

Australian Capital Territory

Financial Management Amendment Guidelines 2004 (No 3)

Disallowable Instrument DI 2004-169

made under the

Financial Management Act 1996, s 67 (Guideline-making power)

EXPLANATORY STATEMENT

Outline

These guidelines are issued in accordance with section 67 of the *Financial Management Act 1996*. These guidelines amend the *Financial Management Guidelines 2002*.

These guidelines amend the *Financial Management Guidelines 2002* with the following changes:

- ◆ New Section – Investment Plan
 - This section requires that Territory Authorities permitted to invest surplus moneys in accordance with section 56(1)(d) of the *Financial Management Act 1996* will be required to have an investment plan approved by the Treasurer.
- ◆ New Section – Authorised Territory Authorities
 - This section allows only a limited number of Territory Authorities to make investment in accordance with section 56(1)(d) of the *Financial Management Act 1996*.
- ◆ Amended Section 5 – Meaning of *debt instrument*
 - These guidelines amend the credit rating limitations that previously applied to debt instruments.
- ◆ Amended Section 15 – Prescribed Investments
 - The list of prescribed investments is increased to provide for a wider range of investment opportunities. Previously the list of prescribed investments was limited to those investments made under section 38(1)(e) of the *Financial Management Act 1996*. The prescribed

investments now also apply to investments made under section 56(1)(d) of the *Financial Management Act 1996*.

- ◆ Amended Section 23 - Monthly report on exposure to derivatives
 - This section has been amended to clarify that a report on the exposure derivatives of a 'Territory investment portfolio' must be made after the end of each month. Previously, the section referred generally to Territory investments.
- ◆ Amended Dictionary
 - The following definitions in the dictionary have been amended:
 - Recognised exchange - Examples of recognised exchanges.
 - Territory investment portfolio.

Details of the Financial Management Amendment Guidelines 2004 (No 3)

Sections 1, 2, and 3 are formal requirements. They refer to the name of the guidelines, the commencement date of the guidelines, and identify the guidelines that are being amended.

Section 4 is a new section, **4A – Investment Plan**. Territory Authorities that will be permitted to invest surplus moneys in accordance with section 56(1)(d) of the *Financial Management Act 1996* will be required to provide an investment plan for approval by the Treasurer.

Section 56(1)(d) of the *Financial Management Act 1996* allows a restricted group of Territory Authorities to undertake direct investing in a wider range of prescribed investments (listed in section 15 of the Financial Management Guidelines) than what is available under sections 56(1)(a) and 56(1)(b) of the *Financial Management Act 1996*. In all other instances Territory Authorities are able to have the Treasurer undertake investments on the Authorities behalf in accordance with section 56(1)(c) of the *Financial Management Act 1996*.

In order to ensure that investments made outside of the Treasurer's direct control are done so in a prudent and responsible manner, the investment plan requirement provides the Treasurer with details of the investment strategy and importantly the associated risks.

The investment plan means the basis upon which the investment objectives can be achieved through the adoption of processes that recognise long-term risk and return characteristics of a portfolio of combined asset classes.

Section 5 is a new section, **4B – Authorised Territory Authorities**. This provision restricts the Territory Authorities approved to undertake direct investments in a wider range of prescribed investments (listed in section 15 of the *Financial Management Guidelines*) to:

- Cleaning Industry Long Service Leave Board; and
- Construction Industry Long Service Leave Board.

This approval is subject to providing the Treasurer with an adequate investment plan.

It is recognised that these Territory Authorities have very unique liability profiles that they are required to fund and it may be more efficient to allow these Authorities to manage their investments directly, in accordance with the provisions of the *Financial Management Act 1996* and the *Financial Management Guidelines*, rather than facilitating their requirements through the Treasurer investment alternative provided for under section 56(1)(c) of the *Financial Management Act 1996*.

Section 6 is an amendment to section, **5 – Meaning of debt instrument**. The benchmark index used for the domestic fixed interest class of investment (UBS Composite Bond Index) is being extended to incorporate individual bonds rated down to the Standard & Poor's credit rating of BBB-.

The BBB- rating represents the lower end of the investment-grade spectrum.

Territory Investments are made in fixed interest index managed funds which prior to the change to the Composite Bond Index only invested in bonds rated down to the Standard & Poor's credit rating of A.

The section has also been amended to include the most recent Standard & Poor's equivalent credit rating limitations in respect of debt instruments rated by Moody's credit rating agency. Standard & Poor's and Moody's are recognised as the two most prominent ratings agencies in the world.

The credit rating restrictions are now also applicable to debt instrument investments made outside of Australia to provide for revised investment objectives and strategies. The credit rating restrictions are the equivalent to the restrictions prescribed in the *Superannuation Management Guidelines*.

Section 7 is an amendment to section, **15(1) – Prescribed Investments**. This section prescribes the list of allowable asset classes into which Territory funds may be invested under either section 38(1)(e) or 56(1)(d) of the *Financial Management Act 1996*.

In order to allow Territory Authorities to invest surplus moneys in accordance with section 56(1)(d) of the *Financial Management Act 1996*, it is necessary to

prescribe the list of allowable investment classes available to the Territory Authorities.

The list has been expanded to provide for revised investment objectives and strategies. The expanded list includes the same list of allowable assets classes prescribed in the Superannuation Management Guidelines.

Section 8 is an amendment to section, **23 – Monthly report on exposure to derivatives**. This section has been amended to clarify that a report on the exposure derivatives of a ‘Territory investment portfolio’ must be made after the end of each month. Previously, the section referred more generally to Territory investments.

Section 9 is an amendment to the **Dictionary**. Only the following definitions in the dictionary have been amended:

- Recognised exchange - Examples of recognised exchanges.
The list of examples of recognised exchanges has been increased as a result of the change to the prescribed list of allowable asset classes.
- Territory investment portfolio.
A Territory investment portfolio is now a portfolio investments made under section 38(1) or 56(1)(d) of the *Financial Management Act 1996*.

