debt securities) to State and Northern Territory Governments for specific purposes. As at 30 June 2020, the principal outstanding on these loans was $1,646 million.

Composition of loans to state and territory governments as at 30 June 2020:



In relation to those loans administered by the AOFM, as at 30 June 2020 no housing loans were outstanding by Victoria, Tasmania or the ACT to the Australian Government. The maximum exposure to credit risk is the principal value of loans outstanding.

Credit exposure to state and territory governments by credit rating ($m)

	Principal value	
	2020	2019
Aaa / AAA	**754**	803
Aa1 / AA+	**749**	787
Aa2 / AA	**—**	305
Aa3 / AA-	**143**	—
Total	**1,646**	1,895

Where a counterparty has a split rating between the rating agencies (Standard and Poor's and Moody's), the AOFM's exposure is allocated to the lower credit rating.

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

Liquidity risk and refinancing risk

Refinancing risk is the risk that when maturing debt needs to be funded by debt issuance, it may have to be refinanced at a higher cost or market conditions may prevent sufficient funds from being raised in an orderly manner. The AOFM seeks to control refinancing risk by issuing across a wide range of maturities that comprise the 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 bond line and the maturity structure of its debt (including the number of bond lines and the maturity gaps between lines).

The AOFM monitors market conditions in order to form a view on refinancing risk due to issuance at a particular point in time. In addition, as a means of reducing refinancing risk in future years and to improve market efficiency, since 2016 the AOFM has conducted regular buy backs of Treasury Bonds that no longer form part of the ASX three-year futures contract. As these buy-back operations are required to be funded by new issuance the AOFM has ceased these operations indefinitely in response to the pandemic.

The AOFM manages liquidity risk by maintaining sufficient cash and short-term investments and by maintaining access to the Treasury Notes market so as to ensure that the government can meet its financial obligations as and when they fall due. The AOFM manages the daily volume of cash in the OPA by monitoring the projected daily transactions of major spending and revenue agencies, undertaking investment of funds that are surplus to immediate cash requirements, and by issuing Treasury Notes. The cash flows into and out of the OPA are highly variable and subject to forecast risk, as are the size and timing of cash management activities. The AOFM also has access to an overdraft facility with the RBA. The overdraft facility is not to be used in normal day to day operations but only to cover temporary, unexpected shortfalls of cash and it has a limit of $10 billion (increased on 27 April 2020 from the previous limit of $1 billion) in the absence of Ministerial approval. The AOFM monitors the daily balance in the OPA, holdings of short-term assets, and short-term and long-term debt issuance activities.

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

Future undiscounted cash outflows of liabilities as at 30 June 2020 ($m)

	Treasury Bonds	Treasury Indexed Bonds	Treasury Notes & Other	Total
Principal payments:				
within 1 year	43,545	3,639	58,798	105,982
1 to 5 years	183,160	8,001	—	191,161
5 to 10 years	238,700	14,950	—	253,650
10 to 15 years	80,750	6,381	—	87,131
15 years+	41,000	12,648	—	53,648
Total Principal	**587,155**	**45,619**	**58,798**	**691,572**
Interest payments:				
within 1 year	18,232	806	79	19,117
1 to 5 years	55,810	2,755	—	58,565
5 to 10 years	36,885	1,886	—	38,771
10 to 15 years	10,460	956	—	11,416
15 years+	7,960	873	—	8,833
Total Interest	**129,347**	**7,276**	**79**	**136,702**

Future undiscounted cash outflows of liabilities as at 30 June 2019 ($m)

	Treasury Bonds	Treasury Indexed Bonds	Treasury Notes & Other	Total
Principal payments:				
within 1 year	34,294	—	2,994	37,288
1 to 5 years	163,006	10,949	—	173,955
5 to 10 years	198,799	14,136	—	212,935
10 to 15 years	61,100	5,773	—	66,873
15 years+	45,050	12,020	—	57,070
Total Principal	**502,249**	**42,878**	**2,994**	**548,121**
Interest payments:				
within 1 year	17,365	870	12	18,247
1 to 5 years	53,819	2,737	—	56,556
5 to 10 years	36,916	2,067	—	38,983
10 to 15 years	10,627	1,049	—	11,676
15 years+	8,740	1,007	—	9,747
Total Interest	**127,467**	**7,730**	**12**	**135,209**

Fair value reported

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at period end. This is the quoted market price if one is available.

AASB 13 requires assets and liabilities measured at fair value to be disclosed according to their position in a fair value hierarchy. This hierarchy has three levels: Level 1 is based on quoted prices in active markets for identical instruments; Level 2 is based on quoted prices or other observable market data not included in Level 1; Level 3 is based on significant inputs to valuation other than observable market data.

Fair value hierarchy 2020 ($m)

	Carried at fair value			Carried at amortised cost
	Level 1	Level 2	Level 3	
Liabilities	**(784,967)**	**-**	**-**	**(128)**
Assets	**-**	**-**	**-**	**73,259**

Fair value hierarchy 2019 ($m)

	Carried at fair value			Carried at amortised cost
	Level 1	Level 2	Level 3	
Liabilities	(626,363)	-	-	(6)
Assets	-	-	-	32,823

NOTE 2: TREASURY BONDS

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

Accounting policy

The AOFM monitors the cost and risk on Treasury Bonds primarily on an accruals basis, but also on a fair value basis. The AOFM has designated Treasury Bonds to be carried at fair value through profit or loss under AASB 9.

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

Key aggregates

Interest expense ($m)

	2020	2019
Interest paid / payable	**17,645**	17,781
Amortisation of net premiums	**(2,506)**	(2,221)
Interest expense	**15,139**	15,560

Whilst the interest expense on the Treasury Bond portfolio has risen over time due to higher borrowing levels, the accrual cost in yield terms has fallen as a consequence of the lower interest rate environment.

Carrying values — administered liabilities ($m)

	2020	2019
Face value	**587,155**	502,249
Accrued interest	**3,239**	3,237
Unamortised net premiums	**15,326**	9,252
Market value adjustment	**68,009**	58,819
Carrying value	**673,729**	573,557

As at 30 June 2020 the weighted average market yield on Treasury Bonds was 0.63 per cent (30 June 2019: 1.19 per cent). As at 30 June 2020 the weighted average (nominal) issuance yield on Treasury Bonds was 2.53 per cent (30 June 2019: 3.01 per cent).

Changes in principal value (face value) for the period ($m)

	2020	2019
Issuance	**128,200**	55,000
Debt repurchased	**(9,000)**	(23,099)
Maturities	**(34,294)**	(22,836)
Change in principal value	**84,906**	9,065

Of the debt repurchased in 2019-20, no Treasury Bonds were otherwise maturing in 2019-20 (2018-19: $6.3 billion).

Interest paid — schedule of cash flows ($m)

	2020	2019
Coupons paid	**18,088**	18,176
Interest received on issuance	**(518)**	(365)
Interest paid on repurchase	**73**	231
Interest paid	**17,643**	18,042

NOTE 3: TREASURY INDEXED BONDS

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

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

The AOFM issues Treasury Indexed Bonds primarily through a competitive auction process to registered bidders. In circumstances where a 'high-volume' transaction is seen as advantageous syndicated issuance is undertaken.

Accounting policy

The AOFM monitors the cost and risk on Treasury Indexed Bonds primarily on an accruals basis, but also on a fair value basis. The AOFM has designated Treasury Indexed Bonds to be carried at fair value through profit or loss under AASB 9.

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

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

As future inflation rates are uncertain and it is not appropriate for the AOFM to express a view on the inflation outlook, an estimate of the adjusted capital value on maturity of each series of Treasury Indexed Bonds is not disclosed in the financial statements.

Key aggregates

Interest expense ($m)

	2020	2019
Interest paid / payable	**890**	930
Capital accretion and amortisation of net premiums	**578**	535
Interest expense	**1,468**	1,465

Carrying values — administered liabilities ($m)

	2020	2019
Principal (adjusted capital value):		
Face value	38,387	36,737
Capital accretion (to next coupon)	7,232	6,141
	45,619	42,878
Accrued interest	66	63
Unamortised net premiums	1,163	1,191
Market value adjustment	5,652	5,681
Carrying value	52,500	49,813

As at 30 June 2020, the weighted average market (real) yield on Treasury Indexed Bonds was -0.10 per cent (30 June 2019: 0.00 per cent).

As at 30 June 2020, the weighted average (real) issuance yield on Treasury Indexed Bonds was 1.35 per cent (30 June 2019: 1.42 per cent).

Changes in principal value for the period ($m)

	2020	2019
Changes in face value due to:		
Issuance	1,650	5,900
Debt repurchased	..	(4,548)
Maturities	—	(862)
Changes in capital accretion due to:		
Issuance	198	252
Debt repurchased	..	(2,318)
Maturities	—	(78)
Accretion for the period	893	665
Change in principal value	2,741	(989)

Interest paid — schedule of cash flows ($m)

	2020	2019
Coupons paid	**889**	935
Interest received on issuance	**(3)**	(6)
Interest paid on repurchase	**..**	20
Accretion since issuance (on redemption)	**..**	2,017
Interest paid	**886**	2,966

NOTE 4: TREASURY NOTES

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

The increase in Treasury Notes outstanding reflects the AOFM needing to have relied on these short-term borrowings through April to June to supplement Treasury Bond issuance to meet the sharp change in fiscal circumstances as a result of the pandemic. At some future point the AOFM will refinance Treasury Notes through Treasury Bond issuance. Until then maturing Treasury Notes will be financed with new Treasury Note issuance.

Accounting policy

The AOFM monitors the cost and risk on Treasury Notes primarily on an accruals basis, but also on a fair value basis. The AOFM has designated Treasury Notes to be carried at fair value through profit or loss under AASB 9.

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

Key aggregates

Carrying values — administered liabilities ($m)

	2020	2019
Face value	58,750	3,000
Unexpired interest discount	(44)	(7)
Market value adjustment	32	—
Carrying value	58,738	2,993

Changes in principal value (face value) for the period ($m)

	2020	2019
Issuance	89,936	13,500
Matured	(34,186)	(13,000)
Change in principal value	55,750	500

NOTE 5: LOAN COMMITMENTS LIABILITIES

In fulfilling its role in administering the Australian Business Securitisation Fund (ABSF) and the Structured Finance Support Fund (SFSF), the AOFM's investments include entering into agreements on behalf of the Commonwealth of Australia with warehouse financing facilities to provide funding (through the acquisition of debt securities via securitisation offerings) up to an agreed commitment level for a defined period of time, subject to the continued satisfaction of warranties, representations and conditions precedent. Terms and conditions vary, however, they typically provide an option for a financing facility to borrow at a fixed margin to a floating market interest rate benchmark based on prevailing market conditions when the financing agreement is struck. These are known as loan commitments (being a present obligation to provide credit under specified terms and conditions). The *Australian Business Securitisation Fund Investment Mandate Directions 2019* and the *Structured Finance Support (Coronavirus Economic Response Package) (Delegation) Direction 2020* contemplate the prospect of providing financing facilities at rates of return below the current market rate to fulfil the policy objectives.

Accounting policy

Loan commitments are to be measured at fair value on initial striking of the financing agreement. Where the AOFM enters into an agreement with a financing facility to provide funding at below market interest rates, a liability (and a day-1 loss expense) is recognised at the commitment date estimating the financial effect of the concession.

The financial effects of providing below-market financing where the borrower has flexibility as to the timing and amount to borrow over the expected life of the agreement is difficult to assess. It requires significant judgement as to the borrower's expected use of the facility over its expected term. The AOFM applies its judgement to faithfully represent the financial effects of providing such facilities at below market despite the risk of measurement error.

In circumstances where a commitment liability is recognised, it is reversed and allocated (or amortised) to interest revenue over the expected term of the financing facility using the effective interest rate at the time the loan commitment agreement is struck. The AOFM does not re-balance the commitment liability periodically to reflect the actual pattern of usage.

Where the AOFM enters into an agreement with a warehouse financing facility to provide funding at-market, the commitment is recorded off-balance sheet (i.e. a loan commitment liability is not raised).

In addition, AASB 9 requires reporting entities to make an allowance for expected credit losses on all loan commitments. The allowance represents the discounted present value of the difference between contractual cash flows due over the expected life of an asset and the expected cash flows (including timing differences). However, AASB 9 requires the carrying value of loan commitments to be the higher of:

- the allowance for expected credit losses; and
- the unamortised balance of the loan commitment liability.

The AOFM applies this test at the debt security level.

On initial striking of a financing agreement, the AOFM recognises a 12-month expected credit loss (ECL) for expected loan commitment draw-downs over the next 12 months, where this provision exceeds the carrying value of the committed liability for the facility (where relevant). Periodically, actual historical performance of each facility is used to revise expected future performance. This information is used to gauge whether credit risk has increased significantly since acquisition and to provide a revised estimate as to the expected future credit losses. Where relevant, and subject to the carrying value test discussed above, the impairment provision on loan commitments is revised accordingly. Where credit risk has increased significantly since striking of a financing facility agreement, the expected credit loss allowance must be made on the basis of expected commitment draw-downs over the full life.

- The process of calculating the forward looking loss allowance for both the 12-month ECL and lifetime ECL categories requires the use of significant estimates and judgements of the probability of default, loss given default, exposure at default and economic conditions.

Debt securities acquired by the AOFM through the ABSF and the SFSF are reported at Note 7.

Key aggregates

Carrying values — Loan commitments liabilities ($m)

	2020	2019
Australian Business Securitisation Fund		
Loan commitments liabilities	—	—
Expected credit loss provision	..	—
Sub-total	..	—
Structured Finance Support Fund		
Loan commitments liabilities	1	—
Expected credit loss provision	..	—
Sub-total	1	—
TOTAL		
Loan commitments liabilities	1	—
Expected credit loss provision	..	—
Total	1	-

NOTE 6: TERM DEPOSITS WITH THE RBA

Term deposits with the RBA are Australian dollar denominated investments placed for a fixed term of less than six months at an agreed fixed interest rate, with interest calculated on a simple interest basis. Term deposit investments are made under the authority of section 58 of the *Public Governance, Performance and Accountability Act 2013*.

Accounting policy

The AOFM's business model is to hold term deposits primarily to collect the contractual cash flows, as such term deposits are carried at amortised cost.

Key aggregates

Carrying values — administered assets ($m)

	2020	2019
Face value	69,950	31,100
Accrued interest	2	12
Carrying value	69,952	31,112

Changes in principal value (face value) for the period ($m)

	2020	2019
New term deposits	1,816,366	461,350
Matured term deposits	(1,777,516)	(475,350)
Change in principal value	38,850	(14,000)

NOTE 7: INVESTMENTS IN STRUCTURED FINANCE SECURITIES

Investments acquired by the AOFM through the Australian Business Securitisation Fund and the Structured Finance Support Fund represent debt securities in structured finance vehicles, and are either public term securitisations or private warehouse financing facilities. The contractual cash flows received on these debt securities represent payments of principal and interest on that outstanding principal consistent with a basic lending arrangement.

Accounting policy

The AOFM recognises these investments at fair value on initial recognition. The AOFM's business model is to hold these investments primarily to collect the contractual cash flows, and as such they are carried at amortised cost on subsequent measurement using the effective interest method.

Periodically, actual historical performance of each investment is used to revise expected future performance. This information is used to gauge whether credit risk has increased significantly since acquisition and to provide a revised estimate as to the expected future credit losses. Where relevant, the impairment provision is revised accordingly.

- Impairments on these investments are required to be measured on an expected credit loss (ECL) basis under AASB 9. The process of calculating the forward looking loss allowance for both the 12-month ECL and lifetime ECL categories requires the use of significant estimates and judgements of the probability of default, loss given default, exposure at default and economic conditions.

Key aggregates

Interest revenue ($m)

	2020	2019
Interest received / receivable	2	—
Amortisation of discounts	2	—
Concessional loan discounts	(6)	—
Impairment provision expenses	(2)	—
Interest revenue	(4)	—

Carrying values — administered assets ($m)

	2020	2019
Australian Business Securitisation Fund		
Face value	15	—
Unamortised net discounts	—	—
Accrued Interest	..	—
Expected credit loss provision	—	—
Sub-total	15	—
Structured Finance Securities Fund		
Face value	1,813	—
Unamortised net discounts	(13)	—
Accrued Interest	2	—
Expected credit loss provision	(2)	—
Sub-total	1,800	—
Total Carrying Value	1,815	—
Expected to be received (a):		
Within one year	53	—
In one to five years	1,601	—
In more than five years	161	—
Carrying value by expected recovery	1,815	—
Ageing:		
Not overdue	1,815	—
Overdue	—	—
Carrying value by ageing	1,815	—

(a) The maturity profile is based on the weighted average life of each investment and disregarding estimated principal repayments (the timing and quantum of which are uncertain) prior to that time.

The table below sets out the loss allowances recognised by the AOFM.

Loss allowances recognised on SFSF ($m)

Loss allowances on SFSF investments	12 month expected credit losses (a)	Lifetime expected credit losses (b)	Total expected credit losses allowance
Opening balance — 1 July 2019	-	-	-
New investments acquired	2	-	2
Changes in provision during the year	-	-	-
Write-offs	-	-	-
Transfers: 12 months/lifetime	-	-	-
Closing balance — 30 June 2020	2	-	2

(a) A 12 month forward looking expected credit loss provision is required for those debt securities that have not experienced a significant increase in credit risk since initial recognition. If the credit risk of an exposure has not increased significantly since initial recognition, the investment will remain in this category. If credit risk has increased significantly, the investment will be transferred to the lifetime expected losses category.

(b) A lifetime forward looking expected credit loss provision is required for those debt securities that have experienced a significant increase in credit risk (whether or not objective evidence of impairment has occurred) since initial recognition. Where objective evidence of impairment has occurred a lifetime credit loss provision is also required to be recognised on such investments.

NOTE 8: LOANS TO STATE AND TERRITORY GOVERNMENTS

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

Accounting policy

Loans to State and Territory Governments are measured at fair value on initial recognition and at amortised cost on subsequent measurement using the effective interest method. An expected credit loss provision is not made on these loans.

Key aggregates

Carrying values — administered assets ($m)

	2020	2019
Face value	1,646	1,895
Unamortised net discounts	(154)	(184)
Accrued interest	—	—
Carrying value	1,492	1,711
Expected to be received:		
Within one year	78	84
In one to five years	324	351
In more than five years	1,090	1,276
Carrying value by expected recovery	1,492	1,711
Ageing:		
Not overdue	1,492	1,711
Overdue	—	—
Carrying value by ageing	1,492	1,711

On 12 September 2019, the Finance Minister waived the Tasmanian Government's housing loan debt pursuant to section 63 of the *Public Governance, Performance and Accountability Act 2013*. The principal value of the debt waived was $157.6million, which gave rise to an accounting loss of $143.7 million.

The fair value of these loans was $2,156 million as at 30 June 2020 (2018-19: $2,423 million). In estimating fair value data from Treasury Bonds is used.

NOTE 9: CASH FLOW RECONCILIATION

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

Reconciliation of net cash from operating activities ($m)

	2020	2019
Surplus (deficit) as per Schedule of Comprehensive Income	**(26,251)**	(60,981)
Adjustments for non-cash items:		
Amortisation and capital accretion of debt instruments	**(1,928)**	(1,686)
Concessional loans	**(6)**	(17)
Re-measurements	**9,193**	43,550
Adjustments for cash items:		
Capital accretion costs on redemption of debt	**—**	(2,017)
Debt repurchase	**399**	896
Waiver of housing loans	**144**	—
Accrual adjustments:		
Interest accruals on debt	**33**	(279)
Interest accruals on assets	**9**	24
Net cash from operating activities	**(18,407)**	(20,510)

NOTE 10: APPROPRIATIONS

Administered special appropriations — unlimited ($'000)

	2020	2019
Commonwealth Inscribed Stock Act 1911		
s13AA — payment of principal and interest on money raised by Stock issued under the Act and payments on depository interests in Stock issued under the Act	**87,522,536**	55,983,173
s13A — payment of costs and expenses incurred in relation to issuing and managing debt and depository interests	**33,569**	12,742
s13B — payment of costs and expenses incurred in repurchasing debt prior to maturity	**9,430,970**	30,989,895
Financial Agreement Act 1994		
s5 — debt redemption assistance and payment of interest to bond holders on behalf of the State and Northern Territory Governments on public debt under the Act (a)	**8**	8
Public Governance, Performance and Accountability Act 2013		
s58(7) — investments made in the name of the Commonwealth of Australia	**1,816,365,550**	461,350,000
Total	**1,913,352,633**	548,335,818

(a) The 2019-20 amount includes $840 paid into the Debt Retirement Reserve Trust Account (2018-19: $1,156).

The following details administered special appropriations that are available but were not used by the AOFM during 2019-20 and 2018-19 (where relevant):

- *Australian National Railways Commission Sale Act 1997, sec 67AW* — Purpose: payment of principal and interest on former debts of the National Railways Commission.
- *Loans Redemption and Conversion Act 1921, sec 5* — Purpose: payment of principal, interest and costs of converting loans made in accordance with the Act.
- *Loans Securities Act 1919, sec 4* — Purpose: payment of principal and interest on money raised by stock issued under the Act.
- *Loans Securities Act 1919, sec 5B* — Purpose: payment of money under a swap or other financial arrangement and any expenditure in connection with the negotiation, management or service of, or a repayment under, any such agreement.

- *Loans Securities Act 1919, sec 5BA* — Purpose: payment of money to enter into securities lending arrangements.
- *Moomba-Sydney Pipeline System Sale Act 1994, sec 19* — Purpose: payment of principal and interest on former debts of the Pipeline Authority.
- Public Governance, Performance and Accountability Act 2013, sec 74A — Purpose: payments of recoverable GST.
- *Treasury Bills Act 1914, sec 6* — Purpose: payment of principal and interest on money raised by issuance of Treasury Bills.

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*.

PGPA Act investments — in face value ($'000)

	2020	2019
Opening balance	**31,100,000**	45,100,000
Acquisitions	**1,816,365,550**	461,350,000
Redemptions and sales	**(1,777,515,550)**	(475,350,000)
Closing balance	**69,950,000**	31,100,000

Special account — Australian Business Securitisation Fund (ABSF) ($'000)

	2020	2019
Opening balance	**—**	—
Statutory credit to the special account	**250,000**	—
Investments made	**(14,686)**	—
Interest received from investments	**—**	—
Balance	**235,314**	—
Balance represented by:		
Cash — held in the Official Public Account	**235,314**	—

Establishing Instrument — the *Australian Business Securitisation Fund Act 2019*, section 11.

Purpose — to increase the availability, and reduce the cost of credit provided to small and medium enterprises by the Commonwealth investing in debt securities in accordance with the *Australian Business Securitisation Fund Act 2019*.

The ABSF Special Account received its first funding credit of $250 million on 1 July 2019. A second tranche of funding of $250 million was made on 1 July 2020. Additional funding, each of $500 million, will occur on 1 July 2021, 1 July 2022 and 1 July 2023.

Special account — Structured Finance Support Fund (SFSF) ($'000)

	2020	2019
Opening balance	—	—
Statutory credit to the special account	15,000,000	—
Investments made	(1,712,144)	—
Interest and repayments of principal received from investments	28,159	—
Balance	13,316,015	—
Balance represented by:		
Cash — held in the Official Public Account	13,316,015	—

Establishing Instrument — the Structured Finance Support (Coronavirus Economic Response Package) Act 2020, section 11.

Purpose — to ensure continued access by smaller lenders to funding markets to mitigate impacts arising from the economic effect of business restoration during the Covid-19 pandemic.

The SFSF Special Account received a statutory funding credit of $15 billion on 25 March 2020.

Special account — Debt Retirement Reserve Trust Account (DRRTA) ($'000)

	2020	2019
Opening balance	42	40
Commonwealth contributions and interest paid	1	1
State contributions	2	1
Debt repayments made	—	—
Balance	45	42
Balance represented by:		
Cash — held in the Official Public Account	45	42

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

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

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

NOTE 11: BUDGETARY REPORT TO OUTCOME COMPARISON

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

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

The volume of AGS debt that needs to be issued in face value terms to generate the required level of financing will depend on the level of AGS yields (or interest rates) and the chosen maturities and mix of debt to be issued. These decisions are based on the debt management strategy for the period ahead, which in turn takes into account longer-term portfolio considerations.

An 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.

2019-20 Budget

In the 2019-20 Budget (released in April 2019) the government estimated a Headline Cash Deficit of $4.4 billion for 2019-20. After AGS maturities and redemptions of $54 billion, operational considerations (such as market conditions, the uncertainty and timing associated with future year funding requirements, the strength of revenue collections relative to forecast and the level of cash holdings to maintain) and financing transactions of other government agencies; the long term debt issuance program for 2019-20 was set at $61 billion.

At the time of the Mid-Year Economic and Fiscal Outlook (released in December 2019) the Headline Cash Deficit for 2019-20 was forecast to improve (by $1.6 billion) to $2.8 billion. The long term debt issuance program was reduced (by $5 billion) to $56 billion after adjustment in the level of cash holdings to be maintained.

On 20 March 2020 the Treasurer announced a deferral to the 2020-21 Budget until 6 October 2020, to provide more time for the economic impact of the coronavirus to be better understood. The outbreak of the Covid-19 pandemic and associated policy responses has created a significant deterioration in global economic conditions. This has also impacted the Australian economy and resulted in a significant weakening of the government's fiscal position, which has led to a pronounced increase in debt issuance to meet funding requirements.

For the year ended 30 June 2020 the AOFM's short-term and long-term gross issuance programs totalled $220 billion.

Administered schedule of comprehensive income ($m)

	Outcome 2020	Budget (a) 2020	Variance 2020
EXPENSES			
Interest expense	**16,743**	17,012	(269)
Other expenses	**176**	25	151
Debt repurchased	**399**	782	(383)
Total expenses	**17,318**	17,819	(501)
INCOME			
Interest revenue	**260**	498	(238)
Total income	**260**	498	(238)
Surplus (deficit) before re-measurements	**(17,058)**	(17,321)	263
Re-measurements	**(9,193)**	5,040	(14,233)
Total re-measurements	**(9,193)**	5,040	(14,233)
Surplus (deficit)	**(26,251)**	(12,281)	(13,970)

(a) Original Budget released in April 2019. The Budget figures are not audited.

Significant variances in expenses before re-measurements

Interest expense for 2019-20 was $269 million lower than forecast in the 2019-20 Budget. This comprises a favourable variance for Treasury Bonds of $109 million, for Treasury Indexed Bonds of $145 million and for Treasury Notes of $15 million. These savings are due to the lower interest rate environment applicable to new borrowings. This more than offsets significant increases in debt issuance in the final quarter of 2019-20 and a lower Treasury Bond repurchase program (which was ceased indefinitely in March 2020). In addition, in relation to Treasury Indexed Bonds, the lower interest expense is also due to the repurchase of $979 million of the August 2020 series in June 2019, which was not forecast in the 2019-20 Budget update.

Other expenses are higher by $151 million as compared to Budget primarily due to losses arising from the waiver of $157.6 million of the Tasmanian Government's housing debt. This was not forecast in the Budget.

Losses arising from the repurchase of debt are lower by $383 million due to lower Treasury Bond repurchases than forecast, being $9 billion as compared to $17.5 billion at Budget.

Significant variances in income before re-measurements

Interest revenue was lower by $238 million as compared to Budget. This was primarily due to lower interest revenue on term deposits of $225 million. Despite a richer cash position in 2019-20 than forecast, the lower interest rate environment had a commensurate impact on interest earnings.

Significant variances in re-measurements

It is assumed in the Budget that AGS yields for different tenors of debt will be the same as the prevailing observed market rates (at the time when the budget estimates are prepared). Due to this assumption, re-measurements of the portfolio for changes in market interest rates are not significant in the Budget. However, actual market yields as at 30 June 2020 were significantly lower across the Treasury Bond yield curve as compared to Budget.

There is an inverse relationship between yield and price for bonds.

Administered schedule of assets and liabilities ($m)

	Outcome 2020	Budget (a) 2020	Variance 2020
LIABILITIES			
Interest bearing liabilities	**784,974**	619,463	165,511
Other liabilities	**121**	—	121
Total liabilities	**785,095**	619,463	165,632
ASSETS			
Cash at bank	**1**	1	—
Investments	**71,767**	30,691	41,076
Loans to State and Territory Governments	**1,492**	1,628	(136)
Total assets	**73,260**	32,320	40,940
Net assets	**(711,835)**	(587,143)	(124,692)

(a) Original Budget released in April 2019. The Budget figures are not audited.

Significant variances in interest bearing liabilities

The significant weakening in the government's fiscal position due to Covid-19 led to an increase in short-term and long-term net issuance by $128 billion (in face value terms) as compared to Budget. The reduction in market yields has also led to a higher valuation in the debt outstanding.

Significant variances in investments

In line with the weakening in the government's fiscal position and the high degree of uncertainty from the impact of the pandemic on the Australian economy and capital markets, the AOFM increased its cash holdings significantly in late 2019-20. The actual balance of term deposits held as at 30 June 2020 was $69,950 million as compared to $30,465 million in the Budget. In addition, actual investment balances include investments in structured finance securities made through the Australian Business Securitisation Fund and the Structured Finance Support Fund. These investments were not factored into Budget forecasts.

NOTE 12: SECURITIES LENDING FACILITY

The AOFM has a securities lending facility for Treasury Bonds and Treasury Indexed Bonds, which is operated by the RBA.

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

Transactions undertaken during the period

	Number		Face value ($m)	
	2020	2019	**2020**	2019
Overnight:				
Treasury Bonds	**25**	8	**1,201**	236
Treasury Indexed Bonds	**138**	13	**1,451**	157
Intra-day:				
Treasury Bonds	**3**	9	**179**	636
Treasury Indexed Bonds	**9**	1	**204**	30
Total	**175**	31	**3,035**	1,059

No transactions were open at the beginning or end of the year.

DEPARTMENTAL ACCOUNTS

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

STATEMENT OF COMPREHENSIVE INCOME ($'000)

for the period ended 30 June 2020

	Notes	2020	2019	Budget 2020	Variance from Budget
NET COST OF SERVICES					
EXPENSES					
Employee benefits	A	7,026	7,017	7,858	(832)
Supplier expenses	A	3,554	3,379	6,652	(3,098)
Depreciation and amortisation	C,D	671	434	550	121
Interest on lease liabilities	F	61	—	—	61
Asset revaluation decrements		17	—	—	17
Total expenses		11,329	10,830	15,060	(3,731)
OWN-SOURCE INCOME					
Staff secondments		350	310	382	(32)
Resources received		298	298	320	(22)
Asset revaluation increments		10	—	—	10
Total own-source income		658	608	702	(44)
Net cost of services		(10,671)	(10,222)	(14,358)	3,687
APPROPRIATION FUNDING					
Revenue from government		13,808	11,723	13,808	—
Total appropriation funding		13,808	11,723	13,808	—
Surplus (deficit)		3,137	1,501	(550)	3,687
OTHER COMPREHENSIVE INCOME					
Asset revaluation		338	—	—	338
Comprehensive income		3,475	1,501	(550)	4,025

The above statement should be read in conjunction with the accompanying notes. Note J discusses variances between actuals and Budget released in April 2019 (Budget figures are not audited).

STATEMENT OF FINANCIAL POSITION ($'000)

as at 30 June 2020

	Notes	2020	2019	Budget 2020	Variance from Budget
ASSETS					
Financial assets:					
Cash and cash equivalents		100	73	73	27
Receivables	B	27,448	24,946	23,523	3,925
Non-financial assets:					
Property, plant and equipment	C	6,478	1,786	2,016	4,462
Computer software	D	619	780	992	(373)
Supplier prepayments		152	60	223	(71)
Total assets		34,797	27,645	26,827	7,970
LIABILITIES					
Payables:					
Supplier payables		177	237	136	41
Salary and superannuation		117	48	301	(184)
Provisions:					
Employee provisions	E	2,556	2,853	2,187	369
Lease liabilities	F	4,600	-	-	4,600
Other provisions	G	460	418	418	42
Total liabilities		7,910	3,556	3,042	4,868
Net assets		26,887	24,089	23,785	3,102
EQUITY					
Retained surplus		35,105	31,968	31,167	3,938
Asset revaluation reserve		338	-	-	338
Contributed equity		(8,556)	(7,879)	(7,382)	(1,174)
Total equity		26,887	24,089	23,785	3,102

The above statement should be read in conjunction with the accompanying notes. Note J discusses variances between actuals and Budget released in April 2019 (Budget figures are not audited).

Current/non-current balances ($’000)

	2020	2019
Current assets	13,249	14,316
Non-current assets	21,548	13,329
Current liabilities	(1,104)	802
Non-current liabilities	(6,806)	2,754

STATEMENT OF CHANGES IN EQUITY ($’000)

for the period ended 30 June 2020

	Notes	2020	2019	Budget 2020	Variance from Budget
RETAINED SURPLUS					
Opening balance		31,968	30,467	31,717	251
Surplus (deficit)		3,137	1,501	(550)	3,687
Retained surplus		35,105	31,968	31,167	3,938
ASSET REVALUATION RESERVE					
Opening balance		-	-	-	-
Revaluation		338	-	-	338
Asset revaluation reserve		338	__	-	338
CONTRIBUTED EQUITY					
Opening balance		(7,879)	(5,551)	(7,741)	(138)
Capital injection		359	710	359	-
Appropriations extinguished	I	(1,036)	(3,038)	-	(1,036)
Contributed equity		(8,556)	(7,879)	(7,382)	(1,174)
Total equity		26,887	24,089	23,785	3,102

The above statement should be read in conjunction with the accompanying notes. Note J discusses variances between actuals and Budget released in April 2019 (Budget figures are not audited).

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

STATEMENT OF CASH FLOWS ($'000)

for the period ended 30 June 2020

	Notes	2020	2019	Budget 2020	Variance from Budget
NET CASH FROM OPERATING ACTIVITIES					
Appropriations: Operating		11,070	9,400	13,765	(2,695)
GST received from ATO		5	6	-	5
Services and other		382	475	382	-
Employees		(7,378)	(6,556)	(7,815)	437
Suppliers		(3,384)	(2,844)	(6,332)	2,948
Interest paid on leases		(61)	-	-	(61)
GST paid to ATO		(3)	-	-	(3)
Transfers to OPA (a)		(384)	(481)	-	(384)
	H	247	-	-	247
NET CASH FROM INVESTING ACTIVITIES					
Purchase of assets		(10)	(19)	(359)	349
		(10)	(19)	(359)	349
NET CASH FROM FINANCING ACTIVITIES					
Appropriations: Capital		10	19	359	(349)
Lease liability		(220)	-	-	(220)
		(210)	19	359	(569)
Net change in cash held		27	-	-	27
+ cash held at the beginning of period		73	73	73	-
Cash held at the end of the period		100	73	73	27

The above statement should be read in conjunction with the accompanying notes. Note J discusses variances between actuals and Budget released in April 2019 (Budget figures are not audited).

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

NOTE A: EXPENSES

Employee benefits ($'000)

	2020	2019
Wages and salaries	**6,303**	5,555
Superannuation	**978**	1,049
Leave entitlements	**(271)**	398
Other employee expenses	**16**	15
Total	**7,026**	7,017

The below table sets out the CEO's actual remuneration (on an accruals basis).

Key Management Personnel ($'000)

	2020	2019
Salary and other short-term benefits	**342**	365
Annual leave accrued	**29**	29
Long service leave accrued	**11**	10
Post employment benefits (superannuation)	**53**	51
Total	**435**	455

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. The Chief Executive Officer (CEO), the Secretary to the Treasury and the Treasurer have been determined to be key management personnel for the AOFM. The CEO only is remunerated by the AOFM.

Supplier expenses ($'000)

	2020	2019
Internal and external audit services	424	486
Consultants	468	60
Corporate support services	896	828
Legal	206	54
Market data services	513	522
Operating lease payments — premises (a)	—	264
Travel	207	233
Treasury management system	257	240
Workers compensation premium	25	24
Other	558	668
Total	3,554	3,379

(a) With the adoption of AASB 16 Leases from 1 July 2019, lease payments on premises are divided into a principal component and an interest component. The interest component is not charged to supplier expenses.

NOTE B: RECEIVABLES

Accounting policy

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

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

Receivables ($'000)

	2020	2019
Goods and services (related)	83	16
Appropriations receivable	27,365	24,930
GST	—	—
Total	27,448	24,946

No receivable is overdue. All receivables are with related entities.

Recovery of receivables expected in ($'000)

	2020	2019
No more than 12 months	12,997	14,183
More than 12 months	14,451	10,763
Total	27,448	24,946

NOTE C: PROPERTY, PLANT AND EQUIPMENT

Accounting policy

Asset recognition threshold on acquisition

Purchases of leasehold improvements are recognised initially at cost except for purchases costing less than $10,000 which are expensed at the time of acquisition. For leasehold improvements the estimated cost of removal and restoring the leased premises to their original condition is included in the initial cost of leasehold improvements.

AASB 16 Leases became operational for annual periods beginning on or after 1 January 2019. The AOFM has applied the Standard from 1 July 2019. AASB 16 sets out the rules for recognition, measurement and disclosure of leases and requires most leases to be recognised under a single lease model, removing the distinction between finance and operating leases. It requires a lessee to recognise a “right of use asset” and a lease liability on its balance sheet.

On 1 July 2019, the AOFM recognised as a lease liability its obligations arising from the lease of its office premises within the Treasury Building for the expected remaining term. The lease term ends on 21 December 2025 and there are two 5-year extension options exercisable by the AOFM (which the AOFM is planning to exercise). A right of use asset was initially recognised on 1 July 2019 and measured at a value equivalent to the lease liability. The right of use asset is subsequently depreciated using the straight line method to the end of the expected lease term. Comparatives have not been restated with the adoption of AASB 16.

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

Revaluations

Following initial recognition at cost, those items of property, plant and equipment whose fair value can be measured reliably are valued with sufficient frequency to ensure that the carrying amounts of assets do not materially differ from fair value as at the reporting date. Fair value is determined by depreciated replacement cost for leasehold improvements and by secondary market information for plant and equipment.

A valuation was conducted by an independent valuer, Jones Lang LaSalle, as at 31 March 2020. A revaluation gain of $390,064 was recorded for leasehold improvements, of which $10,502 was recognised as revenue in the Statement of Comprehensive Income (to reverse revaluation decrements recognised as expenses in previous reporting periods), and $379,562 was recognised in an Asset Revaluation Reserve in Equity. A revaluation loss of $17,450 was recorded for plant and equipment, and recognised as an expense in the Statement of Comprehensive Income. As at 30 June 2020, the AOFM had cumulative net revaluation losses of $81,065 for plant and equipment which were recognised as expenses in the Statement of Comprehensive Income in this reporting period and previous reporting periods.

Right of use assets are retained at cost and are not subject to periodic revaluation.

Property, plant and equipment ($'000)

	2020	2019
Gross value:		
Leasehold improvements	**1,987**	1,924
Plant and equipment	**292**	441
Right of use asset — lease premises	**4,820**	—
Accumulated depreciation:		
Leasehold improvements	**(323)**	(472)
Plant and equipment	**(5)**	(107)
Right of use asset — lease premises	**(293)**	—
Total	**6,478**	1,786

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

Reconciliation of changes in gross value ($'000)

	2020	2019
Opening value	**2,365**	2,354
Purchases	**10**	11
Initial recognition of right of use asset	**4,820**	—
Revaluation increment (decrement)	**(96)**	—
Closing value	**7,099**	2,365

Reconciliation of changes in accumulated depreciation ($'000)

	2020	2019
Opening value	**(579)**	(307)
Depreciation charge for period		
Leasehold improvements	**(178)**	(225)
Plant and equipment	**(40)**	(47)
Right of use asset	**(293)**	—
Revaluation increment (decrement)	**469**	—
Closing value	**(621)**	(579)

Depreciation

Leasehold improvements are depreciated using the straight line method over the expected lease term.

The right of use asset is depreciated using the straight line method over the expected lease term.

Plant and equipment is depreciated using the straight line method, on the basis of the following useful lives.

Useful life

	2020	2019
Artwork	**100 years**	100 years
Furniture and fittings	**Lease term**	Lease term
ICT equipment	**3-5 years**	3-5 years

Useful lives are assessed annually and revised if necessary to reflect current estimates of an asset's useful life to the AOFM. Revisions in useful life affect the rate of depreciation applied for the current period and future periods.

The useful lives of leasehold improvements and furniture and fittings were reassessed in 2019-20. This has resulted in reduced depreciation expenses of $58,000 for 2019-20 (2018-19: nil).

NOTE D: COMPUTER SOFTWARE

Accounting policy

Asset recognition threshold on acquisition

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

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

Developed software is recognised by capitalising all directly attributable internal and external costs that enhance software's functionality and therefore service potential. Software assets are retained at cost and are not subject to periodic revaluation.

Computer software ($'000)

	2020	2019
Gross value	**1,520**	1,521
Accumulated amortisation	**(901)**	(741)
Total	**619**	780

No indicators of impairment were identified for computer software.

Amortisation

Software assets are amortised using the straight line method over their anticipated useful lives, being three to ten years (2018-19: three to ten years).

Reconciliation of changes in accumulated amortisation ($'000)

	2020	2019
Opening value	**(741)**	(579)
Amortisation charge for period	**(160)**	(162)
Closing value	**(901)**	(741)

NOTE E: EMPLOYEE PROVISIONS

Accounting policy

Leave

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

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

Superannuation

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

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

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

Employee provisions ($'000)

	2020	2019
Annual leave	589	557
Long service leave	1,645	1,948
Superannuation	322	348
Total	2,556	2,853

Payment of employee provisions expected in ($'000)

	2020	2019
No more than 12 months	**585**	517
More than 12 months	**1,971**	2,336
Total	**2,556**	2,853

NOTE F: LEASE LIABILITIES

Accounting policy

AASB 16 Leases became operational for annual periods beginning on or after 1 January 2019. The AOFM has applied the Standard from 1 July 2019. AASB 16 sets out the rules for recognition, measurement and disclosure of leases and requires most leases to be recognised under a single lease model, removing the distinction between finance leases and operating leases. It requires lessees to recognise a "right of use asset" and a lease liability on its balance sheet. On 1 July 2019, the AOFM recognised as a lease liability its obligations arising from the lease of its office premises within the Treasury Building for the expected remaining term. The lease liability is initially measured at the present value of the estimated future lease payments as at 1 July 2019, discounted at the Australian Government's borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest method. Comparatives have not been restated with the adoption of AASB 16.

Lease liability ($'000)

	2020	2019
Opening value		
Recognised on adoption of AASB 16	4,820	—
Amounts recognised in profit or loss:		—
Interest expense on lease liability	61	—
Amounts recognised in cash flow:		—
Lease payments	(281)	—
Closing value	4,600	—
Discounted amount recognised in the Statement of Financial Position:		
Current	225	—
Non-current	4,375	—
Total	4,600	-

Future estimated lease payments ($'000)

	2020	2019
Undiscounted cash flows:		
Less than 1 year	**289**	281
One to five years	**1,209**	1,187
More than five years	**3,660**	3,971
Total	**5,158**	5,439

NOTE G: OTHER PROVISIONS

Other provisions are for the restoration costs of the AOFM's leasehold premises on expiry of its lease. The AOFM lease for its office premises ends on 21 December 2025, there are two 5 year extension options exercisable at AOFM's discretion.

Other provisions ($'000)

	2020	2019
Makegood on leasehold premises	460	418
Total	**460**	418

Reconciliation of movements in other provisions ($'000):

	2020	2019
Opening balance	418	418
Re-measurements (a)	42	—
Total	**460**	418

Other provisions expected to be settled in ($'000)

	2020	2019
No more than 12 months	—	—
More than 12 months	460	418
Total	**460**	418

(a) In accordance with *AASB Interpretation 1: Changes in Existing Decommissioning, Restoration and Similar Liabilities*, the provision increment has been recognised as an adjustment to the Asset Revaluation Reserve in Equity.

NOTE H: 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.

Reconciliation of net cost of services to net operating cash flows ($'000)

	2020	2019
Net cost of services	(10,671)	(10,222)
Add revenue from Government	13,808	11,723
Adjustments for non-cash items:		
Depreciation and amortisation	671	434
Appropriations extinguished	(1,036)	(3,038)
Net revaluation losses	7	—
Change in receivables for capital budget items	350	699
Adjustments for changes in assets:		
(Increase) decrease in receivables	(2,502)	(360)
(Increase) decrease in supplier prepayments	(92)	163
Adjustments for changes in liabilities:		
Increase (decrease) in supplier payables	(60)	101
Increase (decrease) in salary and superannuation	69	1
Increase (decrease) in employee provisions	(297)	499
Net cash from operating activities	247	—

NOTE I: APPROPRIATIONS

The following table outlines appropriations for the period and the amount of appropriations utilised for the period.

Annual appropriations ($'000)

	2020	2019
Annual appropriations:		
Outputs	13,808	11,723
Departmental capital budget (a)	359	710
Appropriation withheld	—	—
Public Governance, Performance and Accountability Act 2013:		
Section 74 — retained receipts	384	481
Total available for payment	14,551	12,914
Appropriation applied (current and prior years)	(11,053)	(9,419)
Variance	3,498	3,495

(a) On 11 October 2018, the Minister for Finance approved the reclassification of $350,000 of departmental capital funding to departmental operating funding on an ongoing basis from 2019-20.

The variance in departmental appropriations available to appropriations applied (spent) is explained by lower than planned staff and supplier costs, including from the implementation and management of the Australian Business Securitisation Fund (the ABSF).

The following table outlines the unspent balance of appropriations available to the AOFM as at the end of the reporting period.

Unspent departmental annual appropriations ($'000)

	2020	2019
Acts repealed on 1 July 2019:		
Supply Act (No. 1) 2016-17	—	2,687
Appropriation Act (No. 1) 2016-17	—	201
Appropriation Act (No. 2) 2016-17	—	150
	—	3,038
Acts repealed on 1 July 2020:		
Appropriation Act (No. 1) 2017-18	1,036	12,089
	1,036	12,089
Acts to be repealed on or after 1 July 2021:		
Appropriation Act (No. 1) 2018-19	11,980	11,980
Appropriation Act (No. 3) 2018-19	934	934
Supply Act (No. 1) 2019-20	6,002	—
Appropriation Act (No. 1) 2019-20	8,549	—
	27,465	12,914
Total	28,501	28,041
Represented By:		
Cash at bank	100	73
Appropriations receivable	27,365	24,930
Appropriations extinguished — 1 July	1,036	3,038
Total	28,501	28,041

NOTE J: BUDGETARY REPORT TO OUTCOME COMPARISON

The Budget figures shown in the primary financial statements represent the original Budget released in April 2019. The Budget figures are not audited.

Judgement is applied when determining variances requiring explanation. Considerations include the value of the variance, the nature of the item and its usefulness in analysing financial performance.

Significant variances in the Departmental financial statements

AASB 16 Leases became operational on 1 July 2019. At that time the AOFM recognised a 'lease liability' and a 'right of use asset' for $4.8 million in relation to the lease on its office premises. This had the effect of grossing up the AOFM's balance sheet. In addition, from 1 July 2019 the AOFM recognised interest charges on the lease liability and depreciation on the right of use asset. In accordance with instructions from the Department of Finance, the impact of AASB 16 Leases was not incorporated into the 2019-20 Budget (in April 2019). The 2019-20 Budget was prepared under AASB 117, whereby the lease on AOFM's office premises was recognised as an operating lease. Operating leases recognised lease payments as expenses and did not recognise a lease liability or a right of use asset.

On 31 March 2020, the AOFM conducted a revaluation of its property, plant and equipment assets. Also at that time the AOFM conducted a re-measurement of $41,800 to the make-good liability on its leasehold premises. As a result of the re-measurements, the AOFM recorded a net gain of $337,762 to an Asset Revaluation Reserve, an expense of $17,450 and income of $10,502. The revaluation was not forecast in the Budget.

Employee expenses were lower than forecast at Budget by $0.8 million. During 2019-20 the AOFM sought to increase its staffing levels for the purposes of implementing and administering the Australian Business Securitisation Fund (the ABSF). Whilst the AOFM establishment size increased by 7 full time equivalents from 30 June 2019 (37) to 30 June 2020 (44), the average staffing level for 2019-20 was 39 against forecasts of 47. A range of external advisory services have also been utilised in place of staff. This resulted in lower than expected staff costs. During 2020-21 the AOFM will increase its establishment size in response to ongoing commitments particularly in relation to the ABSF and the Structured Finance Support Fund (the SFSF).

Supplier expenses were lower than forecast at Budget by $3.1 million. During 2019-20 the AOFM received additional appropriation funding to meet anticipated additional consultancy, legal, information technology, assurance and other administrative costs arising from implementing and managing the ABSF. The AOFM has underspent as compared to Budget forecasts in this regard.

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

These financial statements cover the AOFM as an administrative entity of the Commonwealth of Australia and are for the reporting period 1 July 2019 to 30 June 2020. They are required by section 42 of the *Public Governance, Performance and Accountability Act 2013*, and are general purpose financial statements prepared on a going concern basis.

The financial statements have been prepared in accordance with:

- the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and
- Australian Accounting Standards that apply for the reporting period.

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

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

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

New Australian Accounting Standards applicable to the reporting period

During 2019-20 the AOFM adopted all applicable Australian Accounting Standards that became effective during the reporting period.

The AOFM adopted AASB 16 Leases for the first time on 1 July 2019. In accordance with the requirement of the Standard the AOFM has recognised a right of use asset and a lease liability for the lease of its office premises within the Treasury Building. Further disclosures are made at Note C and F of the Departmental Financial Statements. The liability represents the discounted known future lease payments. Previously, under AASB 117 Leases, the lease of the office premises was recognised as an operating lease.

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. These are not expected to significantly impact the AOFM's accounts.

POST BALANCE DATE EVENTS

Establishment of forbearance SPV

Since April 2020 the AOFM has been working on an initiative with the securitisation industry to develop a forbearance special purpose vehicle (SPV) to advance funds to eligible public and private securitisation vehicles seeking liquidity advances to compensate for a portion of the missed interest component of scheduled payments not received from borrowers who have received a payment moratorium due to the impact of coronavirus.

The AOFM appointed separate professional companies to perform the roles of trustee, manager and security trustee to operate the forbearance SPV. The AOFM also appointed a standby manager and a collateral verification agent to support the operations of the forbearance SPV.

The AOFM is the only senior financier of the forbearance SPV, and through the Structured Finance Support Fund acquires debt securities issued by the forbearance SPV. The proceeds raised by the issuance of debt securities to the AOFM, provides the forbearance SPV with the funding required to make liquidity payments (secured by an interest in underlying property) to eligible securitisation vehicles.

The forbearance SPV was established on 22 July 2020.

Litigation

On 22 July 2020 documents were filed with the Federal Court of Australia (FCA) bringing proceedings against the Commonwealth of Australia, the Secretary of the Department of the Treasury and the Chief Executive Officer of the AOFM. The statement lodged with the FCA states that the Applicant is the holder of and an investor in exchange-traded Australian Government Bonds. The claim provides that the information statements published by the AOFM setting out information to potential investors about these financial products fail to disclose Australia's climate change risks for investors. The Applicant further claims that as such the Commonwealth has breached its duties of disclosure under the *Australian Securities and Investment Commission Act 2001*, and the Treasury Secretary and the Chief Executive Officer of the AOFM have breached their duties under the *Public Governance, Performance and Accountability Act 2013*.

The Applicant has sought injunctive relief and is not making a claim for damages.

The Commonwealth rejects the claims and will be defending the claims in the legal action. Hearings are yet to commence.

ANAO AUDIT OPINION

Auditor-General for Australia

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Treasurer

Opinion

In my opinion, the financial statements of the Australian Office of Financial Management (the Entity) for the year ended 30 June 2020:

(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 Entity as at 30 June 2020 and its financial performance and cash flows for the year then ended.

The financial statements of the Entity, which I have audited, comprise the following as at 30 June 2020 and for the year then ended:

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

Basis for opinion

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

Key audit matters

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

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

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Indexed Bonds' and 4 'Treasury Notes The Entity issues Australian Government Securities on behalf of the Commonwealth Government. The securities primarily comprise treasury bonds, treasury indexed bonds and treasury notes. I consider the valuation of Australian Government Securities to be a key audit matter due to: • the significant value of Australian Government Securities relative to the Entity's balance sheet ($784,967 million at 30 June 2020) and the range of financial instruments held; and • the variety of methodologies used to determine the fair value of financial instruments. These include assumptions about the expected return on securities over a long period into the future.	management system used to record and value Australian Government Securities; • testing the design and operating effectiveness of key controls related to the issuance of Australian Government Securities; • testing the design and operating effectiveness of key controls relevant to the ongoing monitoring of market valuations of debt; and • assessing the valuation of Australian Government Securities at 30 June 2020, using the following procedures: ○ agreed the face values and coupon rates of treasury bonds, treasury indexed bonds and treasury notes to independent third party reports; and ○ performed a recalculation of the fair value of Australian Government Securities for issued treasury bonds, treasury indexed bonds and treasury notes and assessed the reasonableness of assumptions about future returns on these securities against market yield data.

Accountable Authority's responsibility for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;
- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Australian National Audit Office

Grant Hehir

Grant Hehir

Auditor-General

Canberra

25 August 2020

PART 5: OTHER INFORMATION

OTHER INFORMATION

AGENCY FINANCIAL PERFORMANCE

The AOFM recorded an operating surplus on agency activities of $3.1 million for the 2019–20 financial year, comprising total revenue of $14.4 million and expenses of $11.3 million. The surplus in 2019–20 was due to lower than anticipated operating costs.

The AOFM reported a sound net worth and liquidity position as at 30 June 2020, with net assets of $26.9 million, which was represented by total assets of $34.8 million and total liabilities of $7.9 million.

As at 30 June 2020, the AOFM had unspent appropriations totalling $28.5 million. Of this amount, $1.0 million was repealed on 1 July 2020. Unspent appropriations are available to settle liabilities as and when they fall due and for future asset replacements and improvements.

AGENCY RESOURCE STATEMENT AND RESOURCES FOR OUTCOMES

Table 14: 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) 2019-20 $'000**	**Actual Expenses 2019-20 $'000**	**Variation $'000**
Program1.1: Australian Office of Financial Management			
Departmental expenses			
Departmental appropriation and other receipts	14,190	10,343	3,847
Expenses not requiring appropriation in the Budget year	870	986	(116)
Administered expenses before re-measurements			
Expenses not requiring appropriation (b)	786,746	543,062	243,684
Special appropriations expenses			
Commonwealth Inscribed Stock Act 1911	17,031,587	16,773,803	257,784
Australian Business Securitisation Fund Act 2019	325	—	325
Structured Finance Support (Coronavirus Economic Response Package) Act 2020	—	—	—
Financial Agreement Act 1994	8	8	—
Total expenses for program1.1	**17,833,726**	**17,328,202**	**505,524**
	2019-20	**2019-20**	
Average staffing level (number)	**47**	**40**	**7**

(a) The Budget figure for 2019–20 is the estimated expenses reported in Table 2.1 of the 2019–20 Portfolio Budget Statements.

(b) Expenses not requiring an appropriation for 2019-20 include accounting losses on write-off of Tasmanian Government housing advances and debt repurchases.

Table 15: AOFM Resource statement

Table 10: Agency Resource Tables

		Actual available appropriation 2019-20 $'000	Net Payments made 2019-20 $'000	Appropriations extinguished 2019-20 $'000	=	Balance 2019-20 $'000
Ordinary annual services						
Departmental appropriation(a)(b)		42,208	11,053	3,038		28,117
Receipts from other sources (s74)(c)		384	-	-		384
Total departmental		42,592	11,053	3,038		28,501
Administered expenses						
Total administered		-	-	-		-
Total ordinary annual services	**A**	42,592	11,053	3,038		28,501
Other services						
Departmental non-operating		-	-	-		-
Total other services	**B**	-	-	-		-
Total available annual appropriations (A+B)		42,592	11,053	3,038		28,501
Special appropriations - operating						
Commonwealth Inscribed Stock Act 1911		19,201,734	19,201,734	-		-
Financial Agreement Act 1994		8	8	-		-
Subtotal		19,201,742	19,201,742	-		-
Special appropriations - investing and financing						
Commonwealth Inscribed Stock Act 1911		77,785,341	77,785,341	-		-
Public Governance, Performance and Accountability Act 2013		1,816,365,550	1,816,365,550	-		-
Subtotal		1,894,150,891	1,894,150,891	-		-
Total special appropriations	**C**	1,913,352,633	1,913,352,633	-		-
Total appropriations excluding special accounts (A + B + C)		1,913,395,225	1,913,363,686	3,038		28,501
Special Accounts						
Debt Retirement Reserve Trust		45	-	-		45
Structured Finance Support Fund (d)		15,000,000	1,683,985	-		13,316,015
Australian Business Securitisation Fund (e)		250,000	14,686	-		235,314
Total Special Account	**D**	15,250,045	1,698,671	-	-	13,551,374
Total net resourcing and payments for AOFM (A + B + C + D)		1,928,645,270	1,915,062,357	3,038		13,579,875

(a) Actual available appropriation comprises Appropriation Bill (No.1) 2019-20 plus carried forward appropriation balances as at 1 July 2019.

(b) Includes capital budget appropriation for 2019-20 of $0.359 million.

(c) Receipts received under section 74 of the *Public Governance, Performance and Accountability Act 2013*.

(d) Structured Finance Support Fund Special Account was established in March 2020. The special account received its statutory funding of $15 billion on 25 March 2020.

(e) Australian Business Securitisation Fund Special Account was established in April 2019. The special account received its first credit of funding of $250 million on 1 July 2019.

GRANT PROGRAMS

Under the *Financial Agreement Act 1994*, the Commonwealth is required to contribute to the Debt Retirement Reserve Trust Account to assist the New South Wales and Victorian 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*.

Total amounts paid by the Commonwealth into the Debt Retirement Reserve Trust Account for 2019-20 was $840.

ADVERTISING AND MARKET RESEARCH

The AOFM incurred expenditure of $5,247 in advertising to promote the Australian Government Securities market to investors.

The AOFM incurred expenditure of $26,981 during 2019–20 to media advertising organisations for staff recruitment.

REMUNERATION

Table 16: Remuneration

Key Management Personnel

		Short-term benefits			Post-employment	Other long-term benefits		Termination benefits	
Name	Position	Base salary and annual leave $	Bonuses $	Other benefits $	Superannuation $	Long service leave $	Other $	Termination benefits $	Total $
Rob Nicholl	CEO	371,478			52,985	11,258			435,721

The CEO's remuneration conditions are established by the Secretary to the Treasury. AOFM does not have any SES staff other than Key Management Personnel.

Table 16: Remuneration (continued)

Highly Paid Staff

		Short-term benefits			Post-employment	Other long-term benefits		Termination benefits	
Remuneration Band	Number	Average base salary and annual leave $	Average bonuses $	Average other benefits $	Average superannuation $	Average long service leave $	Average other $	Average termination benefits $	Average total $
225,000 — 250,000	1	192,372			33,245	5,364			230,981
275,000 — 300,000	3	233,000			40,986	8,087			282,073
300,000 — 325,000	1	246,002			46,069	8,476			300,547
375,000 — 400,000	1	329,251			58,522	10,410			398,183

Remuneration for Other Highly Paid Staff is established by the AOFM's Enterprise Bargaining Agreement.

FREEDOM OF INFORMATION

Entities 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. Each agency must display on its website a plan showing what information it publishes in accordance with the IPS requirements. In 2019-20, the AOFM worked with the Treasury on two FOI requests.

An agency plan showing what information is published in accordance with the IPS requirements, including material relevant to the AOFM, is accessible from the AOFM's website at https://www.aofm.gov.au/about/access-information/information-publication-scheme

ECOLOGICALLY SUSTAINABLE DEVELOPMENT

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

MANAGEMENT STRUCTURE OF THE AOFM'S DEBT AND ASSETS

The assets and liabilities managed by the AOFM and held on its administered balance sheet in 2019–20 were AGS (Treasury Bonds, Treasury Indexed Bonds and Treasury Notes), term deposits placed with the RBA, investments made through the Australian Business Securitisation Fund (ABSF) and Structured Finance Support Fund (SFSF), and loans to the States under various Commonwealth-State Housing Agreements.

For financial and risk management purposes, these assets and liabilities are allocated into different portfolios: long-term debt; cash management; and investments for policy purposes. This allocation recognises the different objectives, risks and management approaches required in each area.

The **long-term debt portfolio** includes all Treasury Bonds and Treasury Indexed Bonds.

The **cash management portfolio** includes Treasury Notes and assets that are held to manage within-year variability in the Australian Government's financing requirements. This portfolio is used to fund differences in the timing of Government payments and receipts, as well as providing contingency liquidity.

The i**nvestments for policy purposes portfolio** includes all receivables arising from policy programs including the ABSF, SFSF and housing advances portfolio.

- The ABSF is a fund created to support the provision of finance to small to medium enterprises (SMEs) on more competitive terms.
- The SFSF comprises investments in structured finance markets used by smaller lenders that provide consumer and business finance, investing in rated term securitisations and securitisation warehouses.
- The housing advances portfolio comprises loans for public housing made to the states and territories. These loans, which were not evidenced by the issue of securities, were made under previous Commonwealth-state financing arrangements. The last of these loans is due to mature on 30 June 2042.

AGS ISSUANCE FOR 2019-20

Table 17: Treasury Bond tender results — 2019–20

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
3-Jul-19	1.50% 21-Jun-2031	800	1.3761	-0.24	0.25	4.32
8-Jul-19	3.25% 21-Apr-2029	600	1.3334	0.01	0.75	3.51
10-Jul-19	2.50%21-May-2030	800	1.3661	-0.09	0.50	2.67
15-Jul-19	2.75% 21-May-2041	400	1.9944	-0.43	1.00	1.77
17-Jul-19	1.50% 21-Jun-2031	1,600	1.4845	0.00	0.75	1.93
2-Aug-19	3.25% 21-Apr-2029	800	1.0896	0.14	0.25	2.78
7-Aug-19	1.50% 21-Jun-2031	800	1.0560	-0.17	0.50	3.38
12-Aug-19	3.25% 21-Jun-2039	400	1.4105	-0.32	0.50	2.42
14-Aug-19	2.50%21-May-2030	800	0.9868	-0.07	0.25	3.69
19-Aug-19	2.75% 21-May-2041	300	1.3820	0.33	1.00	1.38
21-Aug-19	1.50% 21-Jun-2031	800	0.9753	0.03	0.50	2.47
26-Aug-19	2.75% 21-Nov-2029	400	0.8841	-0.64	1.50	3.95
28-Aug-19	2.50%21-May-2030	800	0.8989	0.04	0.25	2.70
2-Sep-19	3.25% 21-Apr-2029	400	0.8961	-0.12	0.50	4.32
4-Sep-19	1.50% 21-Jun-2031	800	0.9640	-0.35	0.50	4.09
9-Sep-19	2.75% 21-Nov-2029	500	1.0468	-0.09	0.50	3.76
11-Sep-19	2.50%21-May-2030	800	1.1494	-0.31	0.75	3.11
18-Sep-19	1.50% 21-Jun-2031	1,200	1.1779	-0.28	0.50	2.04
23-Sep-19	2.75% 21-Nov-2029	500	1.0062	-0.18	0.50	4.00
25-Sep-19	2.50%21-May-2030	800	0.9438	-0.12	0.50	2.53
30-Sep-19	3.25% 21-Apr-2029	400	0.9509	-0.16	0.25	4.54
2-Oct-19	1.50% 21-Jun-2031	1,200	1.0054	-0.06	0.75	2.16
9-Oct-19	2.75% 21-Nov-2029	800	0.8759	-0.26	0.50	2.28
14-Oct-19	2.75% 21-May-2041	300	1.5699	-0.38	0.75	2.01
16-Oct-19	2.50%21-May-2030	800	1.0742	-0.08	0.50	2.17
23-Oct-19	2.75% 21-Nov-2029	800	1.1289	-0.09	0.50	3.10
1-Nov-19	1.50% 21-Jun-2031	800	1.1489	-0.26	0.25	3.86
4-Nov-19	2.75% 21-Apr-2024	400	0.8567	-0.08	0.25	4.44
6-Nov-19	2.50%21-May-2030	800	1.2603	-0.17	0.50	3.56
11-Nov-19	2.75% 21-Nov-2029	500	1.3025	-0.14	0.25	4.17
13-Nov-19	1.50% 21-Jun-2031	800	1.3249	-0.21	0.50	3.74
18-Nov-19	2.25% 21-May-2028	500	1.1098	-0.23	0.25	4.36
20-Nov-19	2.50%21-May-2030	800	1.1191	0.09	0.75	4.13
27-Nov-19	1.50% 21-Jun-2031	1,200	1.1042	-0.15	0.50	2.42
2-Dec-19	3.00% 21-Mar-2047	300	1.6494	-0.28	1.25	2.09
4-Dec-19	3.25% 21-Apr-2029	800	1.0867	0.09	1.00	2.71
9-Dec-19	1.50% 21-Jun-2031	1,200	1.1992	0.05	0.50	2.02
11-Dec-19	2.75% 21-Apr-2024	500	0.7492	-0.32	0.25	3.54
13-Jan-20	2.75% 21-Nov-2029	800	1.2266	-0.04	0.25	2.75
15-Jan-20	2.75% 21-Apr-2024	400	0.8481	-0.19	0.25	6.54
22-Jan-20	1.25% 21-May-2032	3,500	1.2394		1.75	3.29
5-Feb-20	1.25% 21-May-2032	2,500	1.0892	0.05	0.25	2.97
12-Feb-20	2.50%21-May-2030	1,300	1.0605	0.13	0.50	2.65
24-Feb-20	4.50% 21-Apr-2033	400	0.9832	-0.08	0.50	4.15

Table 17: Treasury Bond tender results — 2019–20 (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
26-Feb-20	1.50% 21-Jun-2031	800	0.9474	-0.01	0.25	3.84
4-Mar-20	1.25% 21-May-2032	1,200	0.8185	-0.12	1.00	2.70
11-Mar-20	1.50% 21-Jun-2031	1,000	0.7874	0.24	1.50	2.11
18-Mar-20	1.25% 21-May-2032	500	1.2852	0.57	0.75	3.60
30-Mar-20	2.25% 21-Nov-2022	1,000	0.2711	-2.26	0.50	4.17
3-Apr-20	2.50%21-May-2030	600	0.8118	-0.07	0.50	4.09
6-Apr-20	2.25% 21-Nov-2022	2,000	0.2450	-1.00	0.00	4.73
7-Apr-20	1.50% 21-Jun-2031	1,000	0.8848	-0.78	0.50	4.25
8-Apr-20	5.50% 21-Apr-2023	2,000	0.2489	-0.98	0.50	4.90
17-Apr-20	1.25% 21-May-2032	1,000	0.9853	-0.52	4.25	4.10
20-Apr-20	2.25% 21-Nov-2022	3,000	0.2544	-1.06	0.75	4.19
22-Apr-20	2.50%21-May-2030	1,500	0.8460	-0.35	0.50	4.29
24-Apr-20	5.50% 21-Apr-2023	1,500	0.2603	-1.22	0.75	7.26
28-Apr-20	1.25% 21-May-2032	2,500	1.0722	-0.43	0.75	3.20
1-May-20	0.25% 21-Nov-2024	3,000	0.3866	-0.59	0.25	4.87
4-May-20	3.25% 21-Apr-2025	1,500	0.3888	-0.94	1.00	5.43
6-May-20	1.50% 21-Jun-2031	2,500	0.9369	-0.33	0.50	3.52
8-May-20	5.50% 21-Apr-2023	1,500	0.2348	-0.70	0.75	6.82
15-May-20	2.75% 21-Apr-2024	2,000	0.2818	-0.67	0.25	5.38
18-May-20	2.25% 21-May-2028	1,000	0.7711	-0.02	0.25	3.96
20-May-20	1.25% 21-May-2032	2,000	1.0672	-0.40	0.25	3.71
22-May-20	0.25% 21-Nov-2024	2,000	0.3576	-0.64	0.50	4.62
25-May-20	2.25% 21-Nov-2022	2,000	0.2384	-0.91	0.50	4.53
27-May-20	2.50%21-May-2030	2,000	0.8919	-0.38	0.50	3.39
29-May-20	3.25% 21-Apr-2025	1,000	0.3859	-0.86	0.50	5.69
2-Jun-20	2.75% 21-Nov-2029	2,000	0.8691	-0.59	0.50	3.32
3-Jun-20	5.50% 21-Apr-2023	2,000	0.2496	-0.52	0.25	4.61
5-Jun-20	1.25% 21-May-2032	1,000	1.1700	-0.60	0.00	3.73
9-Jun-20	0.25% 21-Nov-2024	2,000	0.3865	-0.32	0.25	4.04
10-Jun-20	1.00% 21-Dec-2030	2,000	1.0800	-0.55	0.75	3.17
17-Jun-20	1.25% 21-May-2032	2,000	1.0098	-0.09	0.75	2.72
19-Jun-20	3.25% 21-Apr-2025	2,000	0.3707	-0.43	0.50	5.09
22-Jun-20	2.75% 21-Apr-2024	2,000	0.3003	-0.47	0.50	4.47
24-Jun-20	3.25% 21-Apr-2029	2,000	0.8450	-0.83	0.00	3.33
26-Jun-20	4.25% 21-Apr-2026	1,000	0.4790	-0.50	0.25	5.92
Average over year to June 2020				-0.32	0.59	3.67
Average over 3 years to June 2020				-0.36	0.53	3.93
Average over 10 years to June 2020				-0.32	0.76	3.64

Table 18: Treasury Bond syndication results — 2019–20

Syndication date	Coupon and maturity	Face value amount allocated ($m)	Issue yield (%)	Joint Lead Managers
19-Feb-20	2.75% 21-May 2041	2,000	1.5350	Commonwealth Bank of Australia, J.P. Morgan Securities Australia, UBS AG, Australia Branch
15-Apr-20	0.25% 21-Nov-2024	13,000	0.4700	ANZ, Deutsche Bank, UBS AG, Australia Branch, Westpac Institutional Bank
13-May-20	1.00% 21-Dec-2030	19,000	1.0250	ANZ, Commonwealth Bank of Australia, Citi, UBS AG, Australia Branch

Table 19: Treasury Bond buyback tender results — 2019–20

Tender date	Coupon and maturity	Face value amount repurchased ($m)	Weighted average accepted yield (%)	Spread to secondary market yield (basis points)	Range of offers accepted (basis points)	Times covered
8-Jul-19	1.75% 21-Nov-2020	398	1.0042	0.27	1.00	3.03
	5.75% 15-May-2021	202	0.9878	-0.12	0.25	
15-Jul-19	1.75% 21-Nov-2020	50	1.0050	0.23	0.50	3.20
	5.75% 15-May-2021	350	0.9961	0.21	0.50	
12-Aug-19	1.75% 21-Nov-2020	50	0.7938	0.53	0.25	6.27
	5.75% 15-May-2021	350	0.7354	0.59	0.25	
19-Aug-19	1.75% 21-Nov-2020	304	0.8157	0.75	0.50	2.77
	5.75% 15-May-2021	296	0.7489	0.44	0.50	
26-Aug-19	1.75% 21-Nov-2020	168	0.7578	0.73	0.50	3.12
	5.75% 15-May-2021	232	0.6953	0.61	0.50	
2-Sep-19	1.75% 21-Nov-2020	299	0.7799	0.04	0.50	3.81
	5.75% 15-May-2021	101	0.7185	-0.07	0.50	
9-Sep-19	1.75% 21-Nov-2020	115	0.8911	0.66	0.25	4.98
	5.75% 15-May-2021	385	0.8523	0.74	0.50	
18-Sep-19	1.75% 21-Nov-2020	322	0.9001	0.56	1.00	3.14
	5.75% 15-May-2021	78	0.8621	0.26	0.25	
23-Sep-19	1.75% 21-Nov-2020	397	0.7984	0.74	0.75	3.25
	5.75% 15-May-2021	103	0.7594	1.02	0.50	
30-Sep-19	1.75% 21-Nov-2020	307	0.7827	0.67	0.25	3.83
	5.75% 15-May-2021	93	0.7363	0.73	0.25	
14-Oct-19	1.75% 21-Nov-2020	300	0.7541	1.24	0.25	3.47
	5.75% 15-May-2021	0	0.0000	0.00	0.00	
4-Nov-19	1.75% 21-Nov-2020	400	0.8850	1.00	0.00	4.01
	5.75% 15-May-2021	0				
11-Nov-19	1.75% 21-Nov-2020	469	0.9000	0.35	0.00	4.52
	5.75% 15-May-2021	31	0.8949	0.37	0.75	
18-Nov-19	1.75% 21-Nov-2020	189	0.8475	0.48	0.00	3.72
	5.75% 15-May-2021	311	0.8015	0.50	0.25	
2-Dec-19	1.75% 21-Nov-2020	300	0.7643	1.33	0.25	3.55
	5.75% 15-May-2021	0				
22-Jan-20	1.75% 21-Nov-2020	100	0.8075	1.23	0.00	2.67
	5.75% 15-May-2021	101	0.7525	0.78	0.00	
	2.00% 21-Dec-2021	299	0.7312	0.76	0.25	
12-Feb-20	5.75% 15-May-2021	239	0.7817	0.70	0.25	2.14
	2.00% 21-Dec-2021	261	0.7525	0.50	0.00	
24-Feb-20	5.75% 15-May-2021	50	0.6900	0.45	0.00	3.11
	2.00% 21-Dec-2021	350	0.6400	0.88	3.75	
4-Mar-20	5.75% 15-May-2021	150	0.4100	1.45	0.00	2.23
	2.00% 21-Dec-2021	350	0.3977	1.24	1.00	
18-Mar-20	5.75% 15-May-2021	121	0.5566	1.01	3.00	4.26
	2.00% 21-Dec-2021	142	0.5378	2.58	3.75	
	5.75% 15-Jul-2022	237	0.5124	1.29	1.50	
Average over year to June 2020				0.69	0.61	3.55

Table 20: Treasury Indexed Bond tender results — 2019–20

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
16-Jul-19	1.25% 21-Feb-2022	150	-0.2118	-0.92	1.25	4.93
13-Aug-19	0.75% 21-Nov-2027	150	-0.2072	1.78	5.25	1.83
10-Sep-19	1.25% 21-Feb-2022	150	-0.3250	-3.70	0.00	9.47
24-Sep-19	0.75% 21-Nov-2027	100	-0.3160	-0.75	2.00	4.84
15-Oct-19	1.25% 21-Feb-2022	100	-0.4912	-1.98	0.25	6.67
12-Nov-19	1.00% 21-Feb-2050	100	0.3075	-1.72	0.00	3.31
26-Nov-19	2.50% 20-Sep-2030	100	-0.2372	-0.47	1.25	3.20
10-Dec-19	0.75% 21-Nov-2027	150	-0.3127	-0.36	0.50	3.13
11-Feb-20	2.50% 20-Sep-2030	100	-0.3200	-0.75	0.00	8.40
25-Feb-20	0.75% 21-Nov-2027	100	-0.4045	-0.20	1.00	4.55
10-Mar-20	2.50% 20-Sep-2030	100	-0.3336	-1.64	2.50	3.65
26-May-20	2.50% 20-Sep-2030	100	0.0094	-1.06	1.00	4.14
9-Jun-20	2.00% 21-Aug-2035	150	0.2197	-0.24	1.50	4.37
23-Jun-20	1.25% 21-Aug-2040	100	0.2184	-2.14	3.75	3.28
Average over year to June 2020				-1.01	1.45	4.70
Average over 3 years to June 2020				-1.24	1.46	4.17

Table 21: Treasury Note tender results — 2019–20

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
4-Jul-19	25-Oct-19	500	1.101	16.46	8	4.99
18-Jul-19	25-Oct-19	500	1.1035	18.29	4	3.23
25-Jul-19	25-Oct-19	500	1.0592	17.02	2	3.9
1-Aug-19	25-Oct-19	500	1.0313	10.21	15	4.96
8-Aug-19	22-Nov-19	500	1.0031	19.17	7	4.04
8-Aug-19	21-Feb-20	500	0.9184	22.83	7	4.28
15-Aug-19	22-Nov-19	1,000	0.9875	17.74	6	3.31
22-Aug-19	22-Nov-19	500	1.006	11.88	4	3.79
22-Aug-19	21-Feb-20	500	0.957	19.57	6	3.37
29-Aug-19	22-Nov-19	1,000	1.0011	14.11	8	2.22
5-Sep-19	22-Nov-19	500	1.02	12.31	0	3.04
5-Sep-19	21-Feb-20	500	1.0204	25.62	5	2.49
12-Sep-19	22-Nov-19	1,000	1.0666	14.58	8	2.91
19-Sep-19	22-Nov-19	500	1.067	21.35	13	2.21
19-Sep-19	21-Feb-20	500	1.0059	25.96	7	4.06
26-Sep-19	22-Nov-19	500	1.0635	26.13	9	3.16
26-Sep-19	21-Feb-20	500	1.019	31.66	4	3.4
3-Oct-19	22-Nov-19	750	0.9223	20.47	7	2.81
3-Oct-19	21-Feb-20	750	0.9122	30.44	9	4.59
10-Oct-19	24-Jan-20	1,000	0.8825	27	8	2.54
10-Oct-19	24-Apr-20	500	0.9004	36.6	2	4.33
17-Oct-19	24-Jan-20	500	0.8655	24.25	2	3.9
17-Oct-19	24-Apr-20	500	0.8844	32.51	5	4.92
24-Oct-19	24-Jan-20	936	0.9263	26.73	11	0.94
24-Oct-19	24-Apr-20	500	0.8766	27.9	5	5.03
31-Oct-19	21-Feb-20	500	0.9297	23.99	10	4.65
31-Oct-19	24-Apr-20	500	0.9408	28.48	6	3.35
7-Nov-19	21-Feb-20	500	0.9458	23.66	6	4.02
7-Nov-19	24-Apr-20	500	0.9646	28.75	8	3.35
14-Nov-19	21-Feb-20	500	0.957	24.79	5	3.9
14-Nov-19	22-May-20	500	0.9863	32.89	5	4.77
21-Nov-19	21-Feb-20	500	0.9	22.25	0	5.86
21-Nov-19	22-May-20	500	0.9338	32.08	5	5.47
28-Nov-19	21-Feb-20	500	0.9313	23.89	5	3.81

28-Nov-19	22-May-20	500	0.9158	31.65	4	4.86
5-Dec-19	21-Feb-20	750	0.96	23.73	3	3.57
5-Dec-19	22-May-20	750	0.9356	31.61	6	3.89
12-Dec-19	24-Apr-20	750	0.971	32.89	8	2.93
12-Dec-19	26-Jun-20	750	0.9802	39	7	3.01
19-Dec-19	24-Apr-20	500	0.9911	34.7	4	2.71
19-Dec-19	26-Jun-20	500	1.0059	41.37	6	3.94
16-Jan-20	24-Apr-20	750	0.9227	30.15	6	3.5
16-Jan-20	26-Jun-20	750	0.9467	36.34	2	4.46
23-Jan-20	24-Apr-20	750	0.8955	29.65	6	3.71
23-Jan-20	24-Jul-20	750	0.9012	36.02	2	5.32
30-Jan-20	24-Apr-20	750	0.9187	24.77	5	3.84
30-Jan-20	24-Jul-20	750	0.9103	32.67	5	4.94
6-Feb-20	22-May-20	500	0.9536	25.29	6	3.35
6-Feb-20	24-Jul-20	500	0.9563	29.77	7	4
13-Feb-20	22-May-20	500	0.9626	24.31	4	4.88
13-Feb-20	21-Aug-20	500	0.9601	29.54	3	5.18
20-Feb-20	22-May-20	500	0.9315	22.31	5	4.51
20-Feb-20	21-Aug-20	500	0.9298	27.58	4	5.53
27-Feb-20	21-Aug-20	500	0.867	28.36	8	7.59
5-Mar-20	21-Aug-20	1,000	0.5776	26.76	3	5.81
12-Mar-20	26-Jun-20	500	0.5841	29.36	15	2.75
12-Mar-20	21-Aug-20	1,000	0.6177	35.49	9	3.31
19-Mar-20	26-Jun-20	750	0.6057	41.36	23	2.93
19-Mar-20	25-Sep-20	750	0.6395	45.98	20	3.35
26-Mar-20	26-Jun-20	1,000	0.4362	29.1	6	4.88
26-Mar-20	25-Sep-20	1,000	0.4488	31.07	5	5.94
2-Apr-20	24-Jul-20	1,000	0.255	11.33	6	5.1
2-Apr-20	25-Sep-20	1,000	0.2846	14.22	9	4.51
2-Apr-20	11-Dec-20	500	0.3066	16.58	16	4.67
9-Apr-20	24-Jul-20	1,250	0.182	3.25	4	3.73
9-Apr-20	25-Sep-20	1,500	0.2357	8.35	7	2.69
9-Apr-20	11-Dec-20	750	0.2795	12.73	6	3.83
9-Apr-20	26-Mar-21	500	0.3172	17.74	7	4.86
16-Apr-20	24-Jul-20	1,750	0.1781	3.11	11	2.91
16-Apr-20	23-Oct-20	1,750	0.2217	7.46	9	2.6
16-Apr-20	11-Dec-20	1,500	0.2486	10.04	11	2.89
23-Apr-20	24-Jul-20	2,000	0.173	4.5	5	3.6
23-Apr-20	23-Oct-20	1,500	0.23	10	7	3.18

23-Apr-20	11-Dec-20	750	0.2439	11.28	4	5.81
23-Apr-20	26-Mar-21	750	0.2726	14.27	5	5.68
30-Apr-20	24-Jul-20	2,000	0.1719	5.32	2	3.2
30-Apr-20	23-Oct-20	2,000	0.2187	9.8	4	3.24
30-Apr-20	26-Feb-21	1,000	0.257	13.59	4	3.67
7-May-20	21-Aug-20	2,500	0.183	5.45	3	2.62
7-May-20	23-Oct-20	1,500	0.2203	9.05	3	3.59
7-May-20	26-Feb-21	1,000	0.2678	13.68	5	3.12
14-May-20	21-Aug-20	1,500	0.1965	7.4	5	2.82
14-May-20	25-Sep-20	1,500	0.2073	8.67	5	2.62
14-May-20	27-Nov-20	1,000	0.2326	11.37	5	2.72
14-May-20	26-Mar-21	1,000	0.2972	17.96	8	1.97
21-May-20	21-Aug-20	1,500	0.1939	6.49	3	3.7
21-May-20	25-Sep-20	1,500	0.206	7.7	4	3.43
21-May-20	27-Nov-20	1,000	0.228	10.01	3	4.49
28-May-20	21-Aug-20	1,500	0.1891	4.94	3	3.58
28-May-20	27-Nov-20	1,500	0.2202	8.02	3	2.82
28-May-20	26-Feb-21	1,000	0.2616	11.87	3	3.87
4-Jun-20	25-Sep-20	1,500	0.191	4.34	2	4.41
4-Jun-20	27-Nov-20	1,000	0.2108	6.3	3	3.91
4-Jun-20	26-Mar-21	500	0.257	10.63	1	7.2
11-Jun-20	25-Sep-20	1,500	0.1923	4.11	2	3.63
11-Jun-20	23-Oct-20	1,000	0.2024	4.97	2	4.22
11-Jun-20	23-Apr-21	500	0.2595	9.86	2	5.74
18-Jun-20	25-Sep-20	1,500	0.1927	5.37	2	3.49
18-Jun-20	11-Dec-20	1,000	0.216	7.7	2	4.71
18-Jun-20	23-Apr-21	500	0.2542	11.35	2	5.77
25-Jun-20	25-Sep-20	1,500	0.1895	5.05	2	4.06
25-Jun-20	27-Nov-20	1,000	0.2049	6.78	1	4.89
25-Jun-20	23-Apr-21	500	0.2532	11.16	2	6.32
Average over year to June 2020				19.67	5.7	3.96
Average over 3 years to June 2020				23.12	5.8	4.12

GLOSSARY

Accrual cost

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

Australian Government Securities (AGS)

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

Bank Bill Swap (BBSW) rate

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

Basis point

One hundredth of one per cent.

Bid-ask spread

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

Book value (or carrying amount)

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

Cash Management Portfolio

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

Coupon rate

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

Credit risk

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

Credit spread

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

Discount

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

Discounting

Calculating the present value of a future amount.

Duration

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

Exposure

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

Face value

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

Fixed rate

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

Floating rate

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

Funding risk

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

Futures basket

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

Futures contract

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

Historic cost

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

Interest

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

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

Interest rate risk

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

Issuance

The sale of debt securities in the primary market.

Liquidity

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

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

Liquidity risk

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

Long-Term Debt Portfolio (LTDP)

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

Market risk

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

Market value

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

Modified duration

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

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

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

Nominal debt

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

Nominal interest rate

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

Official Public Account (OPA)

The OPA is the collective term for the Core Bank Accounts maintained at the RBA for Australian Government cash balance management.

Operational risk

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

Overnight cash rate

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

Overnight Indexed Swap (OIS)

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

Physical debt

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

Present value

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

Primary market

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

Real interest rate

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

Repricing risk

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

Residential mortgage-backed security (RMBS)

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

Risk premium

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

Secondary market

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

Securities lending

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

Securities lending facility

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

Short-dated exposure

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

Spread

The difference between two prices or yields.

Syndication

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

Tender

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

Tenor

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

Term deposit

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

Term premium

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

Treasury Bond

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

Treasury Indexed Bond

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

Treasury Note

A short-term debt security issued by the Australian Government at a discount and redeemable at par on maturity. The interest payable on the notes is represented by the difference between their issue value and their par or face value.

Two-way price

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

Yield

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

Yield curve

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

ACRONYMS

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

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

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