AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT

Annual Report 2020-21

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Australian Government

Australian Office of Financial Management

12 October 2021

The Hon Joshua Frydenberg MP
Treasurer
Parliament House
CANBERRA, ACT 2600

Dear Treasurer

Please find attached the Annual Report of the Australian Office of Financial Management (AOFM) for the year ended 30 June 2021.

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

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

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

Yours sincerely

Rob Nicholl
Chief Executive Officer

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 and issuance conditions

Core responsibilities for the AOFM remained unchanged during 2020-21. We remain focused on: ensuring Government cash needs are always met; achieving the Budget financing task; management of the Australian Government Securities (AGS) portfolio with a view to promoting market integrity while balancing a range of medium to long term portfolio cost and risk considerations; and effective management of the Australian Business Securitisation Fund (ABSF) and Structured Finance Support Fund (SFSF).

The Budget financing task and issuance

The Government's funding requirements remained high (even compared with 2019-20) due to the ongoing impact of the COVID-19 pandemic. However global financial market conditions were generally supportive of high issuance tasks.

Throughout 2020-21, central banks maintained their policy settings consistent with appreciable monetary easing. There were periods where economic conditions in Australia (and in the major global economies) showed distinct signs of a building recovery. However, subsequent outbreaks of a more highly infectious variant of COVID-19 interrupted the emergence of recovery trends. This has left economic forecasts balanced between further near-term recovery and some setbacks. Globally there has been an intensifying debate around the prospect of a sustained return of higher inflation; this has been central to the outlook for monetary policy settings. In the meantime, central banks have continued to play a dominant role in the functioning of financial markets and the near-term outlook for yields. This has been as true for the AGS market as for other sovereign bond markets, although yields for AGS maturities of 12 years and longer tend to be influenced more by overseas markets than by domestic policies.

The AOFM spent a considerable amount of time in the last year briefing and receiving comments and observations from investors – domestic and offshore. Overall, the AOFM's assessment of little underlying change in the breadth and composition of the investor base over the past 18 months continues to hold. However, in some respects, the market has become more difficult to 'read' given the impact of RBA operations. That said, the view from offshore investors generally has been consistent around a theme of a well-managed sovereign bond market.

Yields were steady around historic low levels for the first half of 2020-21, before rising at the beginning of calendar 2021, a repricing that reflected widespread momentum in expectations for emerging inflation. Although yields finished 2020-21 markedly higher than for the previous two years, they are still low by historic standards. Short-dated yields remained anchored at extremely low levels by the RBA’s cash rate and yield target settings. Therefore, when yields were rising the difference between short and long dated yields became relatively wider than normally observed, which reduces the incentive for the AOFM to issue ‘long’.

The financing task for 2020-21 was met through a combination of $207 billion in Treasury Bonds issuance, and around $2.5 billion in Treasury Indexed Bonds issuance; there was a net decrease to Treasury Notes outstanding of $31.5 billion. This compares with planned issuance at the time of the 2020-21 Budget of around $240 billion for Treasury Bonds and $2.5 billion for Treasury Indexed Bonds, with no planned appreciable change in Treasury Notes outstanding.

Securitisation investment funds

The ABSF is a $2 billion investment fund, established in April 2019, with the aim of enhancing access to finance for small to medium enterprises (SMEs) through targeted Government investments in the securitisation market. The AOFM has now gained sufficient understanding of how the ABSF can be used to support smaller lenders to compete more effectively with the major banks, and to fill niche gaps in the lending market otherwise underserved in Australia.

The AOFM has worked with representation from the securitisation market and one of the major ratings agencies to establish a data template that can be adopted by the industry to make available loan performance for this sector. Over time performance data should underpin establishment of a track record in lending against types of collateral new to the securitisation market, and where the ability to obtain credit ratings and attract broad investor interest is currently limited. As loan performance data become more uniformly and readily available the sector should attract more private sector investment, thereby enhancing the flow of capital to the SME lending sector.

The SFSF was established to provide access to funding markets by eligible lenders impacted by economic effects of the COVID-19 pandemic. The Fund was successfully used by the AOFM to maintain access to reasonably priced funding for smaller lenders otherwise at risk of losing access to this during the pandemic. The need for Government support through the SFSF abated noticeably during the year.

The AOFM took a multi-faceted approach: supporting new issuance of public securitisations sponsored by eligible lenders; investing in revolving warehouse facilities of eligible lenders; and establishing a ‘forbearance trust’ to provide cash flow support to eligible lenders against loans experiencing temporary COVID 19 related hardship.

In total the SFSF has been used to support 41 eligible lenders, through commitments and investments of $3.8 billion.

Rob Nicholl
Chief Executive Officer

PART 1:
AOFM OVERVIEW

AOFM OVERVIEW

Role, function, outcome and program structure

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

The objectives of the AOFM are to:

1. Meet the Budget financing task while managing the trade-offs between cost and risks for the cash and debt portfolios over the medium-long term;
2. enable the Government to meet its cash outlay requirements at all times;
3. operate in the Australian Government Securities (AGS) market in a manner consistent with a responsibility matching its ability to influence the market; and
4. manage the Australian Business Support Fund (ABSF) and Structured Finance Securitisation Fund (SFSF).

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

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

7. For budgetary purposes, the AOFM's activities comprise one program directed to achieve the following outcome on behalf of the Australian Government: — "*the advancement of macroeconomic growth and stability*."

This is pursued through issuance of AGS; investing on behalf of Government in financial markets (through the ABSF and SFSF programs); and managing the Government's debt and cash portfolios. The AOFM aims to manage the debt portfolio at least cost, subject to an acceptable level of risk. The AOFM takes account of Government policy objectives in support of the AGS market when planning and executing issuance programs.

Accountable authority

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

Organisational structure

The AOFM is organised according to a structure that provides segregation of transaction-related duties, based on principles of financial industry best practice. Core operational activities are segregated into three broad areas.

Front Office

The Front Office comprises core operational activities of strategy, markets, and funding. This involves portfolio and global market research (including monitoring and anticipating regulatory impacts on financial markets), investor engagement, liaison with Treasury on debt policy and related financial market issues, conduct of investment programs (ABSF, SFSF), and issuance. The Front Office liaises with Treasury, other departments, and agencies responsible for government programs, the ATO, the RBA, intermediaries, investors, and Australian securitisation market participants. It also monitors global financial markets to judge how execution of AOFM's financing and portfolio management responsibilities can be best achieved.

Middle Office

The Middle Office comprises enterprise risk, assurance, performance, data, and business systems management and strategy. Associated activities support risk and compliance monitoring and facilitate risk management (including separation of back and front office functions). The Middle Office administers controls in various business critical systems. It maintains databases in support of support monitoring and reporting on AOFM business activities. It also manages broader IT issues through a shared services relationship with Treasury, while maintaining awareness of developing new opportunities in availability of out-sourced IT services.

Back Office

The Back Office comprises accounting services, settlements, administrative support, and workplace support for the CEO. Business operations provide accounting services, transaction settlements and debt payment obligations, procurement advice, and parliamentary liaison support. Administrative functions and support to the Chief Executive sit within a Corporate Development business unit. Communications, information management, and human resources related advice are served by relevant senior staff.

PART 2:
PERFORMANCE AND OUTCOMES

PERFORMANCE AND OUTCOMES

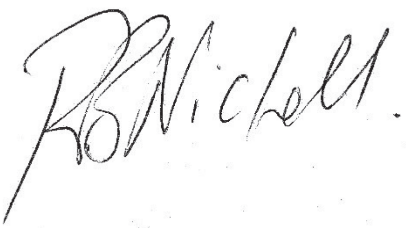
Introduction

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

Section 1: Annual Performance Statement

The 2020-21 Annual Performance Statement of the Australian Office of Financial Management (AOFM) is presented as required under paragraph 39(1)(a) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

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



Rob Nicholl

Chief Executive Officer

13 October 2021

Purpose

The AOFM's purpose is to fully meet the Government's debt financing and cash needs and achieve its policy objectives to support the domestic lending market. The AOFM will take account of the potential for its operations to impact Australian financial markets.

The following key functions underpin the AOFM's role:

- issuing AGS to meet the Government's financing task and in accordance with government policy objectives (such as facilitating sovereign bond market liquidity);
- settlement and payment of Government financial obligations on AGS;
- managing the cash account to meet the Government's commitments at all times;
- undertaking cost effective management of the debt and asset portfolios;
- where appropriate, supporting efficient operation of the Australian financial system; and
- managing the ABSF and SFSF investment portfolios consistent with related policy objectives.

The AOFM balances cost and risk considerations but its overriding aim is to ensure financing requirements of the Government are met at all times. The AOFM has minimal appetite for failure in any function associated with debt issuance, settlement and payment obligations, and cash management. The design and conduct of core business processes (including business continuity arrangements) reflects this low-risk appetite.

The AOFM monitors its performance against the indicators presented in Table 1, which are sourced from the AOFM's Corporate Plan 2020-21 and Portfolio Budget Statements 2020-21. Sections 2 and 3 of this part of this report provide detail on a range of outcomes towards the AOFM's annual and longer-term aims. This detail is provided separately to the Performance Statement because it is aimed at financial market participants as the relevant audience.

Table 1: Performance Information 2020-21

Performance Indicator[(a)]	Measure [(b)]
Objective 1: Meet the budget financing task in a cost effective manner subject to acceptable risk	
1. Term issuance	Shortfall in volume ($) between actual Treasury Bond issuance and planned issuance announced at the Budget and subsequent releases.
2.1 Financing cost (portfolio)	The cost of the long-term debt portfolio compared to the 10 year average of the 10-year bond rate.
2.2 Financing cost (issuance)	The cost of Treasury Bond issuance over the past 12 months compared to the average 10-year bond rate over the same period.
3. New issuance yields	Weighted average issue yield at Treasury Bond and Treasury Indexed Bond tenders compared to prevailing mid-market secondary yields.
Objective 2: Facilitate the Government's cash outlay requirements as and when they fall due	
4. Use of the overdraft facility	Number of instances the RBA overdraft facility was utilised to the extent that it required Ministerial approval during the assessment period.
Objective 3: AOFM is a credible custodian of the AGS market and other portfolio responsibilities	
5. A liquid and efficient secondary market	Annual turnover in the secondary market for Treasury Bonds and Treasury Indexed Bonds.
6. Market commitments	Number of times the AOFM failed to take actions consistent with public announcements.
Objective 4: Efficiently and effectively implement the ABSF and SFSF programs	
7. ABSF rate of return	Accrual earnings (net of losses) divided by average drawn (invested) amount.
8. SME loan level data template in use for securitisation sector investment analysis	SME loan level data template was: agreed to by the industry body; and populated by sponsor of ABSF investment.
9. SFSF warehouse proposals processed	Number of warehouse proposals executed/declined from small lenders.
10. SFSF leverage ratio	Private sector investment in primary transactions of small lenders, in which AOFM was engaged, divided by SFSF monies applied to public (primary plus secondary) investments.

(a) Source: AOFM Corporate Plan 2020-21; Portfolio Budget Statements 2020-21 Budget Related Paper No. 1.13 — Treasury Portfolio, p. 109

(b) Source: AOFM measures performance against indicators using data captured from its market transactions; its financial systems recording portfolio composition; official notices to the market; and secondary financial market turnover data requested from intermediaries.

Performance Results 2020-21

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

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

There was no shortfall between actual and planned issuance announced at the 2020-21 Budget and subsequent releases. In 2020-21, the AOFM issued $207.3 billion of Treasury Bonds compared to initially planned issuance of $240 billion. This was revised down to $230 billion at the 2020-21 MYEFO and further reduced to around $210 billion at the 2021-22 Budget (in line with downward revisions to the funding task). The AOFM also issued $2.5 billion of Treasury Indexed Bonds, consistent with initially planned issuance $2.0 to $2.5 billion at the 2020-21 Budget. Actual Treasury Bond issuance of $207.3 billion was below the May update of $210 billion due to stronger than forecast cash assets held toward the end of the year.

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

The trajectory and level of financing costs are important considerations for the AOFM, although they are mostly beyond the AOFM's control. In an environment of declining interest rates (which characterises most of the period since the Global Financial Crisis), the financing cost of the long-term debt portfolio will, other things equal, decline as the AOFM issues new debt at lower rates. The maturity profile of the portfolio is also relevant because the financing cost of the long-term debt portfolio will fall as debt issued in prior years (when rates were higher) matures. The AOFM monitors the cost of the debt portfolio against the 10 year average of the 10-year bond rate because this is a globally relevant benchmark indicator.

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

The average yield on Treasury Bond issuance (accounting for the bulk of long-term issuance) for 2020-21 was 0.99 per cent. This is lower than the average 10-year bond rate of 1.18 per cent over the year. This outcome largely reflects the timing of bond issuance, which was concentrated into the first half of the year, when yields were lower. The weighted average maturity (WAM) of new issuance in 2020-21 was 10.28 years.

The AOFM monitors issuance cost outcomes against the 10-year bond rate because it is a market relevant benchmark and represents a highly liquid part of the AGS yield curve (making it a useful cost indicator of market conditions for the year).

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

Average tender yields for 2020-21 were below secondary mid-market yields for both Treasury Bonds (0.64 basis points) and Treasury Indexed Bonds (1.69 basis points). This compares to 0.32 basis points and 1.01 basis points respectively in 2019-20. In 2020-21, the AOFM held 75 Treasury Bond tenders with a combined face value of $109.3 billion (79 tenders for $94.2 billion in 2019-20) and 18 Treasury Indexed Bond tenders with a combined face value of $2.5 billion (14 tenders for $1.65 billion in 2019-20). .

How AOFM achieves this objective

The financing task is achieved through issuance of AGS, which is guided by an annual issuance strategy balancing debt portfolio risks (such as future interest rate volatility and funding risks) against differences in short and long maturity borrowing costs. Flexibility within the strategy is also important. The volume and mix of AGS issuance to achieve the funding task can be adjusted in response to changing circumstances (such as unforeseen changes in funding requirements).

The method of issuance is determined by balancing considerations of supporting AGS market liquidity, managing execution risk, and anticipated transaction costs. The majority of issuance occurs via competitive tender. The syndication method is reserved for situations in which execution risk (due to large issuance volume or extension of the yield curve) and/or the initial trading liquidity of the security being issued are primary considerations.

Of the $209.8 billion in gross term issuance for the year (Treasury Bonds and Treasury Indexed Bonds), $111.8 billion was issued via competitive tender, with new issuance yields consistently lower than secondary market yields. The remaining $98 billion in Treasury Bonds was issued via syndication. Financing costs on the overall portfolio also compared favourably against market indicator rates. More detail on each of these aspects is provided in Section 2 below.

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

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

The RBA overdraft facility was not utilised in 2020-21.

How AOFM achieves this objective

This objective is achieved through appropriate management of the cash portfolio, with the AOFM using information from the ATO and spending agencies to forecast daily revenue collections and expenditure outlays. Throughout the year there are time of significant mismatches between expenditure needs and revenue collected. The AOFM uses short term funding (through Treasury Notes) and cash portfolio assets to manage these mismatches.

Objective 3: Be a credible custodian of the Australian Government Securities (AGS) market and other portfolio responsibilities, including the Australian Business Securitisation Fund (ABSF) and Structured Finance Support Fund (SFSF).

Indicator 5	**A liquid and efficient secondary market:** Annual turnover in the secondary market for Treasury Bonds and Treasury Indexed Bonds
Target	Greater than previous year
Result	Target met

AGS liquidity remained strong in 2020-21. Turnover of Treasury Bonds totalled $2.1 trillion (a 36 per cent increase from the previous year). Annual Treasury Indexed Bond turnover increased by 19 per cent, to $58 billion. Strong secondary market liquidity is a key consideration for most investors because it reflects an ability to transact (either through buying or selling AGS) in a timely manner and in volumes to meet their needs, without market prices being materially moved by those transactions. It reflects a range of factors. including: regular AOFM issuance that, among other factors, takes account of prevailing market conditions; the presence of a range of active ‘price makers’ in AGS; good access to interest rate risk hedging; and a diverse (and active) investor base. The AOFM also plans issuance with the aim of supporting (ASX) Treasury Bond futures (risk hedging) contracts.

The AOFM also supports liquidity through: restricting the number of individual bond lines so each can have greater volume outstanding including considering RBA holdings; clear communication about and transparency regarding AOFM issuance; and a long-standing focus on maintaining a functional and resilient AGS market.

High levels of secondary market turnover and feedback from investors attesting to their capacity to buy and sell large parcels of AGS at acceptable prices are strong indicators of liquidity for 2020-21.

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

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

This included announcements in July and December 2020, and at Budget in May 2021. These announcements progressively updated planned AGS issuance, including for new lines and weekly issuance rates. At all times issuance remained consistent with the most recent public guidance. The unusual frequency in changes to public (market) guidance was driven by updates to the Government's COVID-19 response package and uncertainty surrounding the potential impact on the underlying Budget position following initial lockdowns that commenced during 2020.

The AOFM considers the above actions were consistent with public announcements, but notes revisions were necessarily made multiple times throughout the year (a departure from the preferred and traditional approach of only updating guidance at official Budget updates). Market feedback indicates the AOFM's adopted approach of regular issuance updates, given the circumstances, was a welcome departure from established practice.

How AOFM achieves this objective

The AOFM is judged by financial markets to be a credible and predictable major participant in the AGS market and uses its operational flexibility responsibly. It is important to note the AOFM does not have any regulatory or statutory authority - any influence it has is by virtue of its guidance and issuance operations (although it recognises the potential for this influence to be significant).

Indicator 7	**ABSF rate of return** Accrual earnings (net of losses) divided by average drawn (invested) amount.
Target	Greater than or equal to the investment mandate benchmark(Bloomberg AusBond Treasury 0-1 year index)

Result	Target met

The ABSF achieved a return on average drawn funds of 1.63 per cent for the financial year ending 30 June 2021, versus a benchmark return of 0.18 per cent.

Indicator 8	**<u>SME loan level data template in use for securitisation sector</u>** **<u>investment analysis</u>** SME loan level data template was: agreed to by the industry body; and populated by sponsor of ABSF investment.
Target	(i) Agreement by 31March 2021; (ii) data collection commenced by 30 June 2021.
Result	Target not met

Progress toward agreement on the template was suspended due to the onset of the pandemic. Work recommenced in the second half of the year culminating in agreement of a draft template published by the ASF in August 2021.

How AOFM achieves this objective

Central to the AOFM's strategy for developing the SME lending sector of the securitisation market is coalescence around a standardised data template, so investment performance can be readily assessed by ratings agencies and investors. The AOFM sought and received assistance from the ASF to sponsor a working group of industry participants (including AOFM staff) to design the template. Publication of the template represents a key milestone for the ABSF program. The AOFM can now use ABSF investment to support adoption of this reporting standard by SME lenders.

A key driver of the ABSF's financial outperformance was the yield on short term debt instruments, which fell sharply in 2020 as a direct consequence of the RBA's monetary policy response to the pandemic. The initial investment made by the ABSF had a return commensurate with the risk of the investment. No subsidy was provided on this investment as the originator could not adopt the (as then unfinished) standardised SME loan level data template.

Indicator 9	**SFSF warehouse proposals processed**. Number of warehouse proposals recommended to the delegate
Target	Up to 20 per quarter while there are, at any time, outstanding proposals with AOFM for consideration
Result	Target met

A total of 32 warehouse applications from lenders were considered by the SFSF delegate during the 2020-21 financial year. Q1 was the period of peak activity (and thus when the target for the performance indicator was most relevant) in which 22 applications were considered by the delegate (of which 15 were approved). As market conditions improved, calls for assistance abated, and seven proposals were considered in Q2 (four of which were approved), one in Q3 and two in Q4.

Indicator 10	**SFSF leverage ratio** Private sector investment in primary transactions of small lenders, in which AOFM was engaged, divided by SFSF monies applied to public (primary + secondary) investments.
Target	> Four in the year overall
Result	Target met

In Q1, the multiplier was over 40, as only a very small volume of SFSF investment was required to support primary market activity. In subsequent quarters the multiplier was either infinite or not applicable because no SFSF investment was required due to further improvements in market conditions. While contingent support was sought by issuers in Q2 that was ultimately not called on, no requests for this kind of support were received in the second half of 2020-21.

How AOFM achieves this objective

The AOFM's objective for implementing the SFSF has been to fill gaps in the market created by liquidity and other constraints arising from the pandemic induced market disruption as well as supporting lenders granting loan forbearance through establishment of the Forbearance Special Purpose Vehicle.

By seeking to limit its investment to the minimum required to allow transactions to occur, and thus maintain the flow of finance to eligible lenders, the AOFM has avoided crowding out private sector investment, while maintaining confidence that additional capital can be deployed if required.

As market conditions improved the AOFM was able to step back from the market while maintaining the SFSF apparatus.

Section 2: Outcomes

Debt issuance

Aims

The AOFM currently issues three debt instruments: Treasury Bonds; Treasury Indexed Bonds (TIBs) and Treasury Notes. The primary objectives of issuance are to cost-effectively meet the Government's budget funding task (including both deficit financing and repayment of maturing debt obligations) and to assist managing interest rate, liquidity, and debt refinancing risks.

Treasury Bonds are used as the primary funding tool to meet the budget funding task. TIBs issuance is used primarily to support the inflation-linked market. Treasury Notes are typically issued for within-year financing purposes.

Through its operations the AOFM is aware that:

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

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

Approach to achieving these aims and market influences

The AOFM uses competitive tenders and syndications for debt issuance (with tenders the mainstay of issuance operations). In 2020-21 there were 75 Treasury Bond tenders, 18 TIB tenders and 47 Treasury Note tenders. Five new Treasury Bond lines were launched by syndication and there was one syndicated tap of an existing bond line.

The Government's funding requirements were considerably higher than last year due to COVID-19 associated fiscal response packages. However, due to an improvement in Australia's economic performance against initial forecasts, budget outcomes were better than expected and the financing task was lower than initially forecast.

In the second half of 2020-21 global financial markets reflected an emergence of rising inflation expectations due to accommodative monetary and fiscal policies. Rising inflationary expectations were reflected in a sharp sell-off in bond markets in which yields on 10-year Treasury Bonds increased rapidly, particularly through the third quarter of the financial year. The result was yields rising to around 90 basis points above the trading range observed through the first half of the year. With the RBA's yield curve control operations anchored yields on short term bonds at around 10 basis points, the AGS yield curve steepened considerably as a result.

Outcomes

Meeting the Budget financing task

The financing task for 2020-21 was fully met through a combination of Treasury Bond and TIB issuance. There was a reduced reliance on Treasury Notes with outstandings decreased (by $31.5 billion) to a level around $27 billion compared with 2019-20. The improved underlying Budget position throughout the year allowed for lower issuance than planned at the (delayed) 2020-21 Budget release. At that time an issuance task of around $240 billion had been forecast for the year.

Treasury Bonds

Gross Treasury Bond issuance for the year totalled $207.3 billion, a significant increase from the $128.2 billion issued in 2019-20. New bond lines maturing in November 2025, September 2026, November 2031, November 2032, and June 2051 were established. Around 60 per cent of total Treasury Bond issuance for the year was into these new bond lines.

In selecting the bond lines to issue each week, the AOFM takes account of prevailing market conditions, liaison with financial market contacts, relative value considerations, and liquidity of outstanding bond lines. The AOFM refrained from issuing into any bond lines forming part of the RBA's yield curve control operation and continued suspension of the regular (short) bond buyback program. Between July 2020 and June 2021, up to three tenders were held each week. Issuance via tender continued to be concentrated into bonds in the 10-year futures basket and shorter, which is consistently the most liquid part of the AGS market and therefore, best able to absorb larger issuance volumes.

At the end of the year, there were 29 Treasury Bond lines: 14 having over $30 billion on issue and a further 6 having over $20 billion on issue. Chart 1 shows Treasury Bonds outstanding as at 30 June 2021 and the allocation of issuance across bond lines during 2020-21.

Chart 1: Treasury Bonds outstanding at 30 June 2021 and issuance in 2020-21

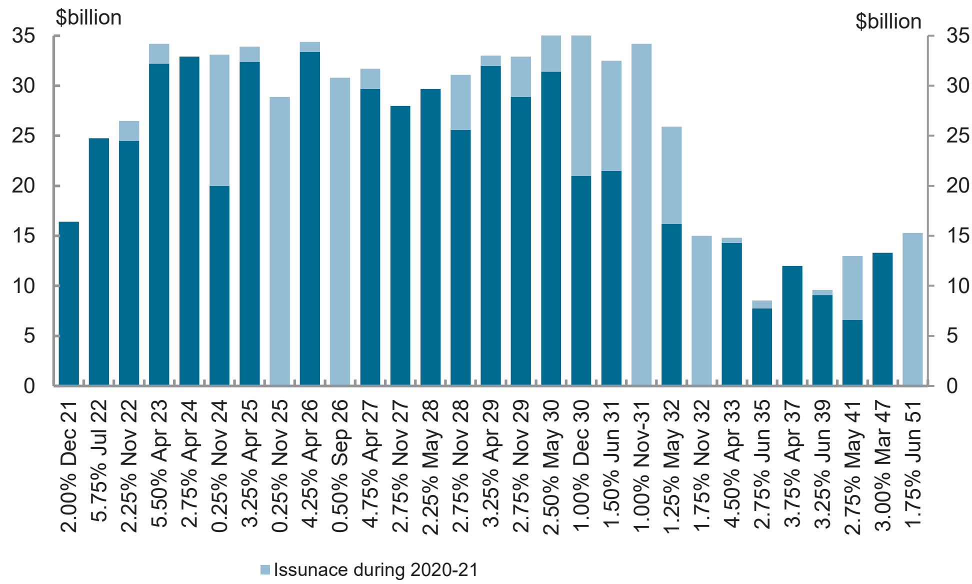


Table 2 summarises results of Treasury Bond tenders conducted during the year. These are averages for each half-year and grouped by maturity dates of the bonds offered.

Table 2: Summary of Treasury Bond tender results

Period	Maturity	Face value amount allocated ($m)	Weighted average issue yield (%)	Average spread to secondary market yield (basis points)	Average times covered
July - December 2020	Up to 2028	32,000	0.4106	-0.82	5.17
	2029 - 2033	36,200	0.9152	-0.49	4.18
	2034 - 2051	1,300	1.3348	-1.02	2.91
January - June 2021	Up to 2028	12,800	0.5399	-0.85	4.69
	2029- 2033	26,300	1.5583	-0.45	3.66
	2034 - 2051	700	2.2115	-0.58	3.19

The average tender coverage ratio for Treasury Bond tenders in 2020-21 was 4.29, an increase from 3.67 in 2019-20. The average tender size of $1.46 billion was higher than in 2019-20 ($1.2 billion). A total of 75 tenders were held in 2020-21, compared with 79 in 2019-20.

Shorter-dated bond tenders generally received higher than average coverage ratios, which reflected core investor interest and a greater willingness, and ability of, intermediaries to warehouse the risk associated with shorter dated bonds.

The strength of bidding at tenders was also reflected in issue yield spreads relative to secondary market yields. At most Treasury Bond tenders the weighted average issue yields were below prevailing secondary market yields (a better price outcome than at mid-market).

Treasury Notes

Treasury Notes on issue decreased by $31.5 billion in 2020-21. A total of 47 Treasury Note tenders were conducted.

Treasury Notes were primarily used for within-year financing throughout 2020-21. Issuance tenors were focused around 3 and 6 month maturities. The volume of Treasury Notes outstanding gradually declined throughout the financial year as those issued between March and June 2020 (to fund the initial increase in Government COVID-19 related expenditure) matured. Treasury Notes totalling $94.5 billion were issued in 2020-21 (in face value terms), an increase of $4.6 billion on 2019-20.

Chart 2: Treasury Notes outstanding (by maturity) at 30 June 2021 and issuance in 2020-21

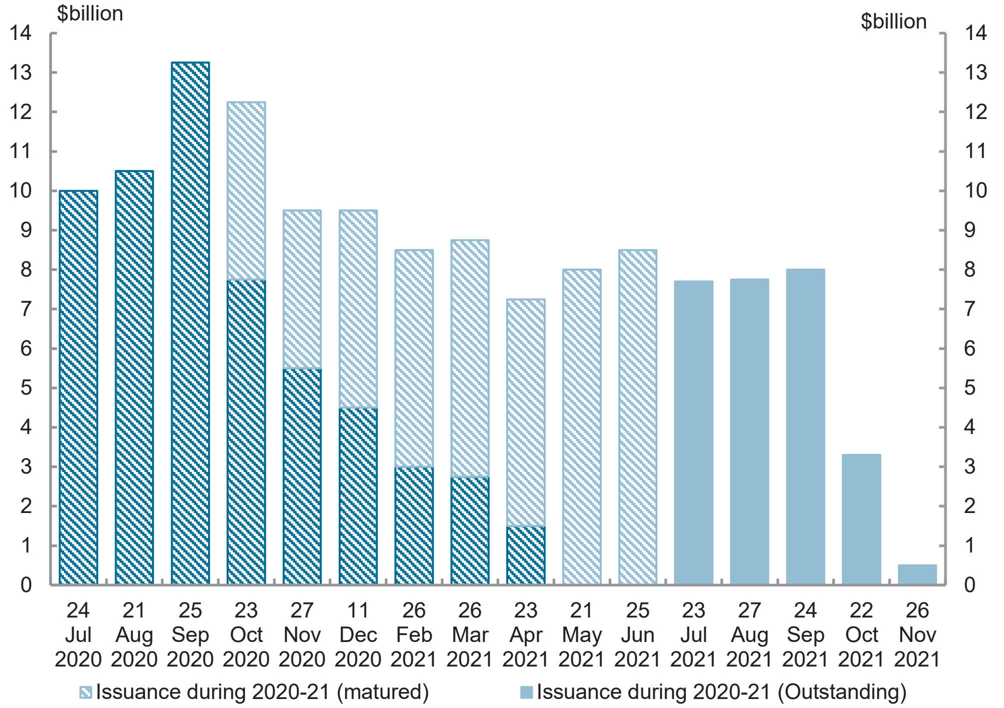


Table 3 summarises Treasury Note tender results during the year. Averages for each half-year and grouped by tenor. Issuance was met with strong demand as accommodative monetary policy created substantially increased banking system liquidity. The average coverage ratio at tenders was above 6, an increase from 3.96 in 2019-20. Yields were on average 1 basis point higher than Overnight Indexed Swap (OIS) rates for corresponding tenors (compared to around 20 basis points higher than OIS rates in 2019-20). This reflected lower spreads across Australian short-dated funding rates.

Table 3: Summary of Treasury Note tender results

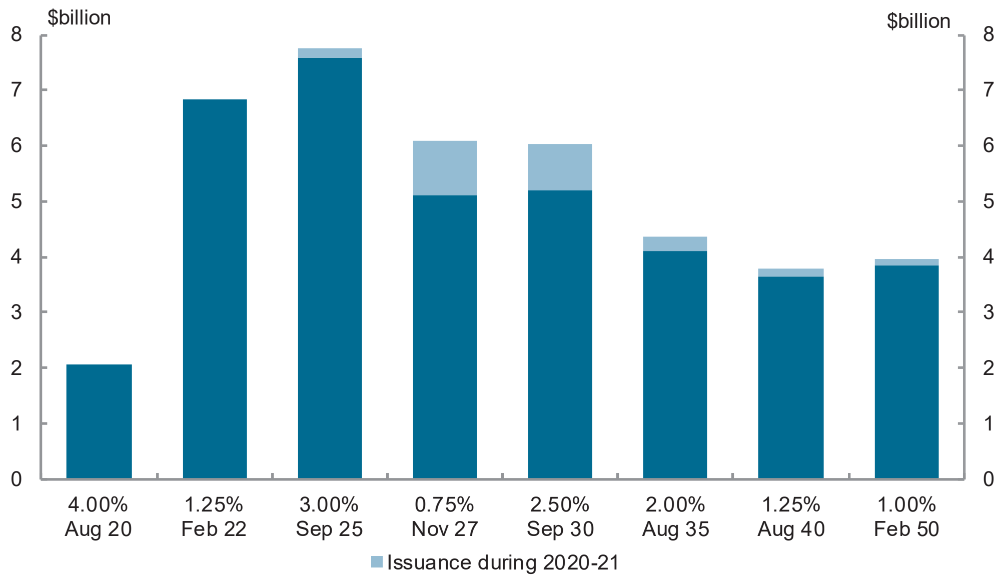
Period	Maturity	Face value amount allocated ($m)	Weighted average issue yield (%)	Average spread to Overnight Indexed Swap (basis points)	Average times covered
July - December 2020	Up to 120 days	32,500	0.1150	1.56	5.05
	121 days to 210 days	15,500	0.1079	3.04	5.41
	Longer than 210 days	15,000	0.1508	5.17	5.81
January - June 2021	Up to 120 days	18,450	0.0140	-1.83	6.77
	121 days to 210 days	13,050	0.0196	-1.58	6.83
	Longer than 210 days	-	-	0.00	-

Treasury Indexed Bonds

TIB issuance for the year totalled $2.50 billion over 18 tenders. Feedback from market participants and prevailing market conditions were considered in issuance decisions.

Chart 4 shows the amount outstanding in each of the 8 TIB lines at 30 June 2021, and allocation of issuance during the 2020-21 year.

Chart 3: Treasury Indexed Bonds outstanding at 30 June 2021 and issuance in 2020-21



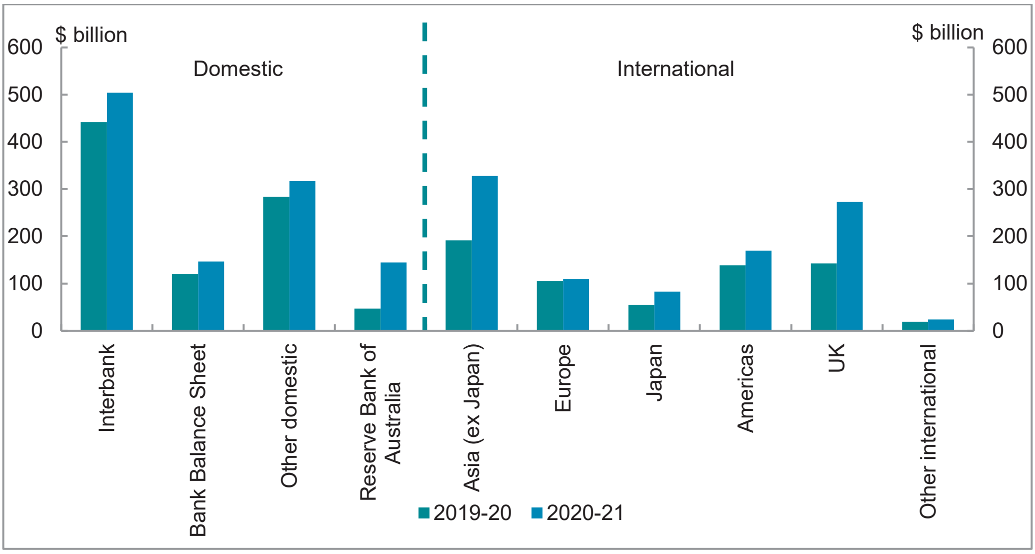
TIBs comprise around five per cent of the long-term debt portfolio (in face value terms). The capital value of TIBs are adjusted with changes to the CPI; they typically attract a different (and predominantly domestic) class of investor compared to Treasury Bonds. While the Indexed Bond portfolio has declined as a share of long-term funding overtime, the total stock outstanding of indexed bonds has continued to grow broadly in line with the past issuance trend.

Tender coverage ratios were slightly lower in 2020-21 (4.52 compared with 4.70 in 2019-20). This is in part a function of the higher overall issuance volume in 2020-21. In 2019-20 the decision was taken to reduce tender sizes in response to deteriorating market conditions arising from market disruption associated with the onset of the pandemic (the average tender size was $138 million in 2020-21 compared with $118 million in 2019-20). However, the weighted average issue yield was below prevailing secondary market yields at most tenders (a reflection of the AOFM restricting tender volumes).

AGS market liquidity and efficiency

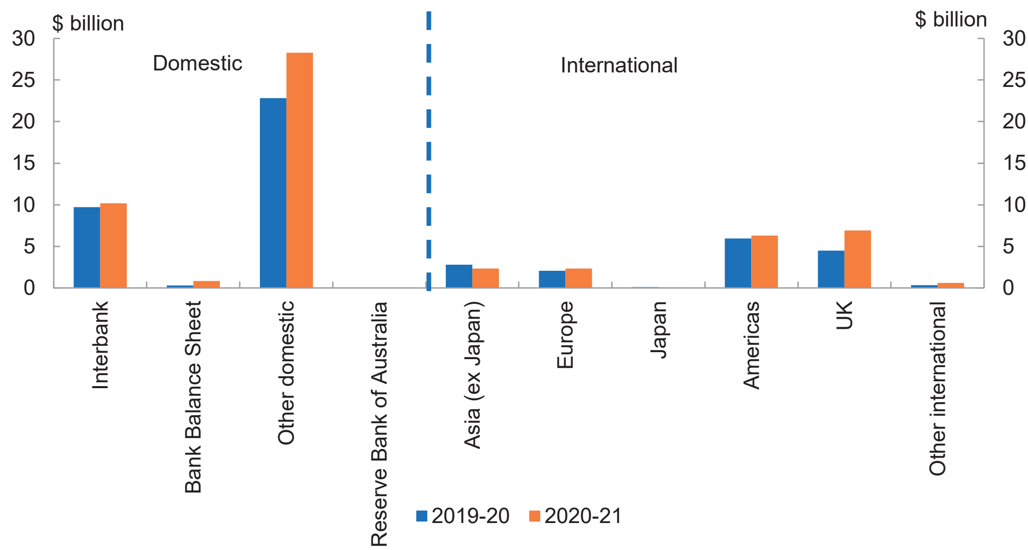
Market liquidity was generally good in 2020-21 with efficient price discovery and tight bid-offer spreads available through most of the year. Turnover of Treasury Bonds was 36 per cent higher than the 2019-20 level. Annual turnover reported in AOFM's survey was $2.1 trillion for 2020-21. This was influenced by the large increase in AOFM primary issuance in 2020-21.

Chart 4: Annual Treasury Bond Turnover



TIB turnover in 2020-21 was around $58 billion, an increase of 19 per cent from the 2019-20 volume.

Chart 5: Annual Treasury Indexed Bond Turnover



Treasury Bond Futures turnover

Turnover in the (ASX) Treasury Bond futures market is significantly higher than in underlying Treasury Bonds. The 3 and 10-year futures contracts are highly liquid: over 45 million 3-year contracts (representing $4.5 trillion face value of bonds) and over 65 million 10-year contracts ($6.5 trillion face value of bonds) were traded in 2020-21. A new 5-year contract was launched in 2020-21 with over 1 million contracts ($100 billion face value of bonds) traded. Turnover in the 20-year contract is considerably lower with around 200,000 contracts (or just over $13.0 billion face value of bonds) traded. Turnover in 3-year futures was lower than previous years. One factor driving this was the RBA including some bonds from the 3 year futures basket in its yield curve control policy; this reduced usefulness of the contract as a hedging instrument.

Securities Lending Facility

The AOFM Securities Lending Facility allows market participants to borrow Treasury Bonds and TIBs for short periods when they can’t be obtained in the secondary market. Lending bond lines enhances efficiency of the market by improving capacity of intermediaries to continuously make two-way prices, reduces settlement risk, and can supports market liquidity. The facility was used 123 times for overnight borrowing in 2020-21, compared with 163 times during 2019-20. Volumes borrowed were higher than in 2019-20, with the total face value lent in 2020-21 of $6.02 billion, an increase of $3.37 billion.

The April 2023 and April 2024 Treasury Bonds were the most heavily borrowed (by volume).

TIBs generally exhibit lower liquidity and have less stock available for trading in the secondary market, which accounts for regular borrowing of these securities.

During 2020-21, the RBA implemented its own lending facility. It has accumulated large volumes of some Treasury Bond lines and made these available to facilitate market lending related transactions. This contributed to reduced usage of the AOFM Securities Lending Facility.

Cost across AOFM portfolios

Debt portfolio cost outcomes are presented in this Section.

Aim

The AOFM is tasked with meeting the Budget financing task while managing trade-offs between cost and risks for the cash and long-term debt portfolios, this being over the medium to long-term. Funds in the investment portfolios earn returns, described later in this section.

Approach to achieving the aims

The AOFM cost and risk measures reflect considerations faced by sovereign debt managers generally. The primary cost measure is historic accrual debt servicing cost. This includes: interest payments made on AGS; realised market value gains and losses on repurchases; capital indexation of TIBs; and amortisation of issuance premiums and discounts. The effective yield of the portfolio is the total accrual debt servicing cost expressed as a percentage of debt outstanding. Historic accrual debt service cost excludes unrealised market value gains and losses.

An alternative measure of cost is ‘fair value’, which takes account of unrealised gains and losses from movements in market value. Debt service cost outcomes are also presented in the AOFM’s financial statements on this basis. Fair value facilitates an assessment of: financial risk exposures and changes in those exposures from year-to-year; the value of transactions managed; and the economic consequences of alternative strategies. However, this measure is most useful in the context of ‘trading for profit making’ purposes (which does not relate to the AOFM’s core operations).

Outcomes

The net debt servicing cost[1] of the portfolio managed by the AOFM in 2020-21 was $16.8 billion on an average book volume of $748.8 billion; this represents a net cost of funds of 2.24 per cent. Table 4 provides details of the cost outcomes for the portfolio of debt and assets administered by the AOFM, broken down by instrument and portfolio for 2020-21 and 2019-20.

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

Table 4: Commonwealth debt and assets administered by the AOFM

	Debt servicing cost		Book volume		Effective yield	
	2019-20	2020-21	2019-20	2020-21	2019-20	2020-21
	$ million		$ million		per cent per annum	
Contribution by instrument						
Treasury Bonds	(15,538)	(15,984)	(530,342)	(725,243)	2.93	2.20
Treasury Indexed Bonds	(1,468)	(977)	(45,360)	(45,130)	3.24	2.16
Treasury Notes	(136)	(81)	(19,963)	(49,920)	0.68	0.16
Gross AGS	(17,142)	(17,042)	(595,665)	(820,293)	2.88	2.08
Deposits with the RBA	170	104	24,598	67,836	0.69	0.15
ABSF investments	-	1	0	47	0.00	1.63
SFSF investments[1]	(2)	59	142	2,063	-1.41	2.87
State housing advances	(50)	88	1,604	1,498	-3.10	5.86
Gross assets	118	252	26,344	71,443	0.45	0.35
Net portfolio	**(17,024)**	**(16,790)**	**(569,321)**	**(748,850)**	**2.99**	**2.24**
Contribution by portfolio						
Long Term Debt Portfolio	(17,006)	(16,961)	(575,702)	(770,373)	2.95	2.20
Cash Management Portfolio	34	23	4,635	17,916	0.73	0.13
Investments for Policy Purposes Portfolio[1]	(52)	148	1,746	3,607	-2.96	4.10
Total debt and assets	**(17,024)**	**(16,790)**	**(569,321)**	**(748,850)**	**2.99**	**2.24**

[1] SFSF investment income is before allowances for expected credit losses ($3 million in 2020-21 and $2 million in 2019-20)

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

The cost for AGS was slightly lower than the previous year, despite the average volume of debt on issue increasing by $224.6 billion. The funding cost of gross debt declined by 80 basis points to 2.08 per cent. This result was driven by the issuance of new bonds at yields below the average issuance yield of existing bonds, and increased use of Treasury Notes at very low (occasionally negative) yields.

Return on gross assets for the period was $252 million, an increase of $134 million. Extremely low short-dated interest rates resulted in interest income from cash deposits falling despite an average level of asset balances over $40 billion higher. Income on state housing advances was positive following a loss in 2019-20 related to the waiver of Tasmanian housing loan advances (a policy decision taken by the Australian Government). There was $59 million of income from the SFSF, which was established towards the end of 2019-20. In percentage terms the return on gross assets decreased from 0.45 per cent to 0.35 per cent.

Long-Term Debt Portfolio management

Aims

In managing the Long-Term Debt Portfolio (LTDP) and meeting the Government's financing requirements, the AOFM aims to minimise debt servicing costs over the medium to long-term while effectively managing interest rate and refinancing risk. It also seeks to support efficient operation of the AGS market through debt issuance.

Approach to achieving the aims

The AOFM influences the cost and risk profile of the LTDP through the maturity structure of securities issued (and to a lesser extent, the mix between nominal and inflation-linked securities). Issuing longer-term securities will typically involve paying higher debt servicing costs, compensated by a reduced risk of variability in future interest cost outcomes and lower exposure to annual refinancing risk.[2] Shorter-term borrowing will typically incur lower interest costs but result in higher variability in cost outcomes through time and a greater debt refinancing task each year. Striking the right balance between these cost and risk considerations, while not adversely impacting market functioning through issuance operations, requires constant judgement.

Developing a medium-to-long term view on appropriate portfolio management and then translating that into annual issuance strategies is informed by ongoing research. This explores the cost and risk characteristics of alternative portfolio structures and issuance strategies under a range of scenarios; the program considers prevailing fiscal and economic conditions, as well as an assessment of broader market trends. A range of complementary thresholds limits and targets in support of the annual issuance strategy is put to the Secretary to the Treasury for endorsement.

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

Weekly issuance decisions focus on volume and maturities. These decisions are influenced by prevailing market conditions, progress toward achieving the annual issuance strategy, relative value considerations, and feedback from intermediaries.

Long-Term Debt Portfolio issuance strategy

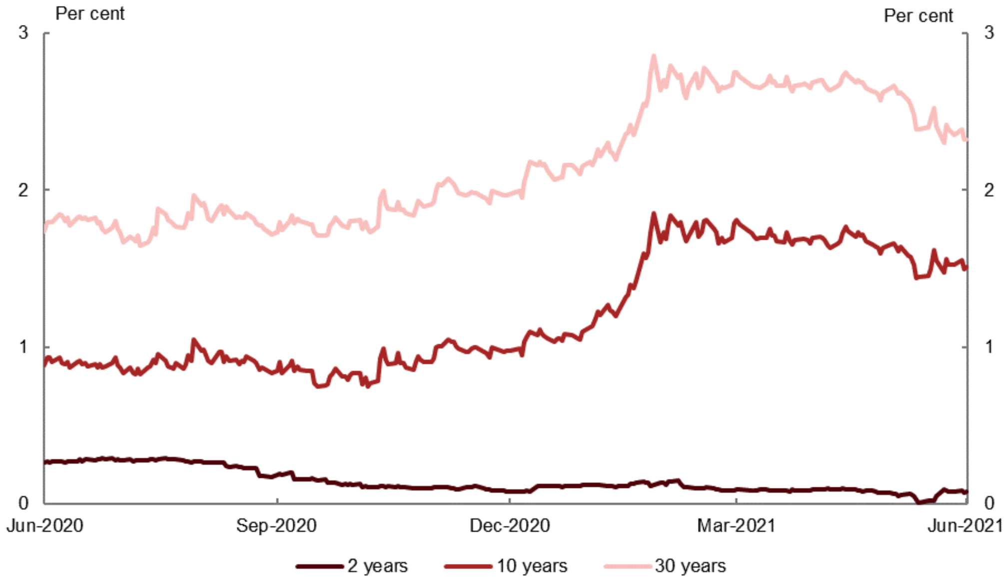
When formulating the Treasury Bond issuance strategy for 2020-21 the AOFM aimed to maintain a long-dated issuance bias. Low yields, the unknown impact of the pandemic and a deteriorating fiscal outlook provided strong support for the long-dated issuance bias. At the time the strategy was set, the unprecedented size of the annual financing task and limits to investor appetite for duration risk were viewed as possible constraints to achieving a weighted average maturity to match previous years.

The AOFM avoided issuing bonds subject to the RBA's yield target operations because it did not want to appear to be acting in conflict with the RBA's monetary policy aims.

Outcomes

Debt cost outcomes are driven in large part by the level of bond yields, which remained near historic lows during 2020-21, and the volume of issuance. Yields out to three years were anchored by the RBA's yield target regime. Longer-dated rates rose across developed economies at the beginning of calendar 2021 as part of a 'reflation trade', before remaining steady for the rest of the year (Chart 6).

Chart 6: Evolution of Treasury Bond benchmark yields



The weighted average maturity of Treasury Bond issuance in 2020-21 was considerably longer than in 2019-20. Last year large volumes of shorter-dated bonds were issued to assist with the sudden and massive increase in the funding requirement upon the onset of the pandemic; there was also several months of market recovery during which the AOFM found it difficult to issue long dated maturities. The average issuance yield remained below 1 per cent (Chart 7).

Chart 7: Treasury Bond issuance — average yield and maturity

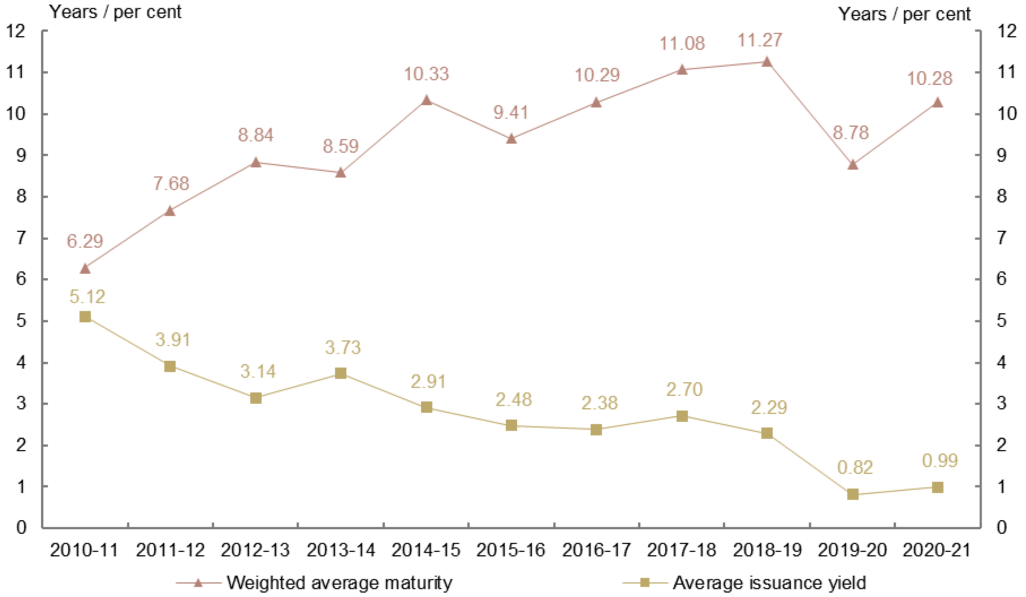
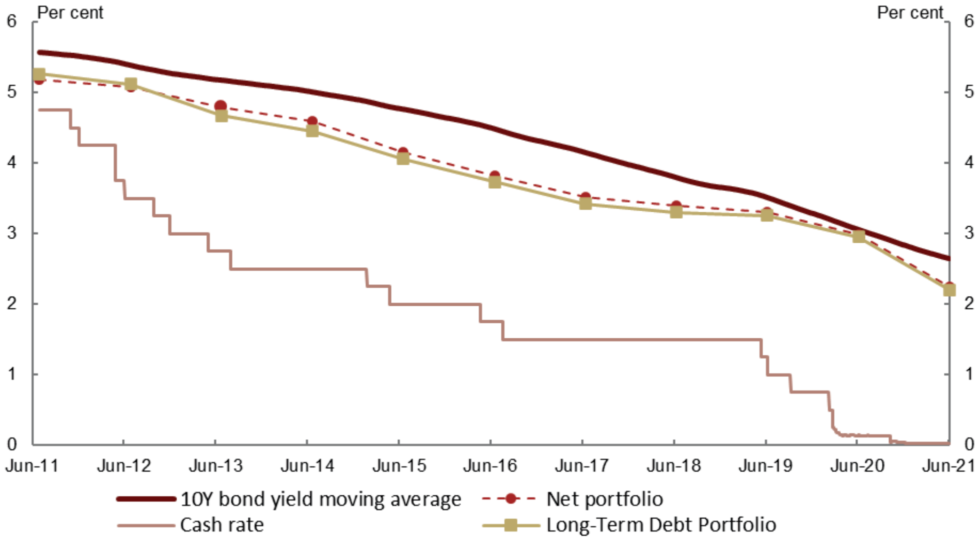


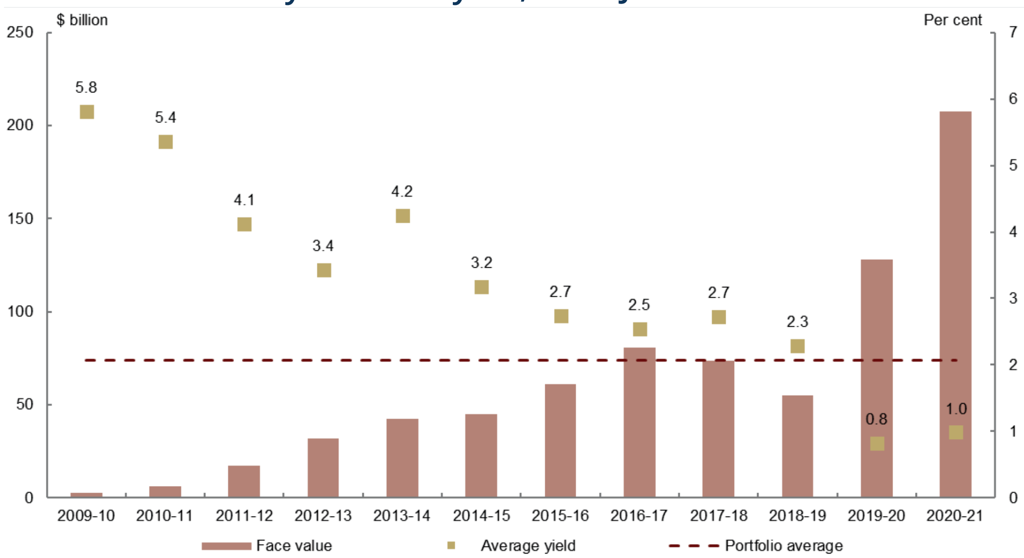
Chart 8 shows the funding cost profile of the LTDP and the net cost outcome (incorporating short term assets and liabilities) over the past decade. These profiles are compared to the cash rate and 10-year moving average of the 10-year bond yield. Interest rates on the LTDP and for the net cost outcome have declined significantly over the decade. Given the largely fixed cost structure of the LTDP and net cost outcome, changes in funding cost rates lag changes in the cash rate (changing only when debt securities or assets mature or new securities are issued/investments made).

Chart 8: LTDP and net portfolio cost of funds analysis



The structure and effective yield on the Treasury Bond portfolio are a product of issuance undertaken since 2009-10 because most current outstanding debt has been issued since then. Furthermore, around 45 per cent of the current portfolio was issued in the last two financial years at average yields significantly below the portfolio average of 2.07 per cent (Chart 9).

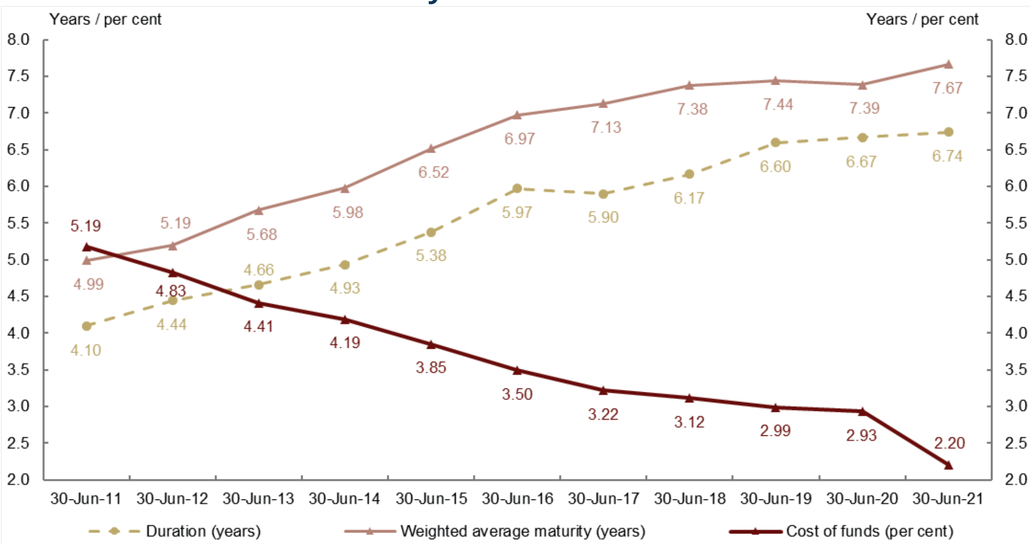
Chart 9: Treasury Bond portfolio — composition and average yield by issuance year, at 30 June 2021



Long-Term Debt Portfolio risk outcomes

The average maturity of the Treasury Bond portfolio lengthened by 0.28 years to 7.67 years over 2020-21. Duration was higher by 0.08 years (finishing at 6.74 years). The low level of issuance yields meant Treasury Bond portfolio lengthening was achieved with a lower cost of funds (Chart 10).[3]

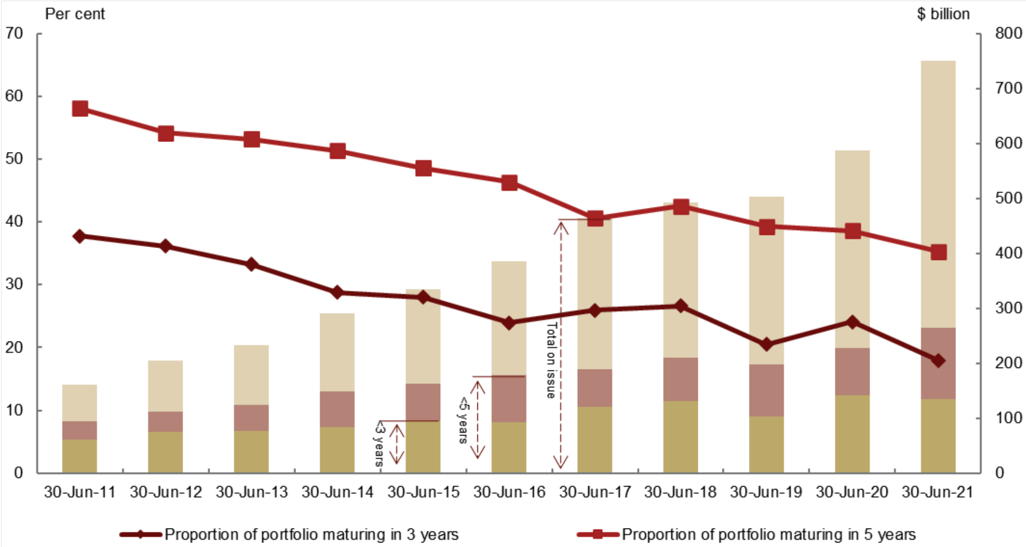
Chart 10: Treasury Bond portfolio — modified duration, average maturity and cost of funds



Changes to portfolio risk over time in terms of funding, refinancing and interest rate risk are represented in Chart 11. The chart reflects a steady decline in the three- and five-year Treasury Bond refinancing tasks measured as a proportion of the stock of Treasury Bonds on issue, but higher absolute refinancing tasks over time as the stock of Treasury Bonds on issue has increased.

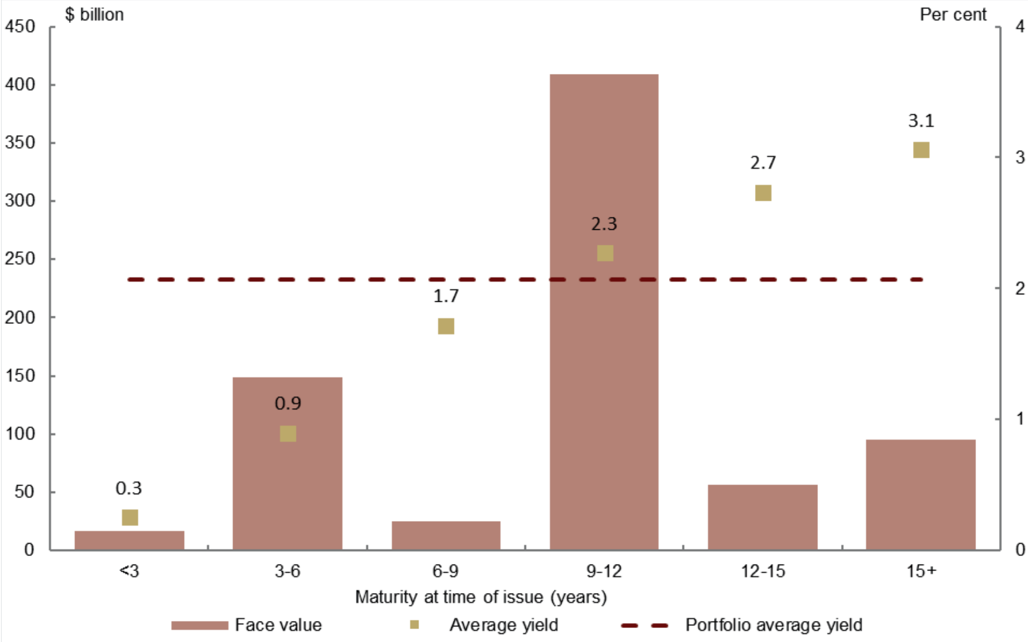
3 These are point-in-time measures at 30 June each year, in contrast to debt servicing cost incurred throughout the year captured in Table 3. Figures are calculated by weighting Treasury Bond issuance yields by book volume.

Chart 11: Treasury Bond portfolio — maturity profile



More than half of all outstanding Treasury Bonds were issued with an original maturity between nine and 12 years. Around three quarters of the portfolio was issued with an original term to maturity of nine years or longer (Chart 12). The predominance of longer-term bonds reflects long-dated issuance biases over the past decade. This has contributed to investor diversity and reduced funding risk and the potential for high volatility in future interest cost outcomes.

Chart 12: Treasury Bond portfolio — composition and average yield by original term to maturity, at 30 June 2021



Inflation exposure outcomes

Managing the indexed bond portfolio centres on sufficient supply to meet demand while supporting liquidity and continuing development of the TIB market (for which the focus is largely on understanding domestic investor mandates). Issuance of TIBs in 2020-21 totalled $2.5 billion (compared with $207 billion of nominal Treasury Bonds).

The effective yield on TIBs fell noticeably compared to the previous year. This was driven by low inflation outcomes and issuance of TIBs at historically low yields. Real yields were negative for most tenors throughout 2020-21. TIBs were only issued at positive real yields twice during the year, on each occasion this was a tender for ultra-long TIBs.

Break-even inflation (essentially the difference between nominal and real yields), rose as the outlook for inflation improved. 10-year break-even inflation ended the year at 2.1 per cent, double the level at the beginning of the year.

Chart 13: Evolution of Treasury Indexed Bond benchmark break-even inflation

TIBs comprised around 6 per cent of total term debt (nominal and indexed bonds) on issue at the end of 2020-21 (in book value terms). This proportion has declined as annual TIB issuance has been relatively steady while Treasury Bond programs have increased significantly to meet the increased Budget requirements. The TIB market does not offer sufficient depth, liquidity, or demand to support large and sudden uplifts in AOFM issuance, which is why Budget funding is focused on Treasury Bond issuance.

Cash management

Aims

The AOFM manages the Australian Government's daily cash balances in the OPA.[4] This ensures the Government can meet its financial obligations at all times. Other objectives include minimising the costs of funding and holding cash balances to avoid using the overdraft facility provided by the RBA.[5]

Approach to achieving the aims

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

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

Until November 2020, cash balances not required at short notice were invested in term deposits at the RBA, with their magnitudes and tenors determined by the AOFM. Maturity dates were selected to efficiently finance net outflows. Term deposit rates reflect rates earned by the RBA in open market operations.

In November 2020, the Cash Management Account (CMA) was created, with entire cash balances, less an overnight buffer, automatically swept to the CMA at the end of each day. This removes overnight forecasting risk. The CMA interest rate is similar to the rate earned by term deposits and again reflects rates earned by the RBA in open market operations.

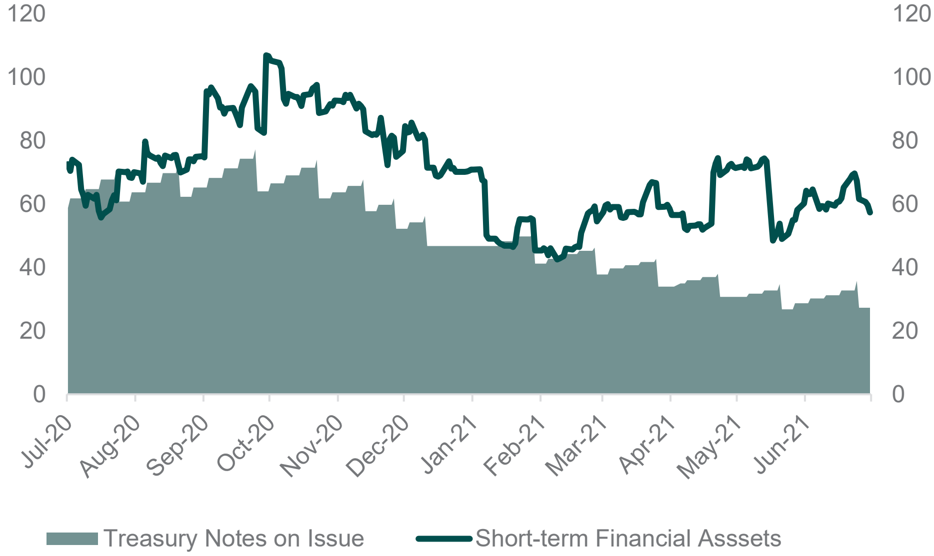
The volume of Treasury Notes on issue during 2020-21 ranged from a low of $27 billion to a peak of $77 billion, representing a continued upscaling in usage compared to prior years (up to $63 billion in 2019-20). The AOFM relied heavily on Treasury Notes early in the COVID-19 pandemic both for budget financing and re-building liquidity in the cash portfolio. The volume of Treasury

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

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

Notes on issue decreased through 2020-21 as earlier issuance matured and Treasury Bond issuance was increased.

Chart 14: Short-term financial asset holdings and Treasury Notes on issue 2020-21



Outcomes

The task of meeting the Government's financial obligations was met in full.

During 2020-21, 154 term deposits were placed with the RBA. No term deposits have been placed since November 2020. The stock of AOFM's short term assets (Term Deposits and the CMA) fluctuated over the year to maintain sufficient liquidity at all times. The average yield obtained on term deposits and the CMA during 2020-21 was 0.16 per cent, compared with 0.85 per cent in 2019-20; the decrease reflects the lower average level of short-dated interest rates that prevailed during 2020-21.

The movement in total short term financial assets managed by the AOFM (OPA cash balance plus term deposits with the RBA and the CMA), together with the volume of Treasury Notes on issue during 2020–21 are shown in Chart 14.

Chart 15: Short-term financial asset holdings net of Treasury Notes on issue in 2020-21

Market Engagement

Aims

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

The AOFM investor and intermediary engagement continues to place strong emphasis on maintaining regular lines of communication with stakeholders. This is done directly with bank intermediaries and investors, and indirectly, with investors through feedback from banks and via the AOFM website. Ongoing engagement assists greatly in understanding how investors are viewing the market, how demand for AGS might be changing, and how intermediaries interact with investors. Frequent liaison provides the AOFM with up-to-date assessments that can be used to contribute to weekly operational decisions.

Approach to achieving the aims

The AOFM investor engagement program is year specific and underpinned by a strategy reviewed annually in response to changes in market conditions, investor activity, notable changes to the investor base, and the AOFM's issuance responsibilities and strategy.

The Investor Relations strategy has three themes:

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

Outcomes

Investor engagements were conducted during 2020-21 in a similar manner to those undertaken in the latter part of 2019-20. Conveying Budget and issuance updates and receiving investors' views via feedback through one-on-one engagement remained key to the investor program. The AOFM has not been travelling to meet investors since the onset of the pandemic and has relied on the use of video and teleconferencing, and webinars (some arranged and hosted by banks and other market organisations). The annual Business Economists (ABE) speech, together with updates and releases on the AOFM website, remain useful conduits for information dissemination.

Two ABE speeches were given by the CEO during the year. The first, in late July 2020, was an important opportunity to provide guidance on the planned approach by AOFM to a range of operational issues, particularly the substantial increase in funding for the year ahead, operational flexibility and increased use of Treasury Notes, and a concentrated schedule of syndications to achieve the large issuance task. This was at a time of widespread uncertainty in anticipation of Australia's response to the previously announced fiscal and monetary policy measures, and how the underlying Budget position would be impacted. Although updates had much shorter application than in previous years, the increased frequency was received well by intermediaries and investors.

In a second ABE speech on 8 June 2021 the AOFM provided guidance on learning from the previous year, as well as issuance plans for the six months ahead.

Investors are increasingly interested in discussing topics relating to green bond issuance or Environmental, Social and Governance (ESG) related issues. In mid-September the AOFM undertook several meetings with investors on this topic. These included smaller domestic Authorised Deposit-taking Institutions and a couple of larger fund managers. Increasingly through the year investors approached the AOFM regarding the Government's commitments and policies towards climate change, carbon emission reductions, and renewable energy development and implementation. Several organisations with specific green or sustainable fund mandates requested meetings, along with ESG units of some larger mainstream funds. It is clear from these discussions that financial markets will continue extending analysis and consideration of climate change related policies to guide investment decisions.

In October, the AOFM conducted a campaign to provide a 2020-21 Budget update to investors. This included a four-week program of one-on-one investor calls beginning in mid-October with 58 offshore primary investors. The meetings covered a range of investor types and included all the major global regions - Asia, the Americas, Europe, the UK and Japan.

The campaign also included a 10-minute webinar posted on the AOFM website; and release of a comprehensive investor chart pack (for the first time also translated into Japanese, reflecting the importance of this investor group).

A second program of investor calls was conducted in February 2021 following the MYEFO and a market guidance update released early in the new year. This campaign focused on 25 major domestic investors.

Given the suspension of many regular global market conferences, there were limited opportunities to present or speak to larger audiences in the first half of the year. Some opportunities opened in the second half of 2020-21.

The AOFM presented at a bank 'virtual investor' seminar (to approximately 200 investors) in March. Two roundtable forums were also conducted; the first in January 2020 was a virtual event (usually held annually face-to-face) that included the AOFM with state Government borrowing authorities. The second roundtable was a further update later in the year in Sydney.

Table 5: Summary of investor relations activities in 2020-21

Activity	Details
Investor Calls: Primary Investor Campaigns: Video/Teleconferencing	Offshore 58 meetings Domestic 25 meetings
Investor Calls: One off Tele/ Video	Offshore/Domestic 17 meetings
Presentations: large engagements	3 presentations (ABE speeches, ANZ virtual Investor Tour)
Roundtables	2 Kanganews
AOFM staff participating in investor relation activities	CEO, Head of Investor Relations, Head Funding & Liquidity, Head Portfolio Strategy & Research, Senior Analyst - Investor Relations, Communications Manager
Hosting banks: Investor roadshows, conferences, roundtable discussions	ANZ, Commonwealth Bank of Australia, JP Morgan, Toronto Dominion, UBS

Establishing the Structured Finance Support Fund (SFSF)

Aim

The SFSF was established in March 2020 to enable eligible smaller lenders to access finance via investments in structured finance products, such as residential and commercial mortgage-backed securities (RMBS, CMBS), asset backed securities (ABS), and securities issued by revolving warehouse finance facilities.

This section sets out how the AOFM has approached the task of utilising the SFSF as a vehicle to achieve the Government's objective of maintaining access to finance for eligible lenders, namely Non-ADI lenders and ADIs unable to access the RBA's Term Funding Facility (TFF).

Approach to achieving the Aim

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

The AOFM identified three distinct priorities for the SFSF:

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

Maintaining access to primary funding markets provided confidence to eligible lenders that they could continue to originate new loans and to warehouse financiers that a natural exit strategy to their investments remained open. A dual approach was taken to keeping primary markets open: (1) direct investment in term transactions to fill gaps as required; and (2) providing third party investors with capacity to 'switch' out of existing investments to recycle proceeds into primary market transactions.

During 2020 the warehouse finance market experienced significant disruption, with some senior financiers restricting lending to existing clients and in some cases seeking additional credit enhancement at a time when mezzanine financiers[6] had been unwilling or unable to increase their commitments; some had been exercising their option to withdraw finance at the earliest opportunity. Consistent with the Directions, the SFSF investments have been used to fill gaps in these facilities, typically but not exclusively within mezzanine tranches, consistent with the objective of maximising the extent to which private sector investment is retained.

In addition the AOFM worked with industry via the Australian Securitisation Forum (ASF) to establish a 'forbearance special purpose vehicle' (*f*SPV). This allowed participating lenders to maintain an income stream from loans granted a payment holiday due to COVID-19 related hardship. The *f*SPV was designed to mitigate yield strain, buffer returns on securitisation trusts, and to support participating originators' income flows. Support was provided retrospectively from 1 March 2020 and concluded on 31 March 2021. The arrangement advanced up to 90 per cent of missed interest payments on loans in COVID-19 hardship. Since April 2021 participating originators have been required to start repaying drawn amounts from excess spread. Consistent with SFSF Rules the SFSF is the senior financier and does not hold the 'first loss' securities issued by the *f*SPV.

Outcomes

Australian securitisation market conditions improved considerably during 2020-21. Despite improvements in conditions, eligible lenders gained additional confidence from the AOFM's preparedness to fill gaps in their primary market book-building processes. This resulted in continued inquiries for support of issuance throughout the first half of the year. Further improvements in market conditions in early 2021 meant that no requests for AOFM public market support were received in the second half of the financial year. From inception 16 eligible lenders benefited from SFSF support in public markets bringing 31 term securitisation transactions to market with a total issuance volume of $16.69 billion.[7] Of these 31 transactions the SFSF was called on to invest either directly in the primary market transaction, the secondary market, or both, in 11 instances, with total investments of $1.35 billion. Of these, just two transactions were supported (in July 2020) with associated secondary market investments of $0.17 billion. At 30 June 2021,

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

7 The maximum number of public market transactions for which an individual originator received support was five.

public market investments held by the SFSF had reduced to $0.95 billion; a result of amortisation and exercising call options.

The SFSF continued to receive warehouse proposals in 2020-21, predominantly in the first half of the year. Peak SFSF warehouse commitments reached $2.34 billion, reflecting investments in 45 warehouses from 34 eligible lenders.[8] The improvement in market conditions assisted replacement of the SFSF by private sector investment, particularly in the second half of the financial year. By 30 June the SFSF had been fully replaced in 10 warehouses and partially replaced in a further three. At this time the SFSF had active investments in 26 warehouses across 21 eligible lenders. The approved SFSF limits within these facilities totalled $1.1 billion and the total drawn amount across these facilities stood at around $770 million.

Arrangements for the *f*SPV were finalised early in the financial year. Total limits of $101.6 million for eight participating eligible lenders were approved by the SFSF delegate. Of these, six eligible lenders called on the facility. The availability period ceased on 31 March 2021 as planned, and the *f*SPV moved into amortisation on 1 April 2021. One participating eligible lender repaid its loans in full in the last quarter of the year and the total drawn amount of the facility stood at circa $39 million on 30 June 2021.

Across the three SFSF components 41 eligible lenders had received at least one form of support by 30 June 2021. The call on SFSF investments ranged from in-principle support for a public deal in which the SFSF was ultimately not required to invest (in two cases), through to the full suite of support across public transactions (in primary and/or secondary markets), warehouses and the *f*SPV (in five cases).

Through 2020-21 the SFSF held a weighted average investment of $2.06 billion and earned gross accrual revenue of $59.3 million, implying a gross yield of 2.87 per cent on the average invested amount held across all investment types.[9] To date there have been no credit losses on SFSF investments.

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8 This includes warehouse proposals subsequently withdrawn or that lapsed, or were yet to be finalised by 30 June 2021.

9 These numbers exclude provisions for expected credit losses and mark-to-market gains on public transactions.

Establishing the Australian Business Securitisation Fund (ABSF)

Aim

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

The ABSF enabling legislation was enacted in April 2019. The first investment tranche of $250 million (of a total $2 billion) was credited to the ABSF's special account on 1 July 2019. A second tranche of $500 million was credited on 1 July 2020. This section sets out how the AOFM has approached the task of establishing the ABSF as a vehicle to achieve the Government's objective of opening securitisation markets to SME lenders.

Approach to achieving the Aim

Following announcement of the ABSF, the AOFM and Treasury undertook extensive market engagement to gain insights into SME lending. This included detailed assessment of barriers to investment activity that might explain the under-representation of SME loans within collateral pools supporting Australian securitisation products.

One potential barrier was lack of standardisation in arrangements supporting securitisation of SME loans. Examples included absences of standard documentation of revolving warehouse finance facilities, and a standardised SME loan performance reporting template. Other contributing factors are seen as the lack of homogeneity in lending products offered to SMEs and a lack of scale within specialist lenders (constraining their ability to price loans at close to the marginal risk-adjusted cost of delivery).

The AOFM's efforts have focused on establishment of a track record for various types of SME lending that would be available to investors. In time, it is expected this will support rating agency and investor assessments, attract new capital, and facilitate expansion of existing collateral types underpinning the Australian asset backed securities (ABS) market to include new types of SME lending.

The Australian Securitisation Forum (ASF) has supported the data template initiative by establishing a working group to undertake its development. The working group comprised industry-wide representation including trustees, data analytics firms, rating agencies, originators, and investors.

In parallel, the AOFM will seek to use ABSF investments to subsidise the costs for participating lenders in updating their systems to adequately capture loan level data for the reporting template.

Outcomes

The ASF working group expects finalisation toward the end of the year of a live SME receivables reporting template.[10]

Following the pandemic driven pause in ABSF activities, improved market conditions enabled the AOFM to issue a second-round call for proposals in January 2021, which closed in late March 2021 and attracted 16 proposals. Assessments were in progress at 30 June 2021.

The sole investment of the ABSF continues to be in securities issued by a warehouse sponsored by Judo Bank, with a limit of $250 million. At 30 June 2021 ABSF investment stood at $102.2 million. Gross earnings of the ABSF in 2020-21 were $0.76 million, on an average through-the-year drawn investment of $46.6 million, implying a gross yield of 1.63 per cent. This compares favourably with the ABSF's benchmark return of 0.18 per cent.[11]

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10 The template was published by the ASF in August 2021 and will be subject to periodic review.

11 The benchmark is designed to approximate the Government's borrowing costs on short term liabilities, given the floating rate instruments held by the ABSF, and is constructed from Australian Government Bonds with less than one year to maturity.

PART 3: MANAGEMENT AND ACCOUNTABILITY

MANAGEMENT AND ACCOUNTABILITY

Governance of the AOFM

The AOFM's governance arrangements support delivery of its business objectives and are underpinned by a culture of risk awareness, accountability, and transparency. Key elements of the governance arrangements include:

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

Overview of accountabilities

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

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

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

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

Committees

Executive Group

An Executive Group (comprising the CEO and business unit heads) oversees guidance and discussion on corporate related matters. It also oversees annual development of strategic plans and tracks progress against performance targets, reviews the AOFM's risk profile, sets the agency risk appetite, monitors financial performance and compliance, and builds organisational capability and capacity to support expected agency performance.

Audit Committee

The Audit Committee provides independent advice to the CEO on appropriateness of the AOFM's governance, enterprise risk management, internal control, and financial and performance reporting arrangements. It receives periodic briefings on changes to business and risk profiles, oversees the AOFM's assurance program, and considers reports and briefings from AOFM business units and internal auditors.

The responsibilities and functions of the Audit Committee are outlined in the Audit Committee Charter[12].

Key activities of the Committee during 2020–21 included:

- advising on preparation and review of the AOFM's financial statements;

12 The Audit Committee Charter can be found at https://www.aofm.gov.au/about/compliance-reports/audit-committee-charter

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

The Audit Committee met four times during 2020-21 and conducted in camera sessions with internal auditors and external auditors during the year. Table 6 provides information about membership of the Audit Committee between 1 July 2020 and 30 June 2021.

Table 6: Audit Committee for 2020-21

Members	Qualifications	Skills and Experience	Attendance	Remuneration[a]
Will Laurie, Independent Member, Chair (b)	BEc Grad.Dip. Applied Finance and Investment	30-year career with Price Waterhouse and PricewaterhouseCoopers, including as Managing Partner, Canberra. 20 years' experience chairing Commonwealth and ACT Government Audit Committees, including ANAO, Defence, Treasury, Attorney-General's and ACT Chief Ministers. Private sector board experience in retailing, property and not-for-profit education.	2/4	$9,718.55
Stephen Knight, Independent Member, Chair (c)	BA, FAICD	35-year executive career in finance industry across private and public sectors in a variety of senior roles including 10 years as CEO. Extensive experience across financial markets, government finance, investment banking, funds management and risk management. Non-executive director roles covering ASX listed, non-listed and government entities.	4/4	$20,571.06
Jan Harris, Independent Member	BEc (Hons)	An extensive career in the Australian Public Service over 30 years, including as Deputy Secretary of the Treasury. Experienced non-executive director. Broad experience in policy development, governance and risk management.	4/4	$16,324.87

Members	Qualifications	Skills and Experience	Attendance	Remuneration[(a)]
Don Cross, Independent Member	BA, MBA, FCA, CPA	Chair or member of several Audit Committees and sub-committees, and was a senior partner at KPMG and a lead partner for KPMG's key strategic government accounts. Experience in government program delivery and reform, financial statement audit and internal audit for policy, regulatory and service delivery agencies. Professional memberships in accounting, fraud control, business, and auditing.	2/2	$13,361.80 (d)
Erin Martin, Chief Risk and Assurance Officer, AOFM	BComm, FCA	25-year career in the Australian Public Service, including over 20 years in sovereign debt management. Experience spans accounting, audit, governance and risk management.	4/4	N/A (e)

(a) Remuneration includes superannuation
(b) Mr Laurie's term as Chair ended on 31 December 2020
(c) Mr Knight was appointed Chair on 1 January 2021
(d) Mr Cross commenced in March 2021, and fees include attendance at an induction session
(e) As an employee of the Australian Public Service, remuneration is not applicable

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

Other management committees

Cash Management Meeting

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

The meeting is chaired by the CEO and attended by the Head of Funding and Liquidity and other front office staff.

Security Committee

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

Portfolio Strategy Meeting

At Portfolio Strategy Meetings (PSMs), the CEO is advised on operational debt portfolio and financial risk management issues, financial market conditions, deal execution and other issues strategic interest to the AOFM's (market related) operating environment. The forum focuses on medium to longer-term trends and risks. Membership during 2020-21 included the CEO, Head of Portfolio Strategy and Research, Head of Funding and Liquidity, Head of Investor Relations, and Head of Global Markets and Business Strategy, with other senior staff holding relevant functional responsibilities invited as contributors and observers. Meetings are generally convened on a quarterly basis.

Management of fraud risk

The AOFM has minimal appetite for fraud and has taken comprehensive steps to prevent its occurrence. This includes application of a fraud control plan, which covers processes and systems to ensure regular identification, assessment, and treatment of fraud risk vulnerabilities. Mandatory annual fraud awareness training is provided to all staff, including new staff on induction. An internal audit in November 2020 determined the AOFM approach to managing fraud risk complies with the PGPA Act and Rule and the Commonwealth Fraud Control Framework.

The AOFM reports annually to the Treasurer and the Australian Institute of Criminology. For 2020–21, the AOFM did not identify any instances of fraud or suspected fraud.

Enterprise risk

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

An enterprise risk management framework provides active and transparent management of uncertainty (threats and opportunities). Key reflection points are provided quarterly (at Executive Group meetings) and as an established feature of annual corporate planning activities. Risk assessments support strategy development and decisions on operational activities, including forthcoming significant changes. The enterprise risk management framework captures information to identify emerging matters of note and key risks. This approach is used for risk monitoring at the enterprise level ('top-down', outward focused) and business unit level ('bottom-up', inward focused). Staff understand that risks are to be managed in line with the AOFM risk appetite and tolerance statements. An internal audit in November 2020 determined the AOFM risk management approach to be well-understood by staff, integrated into business processes, and aligned with the Commonwealth Risk Management Policy.

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

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

The key risks to the AOFM achieving its purpose and objectives arise from the uncertainty of external factors, or implementation of major new business initiatives. Key entity risks under management during the year included:

- the potential negative impact of market trends or disruptive technologies on the AGS issuance program
- ongoing management of actions and messaging by the AOFM to maintain investor confidence in the AGS market

- the design and operation of the ABSF and SFSF to align with policy objectives, and
- potential disruptions to third party suppliers or failure of internal systems and controls.

Business continuity arrangements

Business continuity management is integral to the AOFM's risk management arrangements, especially given its critical operational nature. The AOFM business continuity arrangements include multiple levels of redundancy if day-to-day business systems or office accommodation are not accessible, or when AOFM staff are not available to perform key tasks. The most time critical functions covered by the plan relate to issuance tenders and settlements and AGS payment obligations (coupons and maturity redemptions), and budget estimates.

Business continuity plans are regularly updated and tested and this happened again in 2020–21. These arrangements are supplemented by a crisis management framework to enhance business resiliency.

Assurance

The AOFM enterprise risk management framework is complemented by an assurance framework used to monitor the operation and effectiveness of key internal risk controls. This framework is modelled on best practice industry standards.

The AOFM's compliance with external obligations, internal controls, and its policies and business procedures are monitored through a co-sourced arrangement, with in-house assurance and compliance activities supplemented by independent internal audit services. In 2020-21, assurance and compliance activities provided structured assurance on the effectiveness and efficiency of the AOFM's governance arrangements, risk management, and internal controls. Assurance targets for the year were endorsed by the Audit Committee as part of setting the annual assurance strategy.

Information and output from enterprise risk management and assurance frameworks support the CEO's obligations under section 16 of the PGPA Act.

Internal audit

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

The internal auditor completed four reviews in 2020-21:

- a review of the design and implementation of the ABSF;
- a framework review of enterprise risk management and fraud control;
- project assurance for the AOFM treasury system upgrade; and
- a performance and compliance review on syndicated issuance.

One review remains outstanding from the 2020-21 strategic internal audit plan, and was in progress on 30 June 2021:

- a review of the design and implementation of the SFSF.

The internal auditor also completed a management-initiated review: assessing the reasonableness of the accounting policies and financial statement disclosures for the ABSF and SFSF.

In its annual report on internal controls, the internal auditor concluded that AOFM continues to have a mature control environment (demonstrated by the nature and type of findings reported). Audit recommendations were aimed at enhancing efficiency of the current control environment or clarifying current settings. At 30 June 2021, four internal audit recommendations remained outstanding and are being addressed in accordance with agreed timelines

External reports on agency operations

There were no reports in 2020-21 on the operations of the AOFM by the Auditor-General (other than the report on financial statements), a Parliamentary committee, or the Commonwealth Ombudsman.

Management of human resources

Workforce planning

The AOFM *Workforce Plan 2019-2023* aims to maintain organisational resilience and guide succession planning and development of staff.

The impact of COVID-19 has meant actions planned for 2020 have been postponed to late 2021.

Enterprise Agreement

The *AOFM Enterprise Agreement 2015-2018* was approved by the Fair Work Commission on 17 July 2015 and continues to apply. The CEO has authorised adjustments to AOFM pay rates via two determinations under subsection 24(1) of the *Public Service Act 1999;* one in November 2015, and another in July 2018. Pay rises due in July 2020 were delayed by six months as result of the *Public Service (Terms and Conditions of Employment) (General wage increase deferrals during the COVID-19 pandemic) Determination 2020* made by the Public Service Minister.

Training and development

In 2020-21, 48 per cent of staff participated in external training largely through on-line and virtual delivery modes. This included individual coaching, leadership programmes, and financial markets related courses. The AOFM also supported individual professional memberships and a variety of internal seminars. Payments to external providers for training and development during the period averaged $1,955 per full time equivalent employee (FTE).

Ninety one per cent of AOFM staff have degree qualifications, with 30 per cent holding higher degrees and 30 per cent holding double degrees. Thirty per cent have professional qualifications related to the technical aspects of their role with the AOFM.

The AOFM workforce

At 30 June 2021, AOFM employed 45.3 FTE. Table 7 shows the paid head count of the workforce by broadband classification as at the beginning and end of 2020-21.

Table 7: Operative and paid inoperative staff at 30 June 2021 and 2020

	Ongoing				Non-ongoing				
	Full-time		Part-time		Full-time		Part-time		
Classification	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Total**
2021									
AOFM1	-	1	-	1	-	-	-	-	**2**
AOFM2	17	9	2	2	4	1	-	-	**34**
AOFM3	6	2	-	-	-	-	-	-	**8**
AOFM4	1	-	-	-	-	-	-	-	**1**
CEO	1	-	-	-	-	-	-	-	**1**
Total	**25**	**12**	**2**	**3**	**4**	**1**			**47**
2020									
AOFM1	-	1	-	1	-	-	-	-	**2**
AOFM2	18	6	-	4	3	-	-	1	**32**
AOFM3	5	2	1	-	2	-	-	-	**10**
AOFM4	1	-	-	-	-	-	-	-	**1**
CEO	1	-	-	-	-	-	-	-	**1**
Total	**25**	**9**	**1**	**5**	**5**	**-**	**-**	**1**	**46**

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

During 2020 21 two employees were seconded to other agencies.

One employee was seconded to the National Drought and North Queensland Flood Response and Recovery Agency with an arrangement extending outside this reporting period. The arrangement commenced early December 2019 and ran through the end of September 2020.

The other was seconded for six months to the Australian National Audit Office from April 2021.

Most staff are based in Canberra including those on the secondments noted above. Two employees are based in Sydney.

Employees who identify as indigenous

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

Changes to senior management

During 2020-21 two vacant positions in the AOFM Executive Group were filled through merit processes. The Head of Portfolio Strategy and Research was filled via engagement and the Chief Risk and Assurance Officer via internal promotion.

Other staffing changes

Seven ongoing employees were recruited during 2020-21. Three of these recruits were non-ongoing employees who secured ongoing positions with AOFM and although their non-ongoing arrangements ceased, they are not included in the staff departures below. Four non-ongoing employees were recruited during 2020–21. One employee temporarily moved to AOFM last financial year was moved permanently to AOFM in 2020-21. Another employee was moved on a temporary basis to AOFM in 2020-21 and remained employed at the end of the reporting period.

Seven ongoing staff left during the year, along with one non-ongoing employee.

Staff departures represented 17.5 per cent of average staffing levels in 2020-21 (14.3 per cent in 2019–20).

The retention rate for 2019-20 was 83.0 per cent, with an average annual retention rate of 90.1 per cent over the last five years.

Employment arrangements

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

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

Remuneration

Pay rates at 30 June 2021 are shown in Table 8. These rates were set in accordance with the *AOFM Enterprise Agreement 2015-2018* and determinations made under subsection 24(1) of the *Public Service Act 1999*.

Table 8: AOFM salary ranges

	30 June 2021	
	Band low	Band high
Classification	$	$
AOFM1	44,949	82,145
AOFM2	79,943	162,946
AOFM3	189,951	237,439
AOFM4	255,476	319,345

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

Non-salary benefits provided to employees principally comprise superannuation and support for professional development through study assistance, short-courses, and payment of job-relevant professional society membership fees. A mobile phone, or other mobile device is provided where there is an identified business need. Remuneration for key management personnel is reported in Note A of Part 4: Financial Statements.

Disability reporting mechanism

The Australian Public Service Disability Employment Strategy 2020-25 is Australia's overarching framework for disability reform. It acts to ensure principles underpinning the United Nations Convention on the Rights of Persons with Disabilities are incorporated into Australia's policies and programs that affect people with disability, their families, and carers.

All levels of Government will continue to be held accountable for the implementation of the strategy through biennial progress reporting to the Council of Australian Governments.

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

Work health and safety

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

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

All staff were encouraged to get flu vaccinations in early 2021. Counselling and related support is available under an Employee Assistance Programme provided by Benestar Group. Additional online resources are provided to all staff to assist with safety, health, and wellbeing promotion.

In response to the COVID-19 pandemic, the AOFM provided weekly newsletters to all staff regarding the pandemic from late October 2020 to the end of the reporting period. All staff have transitioned to using secure laptops that support remote working. A high standard of personal hygiene and social distancing is required in the office, supported by supplies of hand sanitiser, cleaning products, and disposable gloves and face masks. The balance of home-based and office work has changed over the period depending on local circumstances (e.g. Sydney staff have been working from home since early June 2021). Access to offices by external parties has also varied on a similar basis. No AOFM staff were diagnosed as COVID-19 positive in 2020-21.

There were no compensable injury claims or notifiable incidents in 2020–21.

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

Reportable Consultancy Contracts

During 2020-21, five new reportable consultancy contracts were entered into with total actual expenditure of $137,786. In addition four reportable consultancy contracts were active during 2020-21 with a total actual expenditure of $1,235,255. This is summarised in Table 9.

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

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

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

Table 9: Consultancy contracts

	2020-21
Number of consultancy contracts	
New contracts	5
Ongoing contracts	4
Expenditure (including GST)	
New contracts	$137,786
Ongoing contracts	$1,235,255

Additional information

Table 10 lists the names of the organisations who received the five largest shares of the entity's total expenditure on consultancy contracts during the period, and the name of any organisation that, during the period, received one or more amounts under one or more consultancy contracts equal in total to at least five per cent of AOFM's total expenditure on consultancy contracts during the period, and the total amount the organisation received.

Table 10: Additional information for consultancy contracts

Name of organisation	Amount received	% of total expenditure
Challenger Investment Partners Limited	$978,000	71%
Eticore SD Services Pty Ltd	$101,065	7%
Clayton Utz	$90,990	7%
Herbert Smith Freehils	$65,200	5%
Kyan Technology	$42,210	3%

Reportable non-consultancy contracts

During 2020-21, 43 new reportable non-consultancy contracts were entered into with total actual expenditure of $88,607,683. In addition, 29 reportable non-consultancy contracts were active during 2020-21 with a total actual expenditure of $3,195,350. This is summarised in Table 11.

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

Table 11: Non-consultancy contracts

	2020-21
Number of consultancy contracts	
New contracts	43
Ongoing contracts	29
Expenditure (including GST)	
New contracts	$88,607,683
Ongoing contracts	$3,195,350

Additional information

Table 12 lists the names of the organisations who received the five largest shares of the entity's total expenditure on non-consultancy contracts during the period, and the name of any organisation that, during the period, received one or more amounts under one or more non-consultancy contracts equal in total to at least 5% of AOFM's total expenditure on non-consultancy contracts during the period, and the total amount the organisation received.

All payments made to suppliers identified in the below table pertain to the syndicated issuance of Australian Government Securities in 2020-21

Table 12: Additional information for non-consultancy contracts

Name of organisation	Amount received	% of total expenditure
UBS AG	$ 16,005,000	17%
Westpac Banking Corporation	$ 12,375,000	13%
J.P. Morgan Securities Australia Limited	$ 12,182,500	13%
Deutsche Bank AG Australia	$ 11,137,500	12%
Commonwealth Bank of Australia	$ 10,945,000	12%
Merrill Lynch Markets (Australia) Pty Limited	$ 8,552,500	9%
Australia and New Zealand Banking Group Limited	$ 8,442,500	9%
Citi Global markets Australia Pty Limited	$ 4,620,000	5%

Purchasing

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

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

Procurement initiatives to support small business

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

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

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

ANAO access clauses and exempt contracts

Six contracts in excess of $100,000 were entered into during the reporting period that did not provide for the Auditor General to have access to the contractor's premises. These contracts related to appointment of managers for syndicated issuance of Australian Government Securities. All contracts are reported on the AusTender website.

The first contract was for syndicated issuance of $17 billion of Treasury Bonds (a November 2025 maturity) in July 2020. The AOFM appointed JP Morgan Securities Australia Limited, Merrill Lynch Markets (Australia) Pty Limited, Westpac Banking Corporation and UBS AG Australia to act as managers for the issuance.

The second contract was for syndicated issuance of $15 billion of Treasury Bonds (a June 2051 maturity) in August 2020. The AOFM appointed Australia and New Zealand Banking Corporation Group Limited, Commonwealth Bank of Australia, Deutsche Bank AG Australia, JP Morgan Securities Australia Limited and UBS AG Australia to act as managers for the issuance.

The third contract was for syndicated issuance of $21 billion of Treasury Bonds (a November 2031 maturity) in August 2020. The AOFM appointed Citi Global

Markets Australia Pty Limited, Commonwealth Bank of Australia, Westpac Banking Corporation and UBS AG Australia to act as managers for the issuance.

The fourth contract was for syndicated issuance of $25 billion of Treasury Bonds (a September 2026 maturity) in September 2020. The AOFM appointed Australia and New Zealand Banking Corporation Group Limited, Deutsche Bank AG Australia, JP Morgan Securities Australia Limited and Merrill Lynch Markets (Australia) Pty Limited to act as managers for the issuance.

The fifth contract was for syndicated issuance of $6 billion of Treasury Bonds (a May 2041 maturity) in November 2020. The AOFM appointed National Australia Bank Limited, Toronto Dominion Australia Limited, Westpac Banking Corporation and UBS AG Australia to act as managers for the issuance.

The sixth contract was for syndicated issuance of $14 billion of Treasury Bonds (a November 2032 maturity) in April 2021. The AOFM appointed Commonwealth Bank of Australia, Deutsche Bank AG Australia, Westpac Banking Corporation and UBS AG Australia to act as managers for the issuance.

ANAO access clauses were not included in the contracts as the AOFM maintains all relevant information in relation to the contracted services. Under these contracts, $86.9 million (including GST) was paid.

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

PART 4:
FINANCIAL STATEMENTS

AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT

Statement by the Chief Executive Officer and Chief Financial Officer

In our opinion, the attached financial statements for the year ended 30 June 2021 comply with subsection 42 (2) of the *Public Governance, Performance and Accountability Act 2013*, and are prepared from properly maintained financial records as required by subsection 41 (2) of the *Public Governance, Performance and Accountability Act 2013*.

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

No matter, transaction or event of a material or unusual nature has arisen in the interval between the end of the reporting period (30 June 2021) and the date of signing this report that has significantly affected or may significantly affect the AOFM's operations.

Signed

R Nicholl
Chief Executive Officer
31 August 2021

Signed

P Raccosta
Chief Financial Officer
31 August 2021

OBJECTIVES AND ACTIVITIES OF THE AOFM

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

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

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

- meeting the budget financing task while managing the trade-offs between cost and risks for the cash and debt portfolios over the medium-long term
- enabling the Government to meet its cash outlay requirements at all times, and
- being a credible custodian of the Australian Government Securities market; and managing the Australian Business Securitisation Fund (ABSF) and the Structured Finance Support Fund (SFSF).

The AOFM manages a portfolio of debt and financial assets on behalf of the Australian Government. It issues Treasury Bonds, TIBs and Treasury Notes to achieve the Government's funding task in financing budget deficits. It also manages the Government's cash in the Official Public Account (OPA) which are used to meet the within-year financing task. It undertakes the administration, financial and operational risk management, and financial reporting of its portfolio of debt and assets.

Financing the budget

The outbreak of the Covid-19 pandemic created a significant deterioration in global economic conditions, including in Australia which experienced a sharp downturn in GDP in the June 2020 quarter of seven per cent. In March and April 2020, the Australian Parliament passed measures to implement the Government's initial economic response to the spread of the coronavirus. Further economic response packages were implemented in 2020-21.

Australia's success in managing the public health crisis in 2020-21, including through targeted economic support measures put the Australian economy on a firm path towards a strong economic recovery. Strong commodity prices have provided measurable Budget support. Nonetheless downside risks have remained with weakness in certain sectors of the Australian economy. Uncertainty remains about the pandemic, its containment and its economic effects, and the Australian economy is facing renewed challenges arising from ongoing outbreaks.

The fiscal recovery is reflected in reduced AOFM issuance since Budget 2020-21 (released in October 2020). The long-term net issuance program for 2020-21 fell from $196 billion as announced in the 2020-21 Budget, to an actual long-term net issuance program of $164 billion (in gross issuance terms this was a planned reduction from $242 billion to $210 billion).

Portfolio management

The cost and risk of the debt portfolio is managed through debt issuance and (where appropriate) investment activities. Since early 2009, budget deficits have required debt issuance volumes that have exceeded those necessary to maintain liquidity in Treasury Bond and Treasury Bond futures markets, affording the AOFM with a greater level of flexibility in setting its issuance program. In recent years the AOFM has lengthened the duration of its Treasury Bond portfolio through longer term issuance as a means of reducing refinancing risk and the variability of debt servicing costs over time. Due to the severe funding conditions at the onset of the pandemic the AOFM relied heavily on the short term funding market and shorter-dated Treasury Bonds. Over the course of 2020-21 as funding conditions became more favourable the AOFM returned to a long-dated issuance bias for Treasury Bonds and achieved a weighted average issuance tenor of over 10 years for the financial year.

Cash management

The AOFM manages the overall level of cash in the OPA to ensure that the Government is able to meet its financial obligations as and when they fall due. To this end, it makes short term borrowings by issuing Treasury Notes and invests OPA cash surpluses in deposits with the RBA. Holding balances of highly liquid assets allows flexibility to meet unexpected expenditure requirements and disruptions in the markets (while also covering for discrepancies between actual and forecast revenue and outlays).

In recent years, these assets have been restricted to term deposits with the RBA. In November 2020 the AOFM established a new investment facility to replace term deposits – a cash management account – to more flexibly and efficiently manage cash liquidity.

The AOFM maintained significant precautionary asset balances during the financial year. This conservative liquidity position was achieved through front loading the Treasury Bond issuance program towards the first half of the year with a reasonably high weekly issuance rate and multiple syndications, and an increased reliance on the Treasury Note market to fund within year cash shortfalls. The overall liquidity buffer was also supported by notable periods of stronger than forecast revenue collection.

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

Australian Business Securitisation Fund (ABSF)

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

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

The ABSF consists of:

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

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

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

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

An authorised debt security comprises a debt security issued:

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

In 2018-19 the AOFM received additional departmental funding to conduct this initiative. In June 2020 the AOFM made its first investment in which it committed $250 million to SME warehouse financing facilities. Given its objectives of developing the securitisation market for SME loans, market conditions in the first half of 2020-21 did not support a continuation of investment activity to progress the objectives of the ABSF. In January 2021 the AOFM recommenced the program by issuing an invitation for proposals from market participants. In 2020-21 the AOFM made no new commitments, but invested an additional $100 million in an existing warehouse facility.

Structured Finance Support Fund (SFSF)

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

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

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

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

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

Three work-streams have been pursued in progressing the objectives of the SFSF: (1) supporting public market transactions; (2) investing in private warehouse facilities; and (3) establishing and funding a forbearance facility (the ‘Forbearance SPV’).

The AOFM has responsibility for administering the SFSF and received additional departmental funding of $10 million over 4 years in the 2020-21 Budget to conduct this program. During 2020-21 the AOFM invested $1,385 million in debt securities issued by way of public term ($119 million) and private warehouse ($1,266 million) capital market securitisation offerings. In relation to the private warehouse transactions conducted, as at 30 June 2021 total committed support to these facilities was $1,132 million. In addition, during 2020-21 the AOFM invested in $47 million of securities issued by the Forbearance SPV. As at 30 June 2021, $38 million was invested in securities issued by the Forbearance SPV.

Due to improving market conditions the AOFM did not provide financial support to the primary securitisation market in 2020-21, including in circumstances where support was offered. In addition, after the provision of support in early July 2020, no financial support was provided for the remainder of the financial year to the secondary market. The improvement in market conditions, particularly in the second half of 2020-21 has resulted in interest from a number of originators looking to replace the Commonwealth as a financier to their private warehouse financing facilities. Accordingly, the estimated size of the SFSF program was revised down to $4 billion in the 2021-22 Budget (released in May 2021).

The Forbearance SPV

The Forbearance SPV is an Australian resident, insolvency remote unit trust created pursuant to the Forbearance SPV Trust Deed (dated 22 July 2020).

The Forbearance SPV was established jointly by the securitisation industry and the Government to allow smaller lenders (through their securitisation vehicles) to gain access to the majority of the capitalised interest associated with loans in hardship. The purpose is to keep non-bank originators in business by preventing their securitisation vehicles from going into default and triggering liquidation events. The Forbearance SPV provides liquidity funding (by way of loans) to participating trust vehicles of smaller lenders for 90 per cent of the value of missed interest payments on eligible Covid-19 hardship loans.

Liquidity funding was available to meet missed interest payments on eligible Covid-19 hardship loans for the period from 1 April 2020 to 31 March 2021. The first liquidity funding payments were made in September 2020 (which included back payments to 1 April 2020).

To fund the liquidity payment loans, the Forbearance SPV issues funding notes in which SFSF funds are invested. The funding notes are debt obligations of the Forbearance SPV and incur a fixed rate of interest. Participating lenders are required to provide first loss credit support for liquidity payments made by the Forbearance SPV to their participating trusts.

The Forbearance SPV charges interest at a fixed rate of 5 per cent per annum on loans made to securitisation vehicles participating in the program. Correspondingly, the interest rate paid on the funding notes is 5 per cent per annum. The AOFM has assessed that the interest rate on the liquidity facility is materially consistent with market interest rates at the time the program was established. Given that there were no observable market transactions for financial instruments with equivalent economic characteristics, judgement was required in reaching this assessment.

The Forbearance SPV is not a consolidated entity of the AOFM. Further disclosures are provided at Note 7.

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 stock, including Treasury Bonds, Treasury Indexed Bonds and Treasury Notes. It also provides a standing authority to the Treasurer to borrow in Australian currency

  - On 7 October 2020 the Treasurer issued an amended direction under section 51JA of the Act permitting the AOFM to borrow up to $1,200 billion in total face value of stock and securities. The decision replaces the March 2020 decision which set the maximum at $850 billion

- the *Loans Securities Act 1919,* which includes provisions relating to overseas borrowings, securities lending, repurchase agreements and other financial arrangements
- the *Financial Agreement Act 1994,* which formalises debt consolidation and redemption arrangements applying since 1 July 1990 between the Australian Government and the State and Northern Territory Governments
- the *Public Governance, Performance and Accountability Act 2013,* which allows the Treasurer to invest public money in authorised investments (under section 58), and the Finance Minister to establish and maintain banking accounts (under section 53)
- the *Australian Business Securitisation Fund Act 2019,* which provides for investments in authorised debt securities and other eligible expenditures to meet the purposes of the Act, and
- the *Structured Finance Support Fund (Coronavirus Economic Response Package) Act 2020,* which provides for investments in authorised debt securities and other investments and other eligible expenditures to meet the purposes of the Act.

ADMINISTERED ACCOUNTS

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

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

Administered schedule of comprehensive income ($ millions)

for the period ended 30 June 2021

	Notes	2021	2020
EXPENSES			
Interest expense:			
Treasury Bonds	2	15,984	15,139
Treasury Indexed Bonds	3	977	1,468
Treasury Notes		81	136
		17,042	16,743
Other expenses:			
Debt repurchases		-	399
Supplier expenses		82	32
Waiver of Tasmanian Government housing debt		-	144
Total expenses		17,124	17,318
INCOME			
Interest revenue:			
Loans to State and Territory Governments		88	94
Deposits		104	170
Structured Finance Securities	7	57	(4)
Total income		249	260
Surplus (deficit) before re-measurements		(16,875)	(17,058)
RE-MEASUREMENTS (net market revaluation)			
Treasury Bonds		30,198	(9,190)
Treasury Indexed Bonds		(1,357)	29
Treasury Notes		32	(32)
Total re-measurements		28,873	(9,193)
Surplus (deficit)		11,998	(26,251)

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

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

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

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

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

Administered schedule of assets and liabilities ($ millions)

as at 30 June 2021

	Notes	2021	2020
LIABILITIES			
Interest bearing liabilities at fair value:			
Treasury Bonds	2	807,354	673,729
Treasury Indexed Bonds	3	53,809	52,500
Treasury Notes	4	27,250	58,738
Interest bearing liabilities at amortised cost:			
Other debt		6	6
Other liabilities:			
Loan commitments	5	2	1
Securities purchased not delivered		-	121
Total liabilities		888,421	785,095
FINANCIAL ASSETS			
Cash held in the OPA		1	1
Cash held in the cash management account	6	56,551	-
Assets at amortised cost:			
Deposits with the RBA	6	-	69,952
Structured finance securities	7	1,850	1,815
Loans to State and Territory Governments	8	1,414	1,492
Accrued interest on cash management account	6	5	-
Total assets		59,821	73,260
Net assets (liabilities)		(828,600)	(711,835)

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

The Treasurer has issued a direction under the *Commonwealth Inscribed Stock Act 1911* permitting the AOFM to borrow up to a limit of $1,200 billion in face value terms. As at 30 June 2021 the face value on issue was $817 billion. The schedule above reports the carrying value of debt in fair value (synonymous with market value) terms.

Current/non-current balances reported ($ millions)

	Current		Non-Current	
	2021	2020	**2021**	2020
LIABILITIES				
Interest bearing liabilities at fair value:				
Treasury Bonds	**16,564**	45,116	**790,790**	628,613
Treasury Indexed Bonds	**8,243**	3,673	**45,566**	48,827
Treasury Notes	**27,250**	58,738	**-**	-
Interest bearing liabilities at amortised cost:				
Other debt	**6**	6	**-**	-
Other liabilities:				
Loan commitments	**2**	1	**-**	-
Securities purchased not delivered	**-**	121	**-**	-
Total liabilities	**52,065**	107,655	**836,356**	677,440
ASSETS				
Financial assets:				
Cash at bank	**1**	1	**-**	-
Cash held in the cash management account	**56,551**	-	**-**	-
Assets at amortised cost:				
Deposits with the RBA	**-**	69,952	**-**	-
Structured finance securities	**508**	53	**1,342**	1,762
Loans to State and Territory Governments	**80**	78	**1,334**	1,414
Accrued interest on cash management account	**5**	-	**-**	-
Total assets	**57,145**	70,084	**2,676**	3,176

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

Financial assets and financial liabilities denoted as being measured at fair value, are measured at fair value on initial recognition and at fair value through profit or loss on subsequent measurement. Changes in carrying value are attributed between changes in amortised cost and other changes. Changes in carrying value attributable to amortised cost, including amortisation of premiums or discounts, are recognised in Interest Revenue (for assets) and

Interest Expense (for liabilities). Other changes in carrying value (including unrealised changes in valuation due to a change in interest rates) are recognised in Re-measurements.

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

Administered reconciliation schedule ($ millions)

for the period ended 30 June 2021

	Notes	2021	2020
NET ASSETS			
Opening value		**(711,835)**	(593,545)
Surplus (deficit)		**11,998**	(26,251)
Transactions with the OPA			
Cash management account transfers		**56,551**	-
Special appropriations (unlimited)	**10**	**729,377**	1,913,353
Transfers to OPA		**(914,790)**	(2,007,091)
Contributed equity - special accounts	**10**	**250**	15,250
Change in special account balances	**10**	**(151)**	(13,551)
Net assets		**(828,600)**	(711,835)

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

Administered schedule of cash flows ($ millions)

for the period ended 30 June 2021

	Notes	2021	2020
NET CASH FROM OPERATING ACTIVITIES			
Interest receipts		**240**	272
Other receipts		**1**	-
GST refunds from ATO		**6**	2
Interest paid on Treasury Bonds	**2**	**(19,564)**	(17,643)
Interest paid on Treasury Indexed Bonds	**3**	**(1,373)**	(886)
Interest paid on Treasury Notes		**(112)**	(107)
Interest paid on other debt instruments		**(13)**	(11)
Other payments		**(88)**	(34)
Net cash from operating activities	**9**	**(20,903)**	(18,407)
NET CASH FROM INVESTING ACTIVITIES			
Capital proceeds from deposits		**604,950**	1,777,516
Capital proceeds from structured finance securities		**1,501**	26
State and Territory loan repayments		**92**	91
Acquisition of structured finance securities		**(1,652)**	(1,726)
Acquisition of deposits		**(535,000)**	(1,816,366)
Net cash from investing activities		**69,891**	(40,459)
NET CASH FROM FINANCING ACTIVITIES			
Capital proceeds from borrowings		**308,850**	228,637
Other receipts		**135**	54
Repayment of borrowings		**(172,523)**	(77,732)
Other payments		**(135)**	(54)
Net cash from financing activities		**136,327**	150,905

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

Administered schedule of cash flows ($ millions) (continued)

for the period ended 30 June 2021

	Notes	2021	2020
TRANSACTIONS WITH OPA			
Cash management account transfers		**56,551**	-
Appropriations - unlimited special	**10**	**729,377**	1,913,353
Appropriations - special accounts		**1,652**	1,727
Receipts to OPA - special accounts		**(1,554)**	(28)
Receipts to OPA - other		**(914,790)**	(2,007,091)
Net cash from OPA		**(128,764)**	(92,039)
Net change in cash held		**56,551**	-
+ cash held at the beginning of period		**1**	1
Cash held at the end of the period (a)		**56,552**	1

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

(a) In November 2020 the AOFM established a new liquidity facility – a cash management account with the RBA to manage cash liquidity more flexibly and more efficiently. The principal balance of the cash management account is reported as ‘cash’ on the administered balance sheet.

Note 1: Financial risk management

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

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

Debt portfolio

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

Cash management portfolio

The cash management portfolio is used to manage within year timing mismatches between Australian Government receipts and expenditures. The cash management portfolio holds a fluctuating portfolio of short term investments and short term liabilities. The portfolio is managed to achieve an appropriate balance between cost, refinancing risk and liquidity risk. The AOFM aims to hold enough cash at all times to fund at least four weeks of projected net outlays. Due to the large increase in the size of government net cash outlays arising from the Covid-19 pandemic, asset balances required to provide cash coverage have increased significantly. The increased reliance on Treasury Notes has reduced the cost of holding the precautionary asset balances.

Interest rate risk

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

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

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

Interest exposure of assets and liabilities ($m)

	2021	2020
Fixed interest rate exposures		
Assets	**57,965**	71,444
Liabilities	**(888,413)**	(784,967)
Floating interest rate or non-interest bearing exposures		
Assets	**1,856**	1,816
Liabilities	**(8)**	(128)

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

Sensitivity of 30 June balances to a 74 basis points rise (2019-20: +9) ($m)

	2021	2020
Financial Liabilities		
Changes in fair value:		
Treasury Bonds	**38,704**	4,022
Treasury Indexed Bonds	**3,377**	428
Treasury Notes	**35**	15
Financial Assets		
Changes in interest revenue:		
Structured finance securities	**14**	2

Sensitivity of 30 June balances to a 74 basis points fall (2019-20: -9) ($m)

	2021	2020
Financial Liabilities		
Changes in fair value:		
Treasury Bonds	**(41,965)**	(4,059)
Treasury Indexed Bonds	**(3,801)**	(434)
Treasury Notes	**(35)**	(15)
Financial Assets		
Changes in interest revenue:		
Structured finance securities	**(14)**	(2)

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

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

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

A sensitivity of 74 basis points (9 basis points for 2019-20) has been used for domestic interest rates as per standard parameters mandated by the Department of Finance.

In 2020-21 the Department of Finance made an amendment to its methodology for determining the standardised rate for conducting interest rate sensitivity analysis.

Inflation risk

TIBs have their principal value indexed against the All Groups Australian Consumer Price Index (CPI). Interest is paid at a fixed rate on the accreted principal value. Accordingly, these debt instruments expose the Government to inflation risk on interest payments and on the value of principal payable on redemption. There is a six-month lag between the calculation period for the CPI and its impact on the value of interest and principal.

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

	First issued	2021	2020	2019
21 Feb 22 - 1.25%	Feb-12	**118.14**	116.97	114.63
20 Sep 25 - 3.00%	Sep-09	**127.23**	125.97	123.47
21 Nov 27 - 0.75%	Aug-17	**106.66**	105.60	103.50
20 Sep 30 - 2.50%	Sep-10	**124.12**	122.89	120.45
21 Aug 35 - 2.00%	Sep-13	**115.04**	113.90	111.63
21 Aug 40 - 1.25%	Aug-15	**110.39**	109.29	107.12
21 Feb 50 - 1.00%	Sep-18	**104.64**	103.60	101.55

Credit risk

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

The AOFM's investment activity is comprised of balances acquired for cash management purposes and structured (securitisation) finance securities to support the purposes of the Australian Business Securitisation Fund (ABSF) and the Structured Finance Support Fund (SFSF).

Investments acquired for cash management purposes are made in accordance with legislative requirements, delegations from the Treasurer and the Minister for Finance and policies and limits established by the Secretary to the Treasury. For 2019-20 and 2020-21 cash management investments have, consistent with past practice, been restricted to deposits with the RBA. Deposits with the RBA are considered to carry zero credit risk.

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

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

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

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

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

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

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

The table below shows the credit exposure to structured (securitisation) finance facilities as at 30 June 2021:

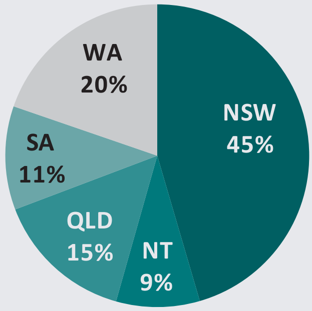
Credit exposure to structured (securitisation) finance facilities as at 30 June 2021 ($m)

Exposure by fund	Current exposure	Undrawn commitments	Total credit committed
Australian Business Securitisation Fund (ABSF)			
Public term transactions (a)	-	-	-
Private warehouse transactions (b)	102	148	250
Sub-total	**102**	**148**	**250**
Structured Finance Support Fund (SFSF)			
Public term transactions (a)	946	-	946
Private warehouse transactions (b)	773	359	1,132
Forbearance SPV	38	-	38
Sub-total	**1,757**	**359**	**2,116**
Total	**1,859**	**507**	**2,366**

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

Under Commonwealth-State financing arrangements between 1945 and 1989, the Australian Government made concessional loans (not evidenced by the issuance of debt securities) to State and Northern Territory Governments for specific purposes. As at 30 June 2021, the principal outstanding on these loans was $1,554 million.

Composition of loans to State and Territory Governments as at 30 June 2021:



In relation to those loans administered by the AOFM, as at 30 June 2021 no housing loans were outstanding by Victoria, Tasmania, or the ACT. The maximum exposure to credit risk is the principal value of loans outstanding.

Credit exposure to State and Territory Governments by credit rating ($m)

	Principal value	
	2021	2020
Aaa / AAA	**-**	754
Aa1 / AA+	**1,416**	749
Aa2 / AA	**-**	-
Aa3 / AA-	**138**	143
Total	**1,554**	1,646

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

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

Liquidity risk and refinancing risk

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

The AOFM monitors market conditions to form a view on refinancing risk due to issuance at a particular point in time.

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

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

Future undiscounted cash outflows of liabilities as at 30 June 2021 ($m)

	Treasury Bonds	Treasury Indexed Bonds	Treasury Notes & Other	Total
Principal payments:				
within 1 year	16,398	8,082	27,252	51,732
1 to 5 years	248,662	9,851	-	258,513
5 to 10 years	324,200	14,006	-	338,206
10 to 15 years	98,450	5,004	-	103,454
15 years+	63,200	8,328	-	71,528
Total Principal	**750,910**	**45,271**	**27,252**	**823,433**
Interest payments:				
within 1 year	19,016	802	3	19,821
1 to 5 years	59,624	2,681	-	62,305
5 to 10 years	38,478	1,839	-	40,317
10 to 15 years	12,092	894	-	12,986
15 years+	11,579	791	-	12,370
Total Interest	**140,789**	**7,007**	**3**	**147,799**

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

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

Fair value reporting

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

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

Fair value hierarchy for assets and liabilities as at 30 June 2021 ($m)

	Carried at fair value			Carried at amortised cost
	Level 1	Level 2	Level 3	
Liabilities	**(888,413)**	**-**	**-**	**(8)**
Assets	**-**	**-**	**-**	**59,821**

Fair value hierarchy for assets and liabilities as at 30 June 2020 ($m)

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

Note 2: Treasury Bonds

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

Accounting policy

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

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

Key aggregates

Interest expense ($m)

	2021	2020
Interest paid / payable	19,630	17,645
Amortisation of net premiums	(3,646)	(2,506)
Interest expense	15,984	15,139

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

Carrying values - administered liabilities ($m)

	2021	2020
Face value	**750,910**	587,155
Accrued interest	**3,304**	3,239
Unamortised net premiums	**15,329**	15,326
Market value adjustment	**37,811**	68,009
Carrying value	**807,354**	673,729

As at 30 June 2021 the weighted average market yield on Treasury Bonds was 0.99 per cent (30 June 2020: 0.63 per cent). As at 30 June 2021 the weighted average (nominal) issuance yield on Treasury Bonds was 2.07 per cent (30 June 2020: 2.53 per cent).

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

	2021	2020
Issuance	207,300	128,200
Debt repurchased	..	(9,000)
Maturities	(43,545)	(34,294)
Change in principal value	163,755	84,906

Of the debt repurchased in 2019-20, no Treasury Bonds were otherwise maturing in 2019-20.

Interest paid - schedule of cash flows ($m)

	2021	2020
Coupons paid	20,125	18,088
Interest received on issuance	(561)	(518)
Interest paid on repurchase	..	73
Interest paid	19,564	17,643

Note 3: Treasury Indexed Bonds

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

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

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

Accounting policy

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

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

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

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

Key aggregates

Interest expense ($m)

	2021	2020
Interest paid / payable	810	890
Capital accretion and amortisation of net premiums	167	578
Interest expense	**977**	1,468

Carrying values - administered liabilities ($m)

	2021	2020
Principal (adjusted capital value):		
Face value	**38,826**	38,387
Capital accretion (to next coupon)	**6,445**	7,232
	45,271	45,619
Accrued interest	**53**	66
Unamortised net premiums	**1,476**	1,163
Market value adjustment	**7,009**	5,652
Carrying value	**53,809**	52,500

As at 30 June 2021, the weighted average market (real) yield on TIBs was -0.95 per cent (30 June 2020: -0.10 per cent).

As at 30 June 2021, the weighted average (real) issuance yield on TIBs was 1.21 per cent (30 June 2020: 1.35 per cent).

Changes in principal value for the period ($m)

	2021	2020
Changes in face value due to:		
Issuance	**2,500**	1,650
Debt repurchased	**-**	..
Maturities	**(2,061)**	-
Changes in capital accretion due to:		
Issuance	**337**	198
Debt repurchased	**-**	..
Maturities	**(1,578)**	-
Accretion for the period	**454**	893
Change in principal value	**(348)**	2,741

Interest paid - schedule of cash flows ($m)

	2021	2020
Coupons paid	**831**	889
Interest received on issuance	**(8)**	(3)
Interest paid on repurchase	**-**	..
Accretion since issuance (paid on redemption)	**550**	..
Interest paid	**1,373**	886

Note 4: Treasury Notes

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

Accounting policy

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

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

Key aggregates

Carrying values - administered liabilities ($m)

	2021	2020
Face value	**27,250**	58,750
Unexpired interest discount	**..**	(44)
Market value adjustment	**..**	32
Carrying value	**27,250**	58,738

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

	2021	2020
Issuance	**94,500**	89,936
Matured	**(126,000)**	(34,186)
Change in principal value	**(31,500)**	55,750

Note 5: Loan commitments liabilities

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

Accounting policy

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

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

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

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

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

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

The AOFM applies this test at the debt security level.

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

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

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

Key aggregates

Carrying values – Loan commitments liabilities ($m)

	2021	2020
Australian Business Securitisation Fund		
Loan commitments liabilities	-	-
Expected credit loss provision	..	..
Sub-total	..	..
Structured Finance Support Fund		
Loan commitments liabilities	-	1
Expected credit loss provision	2	-
Sub-total	2	1
TOTAL		
Loan commitments liabilities	-	1
Expected credit loss provision	2	..
Total	2	1

Change in expected credit loss allowances ($m)

Loss Allowance on loan commitments	12 month expected credit losses (a)	Lifetime expected credit losses (b)	Total expected credit losses allowance
Australian Business Securitisation Fund (ABSF)			
Opening balance – 1 July 2020	..	-	..
Changes in provision during the year	..	-	..
Transfers:			
to 12 month	-	-	-
to lifetime	-	-	-
Sub-total for ABSF – 30 June 2021	..	-	..
Structured Finance Support Fund (SFSF)			
Opening balance – 1 July 2020	-	-	-
Changes in provision during the year	2	-	2
Transfers:			
to 12 month	-	-	-
to lifetime	-	-	-
Sub-total for SFSF – 30 June 2021	2	-	2

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

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

Note 6: Deposits with the RBA

For many years, the AOFM has invested its precautionary cash balances in term deposits through a facility offered by the RBA. These investments were made under the authority of section 58 of the *Public Governance, Performance and Accountability Act 2013.* On 7 November 2020 the RBA and the AOFM replaced the term deposit facility with a cash management account agreement to improve the efficiency and effectiveness of Commonwealth cash management. The cash management account was created under the authority of section 53 of the *Public Governance, Performance and Accountability Act 2013*. The cash management account resides outside the Official Public Account (OPA) and earns a market-related rate of interest. The agreement is structured so that on a daily basis, excess OPA balances (above an agreed minimum threshold) are swept to the cash management account at the end of each day, and returned at the start of the next day.

Accounting policy

The AOFM's business model is to hold term deposits primarily to collect the contractual cash flows, as such term deposits are carried at amortised cost and classified as investments in the balance sheet. The balances held in the cash management account are effectively 'at call' and classified as 'cash' in the balance sheet.

Key aggregates

Carrying values - administered assets ($m)

	2021	**2020**
	Cash management account	**Term Deposits**
Face value	**56,551**	69,950
Accrued interest (a)	**5**	2
Carrying value	**56,556**	69,952

(a) The accrued interest on the cash management account is reported separately to the principal value of the investment balance on the administered balance sheet.

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

	2021	2020
Term Deposits		
Placements	535,000	1,816,366
Maturities	(604,950)	(1,777,516)
Change in principal value	(69,950)	38,850
Cash Management Account		
Placements	14,642,331	-
Maturities	(14,585,780)	-
Change in principal value	56,551	-

Note 7: Investments in structured finance securities

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

Accounting policy

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

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

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

Key aggregates

Interest revenue ($m)

	2021	2020
Interest received / receivable	**54**	2
Amortisation of discounts	**6**	2
Concessional loan discounts	**-**	(6)
Impairment provision expenses	**(3)**	(2)
Interest revenue (a)	**57**	(4)

(a) Includes earnings from debt securities issued by the Forbearance SPV.

Carrying values - administered assets ($m)

	2021	2020
Australian Business Securitisation Fund (ABSF)		
Face value	102	15
Unamortised net discounts	-	-
Accrued Interest	..	..
Expected credit loss provision	..	..
ABSF Sub-total	102	15
Structured Finance Support Fund (SFSF) (a)		
Face value	1,757	1,813
Unamortised net discounts	(7)	(13)
Accrued Interest	2	2
Expected credit loss provision	(4)	(2)
SFSF Sub-total	1,748	1,800
Total carrying Value	1,850	1,815
Expected to be received (b):		
Within one year	508	53
In one to five years	1,320	1,601
In more than five years	22	161
Carrying value by expected recovery	1,850	1,815
Ageing:		
Not overdue	1,850	1,815
Overdue	-	-
Carrying value by ageing	1,850	1,815

(a) Includes debt securities issued by the Forbearance SPV.
(b) The maturity profile is based on the weighted average life of each investment and disregarding estimated principal repayments (the timing and quantum of which are uncertain) prior to that time.

Change in principal value (face value) of investments for the period ($m)

	2021	2020
Australian Business Securitisation Fund (ABSF)		
Acquisitions	100	15
Redemptions	(13)	-
Total change in principal value for ABSF	87	15
Structured Finance Support Fund (SFSF) (a)		
Acquisitions	1,432	1,839
Redemptions	(1,488)	(26)
Total change in principal value for SFSF	(56)	1,813

(a) Includes debt securities issued by the Forbearance SPV.

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

Loss allowances recognised 30 June 2021 ($m)

	12 month expected credit losses (a)	Lifetime expected credit losses (b)	Total expected credit losses allowance
Australian Business Securitisation Fund (ABSF)			
Opening balance – 1 July 2020	..	-	..
Changes in provision during the year	..	-	..
Write-offs	-	-	-
Transfers: 12 months/lifetime	-	-	-
Sub-total for ABSF – 30 June 2021	..	-	..
Structured Finance Support Fund (SFSF)			
Opening balance – 1 July 2020	2	-	2
Changes in provision during the year	2	-	2
Write-offs	-	-	-
Transfers: 12 months/lifetime	-	-	-
Sub-total for SFSF – 30 June 2021	4	-	4
Total loss allowances as at 30 June 2021	4	-	4

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

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

The Forbearance SPV

The value of interest revenue earned and investments identified in the above tables for the Structured Finance Support fund are inclusive of the Forbearance SPV.

The Forbearance SPV is an Australian resident insolvency remote unit trust created pursuant to the Forbearance SPV Trust Deed, dated 22 July 2020. The trustee (BNY Trust (Australia) Registry Limited) is a company incorporated in Australia. The AOFM has struck a financing facility with the trustee to acquire variable funding notes (being debt securities) issued by the Forbearance SPV in relation to specific originators to fund the making of liquidity payment loans to the participating trusts of the relevant originators. Originators provide first loss credit support through the acquisition of first loss notes issued by the Forbearance SPV. The Commonwealth is the Participation Unitholder of the Forbearance SPV which provides it with a passive income entitlement to any residual income generated by the Forbearance SPV. The passive income entitlement defrays a portion of the costs arising from operating the Forbearance SPV.

Interest revenue earned from the Forbearance SPV in 2020-21 was $0.6 million (2019-20: $nil). As at the end of the financial year the carrying value of debt securities held in the Forbearance SPV was as follows:

Carrying value of debt securities held in the Forbearance SPV at 30 June 2021 ($m)

	2021	2020
Forbearance SPV		
Face value of securities	38	-
Accrued Interest	..	-
Expected credit loss provision	..	-
Total Carrying Value	38	-

Change in principal value (face value) of investments for the period ($m)

	2021	2020
Forbearance SPV		
Acquisitions	47	-
Redemptions	(9)	-
Total change in principal value	38	-

In addition, for 2020-21 the AOFM received $0.07 million in residual income generated by the Forbearance SPV.

Use of the Forbearance SPV liquidity funding was substantially lower than expected due to the rapid improvement in Covid-19 hardship loans over the course of 2020-21.

Note 8: Loans to State and Territory Governments

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

Accounting policy

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

Key aggregates

Carrying values - administered assets ($m)

	2021	2020
Face value	1,554	1,646
Unamortised net discounts	(140)	(154)
Accrued interest	-	-
Carrying value	1,414	1,492
Expected to be received:		
Within one year	80	78
In one to five years	330	324
In more than five years	1,004	1,090
Carrying value by expected recovery	1,414	1,492
Ageing:		
Not overdue	1,414	1,492
Overdue	-	-
Carrying value by ageing	1,414	1,492

The fair value of these loans was $1,935 million as at 30 June 2021 (2019-20: $2,156 million). In estimating fair value data from Treasury Bonds is used.

Note 9: Cash flow reconciliation

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

Reconciliation of net cash from operating activities ($m)

	2021	2020
Surplus (deficit)	**11,998**	(26,251)
Adjustments for non-cash items:		
Amortisation and capital accretion of debt instruments	**(3,479)**	(1,928)
Amortisation of financial assets	**(20)**	(16)
Concessional loan discounts	**-**	6
Impairment provision expenses	**3**	2
Re-measurements	**(28,873)**	9,193
Adjustments for cash items:		
Capital accretion costs on maturity of debt	**(550)**	-
Debt repurchase	**-**	399
Waiver of housing loans	**-**	144
Accrual adjustments:		
Interest accruals on debt	**22**	35
Interest accruals on assets	**(4)**	9
Net cash from operating activities	**(20,903)**	(18,407)

Note 10: Appropriations

Administered special appropriations – unlimited ($'000)

	2021	2020
Commonwealth Inscribed Stock Act 1911		
s13AA - payment of principal and interest on money raised by Stock issued under the Act and payments on depository interests in Stock issued under the Act	**194,288,950**	87,522,536
s13A - payment of costs and expenses incurred in relation to issuing and managing debt and depository interests	**87,589**	33,569
s13B - payment of costs and expenses incurred in repurchasing debt prior to maturity	**545**	9,430,970
Financial Agreement Act 1994		
s5 - debt redemption assistance and payment of interest to bond holders on behalf of the State and Northern Territory Governments on public debt under the Act (a)	**7**	8
Public Governance, Performance and Accountability Act 2013		
s58(7) - investments made in the name of the Commonwealth of Australia (b)	**535,000,000**	1,816,365,550
s77 - repayment of monies received where there is no appropriation for the repayment	**3**	-
Total	**729,377,094**	1,913,352,633

(a) The 2020-21 amount includes $605 paid into the Debt Retirement Reserve Trust Account (2019-20: $840).

(b) On 7 November 2020 the term deposit investment facility with the RBA was replaced with a cash management account. The reported figures comprise investments made in term deposits only. The cash management account was created under the authority of section 53 of the *Public Governance, Performance and Accountability Act 2013* and deposits made into the account from the OPA do not entail the use of an appropriation as it is considered part of the Consolidated Revenue Fund.

The following details administered special appropriations that are available but were not used by the AOFM during 2020-21 and 2019-20 (where relevant):

- *Australian National Railways Commission Sale Act 1997, sec 67AW* — Purpose: payment of principal and interest on former debts of the National Railways Commission.
- *Loans Redemption and Conversion Act 1921, sec 5* — Purpose: payment of principal, interest and costs of converting loans made in accordance with the Act.
- *Loans Securities Act 1919, sec 4* — Purpose: payment of principal and interest on money raised by stock issued under the Act.

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

The following table details the investments (in face value terms) made in the name of the Commonwealth under the authority of section 58 of the *Public Governance, Performance and Accountability Act 2013*. On 7 November 2020 the AOFM ceased making investments under section 58.

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

	2021	2020
Opening balance	**69,950,000**	**31,100,000**
Acquisitions	**535,000,000**	**1,816,365,550**
Redemptions and sales	**(604,950,000)**	**(1,777,515,550)**
Closing balance	**-**	**69,950,000**

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

	2021	2020
Opening balance	**235,314**	-
Statutory credit to the special account	**250,000**	250,000
Investments made	**(100,072)**	(14,686)
Capital proceeds received from investments	**12,569**	-
Interest received from investments	**689**	-
Balance	**398,500**	235,314
Balance represented by:		
Cash - held in the Official Public Account	**398,500**	235,314

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

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

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

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

	2021	2020
Opening balance	**13,316,015**	-
Statutory credit to the special account	-	15,000,000
Investments made	**(1,551,842)**	(1,712,144)
Program and commitments fees received	**1,022**	-
Capital proceeds received from investments	**1,488,024**	-
Interest received from investments	**52,204**	28,159
Other payments	**(12)**	-
Other receipts	**74**	-
Balance	**13,305,485**	13,316,015
Balance represented by:		
Cash - held in the Official Public Account	**13,305,485**	13,316,015

Receipts and payments reported above are inclusive of receipts from and payments to the Forbearance SPV. Receipts from and payments to the Forbearance SPV are as follows:

Forbearance SPV – receipts and payments ($'000)

	2021	2020
Investments made	**(47,023)**	-
Program and commitments fees received	-	-
Capital proceeds received from investments	**8,648**	-
Interest received from investments	**635**	-
Other payments	-	-
Other receipts	**74**	-
Net cash outflows for the Forbearance SPV	**(37,666)**	-

Establishing Instrument – The *Structured Finance Support (Coronavirus Economic Response Package) Act 2020*, section 11.

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

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

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

	2021	2020
Opening balance	45	42
Commonwealth contributions and interest paid	..	1
State contributions	2	2
Debt repayments made	(23)	-
Balance	24	45
Balance represented by:		
Cash - held in the Official Public Account	24	45

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

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

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

Note 11: Budgetary report to outcome comparison

The AOFM produces estimates of the impact of its debt financing operations through the issuance of Australian Government Securities (AGS) and certain financial assets for the Australian Government Budget which is usually released in April/May each year for the Budget year (the financial year commencing on the following 1 July) and three forward years. Due to the pandemic, the 2020-21 Budget was released in October 2020.

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

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

It is assumed that the future AGS yields for different tenors of debt will be the same as the prevailing observed market rates at the time the Budget estimates are prepared.

2020-21 Budget

The outbreak of the Covid-19 pandemic and associated policy responses has created a significant deterioration in global economic conditions. This has also impacted the Australian economy and the Government's fiscal position, which has led to a pronounced increase in debt issuance to meet funding requirements.

In the 2020-21 Budget the Government estimated a Headline Cash Deficit of $230 billion for 2020-21. After AGS maturities and redemptions of $54 billion, operational considerations (such as market conditions, the uncertainty and timing associated with future year funding requirements, the strength of revenue collections relative to forecast and the level of cash holdings to maintain at year end) and financing transactions of other Government agencies; the long term gross debt issuance program for 2020-21 was set at $242 billion.

At the time of the Mid-Year Economic and Fiscal Outlook (released in December 2020) the Headline Cash Deficit for 2020-21 was forecast to improve (by $15 billion) to $215 billion. The long term gross debt issuance program was reduced (by $10 billion) to $232 billion after (downward) adjustment in the level of Treasury Notes to be outstanding.

In the 2021-22 Budget (released in May 2021) the Headline Cash Deficit for 2020-21 was forecast to improve further (by $47 billion) to $168 billion. The long term gross debt issuance program was reduced further (by $20 billion) to $212 billion.

For the year ended 30 June 2021 the AOFM's actual long-term gross issuance program totalled $209.8 billion.

Administered schedule of comprehensive income ($m)

	Outcome 2021	Budget (a) 2021	Variance 2021
EXPENSES			
Interest expense	**17,042**	16,724	318
Other expenses	**82**	80	2
Total expenses	**17,124**	16,804	320
INCOME			
Interest revenue	**249**	214	35
Total income	**249**	214	35
Surplus (deficit) before re-measurements	**(16,875)**	(16,590)	(285)
Re-measurements	**28,873**	5,815	23,058
Total re-measurements	**28,873**	5,815	23,058
Surplus (deficit)	**11,998**	(10,775)	22,773

(a) Original Budget released in October 2020. The Budget figures are not audited.

Significant variances in expenses before re-measurements

Interest expense for 2020-21 was $318 million higher than forecast in the 2020-21 Budget. This comprises an unfavourable variance of $46 million on Treasury Bonds, an unfavourable variance of $290 million on TIBs, and a favourable variance of $18 million on Treasury Notes. The nominal interest rate environment for 2020-21 was higher than forecast in the Budget and resulting in higher costs on new borrowings. This was largely offset by a lower than forecast debt issuance program. The inflation environment for 2020-21 was slightly higher than forecast and which led to higher interest costs on TIBs.

Significant variances in income before re-measurements

Interest revenue for 2020-21 was $35 million higher than forecast in the 2020-21 Budget. This comprises a favourable variance of $24 million on cash deposits for liquidity purposes and a favourable variance of $11 million on securitisation investments. Cash deposit revenue was higher due to a richer average cash buffer throughout 2020-21 than forecast. In relation to securitisation investments, actual investment activity was significantly lower than forecast, however lower than forecast impairment losses more than offset the lower revenue.

Significant variances in re-measurements

It is assumed in the Budget that AGS yields for different tenors of debt will be the same as the prevailing observed market rates (at the time when the budget estimates are prepared). Due to this assumption, re-measurements of the AGS portfolio for changes in market interest rates are not significant in the Budget. Actual market yields as at 30 June 2021 were significantly higher at the longer end (by between 40 and 60 basis points) of the Treasury Bond yield curve as compared to Budget. There is an inverse relationship between yield and price for bonds.

Administered schedule of assets and liabilities ($m)

	Outcome 2021	Budget (a) 2021	Variance 2021
LIABILITIES			
Interest bearing liabilities (at fair value)	**888,413**	978,283	(89,870)
Other liabilities	**8**	122	(114)
Total liabilities	**888,421**	978,405	(89,984)
ASSETS			
Cash at bank	**56,552**	1	56,551
Investments	**1,850**	43,103	(41,253)
Loans to State and Territory Governments	**1,414**	1,414	-
Accrued interest on cash management account	**5**	-	5
Total assets	**59,821**	44,518	15,303
Net assets	**(828,600)**	(933,887)	105,287

(a) Original Budget released in October 2020. The Budget figures are not audited.

Significant variances in interest bearing liabilities

The stronger than expected fiscal recovery, in the second half of 2020-21 reflecting Australia's success in managing the public health crisis arising from the Covid-19 pandemic, resulted in lower than forecast AGS debt outstanding due to a smaller than forecast issuance program for 2020-21. The long term net issuance program for 2020-21 was $32 billion smaller (in face value terms) than forecast in the 2020-21 Budget. The rise in market yields has also led to a lower valuation in the debt outstanding by $23 billion. Conversely, the rise in market interest rates during 2020-21 resulted in a reduction of around $12 billion in proceeds received (called issuance premiums) from debt issuance as compared to Budget. Finally, the AOFM's reliance on short term funding markets (through the Treasury Notes market) was lower than forecast at year end by around $23 billion due to the better than expected fiscal position.

Significant variances in cash and investments

The better than expected fiscal position as at 30 June 2021 resulted in higher precautionary cash balances than forecast by around $20 billion as at year end. In addition, due to better than expected market conditions in securitisation markets, the size of the Structured Finance Support Fund (SFSF) was around $5 billion smaller than forecast in the Budget as at year end.

Note 12: Securities lending facility

The AOFM has a securities lending facility for Treasury Bonds and Treasury Indexed Bonds (TIBs), which is operated directly by the RBA on behalf of the Australian Government.

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

Transactions completed during the period

	Number		Face value ($m)	
	2021	**2020**	**2021**	**2020**
Overnight:				
Treasury Bonds	**66**	25	**5,337**	1,201
Treasury Indexed Bonds	**55**	138	**650**	1,451
Intra-day:				
Treasury Bonds	**1**	3	**250**	179
Treasury Indexed Bonds	**-**	9	**-**	204
Total	**122**	175	**6,237**	3,035

No transactions were open at the beginning of the year.

One transaction for $8 million for TIBs was open at the end of the year. This transaction is not included in the above table.

Separate to the securities lending facility, bond market participants can borrow Treasury Bonds and TIBs from the RBA in which the securities are sourced from the RBA’s holdings.

DEPARTMENTAL ACCOUNTS

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

Statement of comprehensive income ($’000)

for the period ended 30 June 2021

	Notes	2021	2020	Budget 2021	Variance from Budget
NET COST OF SERVICES					
EXPENSES					
Employee benefits	A	8,194	7,026	8,419	(225)
Supplier expenses	A	7,400	3,554	8,505	(1,105)
Depreciation and amortisation	C,D	574	671	842	(268)
Interest on lease liabilities	F	64	61	64	-
Asset revaluation decrements		-	17	-	-
Asset write-offs		13	-	-	13
Total expenses		16,245	11,329	17,830	(1,585)
OWN-SOURCE INCOME					
Staff secondments		57	350	394	(337)
Resources received free of charge		298	298	320	(22)
Asset revaluation increments		-	10	-	-
Total own-source income		355	658	714	(359)
Net cost of services		(15,890)	(10,671)	(17,116)	1,226
APPROPRIATION FUNDING					
Revenue from government		16,499	13,808	16,499	-
Total appropriation funding		16,499	13,808	16,499	-
Surplus (deficit)		609	3,137	(617)	1,226
OTHER COMPREHENSIVE INCOME					
Asset revaluation		-	338	-	-
Comprehensive income		609	3,475	(617)	1,226

The above statement should be read in conjunction with the accompanying notes. Note J discusses variances between actuals and Budget released in October 2020 (Budget figures are not audited).

Statement of financial position ($'000)

as at 30 June 2021

	Notes	2021	2020	Budget 2021	Variance from Budget
ASSETS					
Financial assets:					
Cash and cash equivalents		100	100	100	-
Receivables	B	28,633	27,448	27,494	1,139
Non-financial assets:					
Property, plant and equipment	C	,117	6,478	6,152	(35)
Computer software	D	613	619	469	144
Supplier prepayments		355	152	152	203
Total assets		35,818	34,797	34,367	1,451
LIABILITIES					
Payables:					
Supplier payables		749	177	177	572
Salary and superannuation		141	117	118	23
Provisions:					
Employee provisions	E	2,896	2,556	2,601	295
Lease liabilities	F	4,375	4,600	4,375	-
Other provisions	G	460	460	460	-
Total liabilities		8,621	7,910	7,731	890
Net assets		27,197	26,887	26,636	561
EQUITY					
Retained surplus		35,714	35,105	34,488	1,226
Asset revaluation reserve		338	338	338	-
Contributed equity		(8,855)	(8,556)	(8,190)	(665)
Total equity		27,197	26,887	26,636	561

The above statement should be read in conjunction with the accompanying notes. Note J discusses variances between actuals and Budget released in October 2020 (Budget figures are not audited).

Current/non-current balances ($'000)

	Current		Non-Current	
	2021	2020	**2021**	2020
ASSETS				
Financial assets:				
Cash and cash equivalents	**100**	100	**-**	-
Receivables	**11,634**	12,997	**16,999**	14,451
Non-financial assets:				
Property, plant and equipment	**-**	-	**6,117**	6,478
Computer software	**-**	-	**613**	619
Supplier prepayments	**355**	152	**-**	-
Total assets	**12,089**	13,249	**23,729**	21,548
LIABILITIES				
Payables:				
Supplier payables	**749**	177	**-**	-
Salary and superannuation	**141**	117	**-**	-
Provisions:				
Employee provisions	**879**	585	**2,017**	1,971
Lease liabilities	**233**	225	**4,142**	4,375
Other provisions	**-**	-	**460**	460
Total liabilities	**2,002**	1,104	**6,619**	6,806

Statement of changes in equity ($'000)

for the period ended 30 June 2021

	Notes	2021	2020	Budget 2021	Variance from Budget
RETAINED SURPLUS					
Opening balance		35,105	31,968	35,105	-
Surplus (deficit)		609	3,137	(617)	1,226
Retained surplus		35,714	35,105	34,488	1,226
ASSET REVALUATION RESERVE					
Opening balance		338	-	338	-
Revaluation		-	338	-	-
Asset revaluation reserve		338	338	338	-
CONTRIBUTED EQUITY					
Opening balance		(8,556)	(7,879)	(8,556)	-
Capital injection		366	359	366	-
Appropriations extinguished	I	(665)	(1,036)	-	(665)
Contributed equity		(8,855)	(8,556)	(8,190)	(665)
Total equity		27,197	26,887	26,636	561

The above statement should be read in conjunction with the accompanying notes. Note J discusses variances between actuals and Budget released in October 2020 (Budget figures are not audited).

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

Statement of cash flows ($'000)

for the period ended 30 June 2021

	Notes	2021	2020	Budget 2021	Variance from Budget
NET CASH FROM OPERATING ACTIVITIES					
Appropriations: Operating		14,906	11,070	16,848	(1,942)
GST received from ATO		3	5	-	3
Services and other		131	382	394	(263)
Employees		(7,856)	(7,378)	(8,374)	518
Suppliers		(6,761)	(3,384)	(8,185)	1,424
Interest paid on leases		(64)	(61)	(64)	-
GST paid to ATO		-	(3)	-	-
Transfers to OPA (a)		(134)	(384)	(394)	260
	H	225	247	225	-
NET CASH FROM INVESTING ACTIVITIES					
Purchase of assets		(221)	(10)	(366)	145
		(221)	(10)	(366)	145
NET CASH FROM FINANCING ACTIVITIES					
Appropriations: Capital		221	10	366	(145)
Lease liability		(225)	(220)	(225)	-
		(4)	(210)	141	(145)
Net change in cash held		-	27	-	-
+ cash held at the beginning of period		100	73	100	-
Cash held at the end of the period		100	100	100	-

The above statement should be read in conjunction with the accompanying notes. Note J discusses variances between actuals and Budget released in October 2020 (Budget figures are not audited).

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

Note A: Expenses

Employee benefits ($'000)

	2021	2020
Wages and salaries	6,738	6,303
Superannuation	1,148	978
Leave entitlements	300	(271)
Other employee expenses	8	16
Total	8,194	7,026

For 2020-21 the AOFM's average staffing level was 46, which represented an increase (by 7) from an average staffing level of 39 in 2019-20.

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

Key Management Personnel ($'000)

	2021	2020
Salary and other short term benefits	375	342
Annual leave accrued	29	29
Long service leave accrued	11	11
Post employment benefits (superannuation)	53	53
Total	468	435

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

Supplier expenses ($'000)

	2021	2020
Collateral verification agent services (a)	1,199	-
Consultants and contractors for ABSF and SFSF	437	315
Corporate support services	931	896
Internal and external audit services	469	424
Investment management services for ABSF and SFSF	1,250	153
Legal (b)	575	206
Market data services	538	513
Other	1,122	558
Travel	27	207
Treasury management system	611	257
Trust management expenses (a)	215	-
Workers compensation premium	26	25
Total	7,400	3,554

(a) These expenses are wholly attributable to the operation of the Forbearance SPV.

(b) Legal expenses primarily relate to assistance with developing transaction documents for the Forbearance SPV and advice on legal documentation arising from transaction due diligence and execution for the ABSF and the SFSF.

Note B: Receivables

Accounting policy

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

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

Receivables ($'000)

	2021	2020
Goods and services (related)	53	83
Appropriations receivable	28,572	27,365
GST and FBT	8	-
Total	28,633	27,448

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

Recovery of receivables expected in ($'000)

	2021	2020
No more than 12 months	11,634	12,997
More than 12 months	16,999	14,451
Total	28,633	27,448

Note C: Property, plant and equipment

Accounting policy

Asset recognition threshold on acquisition

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

AASB 16 sets out the rules for recognition, measurement and disclosure of leases and requires most leases to be recognised under a single lease model, removing the distinction between finance and operating leases. It requires a lessee to recognise a “right of use asset” and a lease liability on its balance sheet.

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

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

Revaluations

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

A valuation was conducted by an independent valuer, Jones Lang LaSalle, as at 31 March 2020. As at 30 June 2021, the AOFM had cumulative net revaluation losses of $81,065 for plant and equipment which were recognised as expenses in the Statement of Comprehensive Income in previous reporting periods. As at 30 June 2021, the balance of the asset revaluation reserve represents revaluation gains on leasehold improvements.

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

Property, plant and equipment ($'000)

	2021	2020
Gross value:		
Leasehold improvements	2,025	1,987
Plant and equipment	283	292
Right-of-use asset - lease premises	4,820	4,820
Accumulated depreciation:		
Leasehold improvements	(407)	(323)
Plant and equipment	(19)	(5)
Right-of-use asset - lease premises	(585)	(293)
Total	6,117	6,478

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

Reconciliation of changes in gross value ($'000)

	2021	2020
Opening value	7,099	2,365
Purchases	45	10
Initial recognition of right of use asset	-	4,820
Revaluation increment (decrement)	-	(96)
Disposals	(16)	-
Closing value	7,128	7,099

Reconciliation of changes in accumulated depreciation ($'000)

	2021	2020
Opening value	(621)	(579)
Depreciation charge for period		
Leasehold improvements	(86)	(178)
Plant and equipment	(14)	(40)
Right-of-use asset	(292)	(293)
Revaluation increment (decrement)	-	469
Disposals	2	-
Closing value	(1,011)	(621)

Depreciation

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

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

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

Useful life

	2021	2020
Artwork	100 years	100 years
Furniture and fittings	Lease term	Lease term
ICT equipment	3-5 years	3-5 years

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

The useful lives of leasehold improvements and furniture and fittings were reassessed in 2020-21 and no changes were made to useful lives. No change was made to depreciation expenses for 2020-21 arising from useful life revisions (2019-20: a reduction of $58,000).

Note D: Computer software

Accounting policy

Asset recognition threshold on acquisition

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

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

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

Computer software ($'000)

	2021	2020
Gross value	1,696	1,520
Accumulated amortisation	(1,083)	(901)
Total	613	619

No indicators of impairment were identified for computer software.

Reconciliation of changes in gross value ($'000)

	2021	2020
Opening value	1,520	1,520
Purchases	176	-
Disposals	-	-
Closing value	1,696	1,520

Amortisation

Software assets are amortised using the straight line method over their anticipated useful lives, being three to ten years (2019-20: three to ten years).

Reconciliation of changes in accumulated amortisation ($'000)

	2021	2020
Opening value	(901)	(741)
Amortisation charge for period	(182)	(160)
Closing value	(1,083)	(901)

Note E: Employee provisions

Accounting policy

Leave

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

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

Superannuation

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

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

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

Employee provisions ($‘000)

	2021	2020
Annual leave	**711**	589
Long service leave	**1,823**	1,645
Superannuation	**362**	322
Total	**2,896**	2,556

Payment of employee provisions expected in ($‘000)

	2021	2020
No more than 12 months	**879**	585
More than 12 months	**2,017**	1,971
Total	**2,896**	2,556

Note F: Lease liabilities

Accounting policy

AASB 16 sets out the rules for recognition, measurement and disclosure of leases and requires most leases to be recognised under a single lease model, removing the distinction between finance leases and operating leases. It requires lessees to recognise a “right of use asset” and a lease liability on its balance sheet. On 1 July 2019, the AOFM recognised as a lease liability its obligations arising from the lease of its office premises within the Treasury Building for the expected remaining term. The lease liability is initially measured at the present value of the estimated future lease payments as at 1 July 2019, discounted at the Australian Government’s borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest method.

Lease liability ($’000)

	2021	2020
Opening value		
Recognised on adoption of AASB 16	4,600	4,820
Amounts recognised in profit or loss:		
Interest expense on lease liability	64	61
Amounts recognised in cash flow:		
Lease payments	(289)	(281)
Closing value	4,375	4,600
Discounted amount recognised in the Statement of Financial Position:		
Current	233	225
Non-current	4,142	4,375
Total	4,375	4,600

Future estimated lease payments ($’000)

	2021	2020
Undiscounted cash flows:		
Less than 1 year	293	289
One to five years	1,227	1,209
More than five years	3,349	3,660
Total	4,869	5,158

Note G: Other provisions

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

Other provisions ($'000)

	2021	2020
Makegood on leasehold premises	460	460
Total	460	460

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

	2021	2020
Opening balance	460	418
Re-measurements (a)	-	42
Total	460	460

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

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

	2020	2020
No more than 12 months	-	-
More than 12 months	460	460
Total	460	460

Note H: Cash flow reconciliation

The following table reconciles the AOFM's operating cash flows as presented in the Statement of Cash Flows to its net cost of services presented in the Statement of Comprehensive Income.

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

	2021	2020
Net cost of services	**(15,890)**	(10,671)
Add revenue from Government	**16,499**	13,808
Adjustments for non-cash items:		
Depreciation and amortisation	**574**	671
Appropriations extinguished	**(665)**	(1,036)
Net revaluation losses	**-**	7
Loss on disposal of assets	**13**	-
Change in receivables for capital budget items	**146**	350
Adjustments for changes in assets:		
(Increase) decrease in receivables	**(1,185)**	(2,502)
(Increase) decrease in supplier prepayments	**(203)**	(92)
Adjustments for changes in liabilities:		
Increase (decrease) in supplier payables	**572**	(60)
Increase (decrease) in salary and superannuation	**24**	69
Increase (decrease) in employee provisions	**340**	(297)
Net cash from operating activities	**225**	247

Note I: Appropriations

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

Annual appropriations ($'000)

	2021	2020
Annual appropriations:		
Outputs	16,499	13,808
Departmental capital budget (a)	366	359
Public Governance, Performance and Accountability Act 2013:		
Section 74 - retained receipts	134	384
Total available for payment	16,999	14,551
Appropriation applied (current and prior years)	(15,127)	(11,053)
Variance	1,872	3,498

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

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

Unspent departmental annual appropriations ($'000)

	2021	2020
Acts repealed on 1 July 2020:		
Appropriation Act (No. 1) 2017-18	-	1,036
	-	1,036
Acts repealed on 1 July 2021:		
Appropriation Act (No. 1) 2018-19	665	11,980
Appropriation Act (No. 3) 2018-19	-	934
	665	12,914
Acts to be repealed on or after 1 July 2022:		
Supply Act (No. 1) 2019-20	6,002	6,002
Appropriation Act (No. 1) 2019-20	5,671	8,549
Supply Act (No. 1) 2020-21	8,403	-
Appropriation Act (No. 1) 2020-21	8,596	-
	28,672	14,551
Total	29,337	28,501
Represented By:		
Cash at bank	100	100
Appropriations receivable	28,572	27,365
Appropriations extinguished - 1 July	665	1,036
Total	29,337	28,501

Note J: Budgetary report to outcome comparison

The Budget figures shown in the primary financial statements represent the original Budget released in October 2020. The Budget figures are not audited.

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

Significant variances in the Departmental financial statements

Employee expenses were $0.2 million lower than forecast at Budget. During 2020-21 the AOFM sought to increase its staffing levels for the purposes of managing the ABSF and the SFSF. Whilst the establishment size increased, the average staffing level for 2020-21 was 46 against forecasts of 50. This resulted in lower than anticipated staff costs.

Supplier expenses were $1.1 million lower than forecast at Budget. Supplier expenses incorporate service provision for the management of the ABSF and the SFSF, including collateral verification agent services for the Forbearance SPV, investment and credit analysis, pre-trade and post-trade investment management, legal advice and document drafting. These costs are highly contingent on the level of investment activity and proposals received from market participants. Accordingly, they can be highly variable from year-to-year and difficult to forecast. The level of investment activity and proposals reviewed during the second half of 2020-21 were lower than anticipated.

Staff secondment income during 2020-21 was lower than forecast at Budget by $0.3 million. Due to the additional demands on the AOFM arising from the Covid-19 pandemic, and specifically greater debt issuance to fund the Budget and new programs to support securitisation markets, the AOFM restricted staff secondment activity.

Basis of preparation of the financial statements

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

These financial statements cover the AOFM as an administrative entity of the Commonwealth of Australia and are for the reporting period 1 July 2020 to 30 June 2021. They are required by section 42 of the *Public Governance, Performance and Accountability Act 2013*, and are general purpose financial statements prepared on a going concern basis.

In accordance with the requirements of clause 32 of the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* the Forbearance SPV has not been consolidated in accordance with *AASB 10 Consolidated Financial Statements* or in accordance with *AASB 128 Investments in Associates and Joint Ventures*. The AOFM has applied *AASB 9 Financial Instruments* to its debt security investments in the Forbearance SPV.

The financial statements have been prepared in accordance with:

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

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

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

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

New Australian Accounting Standards applicable to the reporting period

During 2020-21 the AOFM adopted all applicable Australian Accounting Standards that became effective during the reporting period.

New Australian Accounting Standards applicable in future reporting periods

A number of revised or new Australian Accounting Standards have been issued that are effective for future reporting periods. These are not expected to significantly impact the AOFM's accounts.

Post balance date events

Litigation - Kathleen O'Donnell v Commonwealth of Australia and others

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

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

The Commonwealth rejects the claims and is defending the claims in the legal action. In November 2020 a case management hearing was held in the FCA before Justice Murphy. The FCA ordered that:

- the Applicant file a Statement of Claim within 28 days
- the Commonwealth is to review and identify any asserted deficiencies in the proposed pleadings as set out in the Statement of Claim by early February
- the Applicant is to file an amended Statement of Claim in response to deficiencies identified by the Commonwealth within 14 days, and
- by early March 2021 the Commonwealth is to file an interlocutory application, or otherwise file a defence by mid-March 2021.

On 23 December 2020 the Applicant lodged a Statement of Claim with the FCA. On 1 February 2021, the Commonwealth responded to the Statement of Claim setting out the deficiencies apparent in it. On 10 February the Applicant filed a request to the court for a short extension of the timetable. The Commonwealth did not object to the proposed amendments to the timetable and on 26 February 2021 the Applicant filed an Amended Statement of Claim.

On 11 March 2021 the Commonwealth lodged an interlocutory application with the FCA, and on 2 June 2021 lodged a submission in support of its interlocutory application to strike-out key pleadings made by the Applicant in the Amended Statement of Claim. On 2 July 2021, the Applicant lodged a response to the strike-out application with the filing of a Further Amended Statement of Claim. The Commonwealth lodged reply submissions to the FCA on 16 July 2021.

On 28 July 2021, the FCA held a hearing of the Commonwealth's interlocutory application seeking strike-out of the Applicant's Further Amended Statement of Claim. At the conclusion of the hearing the FCA gave the Applicant an opportunity to advance her case with a further amended pleading.

On 6 August 2021, the Applicant lodged a Second Further Amended Statement of Claim with the FCA. The Commonwealth lodged reply submissions on 20 August 2021. The FCA is yet to make a ruling on the matter.

ANAO Audit Opinion

Auditor-General for Australia

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Treasurer

Opinion

In my opinion, the financial statements of the Australian Office of Financial Management (the Entity) for the year ended 30 June 2021:

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

(b) present fairly the financial position of the Entity as at 30 June 2021 and its financial performance and cash flows for the year then ended.

The financial statements of the Entity, which I have audited, comprise the following as at 30 June 2021 and for the year then ended:

- Statement by the Chief Executive Officer and Chief Financial Officer;
- Administered schedule of comprehensive income;
- Administered schedule of assets and liabilities;
- Administered reconciliation schedule;
- Administered schedule of cash flows;
- Statement of comprehensive income;
- Statement of financial position;
- Statement of changes in equity;
- Statement of cash flows; and
- Notes to the financial statements, comprising a summary of significant accounting policies and other explanatory information.

Basis for opinion

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

Key audit matters

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

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

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'Treasury Indexed Bonds' and Note 4 'Treasury Notes

The Entity issues Australian Government Securities on behalf of the Commonwealth Government. The securities primarily comprise treasury bonds, treasury indexed bonds and treasury notes.

I consider the valuation of Australian Government Securities to be a key audit matter due to:

- the significant value of Australian Government Securities relative to the Entity's balance sheet ($888,412 million at 30 June 2021) and the range of Australian Government Securities held; and
- the variety of methodologies used to determine the fair value of Australian Government Securities. These include assumptions about the expected return on securities over a long period into the future.

management system used to record and value Australian Government Securities;

- testing the design and operating effectiveness of key controls related to the issuance of Australian Government Securities;
- testing the design and operating effectiveness of key controls relevant to the ongoing monitoring of market valuations of debt; and
- assessing the valuation of Australian Government Securities at 30 June 2021, using the following procedures:
  - agreed the face values and coupon rates of treasury bonds, treasury indexed bonds and treasury notes to independent third party reports; and
  - performed a recalculation of the fair value of Australian Government Securities for issued treasury bonds, treasury indexed bonds and treasury notes and assessed the reasonableness of assumptions about future returns on these securities against market yield data.

Accountable Authority's responsibility for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

Australian National Audit Office

Grant Hehir

Grant Hehir
Auditor-General for Australia

Canberra

31 August 2021

PART 5:
OTHER INFORMATION

OTHER INFORMATION

Agency financial performance

The AOFM recorded an operating surplus on agency activities of $0.6 million for the 2020–21 financial year, comprising total revenue of $16.8 million and expenses of $16.2 million. The surplus was due to lower than anticipated operating costs.

The AOFM reported a sound net worth and liquidity position at 30 June 2021, with net assets of $27.2 million, represented by total assets of $35.8 million and total liabilities of $8.6 million.

At 30 June 2021, the AOFM had unspent appropriations totalling $29.3 million. Of this, $0.7 million was repealed on 1 July 2021. Unspent appropriations are available to settle liabilities as and when they fall due and for future asset replacements and improvements.

Agency resource statement and resources for outcomes

Outcome 1: The advancement of macroeconomic growth and stability and effective operation of financial markets, through issuing debt, investing in financial assets and managing debt, investments and cash for the Australian Government	**Budget(a) 2020-21 $'000**	**Actual Expenses 2020-21 $'000**	**Variation $'000**
Program1.1: Australian Office of Financial Management			
Departmental expenses			
Departmental appropriation and other receipts	15,521	15,360	161
Expenses not requiring appropriation in the Budget year	880	885	(5)
Administered expenses before re-measurements			
Expenses not requiring appropriation (b)	2,365	2,740	(375)
Special appropriations expenses			
Commonwealth Inscribed Stock Act 1911	17,123,036	17,122,677	359
Australian Business Securitisation Fund Act 2019	-	-	-
Structured Finance Support (Coronavirus Economic Response Package) Act 2020			
(Coronavirus Economic Response Package) Act 2020	-	-	-
Financial Agreement Act 1994	8	8	-
Total expenses for program1.1	**17,141,810**	**17,141,670**	**140**
	2020-21	**2020-21**	
Average staffing level (number)	**46**	**46**	**0**

(a) The Budget figure for 2020-21 is the estimated actual 2020-21 expenses as reported in table 2.1 of the 2021-22 Portfolio Budget Statements.

(b) Expenses not requiring appropriation represents expected credit loss expenses on investments in structured finance securities.
Please note: in the Budget papers the item is reported against expenses, whilst in the Annual Financial Statements it is reported as an offset to interest revenue.

Table 13: AOFM Resource statement

		Actual available appropriation 2020-21 $'000	Net Payments made 2020-21 $'000	Appropriations extinguished 2020-21 $'000	=	Balance 2020-21 $'000
Ordinary annual services						
Departmental appropriation(a)(b)		45,366	15,127	1,036		29,203
Receipts from other sources (s74)(c)		134	-	-		134
Total departmental		45,500	15,127	1,036		29,337
Administered expenses						
Total administered		-	-	-		-
Total ordinary annual services	**A**	45,500	15,127	1,036		29,337
Other services						
Departmental non-operating		-	-	-		-
Total other services	**B**	-	-	-		-
Total available annual appropriations (A+B)		45,500	15,127	1,036		29,337
Special appropriations - operating						
Commonwealth Inscribed Stock Act 1911		21,718,633	21,718,633	-		-
Financial Agreement Act 1994		7	7	-		-
Public Governance, Performance and Accountability Act 2013		3	3	-		-
Subtotal		21,718,643	21,718,643	-		-
Special appropriations - investing and financing						
Commonwealth Inscribed Stock Act 1911		172,658,451	172,658,451	-		-
Public Governance, Performance and Accountability Act 2013		535,000,000	535,000,000	-		-
Subtotal		707,658,451	707,658,451	-		-
Total special appropriations	**C**	729,377,094	729,377,094	-		-

		Actual available appropriation 2020-21 $'000	Net Payments made 2020-21 $'000	Appropriations extinguished 2020-21 $'000	=	Balance 2020-21 $'000
Total appropriations excluding special accounts (A + B + C)		729,422,594	729,392,221	1,036		29,337
Special Accounts						
Debt Retirement Reserve Trust		47	23	-		24
Structured Finance Support Fund (d)		13,316,015	10,530	-		13,305,485
Australian Business Securitisation Fund (e)		485,314	86,814	-		398,500
Total Special Account	**D**	13,801,376	97,367	-		13,704,009
Total net resourcing and payments for AOFM (A + B + C + D)		743,223,970	729,489,588	1,036		13,733,346

(a) Actual available appropriation comprises Supply Act (No.1) 2020-21 and Appropriation Act (No.1) 2020-21 plus carried forward appropriation balances at 1 July 2020.
(b) Includes capital budget appropriation for 2020-21 of $0.366 million.
(c) Receipts received under section 74 of the Public Governance, Performance and Accountability Act 2013
(d) Structured Finance Support Fund Special Account was established in March 2020.
The special account received its statutory funding of $15 billion on 25 March 2020.
(e) Australian Business Securitisation Fund Special Account was established in April 2019.
The special account received its first credit of funding of $250 million on 1 July 2019.
The special account received its second credit of funding of $250 million on 1 July 2020.

Grant programs

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

Total amounts paid by the Commonwealth into the Debt Retirement Reserve Trust Account for 2020-21 were $605.

Advertising and market research

The AOFM incurred expenditure of $5,509 in advertising to promote the Australian Government Securities market to investors.

The AOFM incurred expenditure of $31,965.08 during 2020-21 to media advertising organisations for staff recruitment.

Remuneration

Table 14: Remuneration

Key Management Personnel

		Short term benefits			Post-employment	Other long-term benefits		Termination benefits	
Name	Position	Base salary and annual leave $	Bonuses $	Other benefits $	Superannuation $	Long service leave $	Other $	Termination benefits $	Total $
Rob Nicholl	CEO	405,208			53,281	9,791			468,280

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

Table 17: Remuneration (continued)

Highly Paid Staff

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

		Short term benefits			Post-employment	Other long-term benefits		Termination benefits	
Remuneration Band	Number	Average base salary and annual leave $	Average bonuses $	Average other benefits $	Average superannuation $	Average long service leave $	Average other $	Average termination benefits $	Average total $
255,000 to 279,999	3	213,026			37,640	17,127			267,793
280,000 to 304,999	3	241,411			38,803	7,431			287,644
305,000 to 329,999	1	256,337			43,814	9,119			309,270
330,000 to 354,999	1	269,919			46,128	21,679			337,726
380,000 to 404,999	1	320,385			59,471	10,775			390,631

Freedom of information

Entities subject to the *Freedom of Information Act 1982* (FOI Act) are required to publish information to the public as part of the Information Publication Scheme (IPS). This requirement is in Part II of the FOI Act, replacing the former requirement to publish a section 8 statement in an annual report. Each agency must display on its website a plan showing what information it publishes in accordance with the IPS requirements. In 2020-21, the AOFM worked with the Treasury on one FOI request, that was later withdrawn.

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

Ecologically sustainable development

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

Management structure of the AOFM's debt and assets

The assets and liabilities managed by the AOFM and held on its administered balance sheet in 2020-21 were AGS (Treasury Bonds, TIBs and Treasury Notes), cash deposits with the RBA, investments made through the Australian Business Securitisation Fund (ABSF) and Structured Finance Support Fund (SFSF), and loans to the States under various Commonwealth-State Housing Agreements.

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

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

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

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

- The ABSF is a fund created to support provision of finance to small to medium enterprises (SMEs) on more competitive terms.
- The SFSF comprises investments in structured finance markets used by smaller lenders that provide consumer and business finance, investing in rated term securitisations and securitisation warehouses.
- The housing advances portfolio comprises loans for public housing made to the states and territories. These loans, 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.

GLOSSARY

Accrual cost

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

Australian Government Securities (AGS)

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

Bank Bill Swap (BBSW) rate

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

Basis point

One hundredth of one per cent.

Bid-ask spread

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

Book value (or carrying amount)

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

Cash Management Portfolio

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

Coupon rate

A rate of interest paid on a bond, 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 pecuniary loss. The AOFM faces credit risk in relation to its settlement and investment activities (except in relation to its term deposits held with the RBA).

Credit spread

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

Discount

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

Discounting

Calculating the present value of a future amount.

Duration

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

Exposure

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

Face value

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

Fixed rate

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

Floating rate

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

Funding risk

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

Futures basket

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

Futures contract

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

Historic cost

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

Interest

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

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

Interest rate risk

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

Issuance

The sale of debt securities in the primary market.

Liquidity

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

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

Liquidity risk

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

Long-Term Debt Portfolio (LTDP)

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

Market risk

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

Market value

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

Modified duration

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

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

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

Nominal debt

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

Nominal interest rate

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

Official Public Account (OPA)

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

Operational risk

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

Overnight cash rate

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

Overnight Indexed Swap (OIS)

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

Physical debt

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

Present value

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

Primary market

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

Real interest rate

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

Repricing risk

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

Residential mortgage-backed security (RMBS)

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

Risk premium

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

Secondary market

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

Securities lending

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

Securities lending facility

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

Short-dated exposure

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

Spread

The difference between two prices or yields.

Syndication

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

Tender

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

Tenor

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

Term deposit

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

Term premium

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

Treasury Bond

A medium to long term debt security issued by the Australian Government that carries an annual rate of interest (the coupon rate), 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 adjusted for inflation over the life of the bond. Interest Indexed Bonds, another form of indexed bond, were also issued by the Commonwealth Government in the past but these have all now matured.

Treasury Note

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

Two-way price

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

Yield

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

Yield curve

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

ACRONYMS

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

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

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