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COMMONWEALTH OF AUSTRALIA TERMS AND CONDITIONS OF ISSUE TREASURY BONDS REDEEMABLE AT PAR ON MATURITY

Where the term "Treasury Bonds" is used this refers to both Treasury Fixed Coupon Bonds and Treasury Adjustable Rate Bonds.

TREASURY FIXED COUPON BONDS

Treasury Fixed Coupon Bonds may be offered periodically at either a conventional issuance tender or as part of a conversion tender.

i. Conventional Issuance Tender

An official announcement will be made prior to each conventional issuance tender and will include details of:

- each series of Treasury Fixed Coupon Bonds for which bids will be invited;
- the amount to be offered of each series;
- the date and amount of the first interest payment;
- the closing time and date for bids; and
- the settlement arrangements.

A subsequent announcement will be made giving the results of the tender.

ii. Conversion Tender

Treasury Fixed Coupon Bonds may be offered to holders of existing Treasury Fixed Coupon bonds under a conversion tender. This type of tender will allow holders of particular series of bonds to convert their holdings (or part of their holdings) into other series of bonds.

Details of conversion tenders will be made by way of an official announcement and will include details of:

- each series of Treasury Fixed Coupon Bonds for which conversion will be invited (offered stocks);
- each series of Treasury Fixed Coupon Bonds into which offered stocks will be converted (destination stocks);
- the maximum amount to be converted of each series;
- the method to be used for allotting stock;
- the date and amount of the first interest payment (destination stocks);
- the closing time and date for bids; and
- the settlement arrangements.

A subsequent announcement will be made giving the results of the tender.

TREASURY ADJUSTABLE RATE BONDS

Treasury Adjustable Rate Bonds will be offered for sale by periodic tender. An official announcement will be made prior to each tender and will include details of:

- each series of Treasury Adjustable Rate Bonds for which bids will be invited;
- the amount to be offered of each series;
- the date and amount of the first interest payment and the date of subsequent interest payments and coupon resets;
- the coupon expressed as a margin to the interest setting Index;
- the closing time and date for bids; and
- the settlement arrangements.

A subsequent announcement will be made giving the results of the tender.

ELIGIBILITY TO TENDER

Only bids for Treasury Bonds which are submitted electronically by members of the Reserve Bank Information and Transfer System (RITS) in accordance with the RITS Regulations and Conditions of Operation will be accepted.

APPLICATIONS FOR STOCK

Bids for *Treasury Fixed Coupon Bonds* at both conventional issuance tenders and conversion tenders will be received on a competitive tender basis. Yields must be submitted on the basis of yield to maturity (% per annum). The yield bid may be expressed to a maximum of three decimal places (eg 10%, 10.0%, 10.00%, 10.000%). Yield bids must be a whole multiple of 0.005% (eg 10.000%, 10.005%, 11.000%). Yields submitted that are not a whole multiple of 0.005 will be disregarded.

Bids for *Treasury Adjustable Rate Bonds* will be received on a competitive tender basis. Each bid must be submitted as a basis point margin below the latest quoted average three month Australian bank bill swap reference mid-rate (BBSW), to a maximum of two decimal places (eg 4 basis points, 4.2 basis points, 4.25 basis points, translating to a margin respectively of 0.0400, 0.0420 and 0.0425).

No bid may be withdrawn or amended after the bid has been committed in terms of the RITS Regulations and Conditions of Operation. Bids not complying in all respects with the requirements of this document will be liable to rejection.

The Treasurer reserves the right to cancel a tender by reason of any circumstance including a circumstance beyond the reasonable control of the Reserve Bank and, without limitation, partial or total failure, malfunction or overload of RITS.

SIZE OF BIDS

Each competitive bid for **Treasury Fixed Coupon Bonds** for either tender or conversion stock must be for a minimum parcel of \$100,000 (face value) and in multiples of \$1,000 (face value) thereafter.

Each competitive bid for **Treasury Adjustable Rate Bonds** must be for a minimum parcel of \$500,000 (face value) and in multiples of \$100,000 (face value) thereafter.

ALLOTMENT OF CONVENTIONAL ISSUANCE TENDER STOCK

Acceptance of competitive bids for **Treasury Fixed Coupon Bonds** will be made in ascending order of yield bid, ie from the

lowest yield bid to the highest yield accepted. Allotments will be made at the yields bid.

At the highest yield accepted, the amount of **Treasury Fixed Coupon Bonds** allotted to each bidder will, in the first instance, be calculated proportionately to the amount of bids at that yield and then in the case of bids of \$1 million or more (face value), rounded to the nearest \$1 million (face value) and in the case of bids under \$1 million (face value), rounded up to the next \$100,000 (face value). However, no bidder will be allotted an amount greater than the amount bid. In allotting stock at the highest accepted yield, amounts by which the total bids from any one tenderer exceed the amount offered at tender will be disregarded.

Acceptance of competitive bids for **Treasury Adjustable Rate Bonds** will be made in descending order of margin bid, ie from the highest margin bid to the lowest margin accepted. Allotments will be made at the margins bid.

At the lowest margin accepted, the amount of **Treasury Adjustable Rate Bonds** allotted to each bidder will, in the first instance, be calculated proportionately to the amount of bids at that margin and then in the case of bids of \$1 million or more (face value), rounded to the nearest \$1 million (face value) and in the case of bids under \$1 million (face value), rounded up to the next \$100,000 (face value). However, no bidder will be allotted an amount greater than the amount bid. In allotting stock at the lowest accepted margin, amounts by which the total bids from any one tenderer exceed the amount offered at tender will be disregarded.

The Treasurer reserves the right to accept any bid for the full amount of a tender or any part thereof and to reject any bid or part thereof.

Notice of acceptance or rejection of a bid or any part thereof will be made available to each bidder as soon as possible after allotment.

ALLOTMENT OF CONVERSION TENDER STOCK

Acceptance of bids for conversion of **Treasury Fixed Coupon Bonds** will be made in order of the most attractive bids to the least attractive bids. The methodology to be used for ranking bids will be detailed in the official announcement of each tender.

To assist with the ranking of bids, the yield associated with either the offered or destination stocks will be predetermined. This yield will be announced on the morning of the tender.

The Treasurer reserves the right to accept any bid for the full amount of a tender or any part thereof and to reject any bid or part thereof.

Notice of acceptance or rejection of a bid or any part thereof will be made available to each bidder as soon as possible after allotment.

SETTLEMENT OF TREASURY FIXED COUPON BONDS

The settlement price per \$100 face value, extended to the third decimal place, shall be calculated on the basis of the following formula:

$$\text{PRICE PER \$100 FACE VALUE} = v^{f/d} (c + ga_{\overline{n}} + 100 v^n)$$

where $v = 1/(1 + i)$ where i is the annual percentage yield (expressed as above under "Applications for Tender Stock") divided by 200.

For example, where Bonds are to be allotted at a yield of 12.64% per annum,

$$i = 12.64/200 = .0632$$

f = the number of days from the date of settlement to the next interest payment date.

d = the number of days in the half-year ending on the next interest payment date.

c = the amount of the interest payment (if any) per \$100 face value at the next interest payment date.

g = the fixed half-yearly interest rate payable (equal to the annual fixed rate divided by 2).

$$a\bar{n} = v + v^2 + \dots + v^n = (1 - v^n)/i$$

n = the number of full half-years between the next interest payment date and the date of maturity.

The settlement amount will be rounded to the nearest cent (0.50 cent being rounded up).

Unless otherwise specified in the official announcement of a tender, settlement in the Austraclear System during System hours, as defined in the Austraclear System Regulations and Operating Manual, is to take place on the second day following the tender.

Failure to make due payment of any amount payable in respect of any allotment pursuant to a competitive bid will render the allotment liable to cancellation.

SETTLEMENT OF TREASURY ADJUSTABLE RATE BONDS

The settlement price per \$100 face value, extended to the third decimal place, shall be calculated on the basis of the following formula, unless otherwise advised in the official announcement:

$$\text{PRICE PER \$100 FACE VALUE} = \left[C \times (b + \text{IM}) \times d/365 + \frac{(\text{IM} - \text{TM}) \times a\bar{n}}{4} + 1 \right] \times 100$$

$$\frac{1 + \frac{(\text{r} + \text{TM}) \times f}{365}}{1}$$

where C = 0 if issued ex-interest, 1 if issued cum-interest.

b = the Index (as a percentage) from the last interest reset date to the next interest payment date defined as the average three month Australian bank bill swap reference mid-rate (BBSW) as indicated by Reuters, rounded to four decimal places. If BBSW is no longer widely recognised as the main indicator of bank bill rates in Australia, or is not available, a replacement indicator will be determined by the Treasurer. This indicator will, as closely as practicable, replicate such bank bill rates.

IM = Interest Margin (as a percentage) relative to the Index.

d = the number of days in the current interest period.

TM = Trading Margin (as a percentage) to express the yield margin to the Index.

$$a\bar{n} = (1 - v^n)/i$$

$$v = 1/(1 + i)$$

n = the number of complete interest periods to maturity as at the next interest payment date.

$$i = (s + TM) / 4$$

s = the quarterly swap rate for the period commencing on the settlement date and ending on the maturity date, obtained by straight line interpolation of the mid-value of the Australian Dollar domestic interest rate swap bid and offer rates, as indicated by Reuters at 10.00 am on the offering date, converted to a quarterly rate in the manner specified below. If ASRR is not available, a replacement indicator will be determined by the Treasurer. This indicator will, as closely as practicable, replicate such swap rates.

Conversion formula (semi-annual to quarterly)

$$\text{Quarterly compounding rate} = \left[\left(1 + \frac{\text{semi-annual rate}}{2} \right)^2 - 1 \right] \times 4$$

r = the Index (as a percentage) as determined on the offering date for the period from the settlement date to the next interest payment date, rounded to four decimal places.

f = the number of days from the settlement date to the next interest payment date.

The settlement amount will be rounded to the nearest cent (0.50 cent being rounded up).

Unless otherwise specified in the official announcement of a tender, settlement in the Austraclear System during System hours, as defined in the Austraclear System Regulations and Operating Manual, is to take place on the second day following the tender.

Failure to make due payment of any amount payable in respect of any allotment pursuant to a competitive bid will render the allotment liable to cancellation.

STOCK

Treasury Fixed Coupon Bonds will be issued as stock only, in accordance with the *Commonwealth Inscribed Stock Act 1911* and shall be lodged in the Austraclear System in the name of the applicant in accordance with the Austraclear System Regulations and Operating Manual. Subsequent transactions shall be at face value in multiples of \$1,000.

Treasury Adjustable Rate Bonds will be issued as stock only, in accordance with the *Commonwealth Inscribed Stock Act 1911* and shall be lodged in the Austraclear System in the name of the applicant in accordance with the Austraclear System Regulations and Operating Manual. Subsequent transactions shall be at face value in multiples of \$100,000.

Transfer of Treasury Bonds may be effected through the Austraclear System in accordance with the Austraclear System Regulations and Operating Manual or by lodgement of a completed Transfer and Acceptance Form at the Commonwealth Government Inscribed Stock Registry.

INTEREST

The date and amount of the first interest payment on **Treasury Fixed Coupon Bonds** will be specified in the official announcement of the stock to be offered at tender. Subsequent interest payments will be made half-yearly from the date of the first interest payment until maturity.

Treasury Adjustable Rate Bonds will bear interest quarterly in arrears at a floating rate of interest. The date of the first and subsequent interest payments and the amount of the first

interest payment on Treasury Adjustable Rate Bonds will be specified in the official announcement prior to tender. Subsequent interest payments per \$100 face value shall be calculated on the basis of the following formula:

$$(b+IM) \times \frac{d}{365} \times 100$$

where b = the Index (as a percentage) from the last interest reset date to the next interest payment date, rounded to four decimal places.

IM = Interest Margin (as a percentage) paid relative to the Index.

d = the number of days in the current interest period.

Interest payments shall be rounded to the nearest cent (0.50 cent being rounded up).

If any interest payment date falls on a day which is not a Business Day that interest payment date shall be postponed to the next day which is a Business Day. A Business Day is a day, not being a Saturday or Sunday, on which banks are open for business in Melbourne or Sydney.

Where Treasury Bonds are lodged in the Austraclear System, interest payments will be made in the manner described in the Austraclear System Regulations and Operating Manual. In other cases, interest payments (including the first interest payment) will be made according to the instructions of the owner recorded at the close of business one week prior to the interest payment date by credit into an account at a financial institution in Australia or by cheque. To ensure timely payment, investors should notify the Reserve Bank Registry of any change in address.

REPAYMENT AT MATURITY

Treasury Bonds lodged in the Austraclear System will be repaid at par on maturity in the manner described in the Austraclear System Regulations and Operating Manual.

In the case of stock not lodged in the Austraclear System, instructions as to the disposal of the proceeds of maturing Treasury Bonds may be lodged with the Registry no later than three business days prior to maturity. Where no instructions are provided, payment of proceeds will be effected by cheque payable to the owner and posted to the registered address.

Repayment of Treasury Bonds is made from the Consolidated Revenue Fund of the Commonwealth under standing appropriations.

OFFICIAL SUBSCRIPTIONS

The Reserve Bank of Australia and certain other official bodies may, from time to time, apply for Treasury Bonds. Amounts to be taken up in this way will be indicated in the official announcement prior to the offer and will be additional to the amount offered to the public. Allotments will be at the weighted average issue yield(s) announced for the relevant tender.

REGISTRY

The Commonwealth Government Inscribed Stock Registry is operated by the Reserve Bank of Australia.

MISCELLANEOUS

Stamp duty - Issues and transfers of Treasury Bonds will be free of stamp duty imposed by the Commonwealth and the States.

Trustees - Treasury Bonds are authorised investments under trustee legislation applying in Australia.

Stock Exchange Listing - It is intended to apply for the listing of Treasury Bonds on Australian Stock Exchanges as soon as possible after issue.

Authority for Issue - Treasury Bonds are issued in accordance with the Financial Agreement and issues are authorised under the *Commonwealth Inscribed Stock Act 1911* and other Acts containing specific borrowing authority or the Financial Agreement. Treasury Bonds are issued in such amounts, in such a manner and upon such terms and conditions as the Treasurer directs.

Fungibility - The Commonwealth of Australia shall be at liberty from time to time to issue fixed rate or adjustable rate Treasury Bonds fungible, respectively, with any outstanding series of fixed rate or adjustable rate Treasury Bonds.

Taxation - Assessable income from Treasury Bonds derived by way of interest or discount in the purchase price will be liable to tax according to the provisions of the laws of the Commonwealth and the States. Non-residents should note that payment of interest will be subject to Australian interest withholding tax unless a specific exemption applies.

Australian Office of Financial Management
Canberra

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