Australian Government

Australian Office of Financial Management

AOFM

ANNUAL REPORT

2012-13

Australian Office of Financial Management

ISBN 978-0-642-74931-4

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Printed by CanPrint Communications Pty Ltd.

Australian Government

Australian Office of Financial Management

2 October 2013

The Hon Joe Hockey MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

I have pleasure in presenting the Annual Report of the Australian Office of Financial Management for the year ending 30 June 2013 for presentation to the Parliament.

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

Yours sincerely

Rob Nicholl.

Rob Nicholl
Chief Executive Officer

AOFM

ITS ROLE

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

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REVIEW BY THE CHIEF EXECUTIVE OFFICER

Context

A principal task for the AOFM is to finance the Australian Government's borrowing requirement. In any year, the AOFM faces the prospect of unknown market conditions that will impact upon its ability to achieve this financing in a manner that effectively balances cost and risk considerations. Managing the portfolio of Commonwealth Government Securities (CGS) requires longer-term strategic judgments, together with short-term tactical decisions (such as which bond maturities to issue in any given week). Therefore, the outcomes of AOFM judgements and financial market conditions, including investor demand, combine to influence this task. Several impacts stood out during 2012-13 and the effects of these on the CGS market will likely follow on into 2013-14.

Strong interest in CGS continued throughout 2012-13, although yields rose over the latter half of the year, with this being most pronounced during May, around the time of announcements by the US Federal Reserve that signalled an intention to adjust its accommodative monetary policy stance. Following these announcements, market speculation caused US Treasury bond yields to rise appreciably, and with CGS yields having historically tracked movements in US Treasuries, CGS yields (most noticeably at the long-end of the yield curve) increased in response. At the same time, the yields on short-dated CGS were being determined more by expectations in the market of a prolonged period of low RBA cash rates; therefore, the yield rises at the short-end of the curve were much lower than yields for the long-end. Together these influences resulted in a yield curve that was both higher overall and appreciably steeper compared with how the curve appeared at the beginning of the year.

The strength of the Australian dollar compared to the Japanese yen in early 2013 triggered some profit taking divestment of CGS by Japanese investors, at the same time making new investment by Japanese investors more expensive. This divestment activity had slowed significantly by the end of the year.

Despite yields having risen through the year they remain at relatively low historic levels, a benefit to the Australian community through an historically low cost of borrowing that has been locked in by using longer-dated issuance. In this regard the AOFM's management of the debt portfolio has benefited from consolidating the length of the yield curve at around 15 years and extending the duration of the portfolio.

The circumstances that have brought the CGS market into a positive light in recent years remained relevant throughout 2012-13 as gauged by the continuing solid demand for CGS. We took confidence from new issuance being smoothly and readily absorbed into the market, as well as receiving feedback from intermediaries and investors that continued to convey underlying strength and market support.

The AOFM remains aware that transparency in its operations, together with the importance it places on using market feedback and engagement with investors, underlie broad confidence in a resilient and well-functioning sovereign bond market for Australia. In this regard, the AOFM remained conscious of the need to keep investors informed as to CGS market developments. This was achieved throughout the year by advising of changes to the financing task arising from Budget updates, as well as considerations for, and explanations about, changes initiated by the AOFM in regards to developments in the CGS market and our operations. This, we believe, helps to ensure that market expectations remain consistent with Government policy intentions.

The strong positive trade links between Australia and the high-growth Asian region continued to be something to which CGS investors refer; and notwithstanding its exposure to volatility in the performance of its largest trading partners in the short-term, they see Australia as being well-placed to benefit from an expected underlying medium to longer-term growth trend in Asia.

Issuance to support the financing task

The issuance program for 2012-13 was executed comfortably throughout the year and the Commonwealth’s financing requirement in 2012-13 was fully met.

Two new Treasury Bond lines were launched: one with a maturity date in April 2029 (in support of a previous lengthening of the yield curve to around 15 years); and one with a maturity date in April 2025 (to support the operation of the 10-year Treasury Bond futures contracts).

As has become normal practice for AOFM, taking account of prevailing market conditions on a weekly basis is important in supporting decisions as to which maturities are issued. Other considerations continued to include the aim of increasing existing bond line liquidity, and the need to manage the maturity structure to limit refinancing risk. Two Treasury Bond tenders were held most weeks, typically comprising a tender of a longer-dated bond line and a tender of a shorter-dated bond line. Treasury Indexed Bonds were tendered once a month in most months, and Treasury Note tenders were conducted most weeks.

The AOFM continues to recognise the need to retain flexibility in undertaking the issuance task throughout the year. This requires ongoing vigilance as to market developments and regular reappraisal of tactical decisions supporting the annual issuance strategy.

Portfolio management and outcomes

Over the last two years the AOFM has sought to increase the duration of the debt portfolio and 2012-13 was an important year in progressing this aim. The sustained demand for CGS throughout the year enabled the AOFM to continue to lengthen the average term to maturity of its issuance. We have appreciably increased the average tenor of our issuance from 5.8 years in 2009-10 to 8.8 years in 2012-13. The weighted average term to maturity of the stock of nominal bonds outstanding has risen from 4.8 years to 5.7 years over the same period.

The strategy of lengthening the portfolio has had a beneficial effect on the level of risk in the debt portfolio. Variability of future debt servicing cost outcomes and spreading the refinancing impact of maturing bond lines over a number of years are central considerations of the AOFM's portfolio strategy — another being the level of borrowing cost (see the feature article *Determining the AOFM's Debt Strategy* presented later in this year's annual report).

Having spent a number of years building an issuance program targeted at meeting the financing requirements of the Commonwealth through and following the global financial crisis, the last two years have had a focus on long-term development of the portfolio, in particular, ensuring that the profile of maturities across the yield curve presents a manageable refinancing task over the years ahead. A build-up in short to medium term maturities occurred in the aftermath of the global financial crisis. This build-up skewed refinancing risks towards the front half of the yield curve and created the need to assess opportunities to increase the duration of the portfolio.

Residential mortgage-backed securities

Commencing in October 2008 the Government gave three directions for the AOFM to invest in residential mortgage-backed securities (RMBS). The first direction specified an amount of $8 billion, followed by subsequent announcements in 2009 for a further $8 billion, and in 2010 (under the *Competitive and Sustainable Banking System* package) for an additional $4 billion. These announcements ultimately gave AOFM a cumulative capacity to invest up to $20 billion in RMBS. The Government also announced its intention that the program be part of a transition towards a market that is not reliant on ongoing Government financial support.

In April 2013 the AOFM ceased investment in new RMBS (at the direction of the Treasurer in the context of a stabilised market for RMBS issuance). The AOFM is now managing the existing portfolio to maturity and will continue to consider sale opportunities through reverse inquiry with the aim of supporting price discovery in the secondary market, or to adjust the portfolio in line with the directions as set by the Treasurer.

Over the life of the program, the AOFM invested around $15.5 billion. This was in support of 67 transactions from 20 issuers. Together with $0.6 billion in sales of RMBS, repayments of principal totalling $5.7 billion have left a portfolio of $9.1 billion outstanding at the end of 2012-13.

Looking ahead

Current fiscal projections indicate an outlook for net new issuance to continue at around the same rate for at least another year, this will give cause for the AOFM to consider whether further measures are required to manage a larger portfolio. One of these measures could be another yield curve extension (either for the Treasury Bond curve, the Treasury Indexed Bond curve or both). Supporting liquidity in the CGS market will also remain an important consideration in AOFM thinking and operations.

Going into 2013-14 we are already experiencing a carry-over of volatility from a number of international market related events. Improvements in the US economy and the implementation of changes to its monetary policy settings will likely dominate impacts in global bond markets. How individual sovereign bond markets are affected is an open question. The outlook for Australian domestic circumstances will also be a factor in shaping investor demand in CGS for the year ahead. However, strong liquidity and a diversified investor base will be important factors in maintaining a resilient CGS market.

The AOFM has also played an important part in the exchange trading of CGS. This included procuring new debt registry services to facilitate the exchange trading of CGS, as well as replacing the existing domestic debt registry service provided by the RBA. While a registry to handle exchange traded CGS is operational, work is continuing on transitioning the domestic debt registry services provided by the RBA to the new service provider. The aim is to conclude this project by the end of calendar 2013.

Rob Nicholl
Chief Executive Officer

AOFM

PART 1
AOFM OVERVIEW

AOFM OVERVIEW

Role, function, outcome and program structure

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

The AOFM's debt management activities include the issuance of Treasury Bonds and Treasury Indexed Bonds. To support the efficient operation of the markets for these debt instruments, it maintains a securities lending facility that allows financial market participants to borrow the bonds from the Reserve Bank of Australia (RBA).

The AOFM's cash management activities include the issuance of Treasury Notes for short-term funding, and investments in term deposits with the RBA. When considered appropriate, it may also invest in short-term money market instruments, such as bank accepted bills and negotiable certificates of deposit.[1]

Under the direction of the Treasurer, from April 2013 the AOFM made no new investments in residential mortgage-backed securities under the Government program that supported competition in lending for housing.

The AOFM is part of the Treasury portfolio. It is accountable to the Secretary to the Treasury and to the Treasurer, and through the Treasurer to the Parliament and the public. However, it is a prescribed agency under the *Financial Management and Accountability Act 1997* and maintains its own accounts separately from those of the Treasury. AOFM staff are employed under the *Public Service Act 1999*.

For budgetary purposes, the AOFM's activities comprise of one program directed to achieve the following on behalf of the Australian Government: the advancement of macroeconomic growth and stability; the effective operation of financial markets through issuing debt and investing in financial assets; and managing debt, investments and cash. The AOFM aims to manage its net debt portfolio at least cost, subject to an acceptable level of risk. It also issues bonds taking into account the Government's policy objectives to support the CGS market.

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1 Following a review of unsecured lending to financial institutions (via negotiable certificates of deposit) no such investments have been made since 2011.

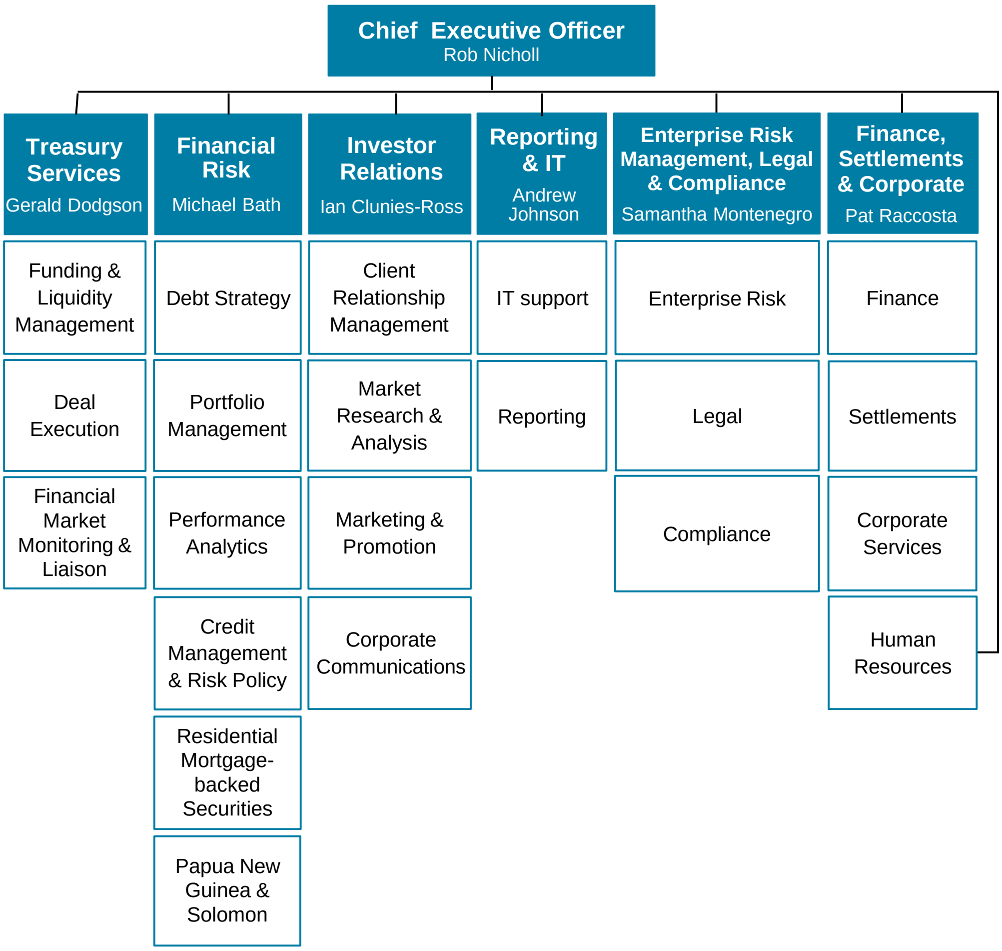
Organisational structure

During 2012-13, the AOFM operated using six groups with roles and responsibilities within the Office being structured to ensure an appropriate segregation of duties and reporting lines. The six groups were:

- Treasury services;
- Financial risk;
- Investor relations;
- Reporting and IT;
- Finance, settlements and corporate; and
- Enterprise risk management, legal and compliance.

In addition, the AOFM supports the Australian Government's aims to transfer knowledge and skill to developing countries through several foreign aid related avenues. Throughout 2012-13 two staff members were on secondment programs organised by AusAID. One staff member was seconded under the *Strongim Gavman Program* to Papua New Guinea. Another staff member was seconded under the Regional Assistance Mission component of the *Financial and Economic Management Strengthening Program* to the Solomon Islands. Both programs offer these governments support for their debt management activities and the further development of their policies and frameworks.

Figure 1: AOFM organisational structure



AOFM

PART 2
OPERATIONS AND PERFORMANCE

Operations and performance

Introduction

The principal functions of the AOFM are:

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

This section outlines the activities undertaken in 2012-13 and reports on AOFM performance against these functions.

Treasury Bond and Treasury Indexed Bond issuance

Objective

One objective of Treasury Bond and Treasury Indexed Bond issuance is to raise monies in order to meet the Commonwealth's financing needs in full and on time.

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

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

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

Achieving the objective

This year's debt issuance task occurred against the backdrop of noticeably improved global financial market sentiment. The task was similar in magnitude to that of the previous three years and was comfortably absorbed. The length of the yield curve was consolidated at fifteen years, and liquidity was built in existing lines.

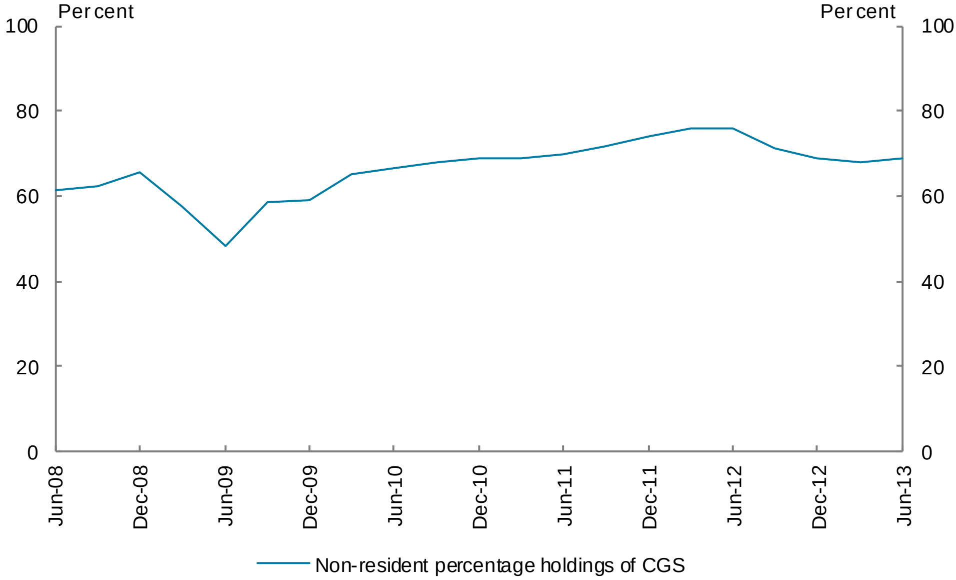
In 2012-13 the RBA reduced the target cash rate by 75 basis points. Bond yields rose slightly but remained near historic low levels. Improvement in investor sentiment and risk appetite resulted in the difference in yields between CGS and other Australian dollar denominated debt securities contracting.

During the year an increase of $10 billion of Treasury Bond issuance as a substitute for Treasury Notes on issue was announced. An impact of this switch will be to reduce the exposure to refinancing risk associated with short-term funding. It will also have the impact of lengthening the weighted average duration of the AOFM's debt portfolio as a whole.

Offshore demand for CGS remained strong. Investors are familiar with the Australian economy and the Government's fiscal position. They were encouraged by the Commonwealth's AAA credit rating with a stable outlook (from all three major credit rating agencies), and by the high yields relative to those available on other sovereign securities globally.

Non-resident holdings of CGS were around 70 per cent of the total outstanding during 2012-13. The proportion of CGS held by offshore investors has been relatively steady during recent years, as illustrated in Chart 1.

Chart 1: Non-resident holdings of Commonwealth Government Securities



Source: Based on data sourced from the Australian Bureau of Statistics and AOFM as at end June 2013.

Treasury Bonds

Gross Treasury Bond issuance for the year totalled approximately $54 billion. The bulk of issuance was into existing bond lines in order to enhance liquidity and in turn the attractiveness of the CGS market. This is particularly important to international investors.

Two new Treasury Bond lines were launched in 2012-13 as follows:

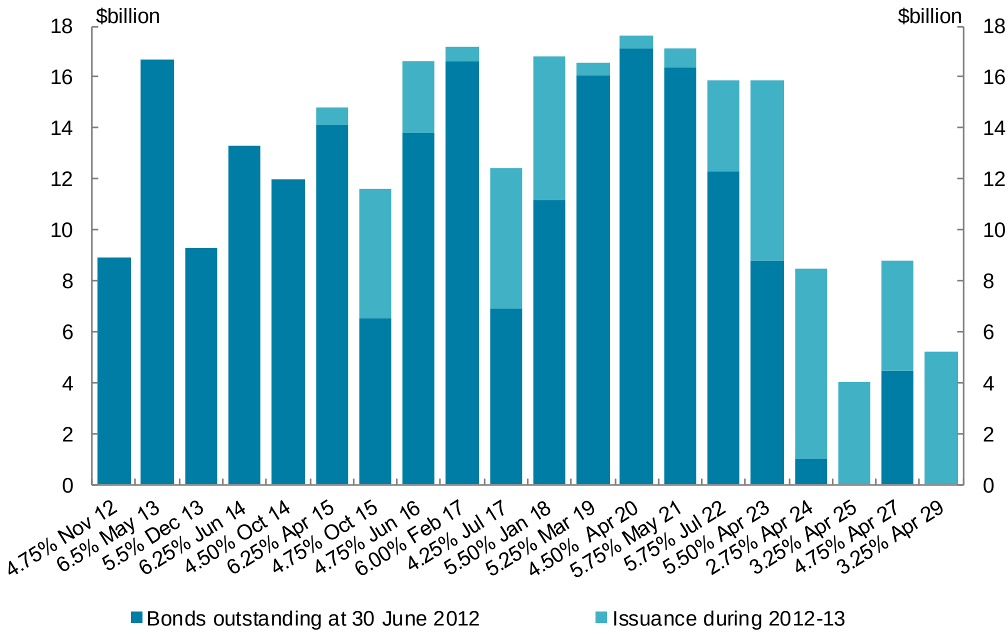
- to maintain the length of the yield curve at around 15 years, a new April 2029 bond line was issued; and
- a new bond line with a maturity date in April 2025 was opened in order to support the operation of the 10-year Treasury Bond futures contracts.

In selecting the bond lines to issue each week, the AOFM took account of prevailing market conditions; information from financial market contacts about investor demand; relative value considerations; the aim of increasing the liquidity of existing bond lines; the need to manage the maturity structure to limit refinancing risk; and having bonds on issue that support efficient operation of the Treasury Bond futures contracts. Two tenders were held most weeks, typically comprising a tender of a longer-dated bond line and a tender of a shorter-dated bond line, with the amount being offered at each tender in the range $500 million to $1 billion.

Chart 2 shows Treasury Bonds outstanding as at 30 June 2013 and issuance during the 2012-13 financial year.

During the year the total volume of Treasury Bonds on issue increased by around $28 billion, to $234 billion. At the end of the year there were 13 Treasury Bond lines with over $10 billion on issue.

Chart 2: Treasury Bonds outstanding as at 30 June 2013 and issuance in 2012-13



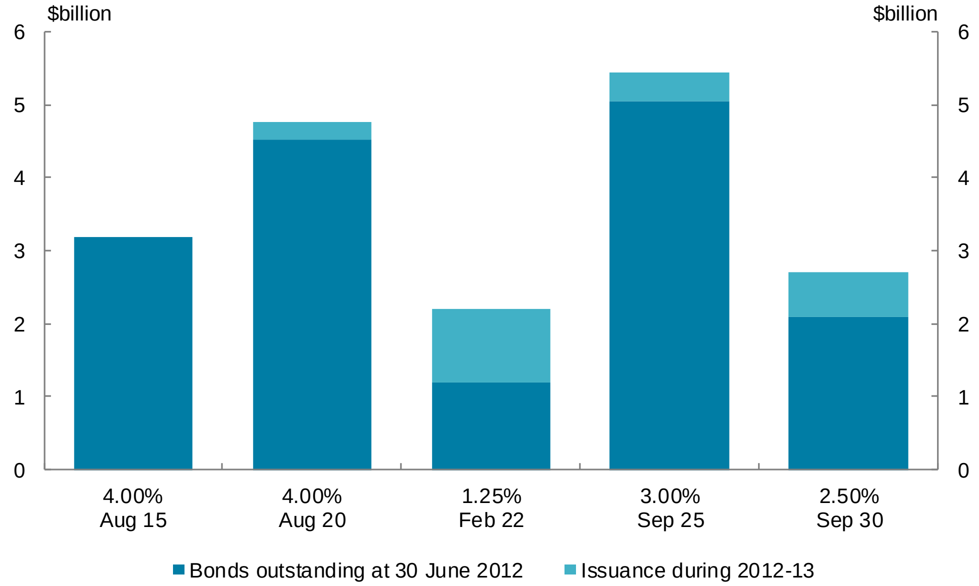
Treasury Indexed Bonds

Treasury Indexed Bond issuance for the year totalled $2.25 billion.

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

Chart 3 shows Treasury Indexed Bonds outstanding as at 30 June 2013 and issuance during the 2012-13 financial year.

Chart 3: Treasury Indexed Bonds outstanding as at 30 June 2013 and issuance in 2012-13



Aussie Infrastructure Bonds

The Government's investment in NBN Co, the builder and operator of the National Broadband Network, is partly funded through issuance of Aussie Infrastructure Bonds (AIBs).

This funding is obtained through the issuance of CGS as part of the Government's overall debt program. AIBs are not identified separately from other CGS at the time of issue, but amounts of AIB funding are reported separately in the Budget papers.

Of the Government's $2.4 billion equity investment in the National Broadband Network in 2012-13, $2.0 billion was financed through the AIB process.

Securities Exchange Trading of CGS

On 12 December 2010 the Government, as part of its *Competitive and Sustainable Banking System* package, announced that it would facilitate the trading of CGS on a retail exchange platform in Australia.

Trading of Treasury Bonds and Treasury Indexed Bonds on the Australian Securities Exchange commenced on 21 May 2013. The trading of CGS on a securities exchange will help to provide retail investors with a more visible pricing benchmark for investments they may wish to make in corporate bonds issued by Australian businesses, and facilitate retail investor diversification with investments into fixed income assets, such as government and corporate bonds.

Domestic debt registry services

During the year debt registry services were procured to support the securities exchange trading of CGS and to replace the current domestic debt registry service provided by the RBA. Work on transitioning the current domestic debt registry service to the new service provider is expected to be completed by the end of 2013.

Performance

Funding the Budget

The Commonwealth's financing requirement in 2012-13 was fully met.

The underlying cash deficit for 2012-13 was higher than estimated at the time of the 2012-13 Budget; this was principally due to lower than forecast receipts. Weaker corporate profitability had a significant impact on the level of company tax receipts while capital gains tax and resource rent taxes were also significantly lower than originally forecast (as explained in the 2013-14 Budget). The larger than expected budget financing task was managed primarily by increasing Treasury Bond issuance.

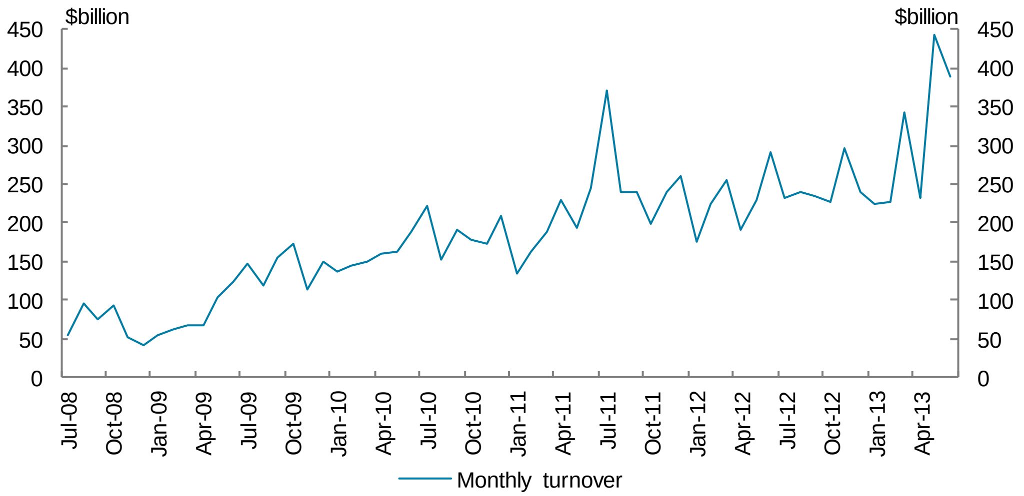
Market liquidity and efficiency

The Treasury Bond and Treasury Indexed Bond markets operated smoothly throughout 2012-13 with liquidity again being maintained throughout the year.

One indicator of liquidity is turnover in the secondary market. Charts 4 and 5 show the evolution of total secondary market turnover[1] from July 2008 through to June 2013. Turnover steadily increased over the period and was around $280 billion per month in 2012-13 for Treasury Bonds (14 per cent higher turnover than in 2011-12) and $19 billion per month for Treasury Indexed Bonds (19 per cent higher than in 2011-12).

1 Total turnover includes repurchase transactions.

Chart 4: Treasury Bond secondary market turnover



Source: Based on Austraclear data sourced from the RBA

Chart 5: Treasury Indexed Bond secondary market turnover

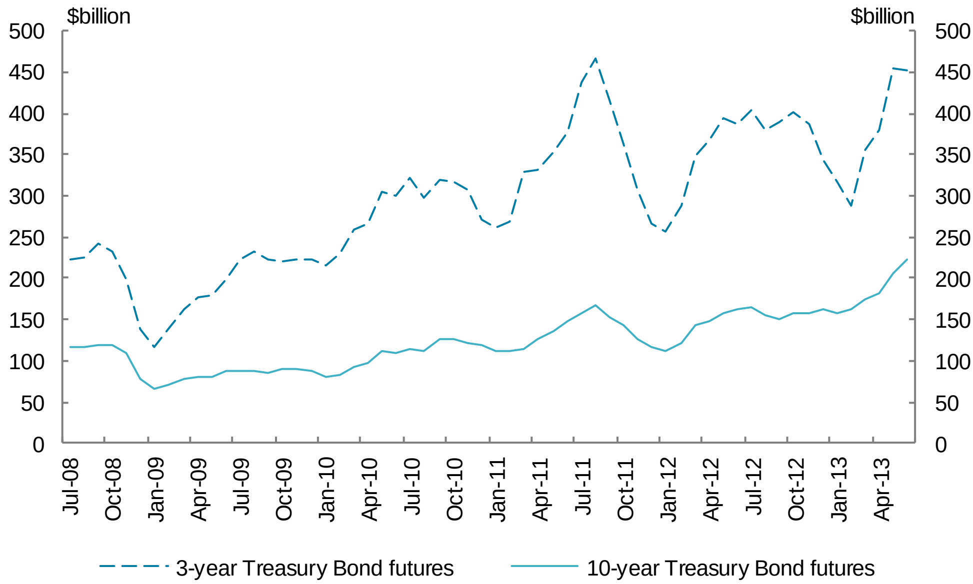
Source: Based on Austraclear data sourced from the RBA

Turnover in the Treasury Bond futures market is significantly higher than in the underlying Treasury Bonds. The 3-year Treasury Bond futures contract is amongst the ten most traded interest rate futures products in the world.[2] Treasury Bond futures continued to display strong liquidity in 2012-13 with the turnover of 3-year Treasury Bond futures contracts increasing by 9 per cent over the previous year and turnover of

2 Source: Australian Securities Exchange.

the 10-year contracts increasing by 23 per cent. Turnover in recent years is illustrated in Chart 6. All Treasury Bond futures contract close-outs in 2012-13 occurred smoothly.

Chart 6: Treasury Bond futures market turnover
3 month moving average



Source: Based on data sourced from the Australian Securities Exchange as at end June 2013.

The AOFM's securities lending facility allows market participants to borrow Treasury Bonds and Treasury Indexed Bonds for short periods when they are not otherwise available. This enhances the efficiency of the market by improving the capacity of intermediaries to make two-way prices and reduces the risk of settlement failures.

Less volatile market conditions during the year resulted in less use of the securities lending facility than during the previous year. The facility was used 14 times for overnight borrowing in 2012-13 compared with 66 instances of use in 2011-12. The face value amount lent was around $0.2 billion compared to $1.5 billion in 2011-12.

Efficiency of issuance

The AOFM continued to use competitive tender and syndication as the only means by which issuance of CGS was undertaken in 2012-13.

Tenders held during 2012-13 were well supported. Table 1 summarises the results of Treasury Bond tenders conducted during the year. The results are shown as averages for each half-year and grouped by the maturity dates of the bonds offered.

Table 1: Summary Treasury Bond tender results

Period	Maturity	Face value amount allocated ($m)	Weighted average issue yield (%)	Average spread to secondary market yield (basis points)	Average times covered
July - December 2012	Up to 2018	10,300	2.6604	-0.32	4.96
	2019 - 2029	13,100	3.1880	-0.02	3.74
January - June 2013	Up to 2018	10,000	2.8196	-0.17	4.15
	2019 - 2029	13,090	3.5664	-0.15	3.26

The average ratio of the volume of bids received to the amount of stock on offer was 3.99 for Treasury Bonds in 2012-13, an increase from 3.02 in 2011-12. No tenders had a coverage ratio less than two, compared to six tenders in 2011-12. Shorter-dated bond tenders generally received a greater volume of bids.

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

The average ratio of the volume of bids received to the amount of stock on offer was 3.43 for Treasury Indexed Bonds in 2012-13, a decrease from 3.47 in 2011-12. At most tenders the weighted average issue yields were above prevailing secondary market yields.

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

Cash management

Objective

The AOFM manages the daily cash balances of the Australian Government in the Official Public Account (OPA).[3] The AOFM's primary objective in managing these balances is to ensure that the Commonwealth is able to meet its financial obligations as and when they fall due. The most efficient means by which to achieve this is through minimising the cost of funding the daily cash balances and investing excess cash

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

balances in a low risk manner. In minimising cost the AOFM seeks to avoid any use of the overdraft facility provided by the RBA.[4]

Achieving the objective

Achieving the cash management objective involves undertaking appropriate short-term investments and debt issuance.

Cash balances not required immediately were invested in term deposits at the RBA, with the magnitudes and tenors of the term deposits determined by the AOFM.[5] Maturity dates of term deposits were selected to match the financing of large outlays. Interest rates for term deposits at the RBA reflect the rates earned by the RBA in their open market operations.

Borrowing to support the cash management task is undertaken by the issuance of Treasury Notes. The volume of Treasury Notes on issue ranged from $5.5 billion to $25.0 billion during 2012-13.

The size and volatility of the within-year funding requirement are indicated by changes in the short-term financial asset holdings managed by the AOFM, after deducting Treasury Notes on issue. Chart 7 shows the movement in the funding requirement in 2012-13.

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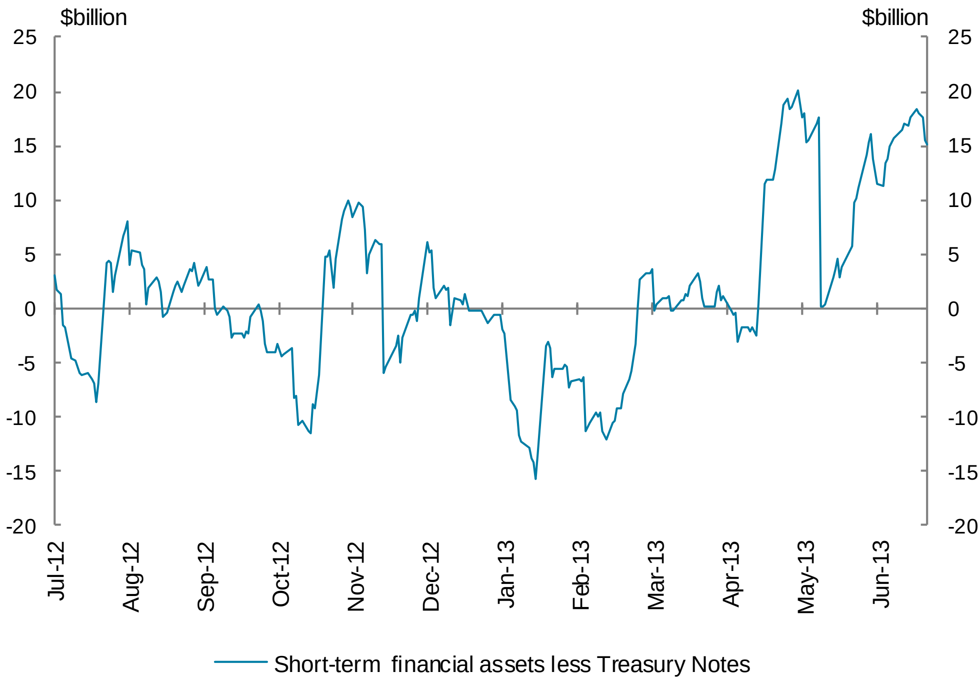
4 The overdraft facility is more costly than equivalent short-term borrowing (for example, issuance of Treasury Notes). The terms of the facility provide that it is to cover only temporary shortfalls of cash and is to be used infrequently and, in general, only to cover unexpected events.

5 Following a review of unsecured lending to financial institutions (via negotiable certificates of deposit) no such investments have been made since 2011.

Chart 7: Within-year funding requirement 2012-13



Performance

The objective of meeting the Commonwealth's financial obligations as and when they fall due was met without use of the overdraft facility provided by the RBA.

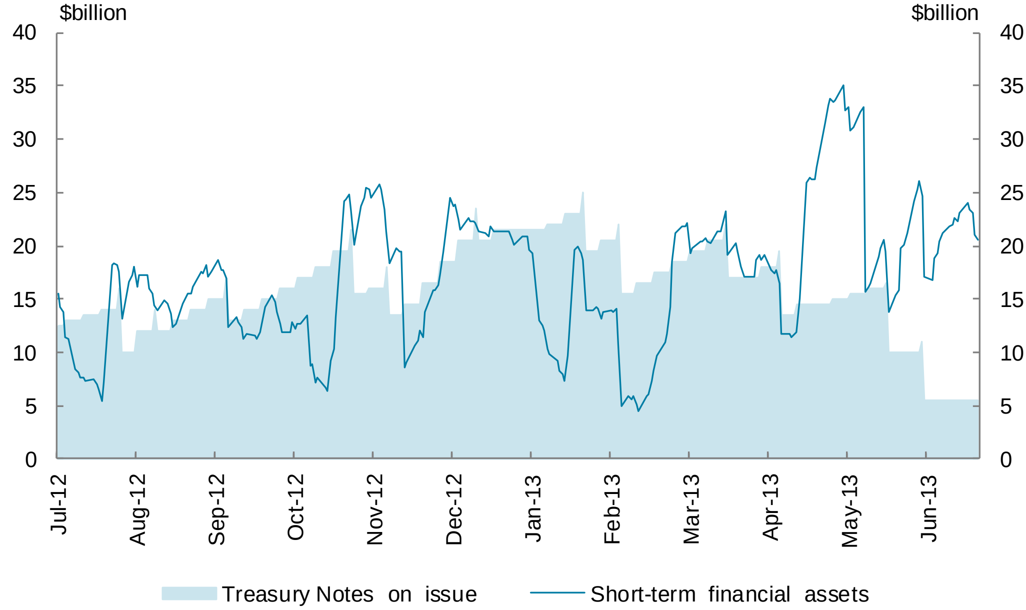
During 2012-13 the AOFM placed 333 term deposits with the RBA. The stock of term deposits fluctuated from a minimum of $4.0 billion in February 2013 to a maximum of $34.4 billion in May 2013.

- The average yield obtained on term deposits during 2012-13 was 3.11 per cent, compared with 4.24 per cent in 2011-12. The decrease in average yield reflects the lower average level of interest rates that prevailed during 2012-13.

A total of $53.5 billion of Treasury Notes were issued in 2012-13 (in face value terms). The tenders were well supported with an average coverage ratio of 5.28. Yields averaged around 14 basis points less than bank bill yields of corresponding maturities (compared to 32 basis points less than bank bill yields in 2011-12). Yields were on average two basis points higher than Overnight Indexed Swap rates for corresponding tenors. Further details are presented 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 2012-13 are shown in Chart 8.

Chart 8: Short-term financial asset holdings and Treasury Notes on issue 2012-13

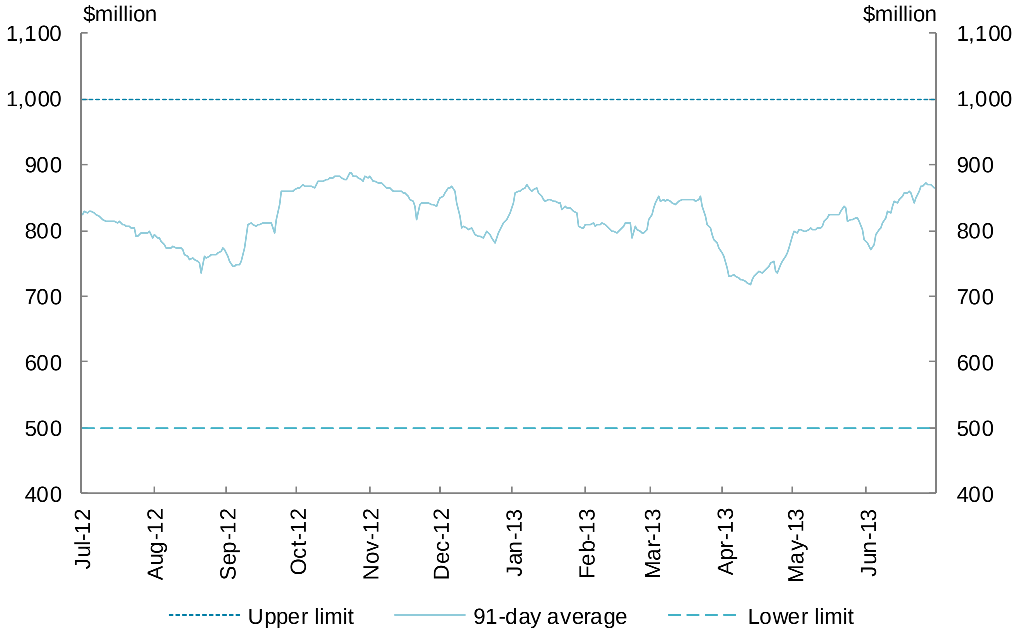


In undertaking its cash management activities, the AOFM is required to maintain the 91-day moving average of the daily OPA cash balance within operational limits. In 2012-13 these limits were the same as applied in recent years, with operational upper and lower limits of $1,000 million and $500 million respectively. There is also a Ministerially approved upper limit of $1.5 billion.

The 91-day moving average OPA cash balance was maintained within operational limits, and within the Ministerial limit, throughout the year.

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

Chart 9: 91-day moving average cash balance 2012-13



Minimising debt servicing costs subject to acceptable risk

Objective

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

In order to meet its objective, the AOFM uses cost and risk measures that appropriately reflect the costs and risks faced by a sovereign debt manager. The primary cost measure used is historic accrual debt service cost. This includes interest payments made on CGS, realised market value gains and losses, capital indexation of indexed debt and the amortisation of any issuance premiums and discounts. Total accrual debt service cost can be expressed as a percentage of the stock of debt outstanding, to provide the effective yield of the portfolio. This measure of cost is the most appropriate in circumstances where financial assets and liabilities are intended to be held, or in the AOFM's case, to remain on issue until maturity. The use of an historical accrual debt service cost measure excludes unrealised market value gains and losses.

An alternative measure of cost is 'fair value', which takes account of unrealised gains and losses resulting from movements in the market value of physical debt and assets. Debt service cost outcomes are presented in the AOFM's financial statements on this basis. A comprehensive income format is used that allows revenues and expenses on an historic basis to be distinguished from the effects of unrealised market value fluctuations, that is 're-measurements'. Fair value is useful in circumstances where it is possible that changes in market value may be realised in the future.

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

Achieving the objective

The AOFM influences the cost and risk profile of the portfolio primarily through its decision making on the composition and maturity structure of the debt securities it issues. These decisions are framed through an annual debt issuance strategy approved by the Treasurer, which identifies the overall scale of the issuance task and its breakdown into different instrument classes. Within these broad strategy parameters approved by the Treasurer, the AOFM separately determines issuance weightings (specified as a range) applicable to different segments of the yield curve which are approved by the AOFM Chief Executive. Operational issuance decisions such as determining if, when, how much and what lines to issue each week, are made by the AOFM over the course of the year and are influenced by a range of factors including general market conditions, relative value considerations and feedback from investors. It is the AOFM's standard practice to regularly test the ongoing suitability of its overarching strategy with the AOFM Advisory Board which is chaired by the Secretary to the Treasury.

Strategic decision making around the portfolio is supported by an ongoing research program focussed on exploring the cost and risk characteristics of alternative portfolio structures and issuance strategies. Informed by this research, the AOFM entered 2012-13 with the intention of continuing the lengthening trend established in the debt portfolio since the latter half of 2010-11. This stance reflected, among other things, the AOFM's judgement that portfolio risks could be cost effectively reduced in the prevailing environment. The cost effectiveness of this strategy was underpinned by a continuation of historically low outright bond yields, which meant that the AOFM could continue reducing its overall cost of funds in percentage terms, and with a CGS investor community that was positively predisposed towards the issuance of longer-dated securities. A key enabler for the lengthening strategy has been the extension of the CGS yield curve from 11-12 years to 15-16 years, commencing with the launch of the April 2027 line in October 2011 and followed up with the launch of the April 2029 line in October 2012.

Chart 10 reveals that the AOFM ultimately allocated around 60 per cent of 2012-13 Treasury Bond issuance into lines that were either basket stocks underpinning the 10 year Treasury Bond futures contract or had even longer maturities. This boosted the average tenor of issuance in 2012-13 by one and a half years to nearly nine years, a level more than three years higher than the post global financial crisis low recorded in 2009-10. Chart 11 shows that this lengthening underpinned a 0.5 year increase in the weighted average term to maturity of the Treasury Bond portfolio to 5.7 years. The modified duration of the portfolio also increased, but by a more muted 0.2 years to 4.7 years. This more muted increase was a result of a general sell-off in bond yields towards the end of the financial year, triggered by statements from the US Federal Reserve that it would consider 'tapering' its program of quantitative easing.

Chart 10: Treasury Bond issuance allocation and average tenor

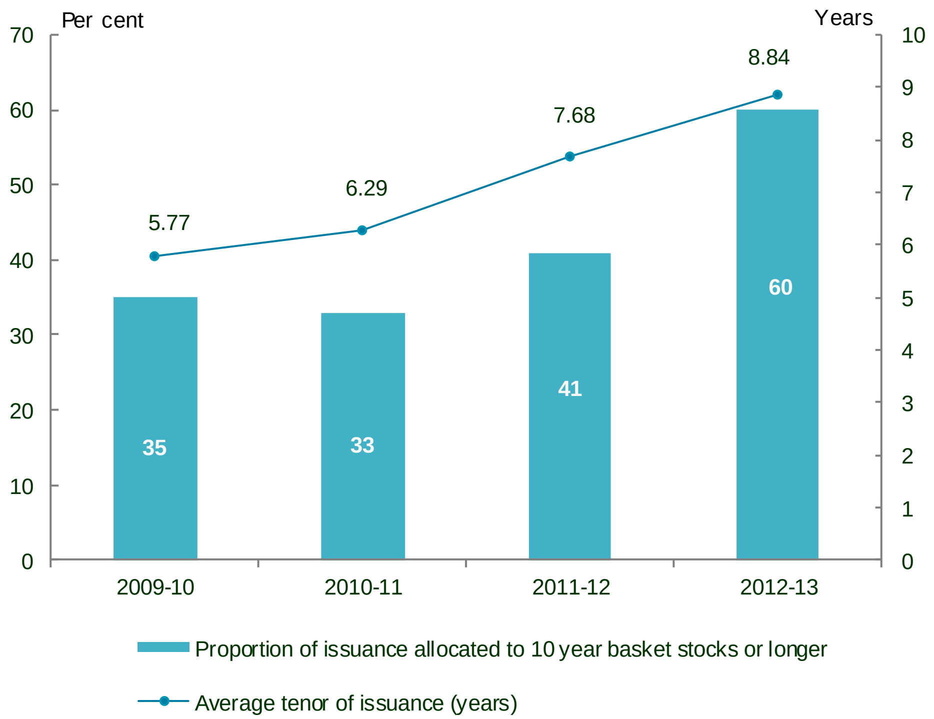
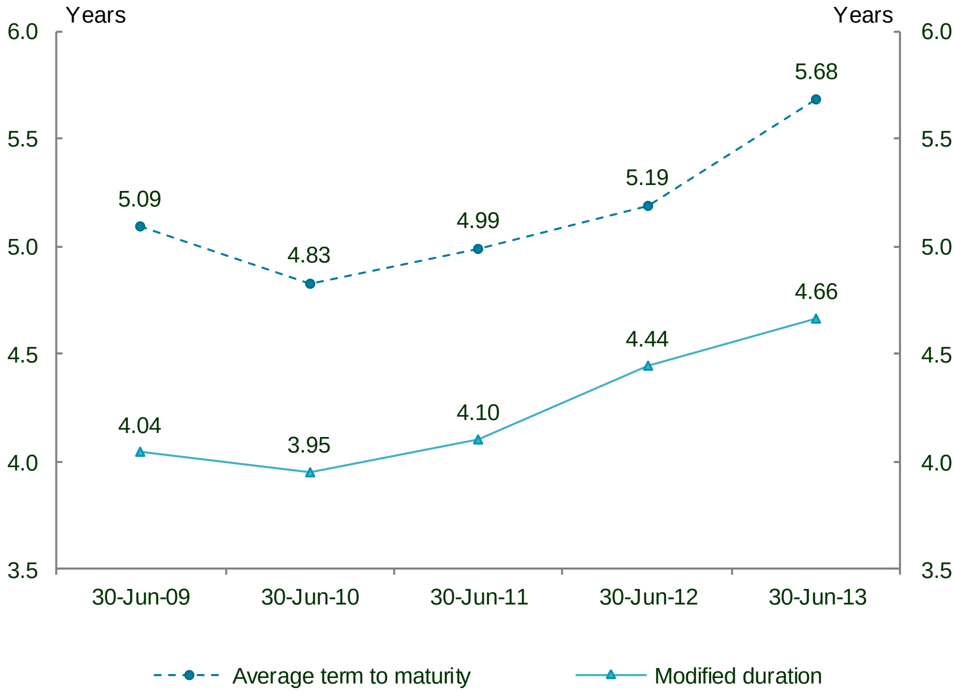


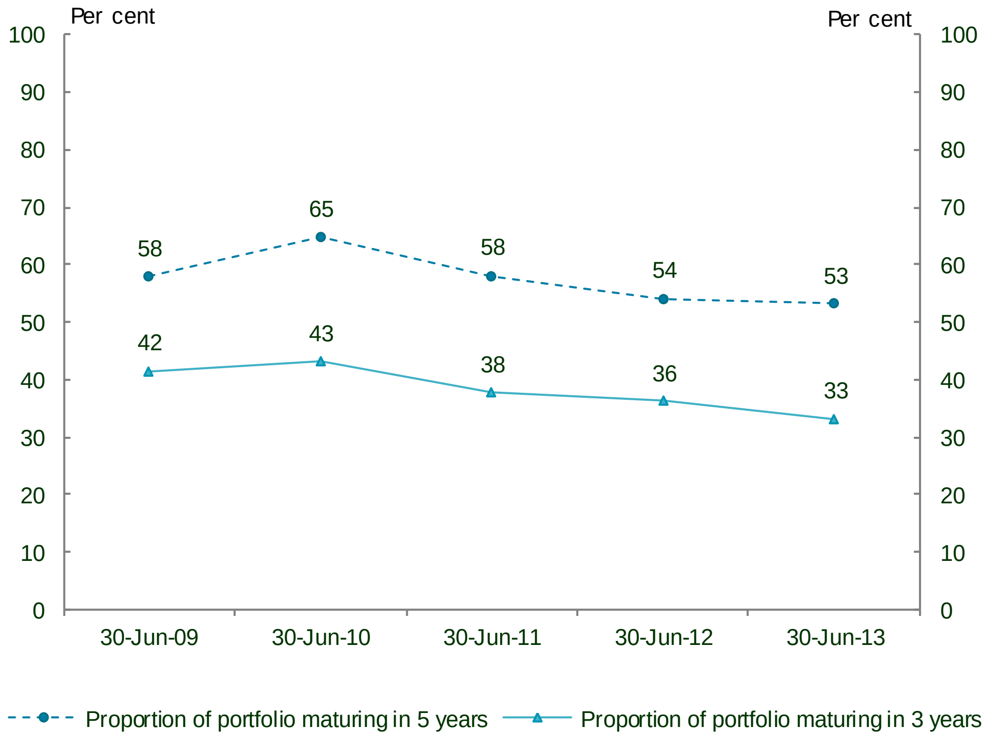
Chart 11: Treasury Bond portfolio modified duration and average term to maturity



The strategy of lengthening the portfolio has had a beneficial effect on the level of risk in the debt portfolio. Variability and uncertainty surrounding future debt servicing cost outcomes are expected to be lower by virtue of having locked in a greater proportion of the AOFM's funding base for an extended period. Similarly, the strategy of lengthening has contributed to a general flattening of the distribution of maturities across the yield curve resulting in a more easily managed refinancing profile. Indeed one of the catalysts for the AOFM's lengthening strategy was a build up in short to medium term maturities in the portfolio that occurred in the aftermath of the global financial crisis that had skewed refinancing risks towards the front half of the yield curve.[6] Chart 12 highlights how these risks have been progressively declining in the period since June 2010.

6 The growth in the AOFM's funding task following the global financial crisis occurred in an environment where investor preferences were generally anchored towards shorter maturity bond lines.

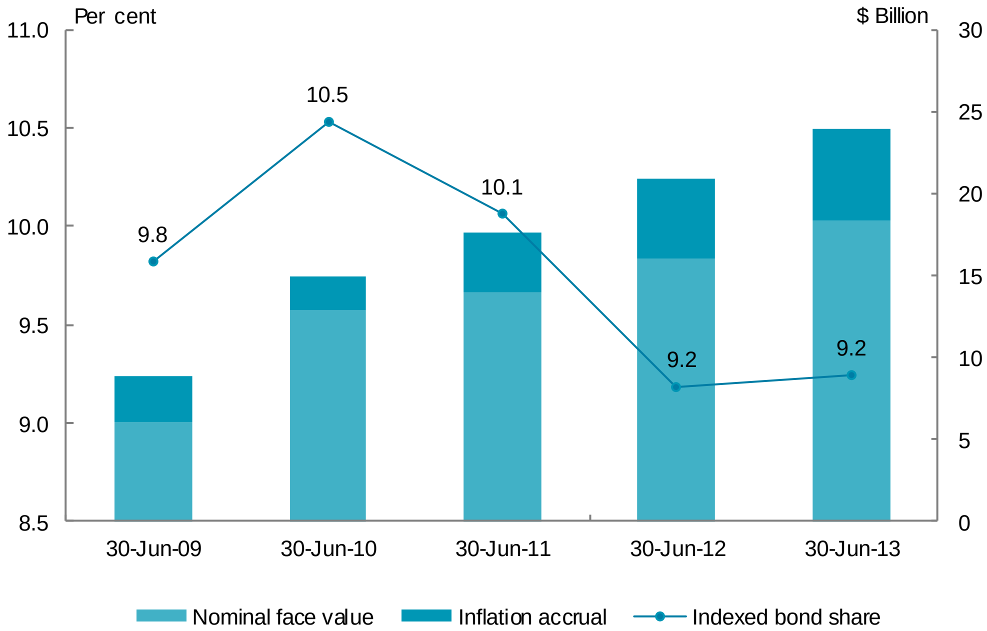
Chart 12: Treasury Bond maturity profile



The AOFM's alternative long-term funding instrument to Treasury Bonds is Treasury Indexed Bonds. Indexed bonds, whose capital value is adjusted periodically with changes in the Consumer Price Index, typically attract a different class of investor to nominal bonds and are a source of diversification in the AOFM's funding base. The AOFM re-commenced issuance of indexed bonds in 2009-10 following an extended period of absence from this segment of the market and has issued regularly in the period since. The AOFM is guided in its strategic decision making on indexed bonds by the 10 to 15 per cent target share announced by the Australian Government in May 2011.[7] Despite growing the stock of indexed bonds on issue in the period since, Chart 13 shows that their share has declined to around 9.2 per cent due to relative growth in the stock of nominal bonds outstripping growth in indexed bonds (with the bulk of upwardly revised financing tasks necessarily met through the issuance of Treasury Bonds).

7 Measured on an accreted book value basis as a percentage of the AOFM's long-term funding base.

Chart 13: Indexed bond share of long-term funding base, nominal face value and accrued capital indexation



Performance

Reducing debt servicing cost at an acceptable level of risk

The debt servicing cost[8] of gross debt managed by the AOFM in 2012-13 was $12.23 billion. This represented a cost of funds of 4.58 per cent for the period. Table 2 provides further details of the cost outcomes for the combined portfolio by instrument and portfolio for 2011-12 and 2012-13.

Debt servicing costs on gross debt increased by $804 million compared with the previous year. This was largely due to an increase in the average volume of debt on issue from $225.07 billion to $266.65 billion in 2012-13. The return on gross assets for the period was $843 million, a reduction of $569 million compared to 2011-12. This fall in the return on gross assets can be attributed to two factors. Firstly, lower interest rates over the course of the year reduced returns on term deposits and RMBS. Returns

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

on term deposits were down $87 million to $500 million, despite the AOFM holding a higher average balance compared to 2011-12, while RMBS investment earnings fell $159 million. The second factor was the Government's decision to waive $320 million (face value) in state housing advances.[9] This debt waiver offset around $149 million of interest receipts to produce a negative net return of $135 million on this asset class.

Expressed on an effective yield basis, funding costs in 2012-13 for gross CGS debt fell 49 basis points to 4.58 per cent. This improvement was principally driven by the issuance of new Treasury Bonds through the year at yields that were substantially below the average of pre-existing debt. Falling rates also reduced the yield on funds invested in term deposits from 4.24 to 3.11 per cent and RMBS investments from 5.80 to 4.62 per cent.

Taken together, the net servicing cost of the combined portfolio of debt and assets was $11.38 billion, with an effective yield of 4.79 per cent. The corresponding figures for 2011-12 were $10.01 billion and 5.08 per cent, respectively.

To summarise, an increase in the overall volume of debt generated a larger net interest cost in 2012-13 in dollar terms. However, the effective cost of funds on the portfolio as a whole decreased in percentage terms, due to the beneficial effect of having issued new debt into the low interest rate environment that prevailed through 2012-13. The improvement in the percentage cost of funds was more pronounced for gross debt than for net debt due to the lower returns recorded on floating rate RMBS holdings and term deposits, combined with the effect of the waiver of some state housing advances.

9 State housing advances are loans that reside in the AOFM's administered balance sheet. The waiver of this debt generated a realised loss, equivalent to the book value of the loans at disposal, of $284 million.

Table 2: Commonwealth debt and assets administered by the AOFM

	Interest expense		Book volume		Effective yield	
	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13
	$ million		$ million		per cent per annum	
Contribution by instrument						
Treasury fixed coupon bonds	(9,642)	(10,570)	(192,038)	(228,365)	5.02	4.63
Treasury inflation indexed bonds	(1,215)	(1,174)	(19,868)	(22,872)	6.12	5.13
Treasury notes	(564)	(481)	(13,161)	(15,411)	4.29	3.12
Repurchase agreements (a)	-	-	-	-	0.00	0.00
Foreign loans (b)	(0)	(1)	(5)	(5)	8.49	18.44
Gross physical CGS debt	(11,421)	(12,225)	(225,072)	(266,654)	5.07	4.58
Term deposits with the RBA	587	500	13,842	16,060	4.24	3.11
Investments in bank paper	34	-	680	-	4.97	0.00
Term investments (c)	-	-	-	-	0.00	0.00
RMBS investments	637	478	10,978	10,345	5.80	4.62
State Housing Advances	154	(135)	2,620	2,532	5.86	-5.32
Gross assets	1,412	843	28,120	28,937	5.02	2.91
Net CGS debt	**(10,009)**	**(11,383)**	**(196,952)**	**(237,717)**	**5.08**	**4.79**
Contribution by portfolio						
Long Term Debt Portfolio	(10,856)	(11,745)	(211,911)	(251,243)	5.12	4.67
Cash Management Portfolio	57	19	1,361	649	4.18	2.89
RMBS Portfolio	637	478	10,978	10,345	5.80	4.62
State Housing Portfolio	154	(135)	2,620	2,532	5.86	-5.32
Total debt and assets	**(10,009)**	**(11,383)**	**(196,952)**	**(237,717)**	**5.08**	**4.79**
Re-measurements (d)	(20,566)	11,668				
Total after re-measurements	**(30,575)**	**285**	**(196,952)**	**(237,717)**		

Note: Sub totals and totals are actual sum results, rounded to the nearest million dollars. Effective yields are based on actual results before rounding, and then rounded to two decimal places. Book volume is a through the year average.

(a) Repurchase agreements using investments in State and Territory government bonds as collateral.
(b) Interest expense and effective yield on foreign loans incorporates foreign exchange revaluation effects.
(c) Investments in State and Territory government bonds.
(d) Re-measurements refer to unrealised gains and losses from changes in the market valuation of financial assets and liabilities.

Movements in market interest rates had a favourable impact on the market value of the portfolio in 2012-13, with unrealised or 'mark to market' gains from re-measurements amounting to $11.67 billion. This re-measurement gain was primarily driven by a $11.50 billion reduction in the value of CGS debt[10] resulting from a year on year increase in the level of market interest rates. This was complimented by a gain of around $170 million on the RMBS portfolio which benefitted from a general contraction in credit spreads.[11] The re-measurement effect is significantly more

10 The fact that market interest rates were higher as at 30 June 2013 compared to 30 June 2012 and resulted in unrealised market valuation gains (due principally to a decline in the market value of liabilities), should not be confused with the fact that average interest rates over the financial year were significantly lower than 2011-12 which reduced portfolio funding costs measured on an accruals basis.

11 This is discussed in more detail in the next section.

pronounced on CGS debt due to their much larger size and longer average duration. Because re-measurement items are highly volatile from one year to the next,[12] they generally have no bearing on the AOFM's debt issuance strategy. Indeed, were the AOFM to adopt a strategy designed to minimise the 'noise' from re-measurements, issuance would be limited to only very short-term debt securities, for example Treasury Notes, creating a portfolio structure that would maximise expected variability in debt servicing costs when measured in cash, accrual and public debt interest terms while also maximising exposure to refinancing risk. In practice, the AOFM has been seeking to reduce refinancing risk, as evidenced in its October 2012 announcement that it planned to reduce its ongoing reliance on Treasury Note issuance by $10 billion.[13]

Residential mortgage-backed securities

Objective

The Australian residential mortgage-backed securities (RMBS) market is acknowledged as a critical source of funding for smaller mortgage lenders. The global financial crisis that started in 2007-08 reduced the availability of funding through the Australian RMBS market, which limited mortgage lenders' access to funding and in turn their ability to offer competitive mortgage products.

In response, the Government decided to invest in Australian RMBS to support competition in lending for housing during the market dislocation. In October 2008 the Treasurer directed the AOFM to invest up to $8 billion in eligible RMBS, of which up to $4 billion was to be invested in deals with sponsors that were not ADIs (Authorised Deposit-taking Institutions). In November 2009 the Treasurer extended the program by directing the AOFM to invest up to a further $8 billion in RMBS. This Direction also extended the objectives of the program to include supporting small business lending, through broadening the potential use of funds raised under the program.

In December 2010 the Treasurer announced, as part of the *Competitive and Sustainable Banking System* package, a further extension of the program. The subsequent Direction, issued in April 2011, directed the AOFM to invest up to an additional $4 billion and thus a cumulative total of up to $20 billion in RMBS. Importantly, this direction also identified the need to encourage a transition towards a market not reliant on Government support.

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12 A loss due to re-measurements of $20.57 billion was recorded in 2011-12.

13 This is being achieved by replacing $10 billion of Treasury Notes with an equivalent stock of Treasury Bonds. Around half of this planned 'terming-out' of Treasury Notes was completed in 2012-13.

In April 2013, the Treasurer directed the AOFM to cease investment in new RMBS. This Direction continues to allow the AOFM to consider sale opportunities. Accordingly, the AOFM stopped investing in RMBS on the 10th of April 2013, and is now managing the existing portfolio to maturity and may sell to assist with price discovery or to adjust the portfolio in line with the Directions.[14]

Achieving the objective

RMBS market conditions and developments in the program

The Australian RMBS market enjoyed relatively buoyant conditions in 2012-13 with improved investor demand and economic sentiment resulting in good issuance volumes and tighter spreads. In fact, spreads reached their tightest levels since the AOFM investment program commenced in late 2008. The benchmark for this sector is the AAA senior tranche with a weighted average life of around three years which tightened as far as 88 basis points from the lows of 100 basis points seen previously. Mezzanine and junior tranches also tightened significantly over the year resulting in securitisation offering a more competitive funding option for mortgage lenders.

Contemporaneously, and in light of this healthy pace of issuance, the market demonstrated a reduced reliance on Government support. The AOFM received fewer submissions for support and was repeatedly and consistently scaled out of transactions through the year.

In 2012-13, the AOFM was prepared to invest in seven RMBS transactions from six issuers and only invested $160 million across two transactions from two issuers due to strong demand from other investors. The seven transactions the AOFM was prepared to invest in sourced $4.8 billion in funding. In addition, a further 16 transactions totalling $14.6 billion were completed, bringing total prime RMBS issuance to $19.4 billion this financial year.

This implies a $6.2 billion (47 per cent) increase in total issuance from the previous year. However, when making this comparison, we need to note that RMBS issuance in 2011-12 was impacted by the introduction of covered bonds.

In any case, activity this year is partly explained by the major banks returning to RMBS issuance having established their covered bond programs, but it reflects more the growth in issuance from other financial institutions including new issuers. Table 3 provides a summary of market activity to date.

14 Full details of each Direction are available on the AOFM website.

Table 3: Public Prime RMBS issuance since start of AOFM program

Year	AOFM Investment			Total Issuance in AOFM Supported Transactions			Other Issuance			Total Issuance	
	$m	%	No.	$m	%	No.	$m	%	No.	$m	No.
2008-09	6,203	77	13	8,042	100	13	-	-	-	8,042	13
2009-10	2,820	19	15	9,146	61	15	5,935	39	6	15,080	21
2010-11	4,349	18	20	14,711	62	21	8,960	38	6	23,671	27
2011-12	1,930	15	11	8,466	64	11	4,750	36	4	13,216	15
2012-13	160	1	2	4,790	25	7	14,586	75	16	19,375	23
Total	15,463	19	61	45,155	57	67	34,231	43	32	79,385	99

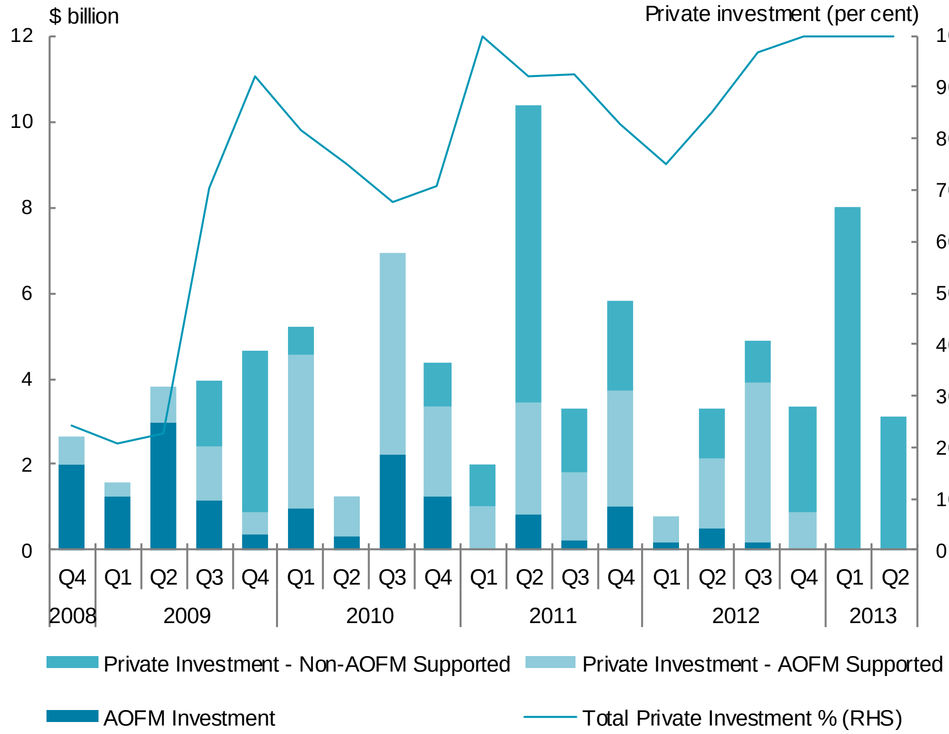
Since the inception of the program, the AOFM has invested $15.5 billion in support of 67 transactions from 20 issuers. Amortisation of $5.7 billion, coupled with $0.6 billion in sales, left $9.1 billion outstanding by the end of this financial year. Table 4 details the AOFM's investment activity and portfolio holdings by sponsor.

Table 4: RMBS investment activity at 30 June 2013

	Programme	Sponsor	Total Investment Amount ($m)	%	Number of deals	Outstanding Amount ($m)	%
ADI	SMHL	ME Bank	2,114	13.7	9	981	10.8
	Torrens	Bendigo and Adelaide Bank	1,922	12.4	6	1,329	14.6
	Reds	Bank of Queensland	1,248	8.1	3	876	9.6
	Apollo	Suncorp	1,130	7.3	4	803	8.8
	IDOL	ING Bank (Australia)	853	5.5	5	449	4.9
	Progress	AMP	825	5.3	5	487	5.4
	Harvey Trust	CUA	493	3.2	2	257	2.8
	Light Trust	People's Choice Credit Union	434	2.8	3	296	3.3
	PUMA	Macquarie	405	2.6	2	401	4.4
	WB	Wide Bay Australia	404	2.6	2	257	2.8
	GBS	Greater Building Society	190	1.2	1	100	1.1
	ConQuest	MyState	170	1.1	1	121	1.3
	Illawarra	IMB	158	1.0	1	74	0.8
	Pinnacle	P&N Bank	111	0.7	1	111	1.2
	Barton	Community CPS Australia	91	0.6	1	91	1.0
	HBS	Heritage	22	0.1	1	22	0.2
	Total		**10,567**	**68.3**	**47**	**6,653**	**73.3**
Non-ADI	FirstMac	FirstMac	1,642	10.6	7	1,047	11.5
	Resimac	Resimac	1,502	9.7	7	751	8.3
	Challenger	Challenger	1,000	6.5	2	441	4.9
	Liberty	Liberty	751	4.9	4	187	2.1
	Total		**4,896**	**31.7**	**20**	**2,426**	**26.7**
	Total		**15,463**		**67**	**9,079**	

Chart 14 summarises the participation of AOFM and other investors in the wider spectrum of Australian prime RMBS issues since the inception of the program. Participation from other investors averaged 23 per cent of total market activity from inception until the end of June 2009, and has gradually grown from 81 per cent in 2009-10, 82 per cent in 2010-11, 85 per cent in 2011-12 to 99 per cent this financial year.

Chart 14: Prime RMBS market participation



During the year, the AOFM also completed a number of sales.[15] Either full or partial interest across seven lines were sold to various market participants at a tighter margin than at purchase, resulting in further incremental profit for the Government. These sales enabled the AOFM to adjust its holdings and provide secondary market pricing transparency.

Performance

The funds raised by the RMBS issues supported by the AOFM have provided an important component of total lending for housing and small business since the inception of the program. Without this funding, new lending by the financial institutions supported would have been lower and would have impacted the extent of competition in the market.

The investments made under the program continue to provide reasonable financial returns. Interest income in 2012-13 was $472.6 million. In addition, sales through the year contributed a further $5.3 million in incremental income. Total income of $478 million represented an annualised return of 4.62 per cent on the average portfolio

15 Further detail on each sale is available on the AOFM website.

book value of $10.3 billion. The average margin over the one month bank bill rate (weighted by each of AOFM's investments) for the book outstanding as at 30 June 2013 remained around 133 basis points. Capital repayments as at the end of the year totalled $6.4 billion.[16]

The RMBS securities held by the AOFM are valued using indicative margins for secondary market trading as estimated by an independent valuation service provider. Furthermore, market *bid* rates are used for these purposes. Accordingly, the RMBS portfolio was valued at $9.1 billion as at 30 June 2013, implying an unrealised gain of $17 million (or 0.19 per cent of the portfolio book value). This represents an improvement in the value of the portfolio of around $170 million for the year. Losses or gains in the mark-to-market value of the portfolio change with prevailing conditions and therefore vary at any particular point in time. They are not realised losses or gains, but are referred to as re-measurements.

Further information on the AOFM's investments in RMBS up to 30 June 2013 is available in Part 5 of this annual report.

Investor Relations

Objective

Investor Relations activities focused on supporting smooth debt issuance through regular and consistent communication with investors. This was done through a range of investor engagements such as one-on-one meetings, presentations and group discussions. Regular investor focused activities allows for new investors to become aware of, and current investors to remain up-to-date on, the main influences underlying CGS issuance and developments in the CGS market more generally.

One of AOFM's main objectives has been to encourage diversity in the investor base via the entry of new investors with differing investment mandates, while maintaining relationships with strategically important investors. Diversity is obtained through a spread of investors over geography, sector, product and investment policies or mandates. A wide diversity of investors reduces the risk of large simultaneous moves in the demand for or (secondary market) sale of CGS. This facilitates the maintenance of a liquid and orderly market, whilst also contributing to the AOFM achieving a lower cost of borrowing.

16 This includes the RMBS investments sold. Notwithstanding the impact of future sales, the portfolio is expected to amortise at a rate of between $1.5 billion and $2.0 billion per annum for each of the next three years before slowing thereafter.

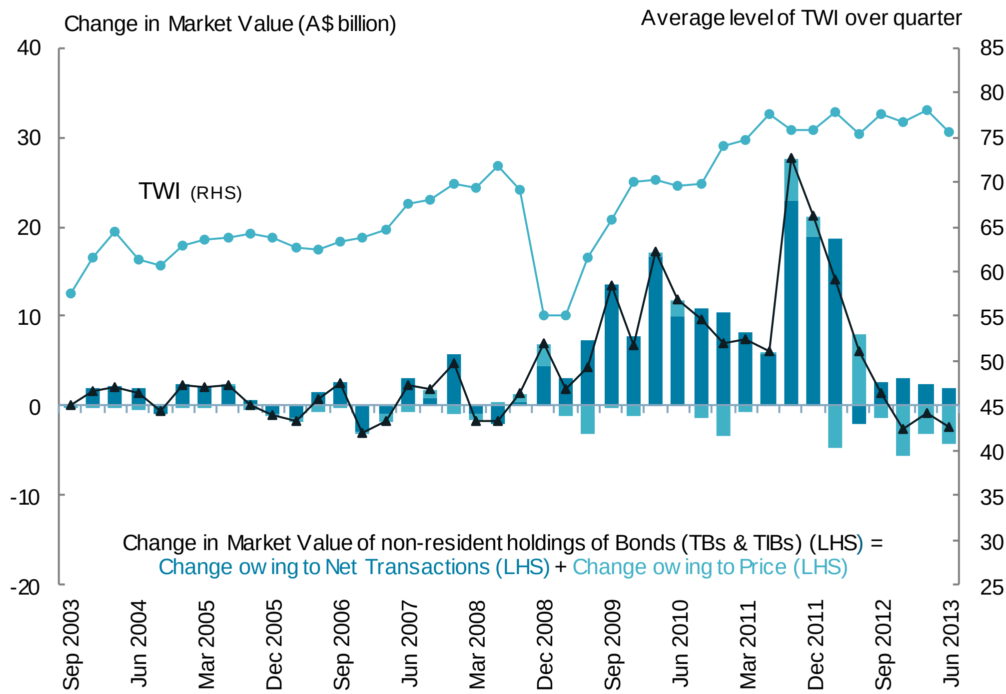
Outcomes

Non-resident holdings of Australian Government Bonds (Treasury Bonds and Treasury Indexed Bonds combined) reached a peak in the March 2012 quarter of 78.3 per cent. Non-resident holdings as a proportion began falling in the next quarter and continued falling through the year with the amount being held at the end of June 2013 standing at 69.4 per cent. This was widely reported in financial market commentary and was ascribed to a number of causes including selling by Japanese retail investors,[17] the historically low level of interest rates, the rapid fall in the AUD (later in the year) and supposed broader slowdown in demand by offshore investors particularly the offshore public sector. All of these events influenced the slowdown in non-resident demand, and in some cases contributed to outright selling, but most often the situation was more complex than what might otherwise appear to be the case from only examining the headline proportion of non-resident holdings.

What tended to attract less attention was that the non-resident proportion reported each quarter was based upon market values. Thus, changes in the proportion of non-resident ownership could be affected by changes in the price of the bonds trading in the market, as well as changes due to net transactions (buying less selling plus the effect of any maturities). Indeed, 5 of the last 6 quarters (from March 2012 to June 2013) exhibited negative price changes that resulted in the reported overall market value of non-resident holdings being lower than what it might have otherwise been, as shown in Chart 15. Over that same period, there was only one quarter that net transactions were negative, which was related to proceeds of a bond maturity not being fully reinvested in the market soon thereafter. The actual value of Australian Government Bonds held by offshore investors based on market values has risen by around $2.1 billion since March 2012.

17 The strength of the Australian dollar compared to the Japanese yen in early 2013 triggered some profit taking divestment of CGS by Japanese investors, at the same time making new investment by Japanese investors more expensive. This divestment activity had slowed significantly by the end of the year.

Chart 15: What drives the change in non-resident holdings



Source: Based on data sourced from the Australian Bureau of Statistics and AOFM as at end June 2013.

It was widely reported that Japanese investors were active in 2012-13 and were large sellers of overseas assets, particularly AUD bonds (including Treasury Bonds and Treasury Indexed Bonds). This occurred from around December 2012 through to about April 2013. Given the relatively small decline in non-resident holdings of Australian Government Bonds over this period, it would suggest there was still considerable offshore buying from other regions, resulting in a take-up of much of the stock released to the secondary market from Japan. It would also appear domestic investors were taking an increasingly larger position in CGS.

As non-resident investors still account for the largest holdings of CGS and as a group remain substantially the greatest source of potential new buyers with which to diversify the investor base, the AOFM predominantly focused its investor relations activities offshore.

Consequently, the during 2012-13 the AOFM undertook or attended 8 overseas investor road shows or conferences. Throughout the year, the AOFM participated in slightly fewer events (presentations, speeches, investor road shows) than last year, with the 2012-13 total being some 14. The AOFM, however, still engaged with a similar total audience size, being around six hundred.

About the same number of face to face meetings were attended (two more this year) and slightly more cities were visited than was the case in 2011-12. CGS market makers were again essential in setting up meetings and assisting with the considerable logistics of the road shows. This year nine different banks were used.

With a focus on further diversification of the investor base, a substantial number of investors were met for the first time. This involved the AOFM travelling to some new regions for the first time (Canada and the Middle East) or returning to some regions not visited for a few years (South America). From these and other meetings, around two thirds of all meetings were with first time contacts. From the offshore meetings with public sector institutions, 20 out of the 35 were with entities that had not been previously met; of the private sector investor meetings (predominantly offshore) just over 70 per cent of the 63 meetings were with investors being met for the first time.

Table 5: Summary of Investor Relations activities in 2012-13

Activity	Details
Conferences, speaking engagements and investor meetings	14 events.
Approximate total audience size	600 attendees.
Individual meetings	98 investor meetings (63 Private Sector and 35 Public Sector).
Hosted roundtable/small presentations	4 presentations with 24 investors.
Individual cities visited	28 cities.
Two AOFM staff members travel on each overseas trip	CEO, Head of Investor Relations, Director of Financial Risk, Senior Analyst from Investor Relations.
Hosting banks	ANZ, Bank of America Merrill Lynch, Barclays, Citi, Commonwealth Bank of Australia, Deutsche Bank, Royal Bank of Canada, UBS, Westpac.

The AOFM also undertook a number of other activities throughout the year. In September 2012 this included a two page article published in the annual Australian supplement of Finance Asia magazine on the persistence in offshore demand for CGS.

The AOFM was also largely responsible for creating, designing and launching the new Australian Government Bond web page. This standalone website was especially created for retail investors looking to seek information on Exchange-traded Government Bonds, which began trading on the ASX on the 21st May 2013. Investor information statements for both the Exchange-traded Treasury Bonds and Exchange-traded Treasury Indexed Bonds were also created and printed.

Table 6: Timeline of investor engagement activities in 2012-13

Activity	Details
July 2012	North Asia: 13 meetings, 1 luncheon presentation with 3 investors.
September 2012	Canada: 10 investor meetings, Central Bank Conference, 1 presentation with 80 investors.
October 2012	Sydney: Fixed Income Conference, 1 presentation with 80 investors. France/United Kingdom: 13 investor meetings.
December 2012	Japan: 18 investor meetings. Canberra: 1 investor meeting.
January 2013	OECD meeting of sovereign debt managers in France. North Africa: 3 investor meetings.
February 2013	Sydney: 2 investor meetings. Sydney: Inflation Roundtable with 8 investors.
March 2013	Sydney: 1 presentation with 3 investors. Canberra: Investor Mission, 1 presentation with 30 investors.
April 2013	India and Middle East: 13 investor meetings. Sydney: 3 investor meetings.
May 2013	South America and Mexico: 18 investor meetings, 1 presentation with 30 investors.
June 2013	Sydney: Australian Business Economists luncheon, CEO keynote speaker. Switzerland: Central Bank Conference, 1 panel discussion with 100 investors, 2 investor meetings, 1 luncheon presentation with 10 investors. Sydney: CEO Speech at the Asiamoney Annual Awards.

Public Register of Government Borrowing

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

The Act does not contain any mechanisms to compel the provision of information to the AOFM by the beneficial owners of these securities or persons holding these securities on their behalf. In the absence of a legal or regulatory compulsion to do so, nominee and custodial services firms have not provided information to AOFM due to their fiduciary and contractual obligations to clients. Many investors wish for their holdings to remain confidential for valid commercial reasons.

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

During 2012-13, the AOFM published the register each quarter and following the latest update the register contains monthly data up to 30 June 2013. The register indicates that around $282.7 billion of CGS, together with State and Territory securities guaranteed by the Commonwealth, were on issue at year end. Country of ownership could be identified for $92.9 billion or 32.8 per cent, of which $48.0 billion was identified as Australian and $44.8 billion was recorded as held offshore. Country of beneficial ownership could not be identified for around $189.9 billion or 67.2 per cent. Most of this unidentified component was held by nominee/custodial firms.

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

The quarterly ABS publication *5302.0 Balance of Payments and International Investment Position, Australia* indicates that 68.8 per cent of Commonwealth Government Securities were held by non-residents as at June 2013.[18]

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

The publication estimates that there was $884.7 billion of this foreign portfolio investment in debt securities at 31 December 2012. The survey indicated the country of investor domicile breakdown as: the United States, $231.7 billion; United Kingdom, $154.1 billion; Japan, $53.2 billion; Luxembourg, $20.4 billion; Switzerland, $14.7 billion; Hong Kong, $10.9 billion; Singapore, $9.7 billion; Canada, $4.7 billion; Germany, $2.6 billion; New Zealand, $2.4 billion; Netherlands, $1.7 billion; France, $1.5 billion; and Austria, $0.9 billion. The remainder of holdings were attributed to international bond markets, were unspecified, or were not published for confidentiality reasons.

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

Information technology operations

The AOFM upgraded its storage and data management systems during 2012-13. These upgrades provide greater assurance as to the integrity and availability of the AOFM's information and data. The storage and data management systems were selected to meet the needs of its expanding, dynamic and flexible network. They have also increased the capacity of information that can be stored and the period of time that it can be retained, whilst reducing the complexity and cost of storage management. Both the storage and data systems were extended to cover the AOFM disaster recovery site, thus providing additional redundancy and resilience.

Operational risk

Operational risk arises from the potential for loss due to operational failures resulting from deficiencies in internal processes, people, systems, or from external events. It encompasses risks such as fraud risk, settlement risk, accounting risk, personnel risk and reputation risk.

The AOFM aims to manage its exposure to operational risk to acceptably minimum levels. It maintains a culture of prudence and awareness, together with high ethical standards, which are reinforced by regular in-house training and adherence to the Australian Public Service Code of Conduct and the Australian Financial Markets Association (AFMA) Code of Conduct. Responsibility for the design and monitoring of risk and compliance activities resides with the Enterprise Risk Management, Legal and Compliance (ERMLC) Group. A dedicated Enterprise Risk Management unit maintains the currency and relevance of the AOFM's risk framework and register, while the Compliance unit monitors compliance with external obligations and internal controls and procedures. The ERMLC Group reports to the AOFM Executive Group and Audit Committee on matters relevant to risk management, internal controls and compliance.

Operational risk activities undertaken in 2012-13 included:

- internal audits of the control effectiveness over treasury systems and interface controls, employee entitlements, financial risk policies and frameworks, taxation liabilities, pre-implementation readiness of the retail exchange trading of CGS (Phase One), IT backup and recovery procedures, and the RMBS sales process;
- preparation of the Certificate of Compliance for the AOFM's compliance with the financial management framework under the *Financial Management and Accountability Act 1997*;

- implementation of the annual enterprise risk assessment and Compliance Assurance Plan, with monthly reporting provided to the Executive Group and quarterly reporting provided to the Audit Committee;
- enhancement of the Enterprise Risk Management (ERM) Framework (refer below for further information); and
- a review of the AOFM's Chief Executive Instructions and internal financial delegations issued under the *Financial Management and Accountability Act 1997.*

In July 2012, the AOFM commenced a project to enhance its ERM framework. The objectives were set so as to develop and implement an ERM framework that aligned with *AS/NZS/ISO 31000:2009 – Risk management principles and guidelines* and reflect better practice processes and systems, whilst being scaled to meet the needs of the AOFM.

The enhanced ERM framework was approved by the CEO in May 2013 and endorsed by the Audit Committee in June 2013. The framework is being implemented from 1 July 2013, and will consider risks across strategic, portfolio and operational levels.

Settlement operations

The AOFM is a low transaction volume, high transaction value environment. In 2012-13, it settled around $98.7 billion of payments of interest and principal on CGS and around $837.2 billion in financial asset acquisitions, including term deposits with the Reserve Bank of Australia and residential mortgage-backed securities. The AOFM also ensures that all administered receipts are settled promptly and correctly by its transaction counterparties.

In 2012-13, the AOFM was not late in settling any payment obligations on its debt and investment management activities. The AOFM did not seek any compensation for late payments from counterparties as only a negligible amount of interest was forgone due to counterparties failing to settle their payments obligations in line with their contractual obligations.

Agency financial performance

The AOFM recorded an operating surplus on agency activities of $2.53 million for the 2012-13 financial year, comprising total revenue of $12.31 million and expenses of $9.78 million. The surplus in 2012-13 was due largely to lower than anticipated costs of undertaking additional issuance activity.

As at 30 June 2013, the AOFM was in a sound net worth and liquidity position, reporting net assets of $27.18 million, represented by assets of $29.59 million and liabilities of $2.41 million.

As at 30 June 2013, the AOFM had unspent appropriations totalling $28.62 million of which $0.1 million was held in cash. Unspent appropriations are available to settle liabilities as and when they fall due and for future asset replacements and improvements.

Cooperation with other debt managers

In 2012-13 the AOFM continued to support the debt management activities of the Papua New Guinea and the Solomon Islands governments under the *Strongim Gavman Program* and the *Regional Assistance Mission to the Solomon Islands*. One staff member is seconded to each of these countries to help develop cash and debt management capabilities. Officials of the debt management agencies of the three countries, including the seconded AOFM staff, met in Port Moresby in July 2012 to discuss their experience with debt management over the year and their progress in capacity development. Meetings such as this occur on an annual basis.

Also in July 2012, AOFM officials met with debt management officials from the Korean Ministry of Strategy and Finance and the Bank of Korea in Seoul to share the AOFM's experiences on a range of debt management related issues.

In September 2012, senior officials from the AOFM met with officials responsible for sovereign debt management from the Canadian Department of Finance and the Bank of Canada in Ottawa.

The AOFM Chief Executive is currently a member of the Steering Group of the OECD Working Party on Debt Management and attended the annual meeting in Paris in October 2012.

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

AOFM

DETERMINING THE AOFM'S DEBT STRATEGY

Introduction

The AOFM aims to provide a stable (that is, low risk) and low cost debt funding base for the government into the future. To achieve this objective the AOFM endeavours to conduct its operations in an open, transparent and predictable manner, with a focus on maintaining a liquid and efficient market in CGS. The AOFM also seeks to achieve the objective through its debt strategy by adjusting the maturity structure and composition of debt it issues each year.[1] Decision making on these factors requires considerable judgement given the uncertainty that surrounds the variables that will determine the future performance of the debt portfolio (that is, yield curves, inflation, fiscal position and various other macro variables) and the trade-offs that exist between the cost of the portfolio and the level of risk being assumed. The intention of this article is to provide some insight into how the AOFM approaches strategic decision making given these uncertainties and trade-offs.

Working with uncertainty

Each year, the AOFM evaluates alternative strategies for their compatibility with the debt management objectives. In choosing between the different options, the AOFM will make a judgement based on both quantitative and qualitative considerations. One of the quantitative tools the AOFM employs is a model of the macroeconomy and interest rate term structure. The model uses a mathematical representation of the historic behaviour and relationship between the macro/term structure variables to generate future scenarios that can be utilised to evaluate the performance of different debt strategies. By creating a sufficiently large number of scenarios, a picture of the statistical distribution of each explanatory variable in the model through time can be created. These distributions are effectively a representation, based on past experience, of the uncertainty the AOFM faces with respect to the real world variables that will influence future debt management outcomes.

In the next stage of the modelling process, the AOFM creates a suite of hypothetical debt issuance strategies representative of the options that the AOFM might consider. Each strategy is differentiated by the distribution of future issuance into distinct segments of the yield curve[2] and a target for the level of indexed debt in the portfolio. These strategies are scalable and can be matched to any future funding requirement scenario thereby enabling different trajectories for the stock of debt through time to be considered. It is relatively straightforward from here to calculate future debt servicing

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1 This refers to the distribution of CGS issuance across the yield curve and the mix between nominal and indexed debt.

2 The AOFM segments the curve into buckets. Two buckets are formed by bond lines that fall (or are about to fall) into the three year and ten year futures baskets. Stocks that are longer, between, or shorter form separate buckets.

outcomes for each strategy using the macro/term structure scenarios created by the model. This then enables the cost and risk characteristics of competing strategies to be compared.

Measuring cost and risk

The measurement basis for cost is accrual debt service cost. This is typically expressed in percentage terms relative to the stock of the debt outstanding.[3] In comparing the modelled cost performance of different debt strategies, the AOFM will evaluate both average costs over the projection horizon as well as cost outcomes in particular years. Because the AOFM does not issue debt with the intention of buying it back before maturity, unrealised market value gains and losses on the debt portfolio are not considered relevant to decision making with respect to the debt strategy.

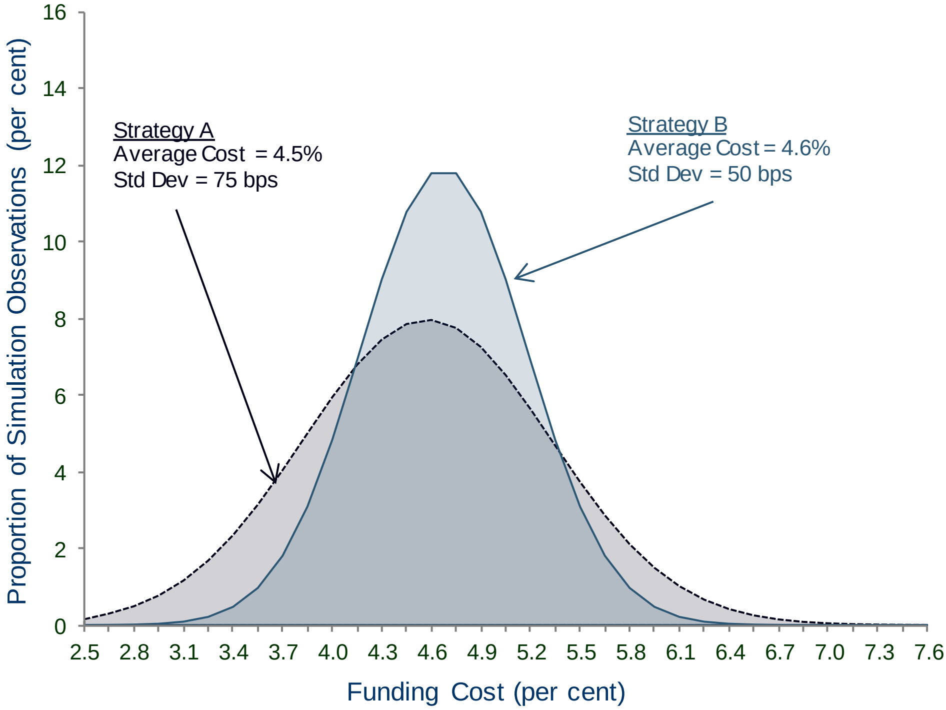
Risk is a function of the uncertainty the AOFM faces in relation to future debt servicing costs and is reflected in a comparison of the distribution of modelled cost outcomes for each debt strategy. Chart 1 below demonstrates this concept for two hypothetical strategies, Strategy A and Strategy B.

Strategy A focusses a higher proportion of issuance on short to medium term bonds. Average debt servicing costs are lower than Strategy B but this option is riskier as reflected in the more dispersed result set. Strategy B, which allocates a higher proportion of issuance into longer dated bonds, is more expensive on average but has a narrower expected range of outcomes. There is less uncertainty and therefore less 'risk' around cost outcomes in Strategy B. The AOFM uses a number of metrics to describe and summarise the risk of any given strategy. One such measure is Cost-at-Risk (CaR) which describes the maximum (or worst case) debt servicing cost outcome for a given time horizon and a given level of confidence or probability.[4]

3 This is necessary to allow a strategy's cost performance to be compared over time when the volume of debt is changing.

4 CaR can be measured in absolute or relative terms. An example of absolute CaR is the worst case cost outcome with a probability of 95 per cent in a year. Relative CaR is the difference between absolute CaR and the average cost outcome.

Chart 1: Debt service cost distribution

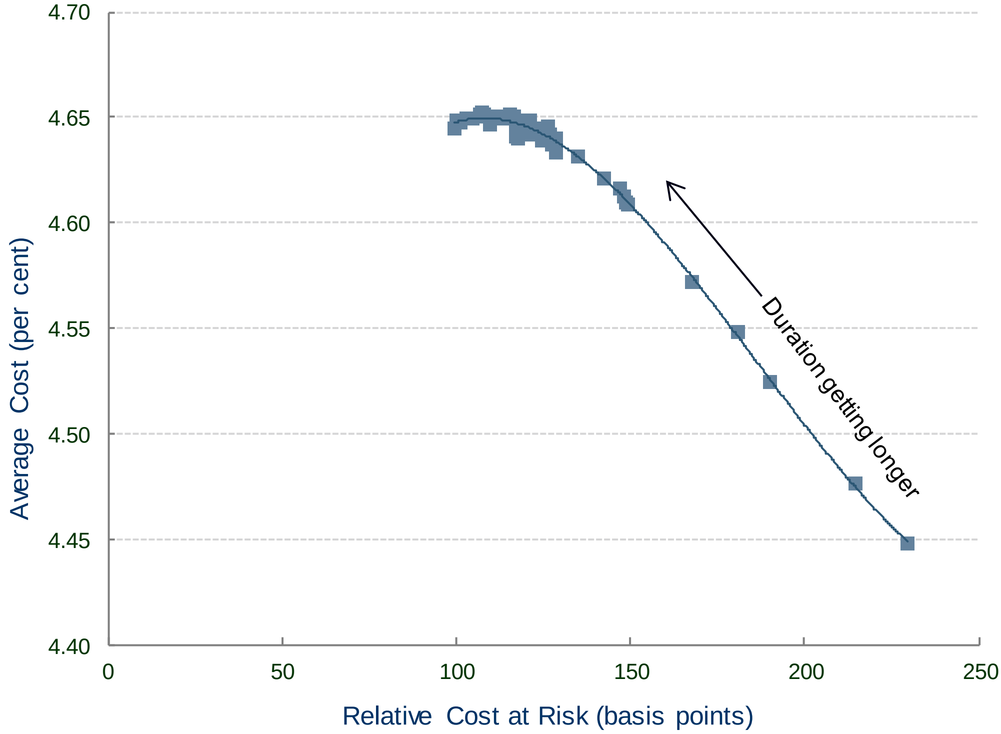


Cost and risk trade-offs

In Chart 2, there is a choice between pursuing a higher cost/lower risk strategy or a lower cost/higher risk strategy. This can be thought of as the debt manager needing to incur a cost (akin to an insurance premium) to reduce the inherent risk of the portfolio. This is because yield curves are typically upward sloping, reflecting among other things the greater opportunity costs and uncertainty faced by investors in longer bonds. This implies that cost savings can be achieved by pursuing a strategy that puts a greater weight of issuance into shorter-dated bonds (and then refinances them as they mature) compared to issuing longer-dated bonds. However, this will expose the portfolio to greater interest rate volatility and refinancing risks, which increases uncertainty about future debt service cost outcomes. Decision making on the debt strategy therefore requires cost and risk to be traded off against each other.

Chart 2 illustrates this trade-off by displaying the modelled cost and risk properties of a range of hypothetical debt strategies.[5] Relative CaR is used as the measure of risk.

Chart 2: Debt service cost versus risk



Moving from right to left, the weight of bond issuance is progressively shifting from the 'short end' of the yield curve to the 'long end' and the duration of the portfolio is lengthening as a result. Risk progressively declines as this occurs but this comes at a price which is reflected in higher debt servicing costs. The rate of increase in cost declines as duration is extended. This is in part a consequence of bond yields trading near historic lows at the time the modelling data was created. Because bond yields are likely to increase through time from this low base,[6] there is a window where the benefit of locking in funding costs through the issuance of long maturity bonds (which extends duration) can, at least partially, offset the cost penalty associated with the upward sloping yield curve.

5 The chart is constructed from modelling data created in 2012. Each plot point is representative of a single debt strategy. Strategies vary only in the allocation of Treasury Bond issuance to different segments of the yield curve.

6 This effect is often referred to as 'mean reversion'.

Selecting the Debt Strategy

Results that emerge from the AOFM's modelling framework are one of a number of influences on strategic decision making. The AOFM will also take into account a range of domestic and global considerations that are more qualitative or subjective in nature. This may include an analysis of broader global economic and financial risk factors, as well as an examination of the AOFM's debt refinancing profile and likely future call on the market given current fiscal projections, known financing requirements and Government policy (as it relates to the AOFM's operations). It is rarely the case that all such considerations will push the AOFM's debt strategy in the same direction. The final step involves reviewing 'stress test' results of the main strategic options under consideration. Stress tests are undertaken by identifying 'states of the world' that are unlikely but which would have a substantial impact on debt management outcomes.

Conclusion

Operational decisions on CGS issuance are guided by a broader strategy for the composition of the portfolio and the distribution of issuance across the yield curve. The AOFM considers a range of factors in determining the debt strategy including, but not limited to, the results of quantitative modelling of the cost-risk trade-offs the AOFM faces. Considerable judgement is required in weighing this evidence to determine the appropriate strategic direction of the portfolio.

AOFM

PART 3
MANAGEMENT AND ACCOUNTABILITY

Management and accountability

Corporate governance

The Secretary to the Treasury has responsibility for specific authorities over the AOFM's activities and is responsible for advising the Treasurer on Government policy relating to debt management and investment activities. The Secretary approves detailed debt management and investment policies, approves policy limits and addresses any breaches of those limits. In discharging his responsibilities, the Secretary is advised by the AOFM Advisory Board.

The Chief Executive Officer (CEO) of the AOFM is responsible for the day-to-day management and direction of the AOFM. The CEO exercises powers authorised by the Treasurer and the Secretary for debt creation and issuance, investment, portfolio management and management of the AOFM's staff. The CEO has final responsibility for all aspects of the financial management of the Office (which is treated separately from the financial management of the Treasury as the AOFM is a prescribed agency under the *Financial Management and Accountability Act 1997*). The AOFM reports to the Treasurer on issues pertaining to the management and performance of the portfolio, prepares an annual report for presentation to Parliament and provides information about its activities on its website.

AOFM Advisory Board

The AOFM Advisory Board provides advice to the Secretary on debt management policy and the operational strategy and performance of the AOFM. The Board does not possess executive powers or decision making authority. The Advisory Board members as at 30 June 2013 were:

- Dr Martin Parkinson PSM, Secretary to the Treasury, Chair;
- Rob Nicholl, CEO, AOFM;
- Rosemary Huxtable, Deputy Secretary, Budget Group, Department of Finance and Deregulation;
- Greg Maughan, Consultant;
- Paul Bide, Consultant;

- Carol Austin, Consultant;
- Nigel Ray, Executive Director, Fiscal Group, Treasury; and
- Peter Warne, Consultant.

The Advisory Board met on three occasions in 2012-13.

Senior management committees

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

Executive Group

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

Portfolio Strategy Meeting

During 2012-13, the role of the Asset and Liability Committee was incorporated into the Portfolio Strategy Meeting (PSM) which is held on a monthly basis. As was the case with the Asset and Liability Committee, the PSM advises the CEO on operational debt policy and financial risk management issues, as well as reviewing deal execution and general market conditions. Its membership comprises of the CEO, Director of Financial Risk, Head of Treasury Services, Head of Investor Relations and Head of Reporting and IT, together with other senior staff with relevant functional responsibilities.

Information Technology Steering Committee

The Information Technology Steering Committee monitors IT service availability and security related incidents and oversees current and planned information technology projects and operations. Its membership comprises of the CEO (Chair), Head of Reporting and IT, Chief Finance Officer, Financial Risk Practice Leader, IT Security Advisor, and an IT Analyst.

Security Committee

The Security Committee performs an oversight role in respect of security management within the AOFM. Its membership comprises of the CEO (Chair), Agency Security Advisor, and IT Security Advisor. The head of the Treasury Security Team is invited to attend ex officio to assist in security harmonisation.

Other elements of the governance framework

Other elements of the AOFM's governance framework include:

- formal delegations and authorisations from the Treasurer of powers under various Acts that provide the legal authority for the conduct of the AOFM's debt management and investment activities;
- formal delegations from the Minister for Finance and Deregulation through the *Financial Management and Accountability (Finance Minister to Chief Executives) Delegation 2010* and amendments to the original delegation;
- policies including an Annual Remit approved by the Secretary to the Treasury;
- Chief Executive Instructions and internal financial delegations from the CEO;
- annual corporate and business group plans to support delivery of the AOFM's outcome and program as stated in the 2012-13 Treasury Portfolio Budget Statement;
- a Conflicts of Interest Policy which provides guidance to the AOFM's committee members, staff, consultants and contractors on avoiding or managing conflicts in accordance with their obligations;
- a Purchasing and Tendering Manual and Contract Management Guidelines, which provide guidance consistent with Australian Government legislative requirements and information to contract managers for managing contractual relationships with suppliers of goods and services;
- a fraud risk assessment and Fraud Control Plan which complies with the *Commonwealth Fraud Control Guidelines* and includes appropriate fraud prevention, detection, investigation reporting and data collection procedures and processes;
- the AOFM AML/CTF Program under the *Anti-Money Laundering and Counter-Terrorism and Financing Act 2006*; and

- a risk and compliance framework, including an enterprise risk assessment and Compliance Assurance Plan to support operational risk management and compliance activities.

The AOFM has taken all reasonable measures to eliminate the risk of fraud. The risk of fraud is managed within tolerances established under the Enterprise Risk Management (ERM) framework. This is achieved through the implementation of an effective framework of internal controls and within a culture that embraces a heightened level of mindfulness and awareness of our obligations and commitments, consistent with our governance and legislative frameworks.

Should any occur, incidents of fraud or attempted fraud, will generate a review of relevant operations of the AOFM. The CEO will determine whether civil remedies or a prosecution will result from investigated incidents of fraud. Where a loss has been incurred, the AOFM shall seek to recover the proceeds in accordance with the *Chief Executive Instructions.*

Audit

Audit Committee

The AOFM Audit Committee reviews, monitors and recommends improvements to the risk management, internal control and financial reporting processes. It oversees the audit and compliance programs, making its assessments based on the information and reports it receives from the AOFM and auditors at its quarterly meetings.

Key activities during 2012-13 included:

- reviewing the operation of the AOFM's risk and internal control environment, including enhancement of the ERM framework and the Certificate of Compliance process;
- approval of the AOFM's 2012-13 internal audit plan;
- monitoring actions taken by the AOFM in response to matters raised by auditors;
- advice on the preparation and review of the AOFM's financial statements;
- monitoring progress of major agency projects; and
- reviewing a number of internal policies, procedures and training programs.

The Audit Committee membership as at 30 June 2013 comprised:

- Peter Warne, independent member of the AOFM Advisory Board (Chair);
- David Lawler, independent member;
- David Haigh, Manager, Budget Policy Division, Fiscal Group, the Treasury (from February 2013); and
- Samantha Montenegro, Chief Risk and Compliance Officer, AOFM.

Other representatives from the Treasury included Brenton Goldsworthy (August 2012 meeting) and Louise Butler (November 2012 meeting).

Invited attendees included the Australian National Audit Office (ANAO) and its outsourced provider (KPMG), the AOFM internal auditor (Deloitte Touche Tohmatsu) and the AOFM Chief Finance Officer. The AOFM CEO also attends meetings at his discretion.

The Committee met on four occasions during 2012-13.

Internal auditor

The AOFM's internal auditor, Deloitte Touche Tohmatsu undertook the following audits during 2012-13:

- treasury systems and interface controls;
- employee entitlements;
- financial risk policies and frameworks;
- taxation liabilities;
- pre-implementation readiness review of retail trading of Commonwealth Government Securities (Phase One);
- IT backup and recovery procedures; and
- RMBS sales process.

All audits concluded that the AOFM's internal controls were operating as intended. The internal auditor also found that the AOFM had appropriate processes in place to ensure that audit recommendations were actioned in a timely manner. The recommendations made during 2012-13 were aimed at enhancing the efficiency and design of the current control environment. At 30 June 2013, recommendations had either been implemented or were in the process of being implemented in accordance with agreed timelines.

Business continuity arrangements

The AOFM has business continuity and pandemic plans to ensure that its critical activities can continue in the event of a major disruption or the outbreak of an influenza pandemic. These arrangements include the provision of back up services that can be implemented when the AOFM's office accommodation is not able to be used, or when AOFM staff are not available to perform key tasks. Business continuity plans were updated and tested during 2012-13 (as they will continue to be on an annual basis).

In addition to a BCP, there is also: an information technology (IT) disaster recovery plan which sets out the processes required to restore critical IT-reliant functions in the aftermath of a significant disruption; and an Emergency Procedures Manual to provide for the evacuation and/or protection of people from physical harm in the event of an incident, including but not limited to those articulated in the Commonwealth's Protective Security Policy Framework.

Judicial decisions

In 2012-13, no matters relating to the AOFM were the subject of judicial proceedings, administrative tribunal hearings or consideration by the Ombudsman.

External reports on agency operations

There were no reports in 2012-13 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

Meeting workforce needs

AOFM is one of only a handful of financial market related operations with a head office in Canberra. The work of AOFM involves skills in sovereign debt, financial, and risk management along with a variety of supporting specialties. AOFM interfaces with wholesale financial market participants within a public sector policy framework. Most

AOFM staff use practical knowledge of financial markets, debt management, public policy and government administration to meet the AOFM's objectives.

In 2012-13 the AOFM used open recruitment processes to fill five out of six vacancies. Web-based advertising has led to a substantial increase in the size of candidate fields, averaging forty-eight candidates per vacancy. AOFM also attracted a number of candidates who expressed interest in employment with AOFM without reference to a specific vacancy.

AOFM employees are developed through on-the-job experience, mentoring, assistance with further professional training and in-house development programs. This approach aims to maintain the core professional strength of the AOFM.

Eighty-three per cent of AOFM employees have degree qualifications, with 24 per cent holding higher degrees and 19 per cent double degrees. Forty-three per cent have professional qualifications.

The retention rate for 2012-13 was 93 per cent, with an average annual retention rate of 91 per cent over the previous five years.

The State of the Service census results from 2012 sheds some light on AOFM's high retention rate. The summary results concerning engagement show that AOFM respondents were above the mid-point on all measures of employee engagement. The AOFM scored above the APS overall score on these measures as well but some differences do not seem significant:

Table 1: State of the Service census results for 2012

Engagement Type	AOFM Score	APS Overall Score	Difference
Job	7.04	6.46	+0.58
Team	6.84	6.44	+0.40
Supervisor	6.78	6.73	+0.05
Agency	6.84	5.63	+1.21

Census respondents indicated a satisfaction with the AOFM according to the type of work and employment conditions. Respondents were also satisfied with the non-monetary conditions at AOFM. They are also satisfied with the quality of learning through formal training and education (albeit not always with the access to learning opportunities). Almost 70 per cent feel a strong personal attachment to working at the AOFM.

Training and development

The AOFM performance management system is designed to encourage staff to consider training and development activities during each performance cycle. Over the last five financial years, an average of 85 per cent of staff have participated in training or development supported by the AOFM. During this period, training averaged 4.1 days per full-time equivalent staff member (FTE) per year and the direct costs of training (paid to external parties) averaged $2,266 per FTE per year. In 2012-13, 96 per cent of employees participated in training and $2,516 per FTE was paid to external providers. Of the 3.8 days per FTE invested in skill development, 1.8 days per FTE were external courses, and one day each was devoted to study assistance and in-house training respectively. Including participant time, AOFM's commitment to training and development activity in 2012-13 represented 3.1 per cent of gross salary.

The AOFM workforce

As at 30 June 2013, the AOFM employed 40.6 full-time equivalent staff under the *Public Service Act 1999*. Table 2 shows this workforce by broadband classification.

Table 2: Operative and paid inoperative staff as at 30 June 2012 and 2013

	Ongoing				**Non-ongoing**				
	Full-time		**Part-time**		**Full-time**		**Part-time**		
Classification	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Total**
2013									
AOFM1	1	2	0	1	0	0	0	0	**4**
AOFM2	15	11	0	3	0	1	0	0	**30**
AOFM3	5	1	0	0	0	0	0	0	**6**
AOFM4	1	0	0	0	0	0	0	0	**1**
CEO	1	0	0	0	0	0	0	0	**1**
Total	**23**	**14**	**0**	**4**	**0**	**1**	**0**	**0**	**42**
2012									
AOFM1	0	2	0	1	0	0	0	0	**3**
AOFM2	14	10	1	3	0	1	0	0	**29**
AOFM3	6	1	0	0	0	0	0	0	**7**
AOFM4	1	0	0	0	0	0	0	0	**1**
CEO	1	0	0	0	0	0	0	0	**1**
Total	**22**	**13**	**1**	**4**	**0**	**1**	**0**	**0**	**41**

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

Two staff were located overseas during the year to support capacity building in sovereign debt management in Papua New Guinea and the Solomon Islands. These positions are arranged under the *Strongim Gavman Program* and the *Regional Assistance Mission to the Solomon Islands* programs respectively.

Changes to senior management

There were no changes to senior management.

Other staffing changes

Three ongoing and one non-ongoing employees were recruited during 2012-13. This represents replacement for normal turnover.

There was three staff departures during the year, all were ongoing staff. Two of these employees took up positions elsewhere in the financial sector. Employee departures represented 7.6 per cent of average staffing levels in 2012-13 (7.5 per cent in 2011-12).

Employment arrangements

All non-SES employees have terms and conditions set by the *AOFM Enterprise Agreement 2011-2014* which was negotiated under the Australian Public Service Bargaining Framework.

During 2012-13 AOFM conducted a comprehensive review of its Employment Policies and Procedures document which involved a cross-unit working party. The new document reflects policies that have been updated (to take account of the *AOFM Enterprise Agreement 2011-2014),* clarified (where appropriate) and is streamlined.

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

Remuneration

Pay rates as at 30 June 2013 are shown in Table 3. These rates are set in accord with the enterprise agreement and take account of relevant market rates. AOFM sets a one-third percentile benchmark against financial services organisations using data provided by the Financial Institutions Remuneration Group. These data cover a wide range of public and private sector financial institutions, including banks, corporate treasuries and State debt management agencies. AON Hewitt provided independent advice in applying the data to the AOFM.

Table 3: AOFM salary ranges

	30 June 2013	
	Band Low	Band High
Classification	$	$
AOFM1	39,130	71,509
AOFM2	68,919	141,851
AOFM3	165,359	206,699
AOFM4	222,401	278,002

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

Non-salary benefits provided to staff principally comprise superannuation and support for professional development through study assistance, short courses and payment of job-relevant professional society membership fees. A mobile phone, Blackberry, laptop, or other mobile device may be provided where there is a business need. Executive remuneration is reported in Note 12 of Part 4: Financial Statements.

Work health and safety

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

Work health and safety is a standing item on the Executive Group Agenda. All staff have completed self-paced learning modules concerning their responsibilities for work health and safety.

Flu vaccinations, health assessments, and dietary assistance were again provided in 2012-13. Counselling and related support is available under an Employee Assistance Program provided by PPC Worldwide.

There were no compensable injury claims in 2012-13.

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

Changes to disability reporting in annual reports

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

Consultants

During 2012-13, fifteen new consultancy contracts were entered into involving total actual expenditure of $93,060. In addition, three ongoing consultancy contracts were active during 2012-13 year, involving total actual expenditure of $175,160. This is summarised in Table 4.

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

The AOFM engages consultants where it lacks specialist expertise or when independent research, review or assessment is required. Consultants are typically engaged to investigate or diagnose a defined issue or problem; carry out defined reviews or evaluations; or provide independent advice of a specific nature.

Prior to engaging consultants, the AOFM takes into account the skills 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 FMA Act and related regulations including the *Commonwealth Procurement Rules (CPRs)* and relevant internal policies.

Table 4: Consultancy contracts

	2010-11	2011-12	2012-13
Number of consultancy contracts			
New contracts	12	7	15
Ongoing contracts	2	3	3
Expenditure (including GST)			
New contracts	$319,000	$106,910	$93,060
Ongoing contracts	$159,905	$239,480	$175,160

Purchasing

The AOFM's purchasing activities are carried out to comply with legislative requirements and Government policy, in particular the *Commonwealth Procurement Rules (CPRs)* (July 2012).

The CPRs are applied to AOFM's activities through the Chief Executive Instructions and supporting internal policy and procedural documentation.

ANAO access clauses and exempt contracts

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

One contract was for the syndicated issuance of $3.25 billion of Australian Government debt in October 2012. The AOFM appointed Citigroup Global Markets Australia Pty Ltd, Royal Bank of Canada and UBS AG (Australia Branch) as Joint-Lead Managers for the issue. The AOFM appointed Barclays Bank PLC, Deutsche Bank AG (Sydney Branch) and Westpac Banking Corporation as Co-Managers for the issue.

The second contract was for the syndicated issuance of $4 billion of Australian Government debt in May 2013. The AOFM appointed Citigroup Global Markets Australia Pty Ltd, Deutsche Bank AG (Sydney Branch), UBS AG (Australia Branch) and Westpac Banking Corporation as Joint-Lead Managers for the issue.

The third contract was for the appointment Carol Austin to the AOFM's advisory board in March 2013.

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, $11.963 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*.

AOFM

PART 4
FINANCIAL STATEMENTS

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Treasurer

Report on the Financial Statements

I have audited the accompanying financial statements of the Australian Office of Financial Management for the year ended 30 June 2013, which comprise: a Statement by the Chief Executive and Chief Financial Officer; Statement of Comprehensive Income; Balance Sheet; Statement of Changes in Equity; Cash Flow Statement; Schedule of Commitments; Administered Schedule of Comprehensive Income; Administered Schedule of Assets and Liabilities; Administered Reconciliation Schedule; Administered Cash Flow Statement; Schedule of Administered Commitments; and Notes comprising a Summary of Significant Accounting Policies and other explanatory information.

Chief Executive's Responsibility for the Financial Statements

The Chief Executive of the Australian Office of Financial Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Finance Minister's Orders made under the Financial Management and Accountability Act *1997*, including the Australian Accounting Standards, and for such internal control as is necessary to enable the preparation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Australian Office of Financial Managements' preparation of the financial statements that give a true and fair view 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 Australian Office of Financial Managements' internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Chief Executive

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of the Australian Office of Financial Management, as well as evaluating the overall presentation of the financial statements.

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

Independence

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

Opinion

In my opinion, the financial statements of the Australian Office of Financial Management:

(a) have been prepared in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997,* including the Australian Accounting Standards; and

(b) give a true and fair view of the matters required by the Finance Minister's Orders including the Australian Office of Financial Management's financial position as at 30 June 2013 and of its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

Note 30 "Compliance with Statutory Conditions for Payments from the Consolidated Revenue Fund" discloses information on the Australian Office of Financial Management's review of its exposure to risks of not complying with statutory conditions on payments from special appropriations and special accounts, and annual appropriations which fund statutory payments. Non-compliance with statutory conditions may lead to a contravention of section 83 of the Constitution, which requires that no money shall be drawn from the Treasury of the Commonwealth except under an appropriation made by law.

As disclosed in Note 30 the review was completed for 2012-13 and no actual or potential breaches of section 83 of the Constitution were identified in 2012–13.

Australian National Audit Office

Michael J Watson

Michael J Watson
Group Executive Director
Delegate of the Auditor-General

Canberra
26 August 2013

AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT

Statement by the Chief Executive Officer and Chief Finance Officer

In our opinion, the attached financial statements for the year ended 30 June 2013 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997,* as amended.

Signed	Signed
R Nicholl Chief Executive Officer 26 August 2013	P Raccosta Chief Finance Officer 26 August 2013

Statement of comprehensive income

for the period ended 30 June 2013

	Notes	2013 $'000	2012 $'000
EXPENSES			
Employee benefits	4A	**6,481**	6,305
Supplier expenses	4B	**2,913**	3,625
Depreciation and amortisation	4C	**380**	354
Write-down and impairment of assets	4D	**2**	13
Total expenses		**9,776**	10,297
LESS:			
OWN-SOURCE INCOME			
Revenue:			
Sale of goods and rendering of services	5A	**516**	523
Other revenue	5B	**383**	487
Total own-source revenue		**899**	1,010
Gains:			
Reversal of previous asset write-downs	5C	**-**	15
Total gains		**-**	15
Total own-source income		**899**	1,025
Net cost of services		**8,877**	9,272
APPROPRIATION FUNDING			
Revenue from government	5D	**11,409**	12,413
Total appropriation funding		**11,409**	12,413
Surplus (deficit)		**2,532**	3,141
Total comprehensive income		**2,532**	3,141

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

Balance sheet
as at 30 June 2013

	Notes	**2013 $'000**	2012 $'000
ASSETS			
Financial assets:			
Cash and cash equivalents		**100**	100
Receivables	6A	**28,664**	25,726
		28,764	25,826
Non-financial assets:			
Infrastructure, plant and equipment	7A,7C	**588**	550
Intangibles	7B,7C	**153**	289
Other non-financial assets	7D	**84**	57
		825	896
Total assets		**29,589**	26,722
LIABILITIES			
Payables:			
Supplier payables	8A	**237**	473
Other payables	8B	**183**	165
		420	638
Provisions:			
Employee provisions	9A	**1,849**	1,702
Other provisions	9B	**136**	136
		1,985	1,838
Total liabilities		**2,405**	2,476
Net assets		**27,184**	24,246
EQUITY(a)			
Retained surplus		**22,253**	19,721
Contributed equity		**4,931**	4,525
Total equity		**27,184**	24,246

The above statement should be read in conjunction with the accompanying notes.
(a) Refer to the Statement of changes in equity.

Statement of changes in equity

for the period ended 30 June 2013

	2013 $'000	2012 $'000
RETAINED SURPLUS		
Opening balance	**19,721**	16,580
Changes for period:		
Comprehensive income	**2,532**	3,141
Total retained surplus	**22,253**	19,721
CONTRIBUTED EQUITY		
Opening balance	**4,525**	1,496
Changes for period:		
Contributions by government:		
Capital injection - departmental capital budget	**406**	3,029
Distributions to owners:		
Return of capital		-
Total contributed equity	**4,931**	4,525
Total equity	**27,184**	24,246

Statement of cash flows
for the period ended 30 June 2013

	Notes	2013 $'000	2012 $'000
OPERATING ACTIVITIES			
Cash received:			
Ordinary appropriations		**9,181**	9,022
GST received		**20**	12
Goods and services(a)		**584**	711
Cash used:			
Employees		**(6,315)**	(5,953)
Suppliers		**(2,874)**	(3,067)
GST paid		**(12)**	(14)
Transfers to Official Public Account(a)		**(584)**	(711)
Net cash from (used by) operating activities	10	**-**	-
INVESTING ACTIVITIES			
Cash used:			
Purchase of property, plant and equipment		**(294)**	(198)
Net cash from (used by) investing activities		**(294)**	(198)
FINANCING ACTIVITIES			
Cash received:			
Appropriations - contributed equity		**294**	198
Net cash from (used by) financing activities		**294**	198
Net increase (decrease) in cash held		**-**	-
Plus cash held at the beginning of the reporting period		**100**	100
Cash at the end of the reporting period	10	**100**	100

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

(a) Non-appropriation receipts are required to be returned to the Official Public Account. They increase the AOFM's available appropriation under section 31 of the *Financial Management and Accountability Act 1997* and when subsequently drawn down for use by the AOFM they are recorded as ordinary appropriations.

Schedule of commitments

as at 30 June 2013

	2013	2012
	$'000	$'000
BY TYPE		
Commitments payable:		
Operating leases(a)	**728**	1,170
Other commitments(b)	**1,666**	1,816
	2,394	2,986
Commitments receivable:		
GST recoverable on commitments	**(1)**	(1)
	(1)	(1)
Net commitments by type	**2,393**	2,985
BY MATURITY		
Commitments payable:		
Operating leases:		
One year or less	**288**	328
From one to five years	**440**	842
Over five years	**-**	-
	728	1,170
Other commitments:		
One year or less	**1,480**	1,242
From one to five years	**186**	574
Over five years	**-**	-
	1,666	1,816
Commitments receivable:		
GST recoverable on commitments:		
One year or less	**(1)**	(1)
From one to five years	**-**	-
Over five years	**-**	-
	(1)	(1)
Net commitments by maturity	**2,393**	2,985

Note: Commitments are GST inclusive and where an input tax credit is available to the AOFM, the recoverable GST is reported in Commitments receivable.

(a) Operating leases are effectively non-cancellable and comprise:

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

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

Administered schedule of comprehensive income

for the period ended 30 June 2013

	Notes	2013 $'000	2012 $'000
Income before re-measurements			
Interest revenue	16A	**1,121,487**	1,412,392
Other revenue	16B	**40**	270
Total income before re-measurements		**1,121,527**	1,412,662
Expenses before re-measurements			
Grants	17A	**21**	23
Interest expense	17B	**12,225,143**	11,413,881
Supplier expenses	17C	**12,145**	6,992
Total expenses before re-measurements		**12,237,309**	11,420,896
Gains (losses) before re-measurements			
Net foreign exchange gains (losses)	18A	**(500)**	(254)
Net realised gains (losses) on financial instruments	18B	**(278,572)**	(8,229)
Total gains (losses) before re-measurements		**(279,072)**	(8,483)
Surplus (deficit) before re-measurements		**(11,394,854)**	(10,016,717)
Re-measurements			
Net market revaluation gains (losses)	19	**11,667,953**	(20,565,780)
Total re-measurements		**11,667,953**	(20,565,780)
Surplus (deficit)		**273,099**	(30,582,497)
Total comprehensive income		**273,099**	(30,582,497)

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

Administered schedule of assets and liabilities
as at 30 June 2013

	Notes	2013 $'000	2012 $'000
ASSETS			
Financial assets:			
Cash and cash equivalents		**622**	622
Investments (under FMA section 39)(a)	20A	**29,272,165**	25,576,490
Receivables	20B	**2,177,119**	2,540,531
Accrued revenue	20C	**394**	444
Total administered financial assets		**31,450,300**	28,118,087
Total administered assets		**31,450,300**	28,118,087
LIABILITIES			
Interest bearing liabilities:			
Commonwealth Government Securities	21A	**285,754,725**	269,785,350
Other	21B	**93**	93
Total interest bearing liabilities		**285,754,818**	269,785,443
Payables:			
Accrued expenses	21C	**214**	-
Total payables		**214**	-
Total administered liabilities		**285,755,032**	269,785,443
Administered net assets		**(254,304,732)**	(241,667,356)

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

(a) FMA = Financial Management and Accountability Act 1997.

Administered reconciliation schedule

for the period ended 30 June 2013

	2013 $'000	2012 $'000
Opening administered assets less administered liabilities	**(241,667,356)**	(174,119,882)
Administered income and expenses		
Administered income before re-measurements	**1,121,527**	1,412,662
Administered gains (losses) before re-measurements	**(279,072)**	(8,483)
Administered expenses before re-measurements	**(12,237,309)**	(11,420,896)
Re-measurements - net market revaluation gains (losses)	**11,667,953**	(20,565,780)
Administered transfers (to) from Australian Government:		
Special appropriations (unlimited)	**935,905,474**	1,154,358,608
Transfers to OPA	**(948,815,864)**	(1,191,323,494)
Change in special account balance	**(85)**	(91)
Closing administered assets less administered liabilities	**(254,304,732)**	(241,667,356)

Administered schedule of cash flows
for the period ended 30 June 2013

	Notes	2013 $'000	2012 $'000
OPERATING ACTIVITIES			
Cash received:			
Interest receipts(a)		**1,102,879**	1,424,742
Other(b)		**40**	3,642
GST refunds		**873**	509
Cash used:			
Interest payments(a)		**(12,655,597)**	(11,031,801)
Other(b)		**(12,805)**	(3,371)
Net cash from (used by) operating activities	22	**(11,564,610)**	(9,606,279)
INVESTING ACTIVITIES			
Cash received:			
Capital proceeds from deposits		**831,350,000**	1,063,850,000
Capital proceeds from discount securities		**-**	5,800,043
Capital proceeds from residential mortgage-backed securities		**2,287,118**	1,558,683
Repayments from advances and loans		**100,248**	97,873
Cash used:			
Acquisition of deposits		**(837,000,000)**	(1,067,700,000)
Acquisition of discount securities		**-**	(2,229,108)
Acquisition of residential mortgage-backed securities		**(160,000)**	(1,930,043)
Net cash from (used by) investing activities		**(3,422,634)**	(552,552)
FINANCING ACTIVITIES			
Cash received:			
Capital proceeds from borrowings		**113,474,440**	117,992,348
Other receipts		**62**	755
Cash used:			
Repayment of borrowings(c)		**(85,576,784)**	(70,869,295)
Net cash from (used by) financing activities		**27,897,718**	47,123,808
TRANSACTIONS WITH OPA			
Cash received from Official Public Account:			
Appropriations		**935,905,433**	1,154,358,560
Special accounts		**19**	712
Cash to Official Public Account:			
Appropriations		**(948,815,864)**	(1,191,323,494)
Special accounts		**(62)**	(755)
Net cash from (to) official public account		**(12,910,474)**	(36,964,977)
Net increase (decrease) in cash held		**-**	-
Plus cash held at the beginning of the reporting period		**622**	622
Cash at the end of the reporting period		**622**	622

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

(a) Includes amounts relating to depository interests. See Note 27E.

(b) 2011-12 includes interest coupons on Treasury Bonds issued to bond market participants under the AOFM's securities lending facility.

(c) Includes redemption of debt issued on behalf of the States.

Administered schedule of commitments
as at 30 June 2013

	2013	2012
	$'000	$'000
BY TYPE		
Commitments payable:		
Other commitments(a)	**1,950**	335
	1,950	335
Commitments receivable:		
Other commitments(a)	**(133)**	(23)
	(133)	(23)
Net commitments by type	**1,817**	312
BY MATURITY		
Commitments payable:		
Other commitments:		
One year or less	**643**	335
From one to five years	**1,307**	-
	1,950	335
Commitments receivable:		
GST recoverable on commitments:		
One year or less	**(44)**	(23)
From one to five years	**(89)**	-
	(133)	(23)
Net commitments by maturity	**1,817**	312

(a) As at 30 June 2013 the AOFM had no open transactions under its securities lending facility (30 June 2012: nil).

Notes to and forming part of the financial statements
for the period ended 30 June 2013

Note	Description
1	Summary of significant accounting policies
2	Objectives and activities of the AOFM
3	Financial risk management
4	Expenses
5	Income
6	Financial assets
7	Non-financial assets
8	Payables
9	Provisions
10	Cash flow reconciliation
11	Contingent liabilities and assets
12	Executive remuneration
13	Remuneration of auditors
14	Average staffing level
15	Compensation and debt relief in special circumstances
16	Administered income before re-measurements
17	Administered expenses before re-measurements
18	Administered gains (losses) before re-measurements
19	Administered re-measurements
20	Administered assets
21	Administered liabilities
22	Administered cash flow reconciliation
23	Administered contingent liabilities and assets
24	Administered financial instruments
25	Market risk sensitivity of administered financial instruments
26	Securities lending facility
27	Disclosures of appropriations
28	Reporting of outcomes
29	Net cash appropriation arrangements
30	Compliance with statutory conditions for payments from the consolidated revenue fund
31	Events occurring after reporting date

Note 1: Summary of significant accounting policies

1.1 Basis of preparation of the financial statements

The Australian Office of Financial Management (AOFM), a 'prescribed agency' under the *Financial Management and Accountability Act 1997* (Commonwealth), is a specialised agency responsible for the management of Australian Government debt and financial assets. The AOFM operates on a not-for-profit basis. The financial statements cover the AOFM as an individual entity and are for the reporting period 1 July 2012 to 30 June 2013. They are required by section 49 of the *Financial Management and Accountability Act 1997*, and are general purpose financial statements prepared on a going concern basis.

The financial statements have been prepared in accordance with:

- the Finance Minister's Orders (FMOs) (Financial Statements for reporting periods ending on or after 1 July 2011) made under section 63 of the *Financial Management and Accountability Act 1997*);
- the Finance Minister's Amendment Orders (Financial Statements for reporting periods ending on or after 1 July 2012);
- Australian Accounting Standards, including Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period; and
- other authoritative pronouncements of the AASB, which includes the *Framework for the Preparation and Presentation of Financial Statements*.

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

The financial statements have been prepared on an accruals basis under the historic cost accounting convention, as modified by the revaluation of certain classes of financial assets and financial liabilities, certain classes of infrastructure, plant and equipment and employee entitlements.

The financial statements are presented in Australian dollars, and values are rounded to the nearest thousand dollars unless disclosure of the full amount is specifically required by the FMOs.

Liabilities and assets which are unrecognised in the Agency Balance Sheet or the Administered Schedule of Assets and Liabilities are reported in Note 11 (departmental) and Note 23 (administered).

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

1.2 Significant accounting estimates and judgments

Subject to one exception, no accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next reporting period. The residential mortgage-backed securities (RMBS) held by the AOFM are fully amortising instruments. The repayment of principal on each RMBS security is dependent on the payment priorities set out in the issuance documentation and the timing of principal repaid on each RMBS security may vary over its life and cannot be precisely forecasted. For valuation purposes, the repayment profile is estimated to produce a weighted average life for each security. The weighted average life represents a measure of the estimated point in time in which a holder of a security will receive (in undiscounted terms) repayment of 50 per cent of the principal invested. The weighted average life of each security is estimated, including on the basis of actual repayment history where available. The estimated weighted average life is an important factor in the valuation of RMBS securities.

1.3 Statement of compliance with International Financial Reporting Standards

In some circumstances compliance with Australian Accounting Standards will not lead to compliance with International Financial Reporting Standards. Paragraph 16 of AASB 101 *Presentation of Financial Statements* requires that where an entity's financial statements comply with International Financial Reporting Standards, then such compliance shall be made in an explicit and unreserved statement in the notes to the financial statements.

These financial statements and associated notes do not fully comply with International Financial Reporting Standards, due to the application of not-for-profit provisions in AASB 116 *Property, Plant and Equipment* relating to the accounting treatment arising from revaluations.

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

During 2012-13 the AOFM adopted all applicable Australian Accounting Standards that became effective during 2012-13. These pronouncements did not have a material impact on the amounts reported for the current and prior years.

(b) New Australian Accounting Standards applicable in future reporting periods

A number of revised or new Australian Accounting Standards have been issued that are effective for future reporting periods. With the exception of AASB 9 *Financial Instruments* (effective for the 2015-16 financial year) the revisions are not expected to materially affect the AOFM's assets, liabilities, revenue or expenses.

AASB 9 Financial Instruments

The IASB has been progressively replacing the current standard for the measurement and recognition of financial instruments (IAS 39 *Financial Instruments: Recognition and Measurement* (in Australia AASB 139)) with a new standard IFRS 9 *Financial Instruments* (in Australia AASB 9).

AASB 9 currently contains the requirements for the recognition and measurement of financial assets and liabilities and their derecognition. The requirements for amortised cost and impairment and hedge accounting are expected to be incorporated into the standard at a later stage.

Financial assets

Currently, the AOFM classifies its administered financial assets into the following categories: financial assets at fair value through profit or loss; and loans and receivables (which requires measurement at amortised cost). The AOFM determines which classification applies to each class of financial assets on the basis of how it manages the assets and assesses the performance of the financial assets. Where the AOFM's management monitors cost and risk in mark-to-market terms (and not necessarily only in those terms) the AOFM designates the relevant financial assets at fair value through profit or loss.

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

AASB 9 establishes new principles for determining the accounting treatment for financial assets. AASB 9 requires that a financial asset is to be carried at fair value through profit or loss, except where the business objective of the entity is to hold the instrument to collect its contractual cash flows (rather than trading to earn capital profits) and those contractual cash flows are in the nature of principal, and interest on the principal outstanding, and in which case the financial asset is to be carried at amortised cost. Where an entity's objective for holding a financial asset changes so too should the accounting treatment, where relevant. The sale of a financial asset for portfolio management, credit or liquidity reasons may not represent a change of purpose from one of collection of contractual cash flows to one of trading to earn capital profits. Under AASB 9, derivatives are deemed to be held for trading to earn capital profits, and accordingly must be carried at fair value through profit or loss.

The AASB has recently issued Exposure Draft 230 *Classification and Measurement: Limited Amendments to AASB 9*. The proposed changes seek to clarify the accounting treatment for financial assets, including the creation of a new category of fair value through other comprehensive income.

The amendments that may follow after completion of consultations on the exposure draft may have a significant impact on the accounting treatment of AOFM's financial assets. Accordingly, the AOFM will make an assessment of the impact of AASB 9 on its financial assets after that time.

Financial liabilities

Currently, the AOFM classifies its administered financial liabilities into the following categories: financial liabilities at fair value through profit or loss; and other financial liabilities (which requires measurement at amortised cost). The AOFM determines which classification applies to each class of financial liability on the basis of how it manages and assesses the performance of the financial liability.

All of the AOFM's administered financial liabilities, with the exception of debt on allocation to the State and Northern Territory Governments, are designated at fair value through profit or loss. Debt on allocation to the State and Northern Territory Governments is measured at amortised cost.

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

For financial liabilities carried at fair value through profit or loss, AASB 9 has adopted a revised disclosure for the presentation of unrealised fair value gains and losses. These changes require the gain or loss to be apportioned between changes in credit risk (recognised in other comprehensive income) and other changes (recognised in profit or loss), unless such a presentation would create or enlarge an accounting mismatch.

1.4 Departmental and administered items

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

- computers, plant and equipment;
- liabilities for employee entitlements;
- receipts deemed appropriated under the *Financial Management and Accountability Act 1997*; and
- employee expenses and other administrative expenses.

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

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

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

1.5 Revenue (Departmental)

The revenue described in this note is revenue relating to the departmental activities of the AOFM.

(a) Revenue from Government — output appropriations

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

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

(b) Resources received free of charge

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

(c) Other revenue

Revenue from the rendering of a service is recognised by reference to the stage of completion of contracts or other agreements to provide the service. Other revenue includes amounts received and receivable for salary packaging arrangements for staff and transfers of annual leave and long service leave entitlements from other government agencies.

1.6 Transactions with the Government as owner (Departmental)

(a) Equity injections

Amounts which are designated as 'equity injections' for a year (less any formal reductions) are recognised directly in Contributed Equity in the Balance Sheet in the financial year that the appropriation takes effect.

Appropriation receivables are recognised (at their nominal amounts) for equity injections that have not been drawn by the AOFM and have not lapsed.

For 2012-13 the AOFM received a capital injection of $0.406 million (2011-12: $3.029 million) under the Government's 'net cash appropriation framework'. Under this framework, the AOFM is provided with capital funding in the form of an equity injection for the replacement of departmental infrastructure, plant and equipment and computer software.

(b) Distributions to owners

Distributions to owners are deducted from Contributed Equity in the Balance Sheet unless the distributions are in the nature of a dividend. Dividends are deducted from Retained Surplus in the Balance Sheet. No distributions to owners were made in 2012-13 (2011-12: $nil).

1.7 Employee benefits (Departmental)

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

(a) Salaries

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

(b) Leave

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all 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.

The AOFM obtains advice from the Australian Government Actuary on the valuation of its leave liabilities. Leave liabilities are calculated on the basis of employees' remuneration at the end of the financial year adjusted for expected increases in remuneration effective from 1 July.

Liabilities for annual leave are measured at the nominal amount required to settle the obligation.

All long service leave employee benefits are measured at the present value of the estimated future cash flows to be made in respect of all employees at the end of the financial year. In determining the present value of the long service leave liability, the AOFM commissions an annual actuarial assessment by the Australian Government Actuary of the anticipated attrition rates and pay increases through promotion and inflation. The Australian Government Actuary has recommended the application of the shorthand method, as prescribed by the FMOs, for determining the present value of the long service leave liability.

(c) Superannuation

Staff and contractors of the AOFM contribute to the Commonwealth Superannuation Scheme (CSS; a defined benefit scheme), Public Sector Superannuation Scheme (PSS; a defined benefit scheme), Public Sector Superannuation Accumulation Plan (PSSap; an accumulation scheme) and other nominated schemes.

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

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

1.8 Leases (Departmental)

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all risks and benefits incidental to ownership of leased non-current assets. Under operating leases the lessor effectively retains substantially all such risks and benefits.

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

1.9 Cash (Departmental)

Cash means notes and coins held and any deposits held at call with a bank. Deposits held with a bank that are not at call are classified as investments. Cash is recognised at its nominal amount.

1.10 Financial instruments (Departmental)

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

The AOFM classifies its departmental financial assets as loans and receivables. Loans and receivables primarily comprise amounts due from other parties for the reimbursement of staff costs associated with staff secondments. Loans and receivables are initially recognised at fair value and are subsequently measured at amortised cost. Amounts due from the Official Public Account (OPA) for undrawn departmental appropriations are not financial instruments as they are not contractually based.

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

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

1.11 Infrastructure, plant and equipment (Departmental)

(a) Asset recognition threshold on acquisition

Purchases of infrastructure, plant and equipment are recognised initially at cost in the Balance Sheet, except for purchases costing less than $500, which are expensed at the time of acquisition. The asset recognition threshold is applied to each functional asset, that is, items or components that form an integral part of an asset are grouped as a single asset.

(b) Revaluations

Basis

Following initial recognition at cost, valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not materially differ from the assets' fair values as at the reporting date, in accordance with AASB 116 *Property, Plant and Equipment*.

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

Revaluation adjustments are made on a class basis. Revaluation increments for a class are credited directly to a revaluation reserve in Equity, except to the extent that they reverse a previous revaluation decrement of the same asset class, in which case they are credited as revenue directly through the Statement of Comprehensive Income. Revaluation decrements for a class of assets are recognised as an expense directly through the Statement of Comprehensive Income, except to the extent that they reverse a previous revaluation increment for that class, in which case they are debited directly to a revaluation reserve in Equity. Upon disposal, any revaluation reserve relating to the asset sold is transferred to Retained Surplus.

For all assets, excluding leasehold improvements, any accumulated depreciation or amortisation as at the revaluation date is eliminated against the gross carrying amount of the asset. For leasehold improvements, accumulated amortisation on revaluation is restated proportionately in accordance with the gross carrying amount of the asset.

Frequency

Infrastructure, plant and equipment assets are formally revalued every three years. All infrastructure, plant and equipment assets were revalued as at 31 March 2012.

Assets acquired after the commencement of a revaluation are not captured by the revaluation.

Conduct

All valuations are conducted by an independent qualified valuer.

(c) Impairment

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

(d) Depreciation

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

Depreciation rates (useful lives) are reviewed at least annually and, if required, the remaining useful life of an asset is adjusted. Adjustments are recognised in the current, or current and future, reporting periods as appropriate. During 2012-13 the AOFM extended the useful lives of a number of IT assets. The financial impact of the change was a reduction in the depreciation charge for 2012-13 of $10,878.

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

Sub-class of depreciable asset	**2013**	2012
Leasehold improvements	lease term	lease term
Computers	3-5 years	3-5 years
Office equipment	5 years	5 years
Furniture	10 years	10 years

The aggregate amount of depreciation allocated to each class of asset during the reporting period is disclosed at Note 4C.

1.12 Computer software (Departmental)

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

An item of software represents:

- a software licence granted for greater than 12 months; or
- a developed software application.

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

Software assets are amortised on a straight-line basis over their anticipated useful lives, being three to five years (2011-12: three to five years). Software assets are carried at cost and are not subject to revaluation.

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

1.13 Taxation (Departmental)

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

Revenue, expenses, assets and liabilities are recognised net of GST, except:

- where the amount of GST incurred is not recoverable from the Australian Taxation Office; and
- for receivables and payables (where GST is applicable).

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

All supplies provided by the AOFM are input taxed under the GST legislation. From 1 July 2012 non-commercial supplies provided by government agencies are GST-free. In accordance with applicable GST regulations the AOFM is entitled to a reduced input tax credit (equal to 75 per cent of the GST paid) on some purchases, such as security transaction services, which are applied in making input taxed supplies.

1.14 Reporting of administered activities

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

1.15 Exemption from FMOs

Section 17.2 of the FMOs provides an exemption to the AOFM from presenting its Administered Schedule of Comprehensive Income, and associated notes, in accordance with the Annexure to the FMOs. Instead, the AOFM is required to comply with AASB 101 Presentation of Financial Statements for presenting its Administered Schedule of Comprehensive Income.

Paragraph 85 of AASB 101 encourages reporting entities to adopt a presentation for reporting revenue and expenses that is most relevant to users in understanding the entity's financial performance.

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

- Operating result before re measurements; and
- Re measurements.

The category 'operating result before re measurements' records a financial result that is consistent with an accruals (or amortised cost) basis of accounting under the historic cost accounting convention and is most relevant to the AOFM's role in managing its debt portfolio whereby debt and financial instruments are predominately issued and held to maturity (and with portfolio restructuring a rarity and performed primarily for portfolio management, credit or liquidity purposes, rather than for profit making purposes). Where a financial asset is sold or financial liability is bought back prior to maturity the realised gain or loss, calculated on an amortised cost basis, is recognised within this category. Realised and unrealised foreign currency gains and losses are also included in this category.

The category 're measurements' provides information on the unrealised changes in the market valuation of the portfolio of administered financial assets and financial liabilities during the financial year. This is relevant for assessing changes in financial risk exposures and changes to the value of transactions managed from year to year. The revaluation effect will net to zero over the life of a financial instrument.

1.16 Recognition and de-recognition of financial instruments

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

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

1.17 Classification and measurement of financial instruments

The AOFM classifies its administered financial assets into the following categories: financial assets at fair value through profit or loss; and loans and receivables. The AOFM classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss; and other financial liabilities. See Note 24A for further details of the AOFM's financial instrument categories.

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

(a) Non-derivative financial assets at fair value through profit or loss

This category comprises short-term Australian dollar denominated deposits and Australian dollar denominated residential mortgage-backed securities. Under section 39(2) of the *Financial Management and Accountability Act 1997*, the AOFM invests public money to manage the balance of the Official Public Account (OPA) and to support the residential mortgage market.

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

Changes in carrying value attributable to amortised cost are recognised in Interest Revenue in the Administered Schedule of Comprehensive Income. Where a security is acquired at a premium or discount to its par value, the premium or discount is recognised at that time and included in the carrying value of the asset. The premium or discount is amortised over the life of the security using the effective interest rate method and recognised in Interest Revenue. Other changes in carrying value (including unrealised changes in valuation due to a change in interest rates) are recognised in Re-measurements in the Administered Schedule of Comprehensive Income.

(b) Loans and receivables

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

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

Until July 1990, the Australian Government borrowed on behalf of the State and Northern Territory Governments and allocated a portion of the proceeds of its Treasury Bond raisings to those Governments to fund the redemption of previous allocations of raisings. Until 1986, the Australian Government also borrowed on behalf of the State and Northern Territory Governments to raise new borrowings. In addition to Treasury Bond allocations, there are outstanding balances on stock issued by the States prior to 1 January 1924 and taken over by the Australian Government in 1927 (under the original *Financial Agreement Act*). The States and the Northern Territory are responsible for meeting all obligations as to interest and principal on the debt on allocation to them in accordance with the provisions of the *Financial Agreement Act 1994* (the current agreement). As at 30 June 2013 approximately $8 million of perpetual debt with no fixed maturity date issued by New South Wales and Victoria remained outstanding under the arrangements governed by the *Financial Agreement Act 1994* (30 June 2012: $8 million). All other debt has been redeemed. Redemption of the perpetual debt is at the discretion of the relevant State.

In addition to debt governed by the *Financial Agreement Act 1994*, from 1945 to 1989 the Australian Government made concessional advances to the State and Northern Territory Governments under Commonwealth-State financing arrangements, which were not evidenced by the issue of securities (namely, housing advances and specific purpose capital advances). On 26 June 2013, the Minister for Finance approved pursuant to section 34(1)(a) of the *Financial Management and Accountability Act 1997* the waiver of $320 million (in face value terms) of housing advances owed by the owed by the South Australian Government with effect on 30 June 2013. The accounting loss arising from this waiver is reported at Note 18. The principal value of these advances outstanding from the State and Northern Territory Governments (for which the AOFM is responsible for administering) was $2,455 million as at 30 June 2013 (30 June 2012: $2,875 million).

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

For financial assets measured at amortised cost, interest revenue earned but not yet received is recognised in Accrued Revenue in the Administered Schedule of Assets and Liabilities.

(c) Non-derivative financial liabilities at fair value through profit or loss

Currently this category comprises all Commonwealth Government Securities (CGS) debt with the exception of debt on allocation to State and Northern Territory Governments and overdues. CGS primarily comprises Treasury Bonds, Treasury Indexed Bonds and Treasury Notes.

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

For Treasury Indexed Bonds, the principal value appreciates over time with the consumer price index (the Weighted Average of Eight Capital Cities All-Groups Index) in line with a six-month lagged consumer price index. As future inflation rates are uncertain, an estimate of the Australian Government's future redemption cost on maturity is not disclosed in the financial statements. Capital accretion is recognised in Interest Expense over time.

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

(d) Other non-derivative financial liabilities

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

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

For financial liabilities measured at amortised cost, interest incurred but not yet paid is recognised as Other Interest Bearing Liabilities.

1.18 Fair value estimation of financial instruments

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

Fair value is synonymous with market value and represents the estimated exchange equivalent price using relevant inputs from reference markets and valuation techniques. Fair value is determined on the presumption that the reporting entity is a going concern and is operating in an active market under normal conditions, without any intention or need to liquidate, curtail materially the size of its activities or undertake transactions on adverse terms.

(a) Non-derivative financial instruments at fair value

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

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

The fair value of term deposit investments with the RBA is based on a zero coupon. curve using the overnight cash rate and overnight indexed swap rates. These yields reflect a default free credit risk. The valuation approach for Treasury Notes is largely equivalent.

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

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

1.19 Other significant administered accounting policies

(a) Revenue

All administered revenue is revenue relating to the activities performed by the AOFM on behalf of the Australian Government.

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

Net interest earnings on securities lending transactions are reported as revenue when received.

(b) Grants

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

(c) Borrowing costs

In accordance with section 21.1 of the FMOs borrowing costs are expensed as incurred. Under AASB 123 *Borrowing Costs*, borrowing costs directly attributable to a qualifying asset may be capitalised or expensed. A qualifying asset is an asset that takes a substantial period of time to get ready for its intended use or sale. The AOFM's borrowing program does not specifically raise funds for qualifying assets.

(d) Cash

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

(e) Securities lending facility

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

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

The exchange of securities is market value matched subject to a 2 per cent initial margin imposed by the AOFM for credit risk mitigation purposes. There is provision for making margin calls after initial exchange where the securities pledged as collateral by the other party fall in value relative to the Treasury Bonds or Treasury Indexed Bonds loaned under the facility. The repurchase and reverse-repurchase agreements are at-call, that is, they do not have set terms.

Interest is payable under the facility where lending is overnight. Interest is not payable on intra-day lending. The interest rate payable by the other party is the RBA target cash rate. The interest rate payable by the AOFM is the target cash rate less a margin. Net interest earnings of the Australian Government are reported as revenue when received. The temporary sale of CGS under the facility is recorded off-balance sheet. See Note 26 for details of transactions undertaken during the financial year under the facility.

(f) Foreign currency

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables are translated at the exchange rates current as at the end of the financial year. Net foreign exchange gains and losses (both realised and unrealised) arising from foreign currency transactions are reported in the Administered Schedule of Comprehensive Income.

Note 2: Objectives and activities of the AOFM

The AOFM manages a portfolio of debt and financial assets on behalf of the Australian Government. It issues Treasury Bonds and Treasury Indexed Bonds to finance projected budget deficits. It also manages the Government's cash in the Official Public Account (OPA) which is surplus to immediate requirements by making investments in term deposits. It uses these instruments, together with the issue of Treasury Notes, to manage the within-year financing task. It undertakes the administration, financial and operational risk management, and financial reporting of its portfolio of debt and assets. In managing its portfolio and undertaking these tasks it seeks to minimise accrual debt servicing costs over the medium term at an acceptable level of risk.

Financing the budget

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

Portfolio management

The cost and risk of the debt portfolio is managed through debt issuance and investment activities.

Cash management

The AOFM manages the overall level of cash in the OPA to ensure that the Government is able to meet its financial obligations as and when they fall due. To this end, it makes short-term borrowings by issuing Treasury Notes. It also invests in term deposits with the Reserve Bank of Australia (RBA).

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

Investments in residential mortgage-backed securities

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

The AOFM continues to hold investments in RMBS purchased prior to April 2013 and to monitor conditions in the RMBS market. It may sell its holdings from time-to-time to assist with price discovery in the market.

Trading of depository interests in Commonwealth Government Securities

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

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

The trading, settlement and administration of these financial products are governed by the *Corporations Act 2001*, market integrity rules made by the Australian Securities and Investments Commission, ASX market rules and contractual arrangements between the AOFM and the ASX (the financial market operator) and the AOFM and Computershare Fund Services Pty Limited (the registry provider).

Legislation

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

- the *Commonwealth Inscribed Stock Act 1911*, which represents the Australian Government's primary vehicle for the creation and issuance of domestic stock, including Treasury Bonds, Treasury Indexed Bonds and Treasury Notes. It also provides a standing authority to the Treasurer to borrow in Australian currency up to a statutory maximum;

    – on 28 June 2012, *Appropriation Act (No.2) 2012-13* received royal assent. The Act includes an amendment to the *Commonwealth Inscribed Stock Act 1911* to increase the legislative limit on borrowing to $300 billion from $250 billion. On 9 August 2012 the Treasurer issued a new direction under section 51JA of the Act permitting the AOFM to borrow up to the limit;

    – on 17 November 2012, the *Commonwealth Government Securities Legislation Amendment (Retail Trading) Act 2012* received royal assent. The Act amended the *Commonwealth Inscribed Stock Act 1911* primarily to facilitate the trading of CGS on financial markets in Australia. Details of the changes made are provided at Note 27E.

- the *Loans Redemption and Conversion Act 1921*, which gives the Treasurer the power to borrow money necessary for the purpose of paying off, repurchasing or redeeming any loan;

- the *Loans Securities Act 1919*, which includes provisions relating to overseas borrowings, and provides authority to enter into swaps, securities lending, repurchase agreements and other financial arrangements;

- the *Loans (Temporary Revenue Deficits) Act 1953*, which gives the Treasurer the power to borrow to meet expected within-year deficits of the Consolidated Revenue Fund. All borrowings raised under the authority of this Act must be repaid in the same financial year;

- the *Financial Agreement Act 1994*, which formalises debt consolidation and redemption arrangements applying since 1 July 1990 between the Australian Government and the States and Territories; and

- section 39 of the *Financial Management and Accountability Act 1997*, which gives the Treasurer the power to invest public money in authorised investments.

Note 3: Financial risk management

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

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

(a) Interest rate risk

Interest rate risk represents the risk to debt servicing cost outcomes and investment return outcomes and to the value of debt and financial assets caused by changes in interest rates. The AOFM largely holds its debt and assets until maturity. Accordingly, the primary measure used to assess cost and return is the accruals basis of accounting under the historic cost accounting convention. Market value measures (which include unrealised changes in the valuation of financial assets and financial liabilities due to changes in interest rates) are considered to be secondary.

Debt portfolio

The AOFM manages the interest rate structure of the debt portfolio through the choice of instruments and bond series in issuing debt. The cost and interest rate risk of the debt portfolio is regularly measured and reported to senior management, the Secretary to the Treasury and the AOFM Advisory Board.

Cash management portfolio

The cash management portfolio holds a fluctuating portfolio of short-term investments. Given the short tenor of the financial instruments in this portfolio, the level of interest rate risk is considered to be low.

Residential mortgage-backed securities

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

See Note 24B for details of the AOFM's interest rate risk profile.

(b) Inflation risk

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

(c) Exchange rate risk

Exchange rate risk arises from debt denominated in foreign currency. Only a small residual amount of such debt remains in the AOFM's portfolio and the AOFM seeks to repurchase this debt when available on acceptable terms. The volume of foreign currency debt remaining is monitored by senior management.

See Note 24C for details of the AOFM's exposure to foreign exchange risk.

(d) Liquidity and refinancing risk

The AOFM manages liquidity risk by maintaining sufficient cash and short-term investments to ensure that the Government can meet its financial obligations, both planned and unplanned, as and when they fall due. The AOFM manages the daily volume of cash in the OPA by monitoring the projected daily transactions of major spending and revenue agencies, undertaking investment of funds that are surplus to immediate cash requirements and by issuing Treasury Notes. The 91-day rolling average balance of the OPA is kept within a limit set by the Treasurer and the Minister for Finance. The AOFM also has access to an overdraft facility with the RBA. The overdraft facility is not to be used in normal day-to-day operations but only to cover temporary, unexpected shortfalls of cash and it has a limit of $1 billion. Should circumstances arise for the overdraft to exceed this limit, Ministerial approval is required.

The AOFM seeks to control refinancing risk by issuing along the entire yield curve. This creates a range of short-dated and mid-to-long-dated exposures that balance cost and refinancing patterns. In formulating its annual debt issuance strategy the AOFM considers the volume of debt in any one line and the maturity structure (including number of bond lines and maturity gaps between lines) of its debt. The AOFM CEO approves the debt issuance program.

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

See Note 24D for details of the maturity profile of AOFM's cash flow obligations arising from its financial liabilities as at year end.

(e) Credit risk

The AOFM's investment activity is made in accordance with legislative limits, delegations and directions from the Treasurer and policies and limits established by the Secretary to the Treasury. Section 39 of the *Financial Management and Accountability Act 1997* and associated regulations specify authorised investments. Directions from the Treasurer further limit the class of acceptable assets. The Secretary to the Treasury sets class and individual issuer exposure limits, including credit rating requirements.

The AOFM CEO approves the individual issuer names eligible for investment and from time to time may impose further restrictions on class and individual issuer exposure limits. Eligible investments and their limitations are as follows:

Eligible investment classes	Limits framework for 2012-13
Securities issued or guaranteed by the Commonwealth, a State or Territory.	Class limit of zero.
AAA rated or equivalent debt securities issued or guaranteed by the government of a foreign country in Australian dollars.	Class limit of zero.
AAA rated or equivalent debt securities issued by a financial institution or supranational in Australian dollars.	Class limit of zero.
Bank accepted bills of exchange and negotiable certificates of deposit rated at least A1 or equivalent issued in Australian dollars by an authorised deposit taking institution, where the remaining term to maturity is no more than 12 months.	Class limit of zero.
Commercial paper issued in Australian dollars rated at least A1+ or equivalent where the remaining term to maturity is no more than 12 months.	Class limit of zero.

Eligible investment classes	Limits framework
Deposits with the Reserve Bank of Australia.	No limits apply.
AAA rated or equivalent residential mortgage-backed securities issued in Australia.	As of 9 April 2013, this class is no longer eligible for new investments.

See Note 24E for details of the AOFM's exposure to credit risk.

Residential mortgage-backed securities (RMBS)

The AOFM no longer makes new investments in RMBS, however, it continues to hold securities purchased prior to 9 April 2013. The credit quality of RMBS derives from the underlying quality of the mortgage assets and structural enhancements such as lenders' mortgage insurance, liquidity facilities, and the issue of different classes of securities. At the time of acquisition, each RMBS security must meet a range of eligibility criteria set by the AOFM, including AAA (or equivalent) credit rating by at least two ratings agencies and denomination in Australian dollars. Mortgages backing the securities must be secured by an insurable prime mortgage over Australian residential property and meet various limits, including mortgage loan size and loan-to-value ratios. Each mortgage pool must be subject to independent review to provide assurance that the eligibility criteria have been met. The AOFM monitors the performance of each RMBS issue through a monthly report by the issuer on mortgage portfolio characteristics as well as conducting due diligence on RMBS issues from time to time. In the event that an investment made ceases to meet the specific eligibility requirements, the AOFM may continue to hold the security until maturity or it can be sold at an acceptable price.

As at 30 June 2013 those RMBS securities held by the AOFM and rated by Standard and Poor's and Fitch ratings agencies were rated at AAA or equivalent by them. The majority of those securities rated by Moody's ratings agency were at AAA equivalent, with the exception of three which were rated at AA+ equivalent.

Other assets and credit exposures

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

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

(f) Prepayment risk

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

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

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

Note 4: Expenses

	2013 $'000	2012 $'000
Note 4A: Employee benefits		
Wages and salaries	**5,215**	4,929
Superannuation	**939**	844
Leave and other entitlements	**130**	293
Other employee expenses	**197**	239
Total employee benefits	**6,481**	6,305
Note 4B: Supplier expenses		
ANAO - notional audit fee	**303**	303
Corporate support services	**53**	671
Market data services	**634**	644
Operating lease rentals(a)	**286**	317
Depository and transaction services(b)	**125**	118
Travel	**302**	251
Workers compensation premium	**7**	20
Other	**1,203**	1,301
Total supplier expenses	**2,913**	3,625
Supplier expenses are made up of:		
Provision of goods - related parties	**2**	1
Provision of goods - external parties	**67**	42
Provision of services - related parties	**885**	1,504
Provision of services - external parties	**1,959**	2,078
	2,913	3,625
Note 4C: Depreciation and amortisation		
Depreciation of infrastructure, plant and equipment:		
Computers, plant and equipment	**116**	119
Leasehold improvements	**104**	79
Amortisation of intangibles:		
Computer software	**160**	156
Total depreciation and amortisation	**380**	354
Note 4D: Write-down and impairment of assets		
Computers, plant and equipment - disposed	**2**	2
Computers, plant and equipment - revaluation decrement	**-**	11
Total write-down and impairment of assets	**2**	13
Total expenses	**9,776**	10,297

(a) Amounts relate to minimum lease payments only. Novated lease payments from salary packaging of motor vehicles are disclosed in ‘other employee expenses’.

(b) From 29 June 2011, costs and expenses incurred in relation to issuing and managing debt are made against an administered appropriation.

Note 5: Income

	2013 $'000	2012 $'000
Note 5A: Sale of goods and rendering of services		
With related entities:		
Staff secondments to other agencies	**516**	523
Total sale of goods and rendering of services	**516**	523
Note 5B: Other revenue		
Resources received free of charge - ANAO audit services	**303**	303
Other	**80**	184
Total other revenue	**383**	487
Note 5C: Gains		
Reversal of previous asset write-downs:		
Leasehold improvements	**-**	15
Total gains	**-**	15
Note 5D: Revenue from government		
Appropriations - departmental output	**11,409**	12,413
Total revenue from government	**11,409**	12,413
Total income	**12,308**	13,438

Note 6: Financial assets

	2013 $'000	2012 $'000
Note 6A: Receivables		
With related parties:		
Goods and services	**141**	126
Appropriations receivable(a):		
Output	**25,311**	21,999
Equity injection	**162**	662
Departmental capital budget	**3,049**	2,937
Tax and Other	**1**	-
With external parties:		
Other	**-**	2
Total receivables	**28,664**	25,726
Receivables are expected to be recovered in:		
No more than 12 months(b)	**7,139**	3,065
More than 12 months	**21,525**	22,661
	28,664	25,726
Receivables are aged as follows:		
Not overdue	**28,664**	25,726
Overdue	**-**	-
	28,664	25,726

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

(b) Includes $3,447,050 of unspent appropriations which were repealed by the *Statute Stocktake (Appropriations) Act 2013* on 1 July 2013. See Note 27B for further details.

Note 7: Non-financial assets

	2013 $'000	2012 $'000
Note 7A: Infrastructure, plant and equipment		
Computers, plant and equipment:		
Gross value - at cost	**183**	16
Accumulated depreciation	**(15)**	(1)
	168	15
Gross value - at 2012 valuation (fair value)	**279**	274
Accumulated depreciation	**(132)**	(32)
	147	242
Under construction	**-**	-
	-	-
	315	257
Leasehold improvements:		
Gross value - at cost	**66**	3
Accumulated depreciation	**(16)**	-
	50	3
Gross value - at 2012 valuation (fair value)	**1,071**	1,050
Accumulated depreciation	**(848)**	(760)
	223	290
	273	293
Total infrastructure, plant and equipment	**588**	550

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

All revaluations are independent and are conducted in accordance with the revaluation policy stated at Note 1.11. The 2012 valuations were conducted by an independent valuer, the Australian Valuation Office. On 31 March 2012, a net revaluation increment was made of $4,078 being a revaluation increment of $15,059 for leasehold improvements and a revaluation decrement of $10,981 for computers, plant and equipment. The full value of the revaluation adjustments were recognised in the Statement of Comprehensive Income. As at 30 June 2013, the AOFM had cumulative net revaluation losses of $13,137 for leasehold improvements and $69,850 for computers, plant and equipment which were recognised as expenses in the Statement of Comprehensive Income.

Note 7: Non-financial assets (continued)

	2013 $'000	2012 $'000
Note 7B: Intangibles		
Computer software (purchased):		
Gross value - at cost	**3,342**	3,335
Accumulated amortisation	**(3,189)**	(3,046)
Total intangibles	**153**	289

No indicators of impairment were identified for intangible assets.

The following tables reconcile the opening and closing balances of infrastructure, plant and equipment, and intangible assets.

	Leasehold improvements 2013 $'000	Computers, plant and equipment 2013 $'000	Computer software (purchased) 2013 $'000	Total 2013 $'000
Note 7C: Reconciliation of opening and closing balances				
As at 1 July 2012				
Gross book value	1,053	290	3,335	4,678
Acc depreciation/amortisation	(760)	(33)	(3,046)	(3,839)
Net book value 1 July 2012	293	257	289	839
Additions:				
By purchase	84	176	24	284
Depreciation/amortisation charge	(104)	(116)	(160)	(380)
Disposals:				
Gross book value	-	(4)	(17)	(21)
Acc depreciation/amortisation	-	2	17	19
Revaluation:				
Gross book value	-	-	-	-
Acc depreciation/amortisation	-	-	-	-
Net book value 30 June 2013	273	315	153	741
As at 30 June 2013				
Gross book value	1,137	462	3,342	4,941
Acc depreciation/amortisation	(864)	(147)	(3,189)	(4,200)
	273	315	153	741

Note 7: Non-financial assets (continued)

	Leasehold improvements	Computers, plant and equipment	Computer software (purchased)	Total
	2012	2012	2012	2012
	$'000	$'000	$'000	$'000
Note 7C: Reconciliation of opening and closing balances (continued)				
As at 1 July 2011				
Gross book value	972	453	3,320	4,745
Acc depreciation/amortisation	(643)	(205)	(2,890)	(3,738)
Net book value 1 July 2011	329	248	430	1,007
Additions:				
By purchase	28	141	15	184
Depreciation/amortisation charge	(79)	(119)	(156)	(354)
Disposals:				
Gross book value	-	(11)	-	(11)
Acc depreciation/amortisation	-	9	-	9
Revaluation:				
Gross book value	53	(293)	-	(240)
Acc depreciation/amortisation	(38)	282	-	244
Net book value 30 June 2012	293	257	289	839
As at 30 June 2012				
Gross book value	1,053	290	3,335	4,678
Acc depreciation/amortisation	(760)	(33)	(3,046)	(3,839)
	293	257	289	839

	2013	2012
	$'000	$'000
Note 7D: Other non-financial assets		
Prepayments	**84**	57
Total other non-financial assets	**84**	57
Other non-financial assets are expected to be recovered in:		
No more than 12 months	**83**	57
More than 12 months	**1**	-
	84	57

No indicators of impairment were identified for other non-financial assets.

Note 8: Payables

	2013 $'000	2012 $'000
Note 8A: Supplier payables		
With related entities:		
Trade creditors and accruals(a)	**33**	380
With external parties:		
Trade creditors and accruals(a)	**204**	93
Total supplier payables	**237**	473
Supplier payables are expected to be settled in:		
No more than 12 months	**237**	473
	237	473
Note 8B: Other payables		
Salaries and wages	**150**	137
Superannuation	**32**	23
Tax and other	**1**	5
Total other payables	**183**	165
Other payables are expected to be settled in:		
No more than 12 months	**183**	165
	183	165

(a) Settlement is usually made net 30 days.

Note 9: Provisions

	2013 **$'000**	2012 $'000
Note 9A: Employee provisions		
Annual leave	**452**	443
Long service leave	**1,197**	1,076
Superannuation	**200**	183
Total employee provisions	**1,849**	1,702
Employee provisions are expected to be settled in:		
No more than 12 months	**339**	327
More than 12 months	**1,510**	1,375
	1,849	1,702
Note 9B: Other provisions		
Make-good on leasehold premises(a)	**136**	136
Total other provisions	**136**	136
Other provisions are expected to be settled in:		
More than 12 months	**136**	136
	136	136
Reconciliation of movements in other provisions:		
Opening balance	**136**	133
Re-measurement	**-**	3
Closing balance	**136**	136

(a) In accordance with the terms of its lease agreement for office accommodation, the AOFM is required to restore its leased premises to original condition at the conclusion of the lease in 2015. The AOFM has made a provision to recognise this obligation.

Note 10: 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.

	2013 $'000	2012 $'000
Net cost of services	**(8,877)**	(9,272)
Add revenue from Government	**11,409**	12,413
Adjustments for non-cash items:		
Depreciation and amortisation	**380**	354
Write-down and impairment of assets	**2**	2
Revaluation decrements recognised in expenses	**-**	11
Revaluation increments recognised in revenue	**-**	(15)
Infrastructure, plant and equipment and intangibles accruals	**10**	14
Adjustments for changes in assets:		
(Increase) decrease in receivables	**(2,826)**	(4,094)
(Increase) decrease in other prepayments	**(27)**	83
Adjustments for changes in liabilities:		
Increase (decrease) in employee provisions	**147**	321
Increase (decrease) in other provisions	**-**	3
Increase (decrease) in other payables	**18**	24
Increase (decrease) in supplier payables	**(236)**	156
Net cash from (used by) operating activities	**-**	-

The following table reconciles cash and cash equivalents reported in the Statement of Cash Flows to items that comprise cash and cash equivalents in the Balance Sheet.

Reconciliation of cash and cash equivalents as per balance sheet to the statement of cash flows

	2013 $'000	2012 $'000
Items in balance sheet		
Financial assets - cash and cash equivalents	**100**	100
Total items in the balance sheet	**100**	100
Total as per statement of cash flows	**100**	100

Note 11: Contingent liabilities and assets

Unquantifiable contingencies

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

Remote contingencies

The AOFM has indemnified a number of contractors providing goods and services under contract for losses incurred by the contractor due to, amongst other things, the AOFM's failure to observe certain terms of contract, or for wrongful, unlawful or negligent acts committed by the AOFM. The AOFM is not aware of any event that has occurred that may trigger action under the indemnities.

Furthermore, under a number of contracts, the contractor's liability to the AOFM for losses arising from certain circumstances is capped. The AOFM has assessed that the likelihood of significant losses above the liability cap is remote.

Note 12: Executive remuneration

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

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

Actual remuneration expensed(a) during the financial year	**2013 $'000**	2012 $'000
Short-term employee benefits:		
Salary and other short-term benefits	**306**	308
Annual leave accrued	**26**	25
	332	333
Post employment benefits:		
Superannuation(b)	**44**	43
	44	43
Termination benefits:		
Separation payments	**-**	-
	-	-
Other long-term benefits:		
Long service leave(c)	**9**	10
	9	10
Total	**385**	386

(a) Excludes officers not in the Senior Executive Service on acting arrangements in positions that are Senior Executive Service positions, and Senior Executive Service officers not employed for the full year whose total remuneration was less than $180,000 for the year.

(b) Superannuation contributions are paid into the employee's superannuation scheme at a rate determined by the Department of Finance and Deregulation. The contributions made by the AOFM into a defined benefit scheme do not necessarily correspond with the officer's benefit under the scheme which is governed by legislation.

(c) The value of the long service leave provision at the end of June is determined based on advice from the Australian Government Actuary. The valuation includes the use of a discount rate to equate the expected future payments of the benefit to a net present value. The discount rate is determined based on differences between future expectations of long-term salary increases and the long-term bond rate. Changes from year to year in the discount rate used to value long service leave have an impact on the level of remuneration reported for a financial year. As at 30 June 2013 the discount rate was 97.6 per cent (30 June 2012: 100.0 per cent).

Note 12: Executive remuneration (continued)

The following table discloses the number (on a headcount basis) and reportable remuneration of senior executive service (SES) officers for the reporting period.

Average reportable remuneration paid (on a cash basis) to officers in the senior executive service

	Senior Executives	Reportable salary(a)	Contributed superannuation(b)	Reportable allowances(c)	Bonus paid	Total
	2013	**2013**	**2013**	**2013**	**2013**	**2013**
	No.	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Total reportable remuneration						
$360,000 to $389,999	**1**	**340**	**44**	**-**	**-**	**384**
Total	**1**					
	2012	2012	2012	2012	2012	2012
	No.	$'000	$'000	$'000	$'000	$'000
Total reportable remuneration						
$360,000 to $389,999	1	323	43	-	-	366
Total	1					

(a) ‘Reportable salary’ is the average actual gross payments paid (less any bonuses paid) and reportable fringe benefits (at the net amount prior to ‘grossing up’ for the purposes of deriving taxable value of fringe benefits) for senior executives in that reportable remuneration band during the reporting period as per each individual’s payment summary.

(b) The ‘contributed superannuation’ amount is the average actual superannuation contributions paid to senior executives in that reportable remuneration band during the reporting period, excluding salary sacrificed to superannuation which is reported in reportable salary.

(c) ‘Reportable allowances’ is the average actual allowances paid to senior executives in that reportable remuneration band during the reporting period as per each individual’s payment summary.

Note 12: Executive remuneration (continued)

Average reportable remuneration paid (on a cash basis) to other highly paid staff during the reporting period

The following table discloses the number (on a headcount basis) and reportable remuneration of officers not in the SES who had reportable remuneration of $180,000 or more for the reporting period.

	Highly Paid Staff	Reportable salary(a)	Contributed superannuation(b)	Reportable allowances(c)	Bonus paid	Total
	2013	**2013**	**2013**	**2013**	**2013**	**2013**
	No.	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Total reportable remuneration						
$180,000 to $209,999	**2**	**163**	**26**	**-**	**-**	**189**
$210,000 to $239,999	**3**	**203**	**29**	**-**	**-**	**232**
$240,000 to $269,999	**4**	**221**	**36**	**-**	**-**	**257**
$300,000 to $329,999	**1**	**277**	**48**	**-**	**-**	**325**
Total	**10**					
	2012	2012	2012	2012	2012	2012
	No.	$'000	$'000	$'000	$'000	$'000
Total reportable remuneration						
$180,000 to $209,999	1	156	21	6	-	183
$210,000 to $239,999	4	191	29	1	-	221
$240,000 to $269,999	3	212	32	2	-	246
$300,000 to $329,999	1	268	40	-	-	308
Total	9					

(a) 'Reportable salary' is the average gross payments (less any bonuses paid) including salary sacrificed to superannuation and reportable fringe benefits (at the net amount prior to 'grossing up' for the purposes of deriving the taxable value of fringe benefits) for staff in that reportable remuneration band during the reporting period as per each individual's payment summary. The 2012 number has been recast to include salary sacrificed to superannuation which was previously shown under contributed superannuation.

(b) The 'contributed superannuation' amount is the average actual superannuation contributions paid to officers in that reportable remuneration band during the reporting period, excluding any salary sacrificed amounts. The 2012 number has been recast to exclude salary sacrificed to superannuation.

(c) 'Reportable allowances' is the average actual allowances paid to officers in that reportable remuneration band during the reporting period as per each individual's payment summary.

Note 13: Remuneration of auditors

Financial statement audit services are provided free of charge to the AOFM. The fair value of the audit services provided by the Australian National Audit Office was:

	2013 $'000	2012 $'000
Remuneration of auditors	**303**	303

Auditors' remuneration is disclosed inclusive of GST.

No other services were provided by the Auditor-General.

Note 14: Average staffing level

The average staffing level (paid only) for the AOFM during the year was:

	2013	2012
Average staffing level	**40**	40

Note 15: Compensation and debt relief in special circumstances

Departmental	**2013 $'000**	2012 $'000
No 'Act of Grace' payments were made during the reporting period (2011-12: nil).	**-**	-
No waivers of amounts owing to the Government were made pursuant to subsection 34(1) of the *Financial Management and Accountability Act 1997* during the reporting period (2011-12: nil).	**-**	-
No payments were made under the 'Defective Administration Scheme' during the reporting period (2011-12: nil).	**-**	-
No payments were made under section 73 of the *Public Service Act 1999* during the reporting period (2011-12: nil).	**-**	-
No payments were made under ex-gratia programs during the reporting period (2011-12: nil).	**-**	-

Administered	**2013 $'000**	2012 $'000
No 'Act of Grace' payments were made during the reporting period (2011-12: nil).	**-**	-
27 waivers of amounts owing to the Government were made pursuant to subsection 34(1) of the *Financial Management and Accountability Act 1997* during the reporting period (2011-12: nil)(a).	**320,000**	-
No payments were made under the 'Defective Administration Scheme' during the reporting period (2011-12: nil).	**-**	-
No payments were made under section 73 of the *Public Service Act 1999* during the reporting period (2011-12: nil).	**-**	-
No payments were made under ex-gratia programs during the reporting period (2011-12: nil).	**-**	-

(a) On 26 June 2013, the Finance Minister waived 27 loans with a total face value of $320 million made to the South Australian Government between 1956 and 1981 under Commonwealth-State financing arrangements.

Note 16: Administered income before re-measurements

	2013 $'000	2012 $'000
Note 16A: Interest revenue(a)		
Loans to State and Territory Governments:		
State and Territory debt	**239**	252
Advances	**149,072**	153,628
Investments (under FMA section 39):(b)		
Deposits	**499,531**	587,421
Discount securities	**-**	33,794
Residential mortgage-backed securities	**472,645**	637,297
Total interest revenue	**1,121,487**	1,412,392
Note 16B: Other revenue		
Securities lending and other revenue	**40**	270
Total other revenue	**40**	270
Total income before re-measurements	**1,121,527**	1,412,662

(a) Recognised using the effective interest rate method.
(b) FMA = Financial Management and Accountability Act 1997.

Note 17: Administered expenses before re-measurements

	2013 $'000	2012 $'000
Note 17A: Grants		
Public Sector:		
State and Territory Governments(a)	**21**	23
Total grants	**21**	23
Note 17B: Interest expense		
Commonwealth Government Securities interest:(b)		
Treasury Bonds	**10,569,738**	9,633,418
Treasury Indexed Bonds	**1,173,938**	1,215,321
Treasury Notes	**480,768**	564,428
Other debt	**678**	689
	12,225,122	11,413,856
Other interest costs	**21**	25
Total interest expense	**12,225,143**	11,413,881
Note 17C: Supplier expenses(c)		
Registry and other costs	**998**	611
Syndication fees	**11,147**	6,381
Total supplier expenses	**12,145**	6,992
Total expenses before re-measurements	**12,237,309**	11,420,896

(a) Grants represent Commonwealth contributions into the Debt Retirement Reserve Trust Account — see Note 27H.
(b) Recognised using the effective interest rate method.
(c) From 29 June 2011 the *Commonwealth Inscribed Stock Act 1911* was amended to provide an appropriation to meet the costs and expenses of issuance and sale of stock, and the cost of managing stock issued under the Act. Previously these costs were met through departmental appropriations. In addition, on 17 November 2012 the *Commonwealth Inscribed Stock Act 1911* was amended to provide an appropriation to meet costs and expenses arising from depository interests in stock issued under the Act.

Note 18: Administered gains (losses) before re-measurements

	2013 $'000	2012 $'000
Note 18A: Net foreign exchange gains (losses)		
Foreign currency denominated loans and securities	**(500)**	(254)
Total net foreign exchange gains (losses)	**(500)**	(254)
Note 18B: Net realised gains (losses) on financial instruments(a)		
Waiver of South Australian loans by the Minister for Finance	**(283,863)**	-
Sale of residential mortgage-backed securities	**5,291**	-
Repurchase of debt	**-**	(8,229)
Total net realised gains (losses) on financial instruments	**(278,572)**	(8,229)
Total gains (losses) before re-measurements	**(279,072)**	(8,483)

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

Note 19: Administered re-measurements

	2013 $'000	2012 $'000
Net market revaluation gains (losses)(a)		
Commonwealth Government Securities	**11,498,357**	(20,493,844)
Deposits and discount securities	**13**	(11)
Residential mortgage-backed securities	**169,583**	(71,925)
Total net market revaluation gains (losses)	**11,667,953**	(20,565,780)

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

Note 20: Administered assets(a)

	2013 $'000	2012 $'000
Note 20A: Investments (under FMA section 39)(b)		
Designated at fair value through profit or loss:		
Deposits	**20,159,143**	14,503,321
Residential mortgage-backed securities	**9,113,022**	11,073,169
Total investments (under FMA section 39)	**29,272,165**	25,576,490
Investments maturing:(c)		
Within one year	**20,641,049**	14,728,902
In one to five years	**7,201,441**	8,019,502
In more than five years	**1,429,675**	2,828,086
	29,272,165	25,576,490
Note 20B: Receivables		
At amortised cost:		
Loans to State and Territory Governments:		
Principal	**2,462,609**	2,882,873
Balance of special account(d)	**(742)**	(657)
Unamortised net discounts	**(284,748)**	(341,685)
Total receivables	**2,177,119**	2,540,531
Receivables maturing:(e)		
Within one year	**1,815**	1,984
In one to five years	**28,795**	30,805
In more than five years	**2,146,509**	2,507,742
	2,177,119	2,540,531
Receivables are aged as follows:		
Not overdue	**2,177,119**	2,540,531
Overdue	**-**	-
	2,177,119	2,540,531
Note 20C: Accrued revenue		
Accrued interest on loans to State and Territory Governments	**394**	444
Total accrued revenue	**394**	444
Accrued revenue maturing:		
Within one year	**394**	444
	394	444

(a) Where the AOFM applies fair value accounting to a financial asset, the aggregate value of the financial asset is recorded against a single financial statement class. Where the historic cost accounting convention is applied, the value of a financial asset is disaggregated and recorded against several financial statement classes (for example, the principal value of a financial asset is classified separately to coupons receivable on the asset).

(b) FMA = Financial Management and Accountability Act 1997.

(c) The maturity profile is based on contractual maturity dates, with the exception of residential mortgage-backed securities. For residential mortgage-backed securities the maturity profile is based on the weighted average life of each investment and disregarding estimated principal repayments prior to that time.

(d) Refer to Note 27H for special account balances.

(e) Loans to State and Territory Governments are composed primarily of credit foncier loans. These loans are structured with annual repayments of a fixed amount and which incorporate principal and interest components. The maturity profile is based on the maturity date of each loan and disregarding principal repayments prior to that time.

Note 21: Administered liabilities(a)

	2013 $'000	2012 $'000
Note 21A: Commonwealth Government Securities		
Designated at fair value through profit or loss:		
Treasury Bonds	**253,157,332**	231,650,136
Treasury Indexed Bonds	**27,092,922**	25,668,180
Treasury Notes	**5,483,361**	12,446,064
Other debt	**7,408**	7,154
	285,741,023	269,771,534
At amortised cost:		
Other debt	**13,702**	13,816
Total Commonwealth Government Securities	**285,754,725**	269,785,350
Commonwealth Government Securities maturing:(b)		
Within one year	**28,742,733**	38,813,911
In one to five years	**115,592,451**	99,811,565
In more than five years	**141,419,541**	131,159,874
	285,754,725	269,785,350
Note 21B: Other Interest Bearing Liabilities		
Interest payable on other debt (at amortised cost)	**93**	93
Total other interest bearing liabilities	**93**	93
Other Interest Bearing Liabilities maturing:		
Within one year	**93**	93
	93	93
Note 21C: Payables		
Accrued expenses relating to costs and expenses on CGS and depository interests	**214**	-
Total payables	**214**	**-**
Payables maturing:		
Within one year	**214**	-
	214	-

(a) Where the AOFM applies fair value accounting to a financial liability, the aggregate value of the financial liability is recorded against a single financial statement class. Where the historic cost accounting convention is applied, the value of a financial liability is disaggregated and recorded against several financial statement classes (for example: the principal value of a financial liability is classified separately from coupons payable on the liability).

(b) The maturity profile is based on contractual maturity dates.

Note 22: Administered cash flow reconciliation

The following table reconciles cash as per the Administered Schedule of Assets and Liabilities to the Administered Cash Flow Schedule. It also reconciles the surplus (deficit) reported in the Administered Schedule of Comprehensive Income to net cash flows from operating activities reported in the Administered Cash Flow Schedule.

	2013 $'000	2012 $'000
Reconciliation of cash and cash equivalents as per administered schedule of assets and liabilities to administered cash flow statement		
Cash and cash equivalents as per:		
Schedule of administered cash flows	**622**	622
Schedule of administered assets and liabilities	**622**	622
Difference	-	-
Reconciliation of comprehensive income to net cash from operating activities		
Surplus (deficit)	**273,099**	(30,582,497)
Adjustments for non-cash items		
Amortisation and capital accretion of debt instruments	**(844,618)**	(233,852)
Amortisation of net discounts on Loans to State and Territory Governments	**(20,799)**	(21,027)
Amortisation of net premiums on financial assets	**-**	(19)
Net (gain) loss on sale of financial instruments	**278,572**	8,229
Net foreign exchange (gains) losses	**500**	254
Re-measurements	**(11,667,953)**	20,565,780
Debt Retirement Reserve Trust Account contributions and interest payments(a)	**42**	48
Accrual Adjustments		
Interest accruals on debt instruments	**414,188**	623,408
Interest accruals on financial assets	**2,145**	33,397
Accrued expenses	**214**	-
Net cash used by operating activities	**(11,564,610)**	(9,606,279)

(a) Debt Retirement Reserve Trust Account contributions and interest payments increase the balance of the Debt Retirement Reserve Trust Account (see Note 27H) but comprise a notional payment only.

Note 23: Administered contingent liabilities and assets

Unquantifiable contingencies

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

Remote contingencies

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

(ii) In the unlikely event of default by a borrower of Treasury Bonds or Treasury Indexed Bonds under the securities lending facility, the AOFM would be in a position to sell the securities pledged by the borrower to offset the increased liability to the Government. As at 30 June 2013 there were no open transactions under the AOFM's securities lending facility (30 June 2012: nil).

Note 24: Administered financial instruments

Note 24A: Categories of administered financial assets and liabilities

Under Australian Accounting Standards a financial instrument must be measured at fair value on initial recognition. After initial recognition the accounting treatment for a financial instrument is dependent on the category under which the financial instrument is classified. The following table illustrates the AOFM's financial instruments by category:

	2013 $'000	2012 $'000
Administered financial assets		
Cash	**622**	622
Loans and receivables (at amortised cost):		
Loans to State and Territory Governments	**2,177,119**	2,540,531
Accrued interest on loans to State and Territory Governments	**394**	444
	2,177,513	2,540,975
Fair value through profit or loss (designated by the AOFM):		
Investments	**29,272,165**	25,576,490
Carrying amount of financial assets	**31,450,300**	28,118,087
Administered financial liabilities(a)		
Fair value through profit or loss (designated by the AOFM):		
Treasury Bonds	**253,157,332**	231,650,136
Treasury Indexed Bonds	**27,092,922**	25,668,180
Treasury Notes	**5,483,361**	12,446,064
Other debt	**7,408**	7,154
	285,741,023	269,771,534
Other financial liabilities (at amortised cost):		
Other debt	**13,702**	13,816
Interest payable on other debt	**93**	93
	13,795	13,909
Carrying amount of financial liabilities	**285,754,818**	269,785,443
Net financial assets	**(254,304,518)**	(241,667,356)

(a) Accrued expenses have been excluded from disclosures relating to financial instruments.

Note 24B: Interest rate risk

The AOFM's exposure to interest rate risk and corresponding weighted average effective interest rates from financial instruments is set out below. The maturity profile is based on contractual maturity dates except for residential mortgage-backed securities in which the maturity profile is based on the weighted average life of each security. Those financial instruments with a fixed interest rate expose the net debt portfolio to changes in fair value with changes in interest rates, whilst those financial instruments at floating interest rates expose the net debt portfolio to changes in debt servicing costs with changes in interest rates. The extent to which the AOFM can match the repricing profile of its financial assets with those of its financial liabilities is limited by the differences in the volumes and the need for assets to be available for cash management or other purposes.

Note 24: Administered financial instruments (continued)

Note 24B: Interest rate risk (continued)

	Fixed interest rate	Floating interest rate	Non interest bearing	Maturing in 1 year or less	1 to 5 years	5 years or more	Total	Weighted average interest(a)
	2013	2013	2013	2013	2013	2013	2013	2013
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	%
Financial assets								
Cash	-	-	622	622	-	-	622	-
Loans to State and Territory Governments	2,177,510	-	3	2,209	28,795	2,146,509	2,177,513	5.88
Deposits	20,159,143	-	-	20,159,143	-	-	20,159,143	2.76
Residential mortgage-backed securities	-	9,113,022	-	481,906	7,201,441	1,429,675	9,113,022	4.16
Total financial assets	22,336,653	9,113,022	625	20,643,880	7,230,236	3,576,184	31,450,300	
Financial liabilities								
Treasury Bonds	253,157,332	-	-	23,253,507	109,862,880	120,040,945	253,157,332	4.45
Treasury Indexed Bonds	27,092,922	-	-	-	5,722,304	21,370,618	27,092,922	2.75
Treasury Notes	5,483,361	-	-	5,483,361	-	-	5,483,361	2.72
Other debt	15,480	-	5,723	5,958	7,267	7,978	21,203	3.70
Total financial liabilities	285,749,095	-	5,723	28,742,826	115,592,451	141,419,541	285,754,818	
Net financial assets	(263,412,442)	9,113,022	(5,098)	(8,098,946)	(108,362,215)	(137,843,357)	(254,304,518)	

(a) Interest rates are nominal interest rates with the exception of Treasury Indexed Bonds (which are real interest rates).

Note 24: Administered financial instruments (continued)

Note 24B: Interest rate risk (continued)

	Fixed interest rate	Floating interest rate	Non interest bearing	Maturing in 1 year or less	1 to 5 years	5 years or more	Total	Weighted average interest(a)
	2012	2012	2012	2012	2012	2012	2012	2012
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	%
Financial assets								
Cash	-	-	622	622	-	-	622	-
Loans to State and Territory Governments	2,540,962	-	13	2,428	30,805	2,507,742	2,540,975	5.88
Deposits	14,503,321	-	-	14,503,321	-	-	14,503,321	3.50
Residential mortgage-backed securities	-	11,073,169	-	225,581	8,019,502	2,828,086	11,073,169	4.93
Total financial assets	17,044,283	11,073,169	635	14,731,952	8,050,307	5,335,828	28,118,087	
Financial liabilities								
Treasury Bonds	231,650,136	-	-	26,361,886	93,969,362	111,318,888	231,650,136	4.86
Treasury Indexed Bonds	25,668,180	-	-	-	5,835,179	19,833,001	25,668,180	3.02
Treasury Notes	12,446,064	-	-	12,446,064	-	-	12,446,064	3.56
Other debt	15,231	-	5,832	6,054	7,024	7,985	21,063	3.58
Total financial liabilities	269,779,611	-	5,832	38,814,004	99,811,565	131,159,874	269,785,443	
Net financial assets	(252,735,328)	11,073,169	(5,197)	(24,082,052)	(91,761,258)	(125,824,046)	(241,667,356)	

(a) Interest rates are nominal interest rates with the exception of Treasury Indexed Bonds (which are real interest rates).

Note 24: Administered financial instruments (continued)

Note 24C: Foreign exchange risk

Foreign exchange risk arises from debt the AOFM holds in foreign denominated currencies and represents the risk to debt servicing costs and the value of the net debt portfolio caused by a change in foreign exchange rates. Currently the AOFM's foreign exchange risk arises from contractual obligations on foreign currency loans and securities. The AOFM's exposure to foreign exchange risk is not material.

The Australian equivalent principal value of foreign currency loans and securities is disclosed in the following table:

	2013 AUD $'000	2012 AUD $'000
FOREIGN CURRENCY DENOMINATED LIABILITIES		
Current:		
Pounds sterling	**85**	79
Japanese yen	**4**	5
Swiss francs	**58**	52
Euros	**8**	7
	155	143
Non-current:		
United States dollars	**5,737**	5,221
	5,737	5,221
Total foreign currency denominated liabilities	**5,892**	5,364
FOREIGN CURRENCY DENOMINATED ASSETS		
Current:		
Pounds sterling	**3**	3
	3	3
Non-current:	**-**	-
	-	-
Total foreign currency denominated assets	**3**	3

Note 24: Administered financial instruments (continued)

Note 24D: Contractual maturities of financial liabilities

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

	Less than 1 year	**1 to 2 years**	**2 to 5 years**	**5+ years**	**Total**
	2013 $'000	**2013 $'000**	**2013 $'000**	**2013 $'000**	**2013 $'000**
Treasury Bonds	**34,356,551**	**37,198,614**	**97,965,336**	**131,366,849**	**300,887,350**
Treasury Indexed Bonds(a)	**791,959**	**791,959**	**7,140,302**	**21,572,817**	**30,297,037**
Treasury Notes	**5,500,000**	**-**	**-**	**-**	**5,500,000**
Other debt(b)	**480**	**480**	**6,698**	**-**	**7,658**
Total	**40,648,990**	**37,991,053**	**105,112,336**	**152,939,666**	**336,692,045**
	2012 $'000	2012 $'000	2012 $'000	2012 $'000	2012 $'000
Treasury Bonds	36,513,347	31,961,426	83,591,591	111,822,333	263,888,697
Treasury Indexed Bonds(a)	717,390	717,390	7,016,893	18,772,253	27,223,926
Treasury Notes	12,500,000	-	-	-	12,500,000
Other debt(b)	437	437	6,533	-	7,407
Total	49,731,174	32,679,253	90,615,017	130,594,586	303,620,030

(a) The interest payments and principal value are indexed against the (all groups) Australian Consumer Price Index (CPI). There is a six month lag between the calculation period for the CPI and its impact on the value of interest and principal. Interest payments and principal value on redemption are projected at the CPI for the March quarter and held constant thereafter.

(b) Perpetual debt and overdue debt have been excluded from this analysis.

Note 24: Administered financial instruments (continued)

Note 24E: Credit risk

The following table sets out the AOFM's credit risk by asset class and credit rating as at 30 June. In the table, where a counterparty has a split rating between the rating agencies, the AOFM's exposure to the counterparty is allocated to the lower credit rating.

The AOFM's assets are of strong credit quality. The AOFM's exposure to credit risk under the securities lending facility and its repurchase agreements as at year end is zero.

S&P or Fitch long-term rating **Moody's long-term rating**	**AAA** **Aaa**	**AA+** **Aa1**	**AA** **Aa2**	**Total**
	2013 **$'000**	**2013** **$'000**	**2013** **$'000**	**2013** **$'000**
By instrument				
Cash(a)	**622**	**-**	**-**	**622**
Loans to State and Territory Governments	**1,582,076**	**739,484**	**238,008**	**2,559,568**
Deposits(a)	**20,159,143**	**-**	**-**	**20,159,143**
Residential mortgage-backed securities	**9,046,951**	**66,071**	**-**	**9,113,022**
Total	**30,788,792**	**805,555**	**238,008**	**31,832,355**
	2012 $'000	2012 $'000	2012 $'000	2012 $'000
By instrument				
Cash(a)	622	-	-	622
Loans to State and Territory Governments	1,771,626	1,464,202	-	3,235,828
Deposits(a)	14,503,321	-	-	14,503,321
Discount securities				
Residential mortgage-backed securities	11,073,169	-	-	11,073,169
Total	27,348,738	1,464,202	-	28,812,940

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

Note 24: Administered financial instruments (continued)

Note 24F: Residential mortgage-backed securities

Since September 2008, the AOFM has acquired a portfolio of AAA rated (or equivalent) residential mortgage-backed securities with a face value of $15,463 million.

Details of residential mortgage-backed securities acquired by the AOFM since the Government announced this initiative in September 2008 are contained in the following table. In April 2013, the Government announced that the AOFM would not make any new investments in RMBS.

	Opening balance	Amount invested	Principal repayments	Sales	Invested as at Year end
	$'000	$'000	$'000	$'000	
Financial year					
2008-09	-	6,203,420	(179,281)	-	6,024,139
2009-10	6,024,139	2,819,540	(850,664)	(73,790)	7,919,225
2010-11	7,919,225	4,349,220	(1,438,640)	-	10,829,805
2011-12	10,829,805	1,930,430	(1,509,050)	(50,000)	11,201,185
2012-13	**11,201,185**	**160,000**	**(1,771,242)**	**(510,585)**	**9,079,358**
Total		**15,462,610**	**(5,748,877)**	**(634,375)**	

Note 24: Administered financial instruments (continued)

Note 24G: Net fair values of administered financial assets and liabilities

	Principal value(a)	Total carrying amount	Aggregate net fair value
	2013	**2013**	**2013**
	$'000	**$'000**	**$'000**
Administered financial assets (recognised)			
Cash	**622**	**622**	**622**
Loans to State and Territory Governments(b)	**2,461,867**	**2,177,513**	**2,558,826**
Deposits	**20,150,000**	**20,159,143**	**20,159,143**
Residential mortgage-backed securities	**9,079,358**	**9,113,022**	**9,113,022**
Total financial assets (recognised)	**31,691,847**	**31,450,300**	**31,831,613**
Administered financial liabilities (recognised)			
Treasury Bonds	**233,539,500**	**253,157,332**	**253,157,332**
Treasury Indexed Bonds	**23,951,312**	**27,092,922**	**27,092,922**
Treasury Notes	**5,500,000**	**5,483,361**	**5,483,361**
Other debt	**19,438**	**21,203**	**21,203**
Total financial liabilities (recognised)	**263,010,250**	**285,754,818**	**285,754,818**
Net financial assets (recognised)	**(231,318,403)**	**(254,304,518)**	**(253,923,205)**
	2012	2012	2012
	$'000	$'000	$'000
Administered financial assets (recognised)			
Cash	622	622	622
Loans to State and Territory Governments(b)	2,882,217	2,540,975	3,235,171
Deposits	14,500,000	14,503,321	14,503,321
Residential mortgage-backed securities	11,201,185	11,073,169	11,073,169
Total financial assets (recognised)	28,584,024	28,118,087	28,812,283
Administered financial liabilities (recognised)			
Treasury Bonds	205,387,900	231,650,136	231,650,136
Treasury Indexed Bonds	20,957,021	25,668,180	25,668,180
Treasury Notes	12,500,000	12,446,064	12,446,064
Other debt	19,038	21,063	21,063
Total financial liabilities (recognised)	238,863,959	269,785,443	269,785,443
Net financial assets (recognised)	(210,279,935)	(241,667,356)	(240,973,160)

(a) Comprises the face value of financial instruments, with the exception of Treasury Indexed Bonds where the inflation adjusted capital value at the end of the financial year is included in the principal figure.

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

Note 24: Administered financial instruments (continued)

Note 24G: Net fair values of administered financial assets and liabilities (continued)

The following table discloses the quality of significant inputs used to determine the fair value of all financial assets and financial liabilities measured at fair value as at year end, by assigning a 3 level hierarchy to those valuations.

	Level 1(a)	Level 2(b)	Level 3(c)	Total
	2013	**2013**	**2013**	**2013**
	$'000	**$'000**	**$'000**	**$'000**
Administered financial assets (measured at fair value only)				
Deposits	**-**	**20,159,143**	**-**	**20,159,143**
Residential mortgage-backed securities	**-**	**9,113,022**	**-**	**9,113,022**
	-	**29,272,165**	**-**	**29,272,165**
Administered financial liabilities (measured at fair value only)				
Treasury Bonds	**253,157,332**	**-**	**-**	**253,157,332**
Treasury Indexed Bonds	**27,092,922**	**-**	**-**	**27,092,922**
Treasury Notes	**-**	**5,483,361**	**-**	**5,483,361**
Other debt	**-**	**7,408**	**-**	**7,408**
	280,250,254	**5,490,769**	**-**	**285,741,023**
	2012	2012	2012	2012
	$'000	$'000	$'000	$'000
Administered financial assets (measured at fair value only)				
Deposits	-	14,503,321	-	14,503,321
Residential mortgage-backed securities	-	11,073,169	-	11,073,169
	-	25,576,490	-	25,576,490
Administered financial liabilities (measured at fair value only)				
Treasury Bonds	222,644,567	9,005,569	-	231,650,136
Treasury Indexed Bonds	25,668,180	-	-	25,668,180
Treasury Notes	-	12,446,064	-	12,446,064
Other debt	-	7,154	-	7,154
	248,312,747	21,458,787	-	269,771,534

(a) The fair value method is determined using unadjusted quoted prices in active markets for identical financial instruments.

(b) The fair value is determined by price quotations in non-active markets for identical financial instruments, or from price quotations in an active market for similar assets or liabilities or from other inputs that are observable by market data. The fair value is estimated by using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

(c) The fair value is determined from inputs not based on observable market data. This includes significant adjustments to observable market data.

Note 24: Administered financial instruments (continued)

Note 24H: Movement in commonwealth government securities on issue (face value)

	Opening balance	Issuance	Maturities/ Redemptions	Other	Closing balance
	2013	**2013**	**2013**	**2013**	**2013**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Treasury Bonds	**205,387,900**	**53,750,000**	**(25,598,400)**	**-**	**233,539,500**
Treasury Indexed Bonds(a)	**16,069,000**	**2,250,000**	**-**	**-**	**18,319,000**
Treasury Notes	**12,500,000**	**53,500,000**	**(60,500,000)**	**-**	**5,500,000**
Other debt(b)	**19,038**	**-**	**(127)**	**527**	**19,438**
Total	**233,975,938**	**109,500,000**	**(86,098,527)**	**527**	**257,377,938**
	2012	2012	2012	2012	2012
	$'000	$'000	$'000	$'000	$'000
Treasury Bonds	161,242,900	58,200,000	(14,055,000)	-	205,387,900
Treasury Indexed Bonds(a)	13,929,000	2,140,000	-	-	16,069,000
Treasury Notes	16,100,000	53,800,000	(57,400,000)	-	12,500,000
Other debt(b)	19,588	-	(821)	271	19,038
Total	191,291,488	114,140,000	(71,455,821)	271	233,975,938

(a) The inflation adjusted capital accretion for Treasury Indexed Bonds is excluded from these amounts.
(b) This includes foreign currency denominated amounts. Changes in value due to foreign currency translation are shown in the 'Other' column. The foreign currency denominated face value is restated into Australian dollars using end of year exchange rates.

Note 24I: Movement in investments held (face value)

	Opening balance	Acquisitions	Maturities/ Redemptions	Other	Closing balance
	2013	**2013**	**2013**	**2013**	**2013**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Deposits	**14,500,000**	**837,000,000**	**(831,350,000)**	**-**	**20,150,000**
Residential mortgage-backed securities	**11,201,185**	**160,000**	**(2,281,827)**	**-**	**9,079,358**
Total	**25,701,185**	**837,160,000**	**(833,631,827)**	**-**	**29,229,358**
	2012	2012	2012	2012	2012
	$'000	$'000	$'000	$'000	$'000
Deposits	10,650,000	1,067,700,000	(1,063,850,000)	-	14,500,000
Discount securities	3,600,000	2,250,000	(5,850,000)	-	-
Residential mortgage-backed securities	10,829,805	1,930,430	(1,559,050)	-	11,201,185
Total	25,079,805	1,071,880,430	(1,071,259,050)	-	25,701,185

Note 25: Market risk sensitivity of administered financial instruments

AASB 7 *Financial Instruments: Disclosures* requires each entity with financial instruments to present a market risk sensitivity analysis for each type of market risk exposure arising from financial instruments held. Market risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices.

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

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

(a) Interest rate risk sensitivity analysis

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

Australian dollar denominated residential mortgage-backed securities investments provide for the AOFM to receive interest at a floating interest rate plus a fixed margin set at the time each investment is acquired. When interest rates rise (fall), investment return will also rise (fall).

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

Note 25: Market risk sensitivity of administered financial instruments (continued)

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

At 1 July 2013, if domestic interest rates had experienced an immediate 100 basis point parallel upward (downward) movement across the yield curve, and if that change were to persist for the 12 months to 30 June 2014, with all other variables held constant, the effect on the AOFM's operating result before re-measurements (calculated on an accruals basis) and equity position for the year ended 30 June 2014 would be as follows:

Operating result sensitivity to changes in domestic interest rates(a) (calculated on an accruals basis)

		-1%		+1%	
Change in interest rates from 1 July 2013 for 12 months to 30 June 2014	Carrying amount as at 30 Jun 2013 $'000	Impact on profit 2013-14 $'000	Impact on equity 2013-14 $'000	Impact on profit 2013-14 $'000	Impact on equity 2013-14 $'000
Financial assets					
Cash	622	-	-	-	-
Loans to State and Territory Governments	2,177,513	-	-	-	-
Deposits	20,159,143	(200,589)	(200,589)	200,589	200,589
Residential mortgage-backed securities	9,113,022	(78,629)	(78,629)	78,629	78,629
Financial liabilities					
Treasury Bonds	253,157,332	214,172	214,172	(185,293)	(185,293)
Treasury Indexed Bonds	27,092,922	-	-	-	-
Treasury Notes	5,483,361	48,740	48,740	(48,740)	(48,740)
Other debt	21,203	-	-	-	-
Total increase (decrease) in accrual result (before re-measurements)		(16,306)	(16,306)	45,185	45,185

(a) Changes in nominal interest rates only.

Note 25: Market risk sensitivity of administered financial instruments (continued)

The corresponding figures for the previous 12 months are as follows:

Operating result sensitivity to changes in domestic interest rates(a) (calculated on an accruals basis)

		-1%		+1%	
Change in interest rates from 1 July 2012 for 12 months to 30 June 2013	Carrying amount as at 30 Jun 2012 $'000	Impact on profit 2012-13 $'000	Impact on equity 2012-13 $'000	Impact on profit 2012-13 $'000	Impact on equity 2012-13 $'000
Financial assets					
Cash	622	-	-	-	-
Loans to State and Territory Governments	2,540,975	-	-	-	-
Deposits	14,503,321	(144,359)	(144,359)	144,359	144,359
Residential mortgage-backed securities	11,073,169	(115,428)	(115,428)	115,428	115,428
Financial liabilities					
Treasury Bonds	231,650,136	174,443	174,443	(156,840)	(156,840)
Treasury Indexed Bonds	25,668,180	-	-	-	-
Treasury Notes	12,446,064	108,808	108,808	(108,808)	(108,808)
Other debt	21,063	-	-	-	-
Total increase (decrease) in accrual result (before re-measurements)		23,464	23,464	(5,861)	(5,861)

(a) Changes in nominal interest rates only.

(b) Inflation risk sensitivity analysis

The AOFM currently has five series of Treasury Indexed Bonds on issue. These instruments have their principal value indexed against the (all Groups) Australian Consumer Price Index (CPI). The interest is a fixed real rate of interest payable on the accreted principal value. Accordingly these debt instruments expose the AOFM to cash flow 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. As the CPI increases, debt servicing costs and the principal payable on maturity also rises.

Note 25: Market risk sensitivity of administered financial instruments (continued)

At 1 July 2013, if the CPI were to experience an immediate 1 per cent increase (decrease) and that change were to persist for 12 months to 30 June 2014, with all other variables held constant, the effect on the AOFM's operating result before re-measurements (calculated on an accruals basis) and equity position for the year ended 30 June 2014 would be as follows:

Operating result sensitivity to changes in the consumer price index (calculated on an accruals basis)

		-1%		+1%	
Change in CPI from 1 July 2013 for 12 months to 30 June 2014	**Carrying amount as at 30 Jun 2013 $'000**	**Impact on profit 2013-14 $'000**	**Impact on equity 2013-14 $'000**	**Impact on profit 2013-14 $'000**	**Impact on equity 2013-14 $'000**
Financial assets					
Cash	**622**	**-**	**-**	**-**	**-**
Loans to State and Territory Governments	**2,177,513**	**-**	**-**	**-**	**-**
Deposits	**20,159,143**	**-**	**-**	**-**	**-**
Residential mortgage-backed securities	**9,113,022**	**-**	**-**	**-**	**-**
Financial liabilities					
Treasury Bonds	**253,157,332**	**-**	**-**	**-**	**-**
Treasury Indexed Bonds	**27,092,922**	**273,606**	**273,606**	**(279,657)**	**(279,657)**
Treasury Notes	**5,483,361**	**-**	**-**	**-**	**-**
Other debt	**21,203**	**-**	**-**	**-**	**-**
Total increase (decrease) in accrual result (before re-measurements)		**273,606**	**273,606**	**(279,657)**	**(279,657)**

Note 25: Market risk sensitivity of administered financial instruments (continued)

The corresponding figures for the previous 12 months are as follows:

Operating result sensitivity to changes in the consumer price index (calculated on an accruals basis)

		-1%		+1%	
Change in CPI from 1 July 2012 for 12 months to 30 June 2013	Carrying amount as at 30 Jun 2012 $'000	Impact on profit 2012-13 $'000	Impact on equity 2012-13 $'000	Impact on profit 2012-13 $'000	Impact on equity 2012-13 $'000
Financial assets					
Cash	622	-	-	-	-
Loans to State and Territory Governments	2,540,975	-	-	-	-
Deposits	14,503,321	-	-	-	-
Residential mortgage-backed securities	11,073,169	-	-	-	-
Financial liabilities					
Treasury Bonds	231,650,136	-	-	-	-
Treasury Indexed Bonds	25,668,180	234,469	234,469	(235,172)	(235,172)
Treasury Notes	12,446,064	-	-	-	-
Other debt	21,063	-	-	-	-
Total increase (decrease) in accrual result (before re-measurements)		234,469	234,469	(235,172)	(235,172)

Assumptions and methods used

Interest rate risk sensitivity has been measured assuming that for the next 12 months domestic interest rates are 100 basis points higher and lower across the entire yield curve than those observed as at year end. The analysis was performed as follows:

- the sensitivity of debt servicing costs for the next 12 months on Treasury Bonds comprised the difference between:
  - debt servicing costs on the planned issuance program to refinance maturing debt and to raise new borrowings for the next 12 months at the observed or estimated market yield for the relevant line of stock as at year end; and

Note 25: Market risk sensitivity of administered financial instruments (continued)

  - debt servicing costs on the planned issuance program to refinance maturing debt and to raise new borrowings for the next 12 months at yields that are 100 basis points higher and lower than the observed or estimated market yield for the relevant line of stock as at year end;

- the sensitivity of debt serving costs for the next 12 months on Treasury Notes comprised the difference between:

  - debt servicing costs on Treasury Notes held at the end of the financial year for the full 12 months at the observed or estimated rate as at year end; and

  - debt servicing costs on Treasury Notes held at the end of the financial year for the full 12 months at yields 100 basis points higher and lower than the observed or estimated rate as at year end. The 100 basis point shift is applied from the date the positions held as at year end mature and is held constant at that level thereafter;

- the sensitivity of returns for the next 12 months on residential mortgage-backed securities comprised the difference between:

  - the return at the relevant reference market interest rate at the end of the financial year (being the one-month BBSW rate plus specific fixed margin set for each security at the time of acquisition); and

  - the return at a yield that is 100 basis points higher and lower than the relevant reference market interest rate as at year end plus the fixed margin for each security. The 100 basis point shift is applied from the date of the first rate re-set after the end of the financial year and is held constant at that level thereafter;

- the sensitivity of returns for the next 12 months on term deposits comprised the difference between:

  - the return on term deposits held at the end of the financial year for the full 12 months at the relevant reference market interest rate (being the relevant Overnight Indexed Swap (OIS) rate) as at year end; and

Note 25: Market risk sensitivity of administered financial instruments (continued)

   - the return on term deposits held at the end of the financial year for the full 12 months at a yield that is 100 basis points higher and lower than the relevant OIS rate as at year end. The 100 basis point shift is applied from the date of the first re-investment after the end of the financial year and is held constant at that level thereafter.

Inflation risk sensitivity has been measured assuming that for each quarter in the next financial year the CPI is 1 per cent higher and lower (when compared to the year before) than in the base case. The analysis was performed as follows:

- the sensitivity of debt servicing costs for the next financial year on Treasury Indexed Bonds comprised the difference between:

   - debt servicing costs for the next financial year on the basis that inflation persists at the average rate experienced in the financial year (base case); and

   - debt servicing costs for the next financial year on the basis that the CPI index is higher and lower by 1 per cent than the assumed base case level for each quarter.

For the purposes of calculating sensitivity analysis, it has been assumed that the AOFM will issue $50,000 million of Treasury Bonds and $4,000 million of Treasury Indexed Bonds during the 2013-14 financial year (2012-13 assumptions: $35,000 million and $2,000 million respectively). It is also assumed that the volume of Treasury Notes outstanding as at 30 June 2013 of $5,500 million will remain at these levels for the full 12 months to 30 June 2014 (2012-13 assumption: $12,500 million). It is assumed that the volume of term deposit investments will remain at levels as at 30 June 2013 of $20,150 million for the full 12 months to 30 June 2014 (2012-13 assumption: $14,500 million). Residential mortgage-backed securities will have a principal repayment rate based on an estimated cash flow waterfall for each issue acquired. During 2013-14 the AOFM will make no further investments in RMBS consistent with the Treasurer's direction (2012-13 assumption: $3,600 million). Interest earned on investments is assumed to be returned to the OPA when received and not re-invested.

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

(c) Fair value sensitivity

The fair value sensitivity of the net debt portfolio (excluding loans to State and Territory Governments, which are measured on an accruals basis) to changes in domestic interest rates as at 30 June 2013 was $135.8 million per basis point (30 June 2012: $120.5 million per basis point). This means that a 1 basis point (or 0.01 per cent) parallel increase (decrease) in interest rates across the yield curve would result in a favourable (unfavourable) change in fair value of $135.8 million.

Note 26: Securities lending facility

The AOFM has a securities lending facility for Treasury Bonds and Treasury Indexed Bonds, operated by the RBA. The purpose of the facility is to enhance the efficiency of the bond market by allowing bond market participants to borrow Treasury Bonds and Treasury Indexed Bonds when they are not readily available in the market. Bonds are lent on an intra-day or overnight basis. Where bonds are lent overnight the AOFM receives interest income. The following table details the security lending transactions completed during the year:

	Number of transactions	Number of transactions	**Face value loaned**	Face value loaned
	2013	2012	**2013**	2012
	No.	No.	**$'000**	$'000
Treasury Bonds:				
December 2013	**3**	17	**81,005**	538,341
June 2014	**1**	-	**9,500**	-
October 2014	**1**	-	**11,500**	-
April 2015	**6**	-	**131,200**	-
June 2016	**-**	3	**-**	370,300
February 2017	**-**	10	**-**	174,300
July 2017	**-**	7	**-**	137,000
January 2018	**-**	18	**-**	582,180
March 2019	**-**	10	**-**	334,100
April 2020	**-**	1	**-**	10,000
May 2021	**-**	1	**-**	80,000
July 2022	**1**	1	**30,000**	235,000
Treasury Indexed Bonds:				
August 2015	**-**	1	**-**	5,000
August 2020	**1**	-	**40,000**	-
February 2022	**5**	-	**81,700**	-
September 2025	**-**	9	**-**	122,300
September 2030	**2**	-	**90,000**	-
Securities lent	**20**	78	**474,905**	2,588,521
Lending comprised:				
Overnight:				
Treasury Bonds	**10**	56	**183,205**	1,338,121
Treasury Indexed Bonds	**4**	10	**41,700**	127,300
Intra-day:				
Treasury Bonds	**2**	12	**80,000**	1,123,100
Treasury Indexed Bonds	**4**	-	**170,000**	-
Securities lent	**20**	78	**474,905**	2,588,521

	2013	2012
	$'000	$'000
Income on overnight lending(a):		
Treasury Bonds	**16**	244
Treasury Indexed Bonds	**4**	26
	20	270

(a) Income on loan transactions is recognised when received and is reported at Note 16B.

In 2012-13 no security lending transactions were open at the start of the financial year (2011-12: nil). In 2012-13 no security lending transactions were outstanding at the end of the financial year (2011-12: nil).

Note 27: Disclosures of appropriations

Note 27A: Annual appropriations

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

Annual appropriations

	Appropriation Act		FMA Act				
	Annual appropriation	Appropriation reduced(d)	Section 30	Section 31 (GST ex)	Total appropriation	Appropriation applied	Variance(e)
	2013	2013	2013	2013	2013	2013	2013
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Departmental							
Ordinary annual services(a)(b)(c)	**11,867**	**-**	**-**	**584**	**12,451**	**(9,475)**	**2,976**
Other services							
Equity							
Total departmental	**11,867**	**-**	**-**	**584**	**12,451**	**(9,475)**	**2,976**
Administered							
Ordinary annual services							
Outcome 1	**10**	**(10)**	**-**	**-**	**-**	**-**	**-**
Total administered	**10**	**(10)**	**-**	**-**	**-**	**-**	**-**

(a) Amounts presented in this table exclude GST where the GST is recoverable from the ATO.

(b) Amounts under Ordinary annual services include capital budget appropriations of $0.406 million which are recognised directly in Contributed Equity in the Balance Sheet.

(c) The 2012-13 Mid-Year Economic and Fiscal Outlook (MYEFO) announced targeted savings for the 2012-13 year of which the AOFM's share was $52,000. The Finance Minister made a determination to reduce the appropriation by $52,000 on 5 August 2013. As the reduction in the appropriation was not reflected at law on 30 June 2013, this figure does not include the $52,000 reduction and is consistent with the 2012-13 Budget. However, as the reduction was announced by the Government before 30 June 2013, the appropriation revenue recognised in the Statement of Comprehensive Income, the unspent appropriation disclosed at Note 27B and appropriation receivable disclosed at Note 6 reflect the reduction.

(d) Reductions are presented in Note 27C. This administered reduction is legally affected under *Appropriation Act (No. 1) 2012-13* when the AOFM's annual report is tabled in Parliament.

(e) The variance is explained by lower than anticipated costs of undertaking additional issuance activity.

Note 27: Disclosures of appropriations (continued)

Note 27A: Annual appropriations (continued)

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

Annual appropriations (continued)

	Appropriation Act		FMA Act				
	Annual appropriation	Appropriation reduced(c)	Section 30	Section 31 (GST ex)	Total appropriation	Appropriation applied	Variance(d)
	2012	2012	2012	2012	2012	2012	2012
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Departmental							
Ordinary annual services(a)(b)	15,442	-	-	706	16,148	(9,215)	6,933
Other services							
Equity	-	-	-	-	-	-	-
Total departmental	15,442	-	-	706	16,148	(9,215)	6,933
Administered							
Ordinary annual services							
Outcome 1	10	(10)	-	-	-	-	-
Total administered	10	(10)	-	-	-	-	-

(a) Amounts presented in this table exclude GST where the GST is recoverable from the ATO.
(b) Amounts under Ordinary annual services include capital budget appropriations.
(c) Reductions are presented in Note 27C. This administered reduction is legally affected under *Appropriation Act (No. 1) 2011-12* when the AOFM's annual report is tabled in Parliament.
(d) The variance is explained by the deferral of the purchase of a new Treasury management system budgeted for 2011-12, and lower than anticipated costs of undertaking additional issuance activity in response to the financial crisis.

Note 27: Disclosures of appropriations (continued)

Note 27A: Annual appropriations (continued)

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

Departmental Capital Budget(a)

	Appropriation Act		FMA Act		Appropriation applied		
	Annual capital budget	Appropriation reduced(c)	Section 32	Total capital budget	Non-financial assets(b)	Other purposes	Variance
	2013	**2013**	**2013**	**2013**	**2013**	**2013**	**2013**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Departmental							
Ordinary annual services -							
departmental capital budget	**406**	**-**	**-**	**406**	**(294)**	-	**112**
Total departmental	**406**	**-**	**-**	**406**	**(294)**	**-**	**112**
	2012	2012	2012	2012	2012	2012	2012
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Departmental							
Ordinary annual services -							
departmental capital budget	3,029	-	-	3,029	(198)	-	2,831
Total departmental	3,029	-	-	3,029	(198)	-	2,831

(a) The AOFM does not receive administered capital budget funding.
(b) Amounts presented in this table exclude GST where the GST is recoverable from the ATO.
(c) Reductions are presented in Note 27C.

Note 27: Disclosures of appropriations (continued)

Note 27B: Unspent annual appropriation

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

	2013 $'000	2012 $'000
Unspent departmental annual appropriation(a)		
Appropriation Act 2 2000-01(b)	**162**	662
Appropriation Act 1 2006-07	**-**	1,703
Appropriation Act 3 2006-07	**-**	100
Appropriation Act 1 2007-08	**-**	2,964
Appropriation Act 1 2008-09	**-**	2,677
Appropriation Act 1 2009-10	**3,285**	5,112
Appropriation Act 1 2010-11	**5,636**	5,547
Appropriation Act 1 2011-12(b)	**7,433**	6,933
Appropriation Act 1 2012-13	**12,106**	-
Total	**28,622**	25,698
Represented by:		
Cash at bank	**100**	100
Appropriation receivable - output	**25,311**	21,999
Appropriation receivable - equity injection	**162**	662
Appropriation receivable - departmental capital budget	**3,049**	2,937
	28,622	25,698

(a) On 1 July 2013 the *Statute Stocktake (Appropriations) Act 2013* commenced. This Act repeals all annual Appropriation Acts from 1 July 1999 through to 30 June 2010. Further details are given in Note 31.

(b) In June 2013 the AOFM transferred $500,500 from *Appropriation Act 2 2000-01* to *Appropriation Act 1 2011-12*. These funds are expected to be spent in 2013-14 to meet capital expenditures on the AOFM's debt management system.

	2013 $'000	2012 $'000
Unspent administered annual appropriation		
Appropriation Act 1 2011-12	**-**	10
Appropriation Act 1 2012-13	**10**	-
Total	**10**	10

Note 27: Disclosures of appropriations (continued)

Note 27C: Reduction in administered items

The AOFM receives an annual administered appropriation of $10,000 to meet potential payments that may arise on certain overdues that matured some time ago and an alternative appropriation source does not exist. The unspent and uncommitted funds arising from this appropriation are returned to the Budget on an annual basis.

For 2012-13 the AOFM received an appropriation authority of $10,000 in *Appropriation Act (No. 1) 2012-13* for this purpose. Section 11 of *Appropriation Act (No.1) 2012-13* creates an automatic reduction to the appropriation on tabling of the AOFM's annual report in Parliament where it identifies that an administered appropriation is no longer required, either in full or part.

The following table specifies the reduction in the annual administered appropriation for the AOFM. It reduces the AOFM's annual administered appropriation of $10,000 appropriated in *Appropriation Act (No. 1) 2012-13* to nil.

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

	2013 **$0.00**
Reduction in administered items	
Total administered items appropriated 2012-13	**10,000.00**
Less administered items required by the agency as per Appropriation Act, section 11:	
Appropriation Act (No. 1) 2012-2013	**0.00**
Total administered items required by the agency	**0.00**
Total reduction in administered items - effective 2013-14	**10,000.00**

Note 27: Disclosures of appropriations (continued)

Note 27D: Administered special appropriations (unlimited amount)

The following table details administered special appropriations applied by the AOFM:

	2013 $'000	2012 $'000
Airports (Transitional) Act 1996, section 78		
Purpose: payment of principal and interest on former debts of the Federal Airports Corporation	**-**	-
Australian National Railways Commission Sale Act 1997, section 67AW		
Purpose: payment of principal and interest on former debts of the National Railways Commission	**-**	-
Commonwealth Inscribed Stock Act 1911, section 6 and section 13AA(a)		
Purpose: payment of principal and interest on money raised by Stock issued under the Act and principal and interest due to holders of depository interests in Stock issued under the Act	**98,731,954**	80,657,340
Commonwealth Inscribed Stock Act 1911, section 13A		
Purpose: payment of costs and expenses incurred in relation to issuing and managing debt and issuing and managing depository interests	**12,805**	7,502
Commonwealth Inscribed Stock Act 1911, section 13B		
Purpose: payment of costs and expenses incurred in repurchasing debt prior to maturity	**-**	1,833,904
Financial Agreement Act 1994, section 5		
Purpose: debt redemption assistance and payment of interest to bond holders on behalf of the States and Northern Territory on public debt under the Act	**283**	289
Financial Management and Accountability Act 1997, section 30A		
Purpose: payments of recoverable GST	**-**	-
Financial Management and Accountability Act 1997, section 39(9)		
Purpose: to make investments in the name of the Commonwealth of Australia	**837,160,000**	1,071,859,151

(a) For explanation see note 27E.

Note 27: Disclosures of appropriations (continued)

Note 27D: Administered special appropriations (unlimited amount) (continued)

	2013 **$'000**	2012 $'000
Loans Redemption and Conversion Act 1921, section 5		
Purpose: payment of principal, interest and costs of converting loans made in accordance with the Act	**-**	-
Loans Securities Act 1919, section 4		
Purpose: payment of principal and interest on money raised by stock issued under the Act	**432**	423
Loans Securities Act 1919, section 5B		
Purpose: payment of money under a swap or repurchase agreement and any expenditure in connection with the negotiation, management or service of, or a repayment under, any such agreement	**-**	-
Loans Securities Act 1919, section 5BA		
Purpose: payment of money to enter into securities lending arrangements	**-**	-
Moomba-Sydney Pipeline System Sale Act 1994, section 19		
Purpose: payment of principal and interest on former debts of the Pipeline Authority	**-**	-
Qantas Sale Act 1992, section 18		
Purpose: payment of principal and interest on former debts of Qantas	**-**	-
Snowy Hydro Corporatisation Act 1997, section 22		
Purpose: payment of principal and interest on former debts of the Snowy Mountains Hydro Electricity Authority	**-**	-
Treasury Bills Act 1914, section 6		
Purpose: payment of principal and interest on money raised by issuance of Treasury Bills	**-**	-
Total	**935,905,474**	1,154,358,609

Note 27: Disclosures of appropriations (continued)

Note 27E: Section 13AA of the *Commonwealth Inscribed Stock Act 1911*

On 17 November 2012, the *Commonwealth Government Securities Legislation Amendment (Retail Trading) Act 2012* received royal assent. The Act amended the *Commonwealth Inscribed Stock Act 1911* to enable retail trading of depository interests in CGS on financial markets in Australia. Ownership of a depository interest provides investors with beneficial ownership of the underlying CGS including rights to principal and interest payments. On 21 May 2013, the trading of CHESS depository interests in CGS (otherwise known as Exchange-traded Treasury Bonds and Exchange-traded Treasury Indexed Bonds) commenced on the ASX's financial market.

Whilst depository interests are governed by the market rules of the relevant financial market operator and not the *Commonwealth Inscribed Stock Act 1911* (CIS Act), amendments were necessary to the appropriation provisions in the CIS Act to provide legal authority for making interest and principal payments on depository interests. The *Commonwealth Government Securities Legislation Amendment (Retail Trading) Act 2012* repealed section 6 of the CIS Act which provided a standing appropriation for payment of principal and interest on money raised by Stock issued under the Act, and added a new section 13AA which provides an equivalent standing appropriation but which also provides a standing appropriation for principal and interest due to holders of depository interests in CGS.

Market makers appointed by the ASX to make a market in CHESS depository interests purchase the underlying CGS and transfer the CGS to a depository nominee appointed by the AOFM. The depository nominee holds the CGS in trust for the depository interest holders and issues on a 1:1 ratio CHESS depository interests to the market maker who then sells the depository interests on the ASX's financial market to investors.

Under the ASX Settlement Operating Rules the Australian Government has the obligation to make payments of principal and interest directly to depository interest holders in return for the depository nominee relinquishing its rights to receive principal and interest from the Australian Government on the CGS it holds in trust for the depository interest holders. Therefore, for CGS which have a corresponding depository interest, the Australian Government makes payments of principal and interest directly to the depository interest holders and not through the depository nominee. This simplifies the payments arrangement whereby the holders of the depository interests are paid directly by the Australian Government, as opposed to multiple payments being made firstly to the depository nominee as the holder of the CGS and subsequently to the holders of the depository interests.

However section 6 of the *Financial Management and Accountability Act 1997* has the effect that for accounting purposes, the payments of principal and interest to holders of CGS and holders of depository interests must be recognised separately, which has a grossing-up effect. That is, notional payments are required to be recognised as if the Australian Government had paid principal and interest on the underlying CGS to the depository nominee. These notional payments are offset by notional receipts as if the depository nominee had returned the funds to the Australian Government prior to their payment to depository interest holders by the Australian Government. Consequently, the section 13AA appropriation is used twice where depository interests are involved, once for the notional payments on the underlying CGS and once for the actual payments to depository interest holders.

The following table details the amounts of the section 13AA payments made directly by the Australian Government to holders of depository interests.

	2013	2012
	$'000	$'000
Commonwealth Inscribed Stock Act 1911, section 13AA		
Principal and interest due to holders of CHESS depository interests (beneficial interests in Stock issued under the Act)	**48**	-
Total	**48**	-

Note 27: Disclosures of appropriations (continued)

Note 27F: Special appropriations (refund provisions)

In 2011-12 and 2012-13 the AOFM did not use section 28 of the *Financial Management and Accountability Act 1997* which provides for repayments of monies received by the Australian Government where no other appropriation exists to refund the monies received.

Note 27G: Special appropriations (FMA section 39)

Investment of public money: **Special appropriations under section 39 of the FMA Act in face value terms**	**2013** **$'000**	2012 $'000
Amount invested brought forward from previous period	**25,701,185**	25,079,805
Investments made during the year(a)	**837,160,000**	1,071,880,430
Investments redeemed during the year	**(833,631,827)**	(1,071,259,050)
Amount invested carried to the next period (at face value)(b)	**29,229,358**	25,701,185

FMA = *Financial Management and Accountability Act 1997*.

(a) For 2011-12 this does not equate to actual expenditures made to acquire investments as investments are quoted in face value terms and in 2011-12 discount securities were purchased. See Note 27D for expenditures made.

(b) See Note 24I for details of investments held and Note 16 for details of investment income.

Note 27: Disclosures of appropriations (continued)

Note 27H: Special accounts (Administered)

Debt Retirement Reserve Trust Account (DRRTA)

Establishing Instrument — *Financial Management and Accountability Act 1997*, section 21.

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

	2013 $'000	2012 $'000
Balance brought forward from previous period	**657**	566
Appropriation for reporting period	**21**	23
Interest amounts credited	**21**	25
Other receipts:		
State and Territory contributions	**62**	755
Available for payments	**761**	1,369
Total increase	**104**	803
Payments made:		
Debt repayments	**(19)**	(712)
Total decrease	**(19)**	(712)
Balance	**742**	657
Balance represented by:		
Cash - held in the Official Public Account	**742**	657
Total balance carried to the next period	**742**	657

Note 27I: Assets held in trust (Administered)

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

Details of balances, payments and receipts in relation to the Debt Retirement Reserve Trust Account are provided in Note 27H: Special accounts (Administered).

Note 28: Reporting of outcomes

The AOFM delivers a single outcome — the advancement of macroeconomic growth and stability, and the effective operation of financial markets, through issuing debt, investing in financial assets and managing debt, investments and cash for the Australian Government.

	Outcome 1	Outcome 1
	2013	2012
	$'000	$'000
Expenses		
Administered	**12,237,309**	11,420,896
Departmental	**9,776**	10,297
Total expenses	**12,247,085**	11,431,193
Own-source income		
Administered		
Interest	**1,121,487**	1,412,392
Other	**40**	270
Gains (losses)	**11,388,881**	(20,574,263)
Total administered	**12,510,408**	(19,161,601)
Departmental		
Other(a)	**596**	722
Total departmental	**596**	722
Total own-source income	**12,511,004**	(19,160,879)
Net cost/(contribution) of outcome	**(263,919)**	30,592,072

(a) Excludes resources received free of charge from the ANAO.

Note 29: Net cash appropriation arrangements (Departmental)

The following table reports the amount of depreciation and amortisation expenses for which the AOFM no longer receives revenue appropriations.

	2013	2012
	$'000	$'000
Total comprehensive income excluding expenses previously funded through revenue appropriations(a)	**2,912**	3,495
Less:depreciation/amortisation expenses previously funded through revenue appropriation	**(380)**	(354)
Total comprehensive income as per the Statement of Comprehesive Income	**2,532**	3,141

(a) From 2010-11, the Government introduced net cash appropriation arrangements, where appropriations for depreciation/amortisation expenses ceased. The AOFM now receives a separate capital budget appropriation.

Note 30: Compliance with statutory conditions for payments from the consolidated revenue fund

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

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

The AOFM undertook a risk assessment for the 2012-13 financial year. No breaches of Section 83 were identified and the overall risk of a breach was considered low.

Note 31: Events occurring after reporting date

On 1 July 2013 the *Statute Stocktake (Appropriations) Act 2013* commenced. The Act repeals all annual appropriations from 1 July 1999 through to 30 June 2010. On this day the AOFM returned to the Budget $3,447,050 in unspent departmental appropriations.

There have been no other significant events occurring after the reporting date that would materially affect these financial statements.

AOFM

PART 5
OTHER INFORMATION

OTHER INFORMATION

Funding

Table 1 places the AOFM's asset and liability management activities in 2012-13 in the context of budget financing for the Australian Government and in particular as it covers the General Government Sector. Flows managed by the AOFM are shown in blue.

Table 1: General Government Sector funding requirement and funding sources

Source of funds	Actual 2012-13 ($billion)	Use of funds	Actual 2012-13 ($billion)
		Headline budget balance	21.0
Debt issuance[a]		**Debt redemption[a]**	
Treasury Bonds	58.0	Maturing Treasury Bonds	25.6
Treasury Indexed Bonds	2.9	Treasury Notes (net)	7.4
Total	**60.9**	**Total**	**33.0**
Other sources of funds		**Financial assets**	
Other general government sector		Change in AOFM term deposits	5.7
borrowings (net)	0.1	Change in other general government	0.5
Total	**0.1**	sector investments	
		Total	**6.2**
		Other applications of funds	
		Other financing (net) [b]	0.8
		Total	**0.8**
Total	**61.0**	**Total**	**61.0**

(a) Cash flows rather than face value of securities.
(b) Includes other general government sector flows not elsewhere classified.
Not all totals may sum exactly due to rounding.

Agency resource statement and resources for outcomes

Table 2: AOFM resource statement

		Actual available appropriation 2012-13 $'000 (b)(d)	Payments made 2012-13 $'000 (a)	=	Balance 2012-13 $'000
Ordinary annual services					
Departmental appropriation(c)		37,351	8,891		28,460
Receipts from other sources (s31)(e)		584	584		-
Total departmental		37,935	9,475		28,460
Administered expenses					
Outcome 1		10	-		10
Total administered		10	-		10
Total ordinary annual services	**A**	37,945	9,475		28,470
Other services					
Departmental non-operating		162	-		162
Total other services	**B**	162	-		162
Total available annual appropriations (A + B)		38,107	9,475		28,632
Special appropriations non-capital					
Commonwealth Inscribed Stock Act 1911		13,167,994	13,167,994		-
Financial Agreement Act 1994		283	283		-
Loans Securities Act 1919		432	432		-
Subtotal		13,168,709	13,168,709		-
Special appropriations capital					
Commonwealth Inscribed Stock Act 1911		85,576,765	85,576,765		-
Financial Management and Accountability Act 1997		837,160,000	837,160,000		-
Subtotal		922,736,765	922,736,765		-
Total special appropriations	**C**	935,905,474	935,905,474		-
Total appropriations excluding special accounts (A + B + C)		935,943,581	935,914,949		28,632
Special Accounts					
Debt Retirement Reserve Trust Account					
Opening balance		657	-		-
Appropriation receipts		21	-		-
Non-appropriation receipts to special account					-
Interest amount credited		21	-		-
State and Territory contributions		62	-		-
Payments made			19		-
Total Special Account	**D**	761	19		742
Total net resourcing and payments for AOFM (A + B + C + D)		935,944,342	935,914,968		29,374

(a) Amounts presented in this table exclude GST where the GST is recoverable from the ATO.
(b) *Appropriation Bill (No. 1) 2011-12* plus carried forward cash balances as at 1 July 2012.
(c) Includes capital budget appropriation.
(d) In June 2013 the AOFM transferred $500,500 from Appropriation Act 2 2000-01, which is shown under Departmental non-operating above, to Appropriation Act 1 2011-12 which is shown under ordinary annual services. These funds are expected to be spent in 2013-14 to meet capital expenditures on the AOFM's debt management system.
(e) Receipts received under s31 of *the Financial Management and Accountability Act 1997*.

Table 3: 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) 2012-13 $'000**	**Actual Expenses 2012-13 $'000**	**Variation $'000**
Program 1.1: Australian Office of Financial Management			
Departmental expenses			
Departmental appropriation	10,237	9,091	1,146
Expenses not requiring appropriation in the Budget year	803	685	118
Administered expenses before re-measurements			
Ordinary annual services (Appropriation Bill No.1)	10	-	10
Special appropriations expenses			
Commonwealth Inscribed Stock Act 1911	12,209,424	12,236,589	(27,165)
Loans Securities Act 1919	806	439	367
Financial Agreement Act 1994	22	281	(259)
Total for Program 1.1	12,221,302	12,247,085	(25,783)
	2011-12	**2012-13**	
Average staffing level (number)	**40**	**40**	

(a) The Budget figure for 2012-13 is the estimated actual 2012-13 expenses, reported in table 2.1 of the *Portfolio Budget Statements* 2013-14.

Grant programs

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

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

Advertising and market research

During 2012-13, the AOFM made no payments to market research organisations, polling organisations or direct mail organisations.

The AOFM incurred expenditure of $13,746 in campaign advertising to promote Australian Government debt to investors. This was paid to Haymarket Media Limited for the placement of an advertisement.

In addition, the AOFM incurred expenditure of $18,044 during 2012-13 to media advertising organisations for staff recruitment. No advertising expenditure on an individual position was over $12,100.

Freedom of information

Agencies subject to the *Freedom of Information Act 1982* (the Act) are required to publish information on a website as part of the Information Publication Scheme (IPS) provisions in Part II of the Act. This requirement has replaced the former requirement to publish a section 8 statement in an annual report. Freedom of Information (FOI) matters in respect to the AOFM are handled by the Treasury and all documents disclosed in response to FOI requests (other than personal or business information that would be unreasonable to publish) are published on the Disclosure Log of the Treasury website. Treasury reports on AOFM's FOI requests in an annual submission to the Office of the Australian Information Commissioner (OAIC) for inclusion in OAIC's annual report. In 2012-13, the AOFM received two FOI requests.

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

Ecologically sustainable development

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

Structure of AOFM's portfolio

The assets and liabilities managed by the AOFM and held on its administered balance sheet in 2012-13 were Commonwealth Government Securities (Treasury Bonds, Treasury Indexed Bonds, Treasury Notes and other securities), term deposits placed with the RBA, residential mortgage-backed securities (RMBS) and housing advances to the States under the various Commonwealth-State Housing Agreements.

For financial and risk management purposes, these assets and liabilities are allocated between four portfolios: the Long-Term Debt Portfolio, the Cash Management Portfolio, the RMBS Portfolio and the Housing Advances Portfolio. This allocation recognises the different objectives, risks and management approaches required in each area.

The **Long-Term Debt Portfolio** contains debt denominated in Australian dollars and in foreign currencies. It includes all Commonwealth Government Securities, other than Treasury Notes, which are issued for cash management purposes.

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

The **Cash Management Portfolio** is used to manage within-year variability in the Australian Government's financing requirement due to differences in the timing of Government payments and receipts. It contains all the assets and liabilities not held in the other three portfolios.

The **RMBS Portfolio** contains residential mortgage-backed securities purchased by the AOFM.

The **Housing Advances Portfolio** comprises loans for public housing made by the Commonwealth to the States and Territories. These loans, which were not evidenced by the issue of securities, were made under previous Commonwealth-State financing arrangements. The last of these loans is due to mature on 30 June 2042.

Residential mortgage-backed securities portfolio

The AOFM's investments in residential mortgage-backed securities up to 30 June 2013 are shown in Table 4.

Table 4: AOFM's RMBS investments up to 30 June 2013

Pricing date	Settlement date	Issuer	Issue name	Tranche	Expected WAL* at closing (years)	Coupon (per cent)	Original face value ($m)
14-Nov-08	21-Nov-08	FirstMac	FirstMac Mortgage Funding Trust Series 2-2008	Class A1	0.7	1M BBSW + 1.25%	132.00
14-Nov-08	21-Nov-08	FirstMac	FirstMac Mortgage Funding Trust Series 2-2008	Class A2	3.5	1M BBSW + 1.50%	325.00
14-Nov-08	21-Nov-08	FirstMac	FirstMac Mortgage Funding Trust Series 2-2008	Class AB	5.0	1M BBSW + 1.80%	39.00
17-Nov-08	09-Dec-08	Members' Equity Bank	SMHL Securitisation Fund 2008-2	Class A1	2.8	1M BBSW + 1.30%	500.00
04-Dec-08	12-Dec-08	Challenger	Challenger Millennium Series 2008-2 Trust	Class A	2.8	1M BBSW + 1.35%	481.00
04-Dec-08	12-Dec-08	Challenger	Challenger Millennium Series 2008-2 Trust	Class AB	4.5	1M BBSW + 1.75%	19.00
10-Dec-08	15-Dec-08	RESIMAC	RESIMAC Premier Series 2008-1	Class A2	1.5	1M BBSW + 1.20%	280.00
10-Dec-08	15-Dec-08	RESIMAC	RESIMAC Premier Series 2008-1	Class A3	4.5	1M BBSW + 1.40%	204.75
10-Dec-08	15-Dec-08	RESIMAC	RESIMAC Premier Series 2008-1	Class AB	4.5	1M BBSW + 1.70%	15.25
06-Mar-09	26-Mar-09	CUA	Series 2009-1 Harvey Trust	Class A1	3.6	1M BBSW + 1.40%	350.00
13-Mar-09	18-Mar-09	Bendigo and Adelaide Bank	TORRENS Series 2009-1 Trust	Class A2	4.2	1M BBSW + 1.35%	475.00
23-Mar-09	30-Mar-09	AMP Bank	Progress 2009-1 Trust	Class A2	4.0	1M BBSW + 1.30%	425.00
03-Apr-09	21-Apr-09	Bank of Queensland	Series 2009-1 REDS Trust	Class A1	4.2	1M BBSW + 1.30%	500.00
09-Apr-09	20-Apr-09	Liberty Financial	Liberty Prime Series 2009-1	Class A1	0.1	1M BBSW + 0.90%	14.50
09-Apr-09	20-Apr-09	Liberty Financial	Liberty Prime Series 2009-1	Class A2	0.9	1M BBSW + 1.20%	164.70
09-Apr-09	20-Apr-09	Liberty Financial	Liberty Prime Series 2009-1	Class A3	3.2	1M BBSW + 1.40%	283.00
09-Apr-09	20-Apr-09	Liberty Financial	Liberty Prime Series 2009-1	Class AB	4.0	1M BBSW + 1.65%	37.80
15-Apr-09	24-Apr-09	Challenger	Challenger Millennium Series 2009-1 Trust	Class A2	0.5	1M BBSW + 1.00%	38.20
15-Apr-09	24-Apr-09	Challenger	Challenger Millennium Series 2009-1 Trust	Class A3	1.5	1M BBSW + 1.30%	152.50
15-Apr-09	24-Apr-09	Challenger	Challenger Millennium Series 2009-1 Trust	Class A4	4.3	1M BBSW + 1.45%	289.00
15-Apr-09	24-Apr-09	Challenger	Challenger Millennium Series 2009-1 Trust	Class AB	4.4	1M BBSW + 1.70%	20.30
11-May-09	14-May-09	Members' Equity Bank	SMHL Securitisation Fund 2009-1	Class A2	3.7	1M BBSW + 1.35%	500.00
21-May-09	28-May-09	RESIMAC	RESIMAC Premier Series 2009-1	Class A2	0.5	1M BBSW + 1.00%	10.00
21-May-09	28-May-09	RESIMAC	RESIMAC Premier Series 2009-1	Class A3	2.9	1M BBSW + 1.40%	435.00
21-May-09	28-May-09	RESIMAC	RESIMAC Premier Series 2009-1	Class AB	4.1	1M BBSW + 1.70%	13.80
01-Jun-09	05-Jun-09	FirstMac	FirstMac Mortgage Funding Trust Series 1-2009	Class A3	2.9	1M BBSW + 1.40%	458.00
01-Jun-09	05-Jun-09	FirstMac	FirstMac Mortgage Funding Trust Series 1-2009	Class AB	5.0	1M BBSW + 2.20%	40.62
09-Jul-09	16-Jul-09	Wide Bay Australia	WB Trust 2009-1	Class A1	0.5	1M BBSW + 1.10%	16.00
09-Jul-09	16-Jul-09	Wide Bay Australia	WB Trust 2009-1	Class A2	3.5	1M BBSW + 1.40%	282.50
09-Jul-09	16-Jul-09	Wide Bay Australia	WB Trust 2009-1	Class AB	5.4	1M BBSW + 1.60%	1.00
14-Jul-09	28-Jul-09	Australian Central Credit Union	Light Trust No. 2	Class A1	4.0	1M BBSW + 1.30%	190.00
20-Aug-09	04-Sep-09	Suncorp Metway	APOLLO Series 2009-1 Trust	Class A3	3.6	1M BBSW + 1.30%	499.20
28-Aug-09	11-Sep-09	Greater Building Society	GBS Receivables Trust No. 4	Class A1	4.3	1M BBSW + 1.35%	190.00

Table 4: AOFM's RMBS investments up to 30 June 2013 (continued)

Pricing date	Settlement date	Issuer	Issue name	Tranche	Expected WAL* at closing (years)	Coupon (per cent)	Original face value ($m)
14-Oct-09	21-Oct-09	Liberty Financial	Liberty Prime Series 2009-2	Class A2	1.0	1M BBSW + 0.90%	35.00
14-Oct-09	21-Oct-09	Liberty Financial	Liberty Prime Series 2009-2	Class A3	3.3	1M BBSW + 1.40%	58.50
14-Oct-09	21-Oct-09	Liberty Financial	Liberty Prime Series 2009-2	Class AB	4.0	1M BBSW + 1.65%	6.30
21-Oct-09	28-Oct-09	RESIMAC	RESIMAC Premier Series 2009-2	Class A2	3.3	1M BBSW + 1.40%	38.10
21-Oct-09	28-Oct-09	RESIMAC	RESIMAC Premier Series 2009-2	Class AB	3.5	1M BBSW + 1.95%	18.30
10-Nov-09	24-Nov-09	FirstMac	FirstMac Mortgage Funding Trust Series 2-2009	Class A2	3.5	1M BBSW + 1.40%	195.40
10-Nov-09	24-Nov-09	FirstMac	FirstMac Mortgage Funding Trust Series 2-2009	Class AB	5.0	1M BBSW + 1.95%	19.74
22-Jan-10	29-Jan-10	AMP Bank	Progress 2010-1 Trust	Class AB	5.2	1M BBSW + 1.80%	36.00
09-Feb-10	17-Feb-10	Bank of Queensland	Series 2010-1 REDS Trust	Class A	3.1	1M BBSW + 1.30%	250.00
25-Feb-10	10-Mar-10	CUA	Series 2010-1 Harvey Trust	Class A1	2.9	1M BBSW + 1.35%	143.00
05-Mar-10	15-Mar-10	Members' Equity Bank	SMHL Securitisation Fund 2010-1	Class A	2.6	1M BBSW + 1.35%	250.00
17-Mar-10	24-Mar-10	Bendigo and Adelaide Bank	TORRENS Series 2010-1 Trust	Class A	2.8	1M BBSW + 1.35%	123.00
26-Mar-10	31-Mar-10	IMB	Illawarra Series 2010-1 RMBS Trust	Class A	3.0	1M BBSW + 1.35%	157.50
12-May-10	17-May-10	RESIMAC	RESIMAC Premier Series 2010-1	Class A	2.4	1M BBSW + 1.65%	10.00
28-May-10	09-Jun-10	Suncorp Metway	APOLLO Series 2010-1 Trust	Class A2	6.0	1M BBSW + 1.10%	300.00
02-Jul-10	14-Jul-10	Members' Equity Bank	SMHL Securitisation Fund 2010-2E	Class A3	5.7	1M BBSW + 1.10%	250.00
08-Jul-10	20-Jul-10	Bendigo and Adelaide Bank	TORRENS Series 2010-2 Trust	Class A3	3.0	1M BBSW + 1.10%	19.50
08-Jul-10	20-Jul-10	Bendigo and Adelaide Bank	TORRENS Series 2010-2 Trust	Class A4	5.8	1M BBSW + 1.10%	476.50
23-Jul-10	04-Aug-10	MyState Financial	ConQuest 2010-2 Trust	Class A2	1.5	1M BBSW + 1.40%	20.00
23-Jul-10	04-Aug-10	MyState Financial	ConQuest 2010-2 Trust	Class A3	5.0	1M BBSW + 1.30%	139.25
23-Jul-10	04-Aug-10	MyState Financial	ConQuest 2010-2 Trust	Class AB	3.7	1M BBSW + 1.85%	10.75
11-Aug-10	18-Aug-10	Liberty Financial	Liberty Prime Series 2010-1	Class A2	3.3	1M BBSW + 1.25%	90.00
11-Aug-10	18-Aug-10	Liberty Financial	Liberty Prime Series 2010-1	Class AB	4.0	1M BBSW + 1.65%	10.40
18-Aug-10	27-Aug-10	Bank of Queensland	Series 2010-2 REDS Trust	Class A2	6.2	1M BBSW + 1.10%	497.60
26-Aug-10	02-Sep-10	Macquarie Bank	PUMA Masterfund P-16	Class A3	6.3	1M BBSW + 1.15%	247.50
06-Sep-10	09-Sep-10	FirstMac	FirstMac Mortgage Funding Trust Series 1-2010	Class A3	4.7	1M BBSW + 1.30%	164.00
06-Sep-10	09-Sep-10	FirstMac	FirstMac Mortgage Funding Trust Series 1-2010	Class AB	3.6	1M BBSW + 2.20%	26.77
23-Sep-10	28-Sep-10	Members' Equity Bank	SMHL Securitisation Fund 2010-3	Class A2	6.1	1M BBSW + 1.10%	290.00
14-Oct-10	20-Oct-10	ING Bank (Australia)	IDOL Trust Series 2010-1	Class A2	7.5	1M BBSW + 1.10%	250.00
10-Nov-10	18-Nov-10	Australian Central Credit Union	Light Trust No. 3	Class A3	5.4	1M BBSW + 1.20%	243.50
19-Nov-10	25-Nov-10	RESIMAC	RESIMAC Premier Series 2010-2	Class A2	4.8	1M BBSW + 1.25%	148.00
26-Nov-10	03-Dec-10	Police and Nurses Credit Society	Pinnacle Series Trust 2010-T1	Class A2	7.2	1M BBSW + 1.25%	96.50
26-Nov-10	03-Dec-10	Police and Nurses Credit Society	Pinnacle Series Trust 2010-T1	Class AB	6.7	1M BBSW + 2.00%	14.60

Table 4: AOFM's RMBS investments up to 30 June 2013 (continued)

Pricing date	Settlement date	Issuer	Issue name	Tranche	Expected WAL* at closing (years)	Coupon (per cent)	Original face value ($m)
10-Dec-10	16-Dec-10	Bendigo and Adelaide Bank	TORRENS Series 2010-3 Trust	Class A5	4.6	1M BBSW + 1.10%	395.00
10-Dec-10	16-Dec-10	Bendigo and Adelaide Bank	TORRENS Series 2010-3 Trust	Class AB	4.7	1M BBSW + 1.80%	20.00
15-Dec-10	21-Dec-10	Wide Bay Australia	WB Trust 2010-1	Class A2	6.6	1M BBSW + 1.25%	81.20
15-Dec-10	21-Dec-10	Wide Bay Australia	WB Trust 2010-1	Class AB	6.2	1M BBSW + 2.00%	23.00
17-Mar-11	24-Mar-11	Members' Equity Bank	SMHL Securitisation Fund 2011-1^				0.00
07-Apr-11	14-Apr-11	Community CPS	Barton Series 2011-1 Trust	Class A2	6.5	1M BBSW + 1.25%	90.90
08-Apr-11	13-Apr-11	Liberty Financial	Liberty Prime Series 2011-1	Class A2	4.0	1M BBSW + 1.30%	50.75
15-Apr-11	20-Apr-11	Macquarie Bank	PUMA Masterfund P-17	Class A2	5.6	1M BBSW + 1.15%	157.50
13-May-11	19-May-11	RESIMAC	RESIMAC Premier Series 2011-1	Class A	2.9	1M BBSW + 1.25%	170.00
13-May-11	19-May-11	RESIMAC	RESIMAC Premier Series 2011-1	Class AB	2.4	1M BBSW + 1.75%	22.00
20-May-11	27-May-11	AMP Bank	Progress 2011-1 Trust	Class A2	5.8	1M BBSW + 1.15%	138.00
10-Jun-11	17-Jun-11	ING Bank (Australia)	IDOL Trust Series 2011-1	Class A1	3.6	1M BBSW + 1.10%	206.00
11-Jul-11	14-Jul-11	Heritage Building Society	HBS Trust 2011-1	Class AB	5.5	1M BBSW + 1.95%	21.60
14-Jul-11	21-Jul-11	Bendigo and Adelaide Bank	TORRENS Series 2011-1(E) Trust	Class A3	6.6	1M BBSW + 1.20%	195.00
14-Jul-11	21-Jul-11	Bendigo and Adelaide Bank	TORRENS Series 2011-1(E) Trust	Class AB	5.6	1M BBSW + 1.75%	27.50
12-Oct-11	19-Oct-11	Members' Equity Bank	SMHL Securitisation Fund 2011-2	Class A	3.0	1M BBSW + 1.25%	175.25
12-Oct-11	19-Oct-11	Members' Equity Bank	SMHL Securitisation Fund 2011-2	Class AB	5.3	1M BBSW + 2.10%	25.25
28-Oct-11	04-Nov-11	Bendigo and Adelaide Bank	TORRENS Series 2011-2 Trust	Class A2	6.3	1M BBSW + 1.50%	163.75
28-Oct-11	04-Nov-11	Bendigo and Adelaide Bank	TORRENS Series 2011-2 Trust	Class AB	6.3	1M BBSW + 2.50%	26.25
11-Nov-11	18-Nov-11	ING Bank (Australia)	IDOL Trust Series 2011-2	Class A1	2.7	1M BBSW + 1.35%	146.50
11-Nov-11	18-Nov-11	ING Bank (Australia)	IDOL Trust Series 2011-2	Class A2	5.0	5.50%	50.00
23-Nov-11	08-Dec-11	Suncorp Metway	APOLLO Series 2011-1 Trust	Class A2	5.9	1M BBSW + 1.50%	250.00
23-Nov-11	08-Dec-11	Suncorp Metway	APOLLO Series 2011-1 Trust	Class AB	5.9	1M BBSW + 2.50%	63.00
20-Dec-11	22-Dec-11	FirstMac	FirstMac Mortgage Funding Trust Series 2-2011	Class A3	7.0	1M BBSW + 1.65%	87.70
20-Dec-11	22-Dec-11	FirstMac	FirstMac Mortgage Funding Trust Series 2-2011	Class AB	5.7	1M BBSW + 2.75%	11.70
29-Mar-12	12-Apr-12	ING Bank (Australia)	IDOL Trust Series 2012-1	Class A1	3.2	1M BBSW + 1.45%	200.00
13-Apr-12	23-Apr-12	Members' Equity Bank	SMHL Securitisation Fund 2012-1	Class A3	2.8	1M BBSW + 1.50%	123.50
17-May-12	29-May-12	AMP Bank	Progress 2012-1 Trust	Class A	3.4	1M BBSW + 1.55%	195.65
17-May-12	29-May-12	AMP Bank	Progress 2012-1 Trust	Class AB	5.9	1M BBSW + 2.85%	30.78
01-Jun-12	14-Jun-12	RESIMAC	RESIMAC Premier Series 2012-1	Class A2	2.4	1M BBSW + 1.65%	137.00
02-Aug-12	09-Aug-12	FirstMac	FirstMac Mortgage Funding Trust Series 1-2012	Class A2	6.1	1M BBSW + 2.10%	129.10
02-Aug-12	09-Aug-12	FirstMac	FirstMac Mortgage Funding Trust Series 1-2012	Class AB	6.1	1M BBSW + 3.00%	13.40
24-Aug-12	30-Aug-12	AMP Bank	Progress 2012-2 Trust^				0.00

Table 4: AOFM's RMBS investments up to 30 June 2013 (continued)

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

*Weighted average life
^The AOFM final allocation was zero

Tender results for debt issuance

Table 5: Treasury Bond tender results — 2012-13

Tender date	Coupon and maturity	Face value amount allocated ($m)	Weighted average issue yield (%)	Spread to secondary market yield (basis points)	Range of bids accepted (basis points)	Times covered
4-Jul-12	4.25% 21-Jul-2017	800	2.6823	-0.52	1.00	4.13
11-Jul-12	2.75% 21-Apr-2024	1,000	3.1076	0.51	2.50	2.20
18-Jul-12	5.75% 15-Jul-2022	800	2.8528	-0.22	0.50	2.99
27-Jul-12	5.50% 21-Jan-2018	800	2.4936	0.36	2.00	2.42
1-Aug-12	5.50% 21-Apr-2023	1,000	3.0630	0.30	1.00	2.30
8-Aug-12	5.75% 15-Jul-2022	500	3.2539	-0.36	1.50	4.75
10-Aug-12	4.75% 21-Oct-2015	500	2.7942	-0.08	0.50	4.84
15-Aug-12	5.50% 21-Apr-2023	500	3.3357	-0.18	1.00	4.67
17-Aug-12	4.75% 15-Jun-2016	500	2.8934	-0.16	0.50	5.16
22-Aug-12	2.75% 21-Apr-2024	500	3.5250	0.75	1.00	3.15
24-Aug-12	4.75% 21-Oct-2015	500	2.6770	-0.05	0.50	5.15
29-Aug-12	5.75% 15-Jul-2022	500	3.1300	-0.25	0.00	4.21
31-Aug-12	4.25% 21-Jul-2017	500	2.5805	0.30	1.00	5.74
5-Sep-12	5.50% 21-Apr-2023	800	3.0742	0.17	1.00	2.98
12-Sep-12	5.25% 15-Mar-2019	500	2.7912	-0.13	1.00	4.62
14-Sep-12	4.75% 15-Jun-2016	500	2.6846	-0.29	1.50	4.95
19-Sep-12	2.75% 21-Apr-2024	800	3.4575	0.00	1.00	3.61
26-Sep-12	4.50% 15-Apr-2020	500	2.8324	0.49	1.00	2.81
28-Sep-12	5.50% 21-Jan-2018	500	2.6362	-0.38	1.50	3.26
3-Oct-12	4.25% 21-Jul-2017	500	2.4955	-0.20	1.00	4.96
5-Oct-12	4.75% 21-Oct-2015	500	2.4786	-0.64	0.50	6.14
17-Oct-12	5.50% 21-Apr-2023	500	3.1465	-0.85	0.50	5.02
19-Oct-12	5.50% 21-Jan-2018	500	2.7623	-0.27	1.00	4.95
26-Oct-12	2.75% 21-Apr-2024	800	3.4089	-0.11	1.50	3.56
31-Oct-12	4.75% 21-Apr-2027	600	3.4485	-0.15	0.50	4.59
2-Nov-12	4.25% 21-Jul-2017	600	2.7001	-0.74	0.50	6.45
7-Nov-12	5.75% 15-Jul-2022	600	3.1577	0.02	0.50	3.84
9-Nov-12	4.75% 21-Oct-2015	600	2.6033	-1.17	2.00	6.11
14-Nov-12	5.50% 21-Apr-2023	600	3.0535	-0.15	0.50	5.52
16-Nov-12	6.00% 15-Feb-2017	600	2.5375	-1.00	0.50	5.64
21-Nov-12	5.75% 15-Jul-2022	600	3.1364	-0.11	1.00	2.99
23-Nov-12	4.25% 21-Jul-2017	600	2.7947	-0.28	1.00	5.16
28-Nov-12	4.75% 21-Apr-2027	600	3.5429	0.00	0.50	3.91
30-Nov-12	4.75% 21-Oct-2015	600	2.5992	-0.33	0.50	4.72
5-Dec-12	5.50% 21-Apr-2023	600	3.1514	0.14	1.00	3.66
7-Dec-12	4.75% 15-Jun-2016	600	2.6337	-0.13	0.50	4.89
12-Dec-12	2.75% 21-Apr-2024	800	3.2905	-0.20	1.00	3.34
14-Dec-12	4.25% 21-Jul-2017	600	2.8407	-0.18	1.00	4.68
30-Jan-13	5.50% 21-Apr-2023	600	3.5045	-0.30	0.50	3.89
1-Feb-13	5.50% 21-Jan-2018	600	3.0309	-0.16	0.50	3.67
6-Feb-13	2.75% 21-Apr-2024	600	3.6792	0.17	0.50	3.15
8-Feb-13	4.25% 21-Jul-2017	600	2.9039	-0.36	0.50	4.27
13-Feb-13	5.50% 21-Apr-2023	600	3.5148	-0.27	1.00	3.50

Table 5: Treasury Bond tender results — 2012-13 (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
15-Feb-13	4.75% 21-Oct-2015	600	2.8433	-0.67	0.50	5.56
20-Feb-13	2.75% 21-Apr-2024	600	3.7312	-0.13	0.50	3.92
22-Feb-13	5.50% 21-Jan-2018	600	3.0482	-0.68	1.00	4.76
27-Feb-13	4.75% 21-Apr-2027	600	3.7485	0.35	1.50	2.26
1-Mar-13	4.75% 15-Jun-2016	600	2.7301	0.01	1.00	4.39
6-Mar-13	4.75% 21-Oct-2015	600	2.7842	-0.20	0.50	3.32
8-Mar-13	5.50% 21-Apr-2023	600	3.5215	0.00	1.00	2.81
13-Mar-13	2.75% 21-Apr-2024	600	3.7002	-0.45	1.00	3.77
20-Mar-13	5.50% 21-Apr-2023	600	3.4870	0.00	1.00	3.18
22-Mar-13	4.25% 21-Jul-2017	600	3.0888	0.13	0.50	3.28
27-Mar-13	4.75% 21-Apr-2027	650	3.8881	-0.69	1.00	3.26
3-Apr-13	2.75% 21-Apr-2024	600	3.5405	0.30	1.00	2.63
5-Apr-13	5.50% 21-Jan-2018	600	3.0173	-0.14	0.50	3.91
10-Apr-13	3.25% 21-Apr-2029	640	3.7488	-0.24	0.50	3.05
12-Apr-13	4.75% 21-Oct-2015	600	2.8012	0.00	1.00	4.12
17-Apr-13	5.75% 15-Jul-2022	600	3.2391	0.16	1.00	3.18
19-Apr-13	4.75% 15-Jun-2016	600	2.6972	0.22	1.00	3.33
26-Apr-13	2.75% 21-Apr-2024	600	3.2799	-0.63	0.50	4.23
1-May-13	4.75% 21-Apr-2027	600	3.4348	-0.27	0.50	3.96
3-May-13	5.50% 21-Jan-2018	600	2.6835	-0.15	0.50	4.48
8-May-13	3.25% 21-Apr-2029	600	3.6036	0.29	1.00	3.10
10-May-13	2.75% 21-Apr-2024	600	3.2522	-0.58	0.50	3.02
15-May-13	4.75% 21-Apr-2027	600	3.6289	-0.09	1.00	3.18
17-May-13	4.75% 21-Oct-2015	600	2.4883	-0.17	0.50	2.77
29-May-13	4.75% 21-Apr-2027	700	3.7332	-0.43	0.50	2.45
31-May-13	5.50% 21-Jan-2018	700	2.8200	-0.30	0.00	4.93
5-Jun-13	5.50% 21-Apr-2023	700	3.4308	-0.21	0.50	3.09
7-Jun-13	4.25% 21-Jul-2017	700	2.6378	-0.14	0.50	4.34
12-Jun-13	5.75% 15-May-2021	700	3.2930	0.05	0.50	3.89
14-Jun-13	6.25% 15-Apr-2015	700	2.4850	0.02	0.00	5.36
19-Jun-13	3.25% 21-Apr-2029	700	3.9338	-0.19	0.50	3.04
21-Jun-13	5.50% 21-Jan-2018	700	3.0533	-0.17	0.50	4.03
Average over year to June 2013				-0.16	0.81	3.99
Average over 3 years to June 2013				-0.12	0.98	3.64
Average over 10 years to June 2013				0.05	1.11	3.48

Table 6: Treasury Indexed Bond tender results — 2012-13

Tender date	Coupon and maturity	Face value amount allocated ($m)	Weighted average issue yield (%)	Spread to secondary market yield (basis points)	Times covered
17-Jul-12	3.00% 20-Sep-2025	200	0.5900	4.00	3.40
21-Aug-12	1.25% 21-Feb-2022	250	0.7500	2.00	2.96
18-Sep-12	2.50% 20-Sep-2030	200	1.0400	6.00	3.72
16-Oct-12	1.25% 21-Feb-2022	250	0.3250	0.00	3.06
20-Nov-12	2.50% 20-Sep-2030	150	0.8950	1.50	3.50
19-Feb-13	1.25% 21-Feb-2022	250	0.7500	1.00	4.14
26-Mar-13	4.00% 20-Aug-2020	250	0.6900	1.50	3.50
16-Apr-13	2.50% 20-Sep-2030	250	0.9300	-1.50	2.86
21-May-13	1.25% 21-Feb-2022	250	0.5950	3.50	3.84
18-Jun-13	3.00% 20-Sep-2025	200	1.1600	2.00	3.29
Average over year to June 2013				2.00	3.43
Average over 3 years to June 2013				0.83	3.66

Table 7: Treasury Note tender results — 2012-13

Tender date	Maturity	Face value amount allocated ($m)	Weighted average issue yield (%)	Range of bids accepted (basis points)	Times covered	Spread to OIS (basis points)	Spread to BBSW (basis points)
5-Jul-12	07-Sep-12	500	3.4738	8.0	7.23	4.63	-9.60
12-Jul-12	26-Oct-12	500	3.3565	5.0	5.82	6.31	-22.64
19-Jul-12	26-Oct-12	500	3.3338	2.0	8.83	3.35	-18.53
26-Jul-12	26-Oct-12	1,000	3.1810	1.0	5.65	-10.84	-36.99
26-Jul-12	09-Nov-12	1,000	3.2283	6.0	4.14	-2.14	-31.16
2-Aug-12	26-Oct-12	1,000	3.3215	25.0	4.20	-3.27	-27.17
2-Aug-12	09-Nov-12	1,000	3.3057	14.0	4.42	-1.57	-28.48
9-Aug-12	26-Oct-12	1,000	3.4008	11.0	3.47	0.47	-21.52
9-Aug-12	14-Dec-12	1,000	3.3586	7.0	2.62	6.63	-25.31
16-Aug-12	26-Oct-12	1,000	3.4932	3.0	4.57	5.41	-14.50
23-Aug-12	09-Nov-12	1,000	3.4867	2.0	3.75	7.58	-13.42
30-Aug-12	09-Nov-12	500	3.4881	1.0	6.49	7.61	-15.19
30-Aug-12	14-Dec-12	500	3.4160	2.0	7.08	8.21	-22.17
6-Sep-12	09-Nov-12	1,000	3.4205	9.0	4.38	2.65	-13.12
6-Sep-12	25-Jan-13	1,000	3.2820	5.0	4.33	10.68	-22.75
13-Sep-12	14-Dec-12	500	3.3957	9.0	7.09	3.57	-17.43
13-Sep-12	25-Jan-13	500	3.3380	2.0	5.23	5.57	-20.85
20-Sep-12	14-Dec-12	500	3.3542	2.0	2.51	9.55	-4.21
20-Sep-12	25-Jan-13	500	3.2788	3.0	3.98	10.53	-9.43
27-Sep-12	25-Jan-13	500	3.2171	7.0	4.62	9.23	-11.48
27-Sep-12	08-Feb-13	500	3.2197	4.0	3.65	12.10	-10.32
4-Oct-12	14-Dec-12	500	3.1880	3.0	5.66	4.25	-3.75
4-Oct-12	25-Jan-13	500	3.1482	4.0	6.23	9.30	-1.18
11-Oct-12	25-Jan-13	500	3.0960	3.0	5.77	6.12	-9.02
11-Oct-12	08-Feb-13	500	3.1117	2.0	5.57	9.62	-6.97
18-Oct-12	25-Jan-13	1,000	3.1101	3.0	4.10	6.56	-4.16
18-Oct-12	08-Feb-13	500	3.1041	3.0	6.21	7.89	-4.20
25-Oct-12	08-Feb-13	1,000	3.0419	6.0	5.04	-2.29	-15.05
25-Oct-12	22-Mar-13	1,000	3.0202	7.0	5.30	2.31	-14.32

Table 7: Treasury Note tender results — 2012-13 (continued)

Tender date	Maturity	Face value amount allocated ($m)	Weighted average issue yield (%)	Range of bids accepted (basis points)	Times covered	Spread to OIS (basis points)	Spread to BBSW (basis points)
1-Nov-12	25-Jan-13	500	3.0401	5.0	7.06	-0.60	-9.72
8-Nov-12	08-Feb-13	1,000	3.1219	6.0	5.50	-1.08	-12.99
8-Nov-12	12-Apr-13	1,000	3.0500	8.0	5.68	1.67	-15.67
15-Nov-12	25-Jan-13	500	3.1166	14.0	5.43	-2.25	-17.79
15-Nov-12	22-Mar-13	500	3.0413	10.0	7.01	-2.32	-21.12
22-Nov-12	22-Mar-13	1,000	3.0784	5.0	4.23	1.41	-17.92
22-Nov-12	12-Apr-13	1,000	3.0608	6.0	4.03	1.94	-19.17
29-Nov-12	08-Feb-13	1,000	3.1390	9.0	4.00	4.14	-15.44
29-Nov-12	22-Mar-13	1,000	3.0955	8.0	4.46	4.61	-18.76
6-Dec-12	08-Feb-13	1,000	3.0620	2.0	3.44	6.34	-6.05
6-Dec-12	12-Apr-13	1,000	2.9580	4.0	5.02	4.21	-13.35
13-Dec-12	08-Feb-13	1,000	3.0524	6.0	2.19	6.85	-6.76
13-Dec-12	22-Mar-13	1,000	2.9963	8.0	2.73	6.63	-13.12
13-Dec-12	24-May-13	1,000	2.9440	8.0	2.83	9.37	-16.38
20-Dec-12	12-Apr-13	1,000	2.9744	2.0	4.94	8.88	-16.65
10-Jan-13	22-Mar-13	500	2.9630	5.0	6.20	3.72	-9.24
17-Jan-13	12-Apr-13	1,000	2.9614	4.0	5.79	4.44	-7.17
24-Jan-13	12-Apr-13	1,000	2.8957	4.0	6.58	3.47	-8.85
24-Jan-13	24-May-13	1,000	2.8763	9.0	4.52	7.25	-8.63
31-Jan-13	24-May-13	1,000	2.8980	5.0	5.41	6.59	-5.20
7-Feb-13	24-May-13	1,000	2.8770	5.0	6.47	2.12	-5.77
7-Feb-13	07-Jun-13	500	2.8802	5.0	5.85	4.57	-5.20
14-Feb-13	24-May-13	1,000	2.9172	5.0	5.60	2.54	-2.70
21-Feb-13	24-May-13	1,000	2.9055	1.0	6.49	1.73	-3.37
28-Feb-13	07-Jun-13	1,000	2.8675	5.0	5.24	2.18	-10.22
7-Mar-13	07-Jun-13	1,000	2.9422	4.0	3.81	0.86	-4.19
14-Mar-13	07-Jun-13	1,000	2.9701	6.0	4.13	1.40	-8.05
21-Mar-13	24-May-13	500	2.9540	5.0	5.10	-1.48	-8.04
21-Mar-13	07-Jun-13	1,000	2.9430	4.0	4.78	-1.73	-9.28
4-Apr-13	07-Jun-13	1,000	2.9474	3.0	7.87	-3.13	-11.33
11-Apr-13	26-Jul-13	1,000	2.8977	4.0	6.50	-5.78	-19.23
11-Apr-13	23-Aug-13	500	2.8940	6.0	8.03	-4.89	-19.63
18-Apr-13	26-Jul-13	1,000	2.8441	2.0	5.54	-4.91	-14.36
2-May-13	26-Jul-13	500	2.7891	1.0	5.76	-3.61	-12.30
9-May-13	26-Jul-13	500	2.6320	3.0	6.54	-3.38	-16.32
16-May-13	26-Jul-13	500	2.5935	8.0	7.20	-9.56	-19.59
23-May-13	23-Aug-13	500	2.5249	6.0	7.91	-15.69	-28.56
6-Jun-13	27-Sep-13	1,000	2.4944	10.0	5.82	-11.99	-29.24
Average over year to June 2013				5.52	5.28	2.46	-14.06
Average over 3 years to June 2013				6.74	5.25	1.63	-20.70

Glossary

Accrual cost

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

Bank Bill Swap Reference Rates (BBSW)

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

Basis point

One hundredth of one per cent.

Bid-ask spread

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

Book value

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

Bullet security

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

Cash Management Portfolio

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

Commonwealth Government Securities (CGS)

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

Coupon rate

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

Credit risk

The risk of counterparty default creating financial loss. Credit risk is contingent on the combination of a default and there being pecuniary loss. The AOFM faces credit risk in relation to its investment transactions.

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.

Derivative

A financial instrument for which its price is dependent upon or derived from one or more underlying assets (for example stocks, bonds, commodities, currencies and indexes). The derivative itself is a contract between two or more parties. The most common derivatives are swaps, options, futures and forwards.

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, as being due to be paid on maturity.

Fixed rate

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

Floating rate

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

Foreign Debt Portfolio

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

Funding risk

The risk that an issuer is unable to raise funds, as required, in an orderly manner and without financial penalty. For the Australian Government, funding risk encompasses both long-term fund raising to cover future Budget needs and the short-term mismatches in the timing of Government payments and receipts.

Futures basket

A collection of like financial products or commodities, grouped together, that are used to define the benchmark for pricing a futures contract. For example, 3-year and 10-year Treasury Bond futures baskets consist of collections of Treasury Bond lines that have an average term to maturity of approximately three and ten years respectively.

Futures contract

An agreement between two parties that commits one party to buy an underlying financial instrument or commodity and another (counter) party to sell a financial instrument or commodity at a specific price at a future date. The agreement is completed at a specified expiration date by physical delivery or cash settlement, or alternatively is offset prior to the expiration date. In Australia standardised futures contracts are traded on the Sydney Futures Exchange. Futures contracts traded on the Sydney Futures Exchange include contracts for 3-year and 10-year Treasury Bonds.

Historic cost

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

Interest

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

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

Interest rate risk

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

Issuance

The sale of debt securities in the primary market.

Kangaroo bonds

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

Liquidity

The capacity for a debt instrument to be readily purchased or sold. A liquid market allows the ready buying or selling of large quantities of an instrument without significant movement in price.

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

Liquidity risk

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

Long-Term Debt Portfolio

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

Market risk

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

Market value

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

Modified duration

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

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

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

Nominal debt

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

Nominal interest rate

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

Operational risk

The risk of loss, whether direct or indirect, arising from inadequate or failed internal processes, people or systems, or from external events. It encompasses risks inherent in the agency's operating activities such as fraud risk, settlement risk, legal risk, accounting risk, personnel risk and reputation risk.

Overnight cash rate

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

Overnight Indexed Swap (OIS)

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

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

Physical debt

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

Present value

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

Primary market

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

Real interest rate

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

Repurchase agreement (Repo)

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

Repricing risk

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

Residential mortgage-backed security (RMBS)

A debt instrument issued by a special purpose vehicle to finance the securitisation of a pool of loans that is secured by residential mortgages. A description of the principal features of a typical RMBS transaction can be found on pages 30-31 of the AOFM's 2008-09 Annual Report.

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 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 Reserve Bank of Australia on behalf of the AOFM. It supports the efficient operation of these markets as it facilitates trading by enabling dealers to obtain specific lines of stock when they are not readily available from other sources.

Securitisation

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

Semi-government bond

A bond issued in the Australian capital market by Australian State or Territory governments.

Short-dated exposure

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

Special purpose vehicle (SPV)

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

Spread

The difference between two prices or yields.

Swap

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

Tender

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

Tenor

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

Term deposit

A deposit held at a financial institution that has a fixed term. These are generally short-term with maturities ranging anywhere from a month to a few years. When a term deposit is purchased, the lender (the customer) understands that the money can only be withdrawn after the term has ended, or after having given a predetermined number of days notice.

Term premium

The margin over the expected path of cash rates that investors require as compensation for having invested at greater terms to maturity.

Treasury Bond

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

Treasury Indexed Bond

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

Treasury Note

A short-term debt security issued by the Australian Government at a discount and redeemable at par on maturity. The interest payable on the notes is represented by the difference between their issue value and their par or face value. Treasury Notes are issued to cover short-term mismatches between the Australian Government's payments and receipts. They are used in circumstances in which cash holdings may be temporarily low such as changes in the AOFM's holdings of term deposits with the Reserve Bank of Australia; soon after a large maturity; or at long intervals ahead of large revenue collections.

Two-way price

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

Yield

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

Yield curve

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

Acronyms

AASB	Australian Accounting Standards Board
ADIs	Authorised Deposit-taking Institutions
AFMA	Australian Financial Markets Association
ANAO	Australian National Audit Office
AOFM	Australian Office of Financial Management
APEC	Asia-Pacific Economic Cooperation
APS	Australian Public Service
AUD	Australian dollar
BBSW	Bank Bill Swap Reference Rates
CEO	Chief Executive Officer
CGS	Commonwealth Government Securities
CPI	Consumer Price Index
EL	Executive Level (APS Classification)
ERMLC	Enterprise Risk Management, Legal and Compliance Group
FBT	Fringe Benefit Tax
FMA Act	*Financial Management and Accountability Act 1997*
FMO	Finance Minister's Orders
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GST	Goods and Service Tax

HR	Human resources
IT	Information technology
LTDP	Long-term Debt Portfolio
OECD	Organisation for Economic Co-operation and Development
OIS	Overnight Indexed Swap
OPA	Official Public Account
RAMSI	Regional Assistance Mission to the Solomon Islands
RBA	Reserve Bank of Australia
RITS	Reserve Bank Information and Transfer System
RMBS	Residential Mortgage-backed Security
SES	Senior Executive Service
TIB	Treasury Indexed Bond
USD	United States dollar

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