

Australian Capital Territory

Financial Management Guidelines 2002

Disallowable instrument DI2002—154

The Treasurer makes the following guidelines under the *Financial Management Act 1996*, section 67 (Guideline-making power).

Dated: 24 July 2002

TED QUINLAN
Treasurer

Financial Management Guidelines 2002

Disallowable instrument DI2002—154

made under the

Financial Management Act 1996

Contents

		Page
Part 1	Preliminary	
1	Name of guidelines	1
2	Commencement	1
3	Dictionary	1
4	Notes	1
5	Meaning of <i>debt instrument</i>	1
Part 2	Financial statements	
6	Financial statements for Territory budgets—Act, s 11 (1)	3
7	Financial statements for departmental budgets—Act, s 12 (1) (a)	3

Contents

	Page	
8	Financial statements for public trading enterprise budgets—Act, s 12A (1)	4
9	Annual financial statements of the Territory—Act, s 22 (2) (a)	5
10	Periodic financial statements of the Territory—Act, s 26 (2)	5
11	Annual financial statements of departments—Act, s 27 (3) (a)	6
12	Financial statements for Territory authorities—statements of intent—Act, s 58 (3) (a)	6
13	Annual financial statements for Territory authorities—Act, s 59 (3) (a)	7
14	Period for provision of financial statements to auditor-general—Act, s 61 (1)	7
Part 3	Investments	
15	Prescribed investments—Act, s 38 (1) (e)	8
16	Use of derivatives	9
17	ET derivatives	10
18	OTC derivatives	10
19	Limitation on exposure to derivatives	11
20	Guidelines of Australian Prudential Regulatory Authority	11
21	Engagement of investment fund managers	12
22	Risk management statements	12
23	Monthly report on exposure to derivatives	12
Part 4	Miscellaneous	
24	Departments—Act, dict, def of <i>department</i> , par (b)	13
25	Repeal	13
Dictionary		14

Part 1 Preliminary

1 Name of guidelines

These guidelines are the *Financial Management Guidelines 2002*.

2 Commencement

These guidelines commence on the day after their notification day.

3 Dictionary

The dictionary at the end of these guidelines is part of these guidelines.

Note 1 The dictionary at the end of these guidelines defines certain words and expressions used in these guidelines, and includes references (*signpost definitions*) to other words and expressions defined elsewhere in these guidelines.

For example, the signpost definition '*debt instrument*—see section 5 (Meaning of *debt instrument*).' means that the expression 'debt instrument' is defined in that section.

Note 2 A definition in the dictionary (including a signpost definition) applies to the entire guidelines unless the definition, or another provision of the guidelines, provides otherwise or the contrary intention otherwise appears (see *Legislation Act 2001*, s 155 and s 156 (1)).

4 Notes

A note included in these guidelines is explanatory and is not part of the guidelines.

Note See *Legislation Act 2001*, s 127 (1), (4) and (5) for the legal status of notes.

5 Meaning of *debt instrument*

- (1) In these guidelines, *debt instrument* includes securities (other than stocks that are equities) and other commercial paper, issued in Australia.

Note **Securities** is defined in the Act, dict, as follows:

securities includes stocks, debentures, notes, bonds, promissory notes, bills of exchange, and any other securities approved in writing by the Treasurer.

- (2) However, **debt instrument** does not include an instrument issued by or in relation to an entity that is, when the instrument is offered for sale for investment under section 15, rated by Standard & Poor's or Moody's as less than the relevant rating set out in the following table:

rating	
Standard & Poor's short-term	A-2
Moody's short-term	P-2
Standard & Poor's long-term	A-
Moody's long-term	A

- (3) If an instrument is rated by Standard & Poor's and Moody's, each rating is a relevant rating for subsection (2).

Part 2 Financial statements

6 Financial statements for Territory budgets—Act, s 11 (1)

The following financial statements are required:

- (a) a statement of financial performance estimated for the Territory for the year;
- (b) a statement of financial position of the Territory at the beginning of the year or, if the proposed budget is presented to the Legislative Assembly before the beginning of the year, a statement of financial position that the Territory is expected to have at the beginning of the year;
- (c) a statement of financial position that it is planned that the Territory will have at the end of the year;
- (d) a statement of the cash flows of the Territory estimated for the year.

7 Financial statements for departmental budgets—Act, s 12 (1) (a)

(1) The following financial statements are required:

- (a) a statement of financial performance estimated for the department for the year;
- (b) a statement of financial position of the department at the beginning of the year or, if the proposed budget is presented to the Legislative Assembly before the beginning of the year, a statement of financial position that the department is expected to have at the beginning of the year;
- (c) a statement of financial position that it is planned that the department will have at the end of the year;
- (d) a statement of the cash flows of the department estimated for the year.

- (2) A statement of financial performance mentioned in subsection (1) (a) must include—
- (a) a statement of financial performance estimated for each appropriation unit proposed for the department; and
 - (b) a statement of financial performance estimated for each class of outputs which it is proposed that the department is to provide during the year.
- (3) Subsection (2) (b) does not apply to the Legislative Assembly secretariat.

8 Financial statements for public trading enterprise budgets—Act, s 12A (1)

The following financial statements for each public trading enterprise are required:

- (a) a statement of financial performance for the public trading enterprise estimated for the year;
- (b) a statement of financial position of the public trading enterprise at the beginning of the year or, if the proposed budget is presented to the Legislative Assembly before the beginning of the year, a statement of financial position that the public trading enterprise is expected to have at the beginning of the year;
- (c) a statement of financial position that it is planned that the public trading enterprise will have at the end of the year;
- (d) a statement of the cash flows of the public trading enterprise estimated for the year.

9 Annual financial statements of the Territory—Act, s 22 (2) (a)

The following financial statements are required:

- (a) a statement of financial performance for the Territory for the year;
- (b) a statement of financial position of the Territory at the end of the year;
- (c) a statement of the cash flows of the Territory for the year;
- (d) a statement of appropriation for the Territory for the year.

10 Periodic financial statements of the Territory—Act, s 26 (2)

- (1) The financial statements for the quarter must include the following:
 - (a) a statement of financial performance for the quarter—
 - (i) in relation to the Territory; and
 - (ii) in relation to the general government sector; and
 - (iii) in relation to the public trading enterprise sector;
 - (b) a statement of financial position, at the end of the quarter—
 - (i) of the Territory; and
 - (ii) of the general government sector; and
 - (iii) of the public trading enterprise sector;
 - (c) a statement of cash flows for the quarter—
 - (i) in relation to the Territory; and
 - (ii) in relation to the general government sector; and
 - (iii) in relation to the public trading enterprise sector.

- (2) The financial statements for the period from the beginning of the financial year until the end of the quarter must include the following:
- (a) a statement of financial performance for the period—
 - (i) in relation to the Territory; and
 - (ii) in relation to the general government sector; and
 - (iii) in relation to the public trading enterprise sector;
 - (b) a statement of cash flows for the period—
 - (i) in relation to the Territory; and
 - (ii) in relation to the general government sector; and
 - (iii) in relation to the public trading enterprise sector.

11 Annual financial statements of departments—Act, s 27 (3) (a)

The following financial statements are required:

- (a) a statement of financial performance for the department for the year;
- (b) a statement of financial position of the department at the end of the year;
- (c) a statement of the cash flows of the department for the year;
- (d) a statement of appropriation for the department for the year.

12 Financial statements for Territory authorities—statements of intent—Act, s 58 (3) (a)

The following financial statements are required:

- (a) a statement of financial performance estimated for the authority for the year;

- (b) a statement of financial position of the authority at the beginning of the year or, if the statement of intent is required to be provided before the beginning of the year, a statement of financial position that the authority is expected to have at the beginning of the year;
- (c) a statement of financial position that it is planned that the authority will have at the end of the year;
- (d) a statement of the cash flows of the authority estimated for the year.

**13 Annual financial statements for Territory authorities—
Act, s 59 (3) (a)**

The following financial statements are required:

- (a) a statement of financial performance for the authority for the year;
- (b) a statement of financial position of the authority at the end of the year;
- (c) a statement of the cash flows of the authority for the year.

**14 Period for provision of financial statements to auditor-
general—Act, s 61 (1)**

The prescribed period is 38 days.

Part 3 Investments

15 Prescribed investments—Act, s 38 (1) (e)

- (1) The following are prescribed investments:
 - (a) cash and a cash equivalent;
 - (b) a debt instrument;
 - (c) a derivative;
 - (d) shares issued in Australia;
 - (e) an investment in property in Australia;
 - (f) an investment in Territory owned property;
 - (g) a loan to a Territory owned corporation;
 - (h) an investment fund that invests in an investment mentioned in paragraphs (a) to (e).
- (2) If an investment is proposed to be made in real property under subsection (1) (f), the Treasurer must, in writing—
 - (a) identify the property; and
 - (b) state the details of the proposed investment, including the period, terms and amount of the investment.
- (3) An instrument under subsection (2) is a disallowable instrument.

Note A disallowable instrument must be notified, and presented to the Legislative Assembly, under the *Legislation Act 2001*.
- (4) If an instrument under subsection (2) is disallowed by the Legislative Assembly, the investment to which the instrument relates must not be made.

- (5) An investment mentioned in subsection (2) must not be made until after the last day when the instrument under that subsection relating to the investment may be disallowed under the *Legislation Act 2001*, section 65.

16 Use of derivatives

- (1) This section applies to derivatives prescribed by section 15 (1) (c).
- (2) The Territory, or an investment fund manager, may use derivatives only for the following purposes:
- (a) to protect a Territory investment portfolio against, or minimise the effect on the portfolio of—
 - (i) interest rate movements; or
 - (ii) fluctuations in underlying financial markets of investments in the portfolio;
 - (b) to reduce the transaction cost of investing;
 - (c) to reduce transaction costs of achieving a required market exposure in investment;
 - (d) to promote transactional efficiency in investing;
 - (e) to obtain prices for investments unavailable in the physical market;
 - (f) to promote the best execution of security transactions;
 - (g) to provide additional liquidity to an investment portfolio without selling the underlying investments of the portfolio;
 - (h) to adjust the duration of a fixed interest Territory investment portfolio;
 - (i) to reduce the volatility of investments in a Territory investment portfolio;

- (j) to rapidly adjust the exposures of a Territory investment portfolio to financial markets;
 - (k) for any other investment purpose for which derivatives may be lawfully used by a State or by a superannuation fund regulated by Commonwealth law.
- (3) The Territory, or an investment fund manager, must not use derivatives for—
- (a) speculation; or
 - (b) gearing or leveraging an investment portfolio.
- (4) The Territory, or an investment fund manager, must not use—
- (a) an uncovered derivative; or
 - (b) a derivative for which the potential exposure cannot be reliably measured.

17 ET derivatives

The Territory, or an investment fund manager, may enter a transaction for an ET derivative for a Territory investment portfolio only if the derivative is traded on a recognised exchange.

18 OTC derivatives

- (1) The Territory, or an investment fund manager, may enter a transaction for an OTC derivative for a Territory investment portfolio only if—
- (a) the agreement for the terms of the derivative is confirmed in writing; and
 - (b) the counterparty to the transaction is in Australia and is rated, when the transaction is to be entered, by Standard & Poor's or Moody's as not less than the relevant rating set out in the following table:

rating

Standard & Poor's short-term	A-1
Moody's short-term	P-1

- (2) If a counterparty is rated by Standard & Poor's and Moody's, each rating is a relevant rating for subsection (1).
- (3) The Territory, or an investment fund manager, must not enter into an OTC derivative transaction with a counterparty if the transaction would give a Territory investment portfolio a total exposure to the counterparty of more than 5% of the net asset value of the portfolio.

19 Limitation on exposure to derivatives

An investment fund manager must ensure that if derivatives are held for a Territory investment portfolio—

- (a) the net market exposure of the portfolio will not result in the portfolio's actual asset allocation exceeding the strategic asset allocation limits specified in the agreement of engagement of the investment fund manager under section 21; and
- (b) the total net market exposure of the portfolio at no time exceeds the net market value of the portfolio; and
- (c) the liquid assets of the portfolio at all times have a total value sufficient to cover the total derivative exposure of the portfolio.

20 Guidelines of Australian Prudential Regulatory Authority

In relation to the use of derivatives under section 16, the Territory, and an investment fund manager, must act consistently with the guidelines for the use of derivatives contained in Insurance and Superannuation Commission Superannuation Circular No II D 7 issued by the Australian Prudential Regulatory Authority as in force from time to time.

Note 1 The text of an applied, adopted or incorporated law or instrument, whether applied as in force from time to time or as at a particular time, is taken to be a notifiable instrument if the operation of the *Legislation Act 2001*, s 47 (5) or (6) is not disapplied (see s 47 (7)).

Note 2 A notifiable instrument must be notified under the *Legislation Act 2001*.

Note 3 The text of the Insurance and Superannuation Commission Superannuation Circular No II D 7 is also available on the Australian Prudential Regulatory Authority website at www.apra.gov.au.

21 Engagement of investment fund managers

- (1) The Territory may engage a person to manage a Territory investment portfolio (an *investment fund manager*).
- (2) The Territory must engage the person by a written agreement that—
 - (a) sets out how the person may invest for the Territory; and
 - (b) requires the investment fund manager to comply with sections 15 to 20.
- (3) The chief executive must set up procedures to—
 - (a) monitor the performance by an investment fund manager of his or her obligations under the agreement; and
 - (b) ensure that an investment fund manager complies with his or her obligations under the agreement.

22 Risk management statements

An investment fund manager may use derivatives in relation to the management of a Territory investment portfolio only if the investment fund manager has given the chief executive a risk management statement prepared in accordance with the Australian Prudential Regulatory Authority guidelines on the use of derivatives in relation to the use of derivatives for the portfolio.

23 Monthly report on exposure to derivatives

Within 15 working days after the end of each month, the chief executive must give the Minister a report on the exposure of Territory investments to derivatives during the month.

Part 4 Miscellaneous

24 **Departments—Act, dict, def of *department*, par (b)**

The following parts of administrative units are prescribed as separate departments:

- (a) ACT Executive;
- (b) ACT Forests;
- (c) ACT Housing;
- (d) ACT Workcover;
- (e) Central Financing Unit;
- (f) InTACT;
- (g) Land;
- (h) Superannuation Unit;
- (i) Home Loan Portfolio.

25 **Repeal**

The *Financial Management Guidelines 2001* are repealed.

Dictionary

(see s 3)

Note The *Legislation Act 2001* contains definitions and other provisions relevant to these guidelines.

commercial paper includes both negotiable and non-negotiable instruments (for example, bearer bonds, bearer debentures and warehouse certificates).

counterparty, to a derivative an investment fund manager has entered into, is the other party to the contract.

cover, in derivative positions to increase exposure, means assets covering potential liabilities in the position that are cash, equivalent to cash or can be converted to cash within the settlement period for the derivative.

cover, in derivative positions to reduce or eliminate exposure, means the assets for which the derivatives are a reasonable hedge.

debt instrument—see section 5 (Meaning of debt instrument).

derivative means a financial asset or liability whose value depends on, or is derived from, the value of an underlying asset or liability or performance of an index, and includes the following:

- (a) forward rate agreements;
- (b) futures;
- (c) forwards;
- (d) swaps;
- (e) options;
- (f) share ratio futures;
- (g) warrants.

derivative exposure, for an investment portfolio, means the total derivative exposure of the portfolio.

ET derivative (exchange traded derivative) means a derivative created and traded on a recognised exchange.

forward means a binding agreement to buy or sell a commodity, currency or security at a fixed time in the future at a price agreed on or before a future date.

forward rate agreement means a contract for borrowing or lending at a stated interest rate over a stated period that begins on a future date.

future means a binding agreement to buy or sell a commodity or security at a fixed time in the future at a price fixed when the agreement is entered into.

gearing or leveraging, for an investment, means the use of various financial instruments or borrowed capital to increase the potential return of the investment or increase the exposure without making the underlying cash available.

investment fund manager—see section 21 (Engagement of investment fund managers).

liquid assets means cash, cash equivalents or assets readily convertible into cash.

Moody's means Moody's Investors Service Pty Ltd.

net market exposure, for an investment portfolio, means the total derivative exposure and physical exposure of the portfolio.

option means a right, without an obligation, to buy or sell a commodity, currency, security or futures contract.

OTC derivative (over-the-counter derivative) means a derivative not listed on any exchange that has been structured to meet the particular needs of the person buying it.

physical exposure, for an investment portfolio, is the net market value of the portfolio's underlying assets and securities that do not depend on the value of an underlying asset.

recognised exchange means a formal Australian exchange for trading derivatives and securities which is regulated under the relevant law where the trading takes place.

Examples of recognised exchanges

- Australian Stock Exchange
- Sydney Futures Exchange

share ratio future means a futures contract based on the relative movements between the price of a specified share and a market index.

speculation means investment activity of any of the following kinds:

- (a) investment activity that takes the exposure of an investment portfolio to a class of assets beyond the exposure appropriate in accordance with any investment strategy, guideline or requirement formulated for the portfolio;
- (b) investment activity that takes the risks for an investment portfolio beyond the risk allowed by any investment strategy, guideline or requirement formulated for the portfolio;
- (c) investment in uncovered derivatives;
- (d) investment activity that circumvents limitations on borrowing for the portfolio.

Standard & Poor's means Standard & Poor's Pty Ltd.

strategic asset allocation, for an investment portfolio, means the long-term target weightings given to particular investments such as shares, fixed interest, property or cash.

swap means a binding agreement between 2 parties to trade the cashflows corresponding to different securities without exchanging the securities directly (including currency swaps and interest rate swaps).

Territory investment portfolio means a portfolio of investments made under the Act, section 38 (1) and money provided for making the investments.

Territory owned corporation—see the *Territory Owned Corporations Act 1990*, section 3 (1).

Territory owned property means—

- (a) property in which the Territory has an interest; or
- (b) the land the Territory occupies.

underlying asset means an asset on which a derivative contract is based.

warrant means a right, without an obligation, to buy shares at a fixed price over a specified time period.

Endnote

Notification

Notified under the *Legislation Act 2001* on 12 August 2002.
(see www.legislation.act.gov.au)