Australian Government

Department of Finance and Administration

Our Ref: ESEC 003322

Mr Russell Chafer
Committee Secretary
Joint Committee of Public Accounts and Audit
Parliament House
CANBERRA ACT 2600

Dear Mr Chafer

Written Submission for Review of Auditor-General's Report - Audit Report No.22 2004-2005

Thank you for the letter of 21 July 2005, to Dr Watt, from Ms Katie Ellis of your office regarding the Joint Committee of Public Accounts and Audit's (JCPAA) public hearing into Audit Reports No. 22 'Investment of Public Funds' and Audit Report No. 42 'Commonwealth Debt Management' to be held on 5 September 2005. Finance looks forward to discussing this issue with the Committee.

Finance has prepared a written submission for Audit Report No. 22, which is attached to this letter. However, as discussed with your office no submission is necessary for Audit Report No. 42 due to the limited reference to Finance in the report. The requisite Hansard witness forms for the Finance representatives are also attached.

If you would like to discuss this matter further, please contact Mr Neil Robertson, Acting Branch Manager, Finance and Banking Branch on (02) 6215 2110.

Yours sincerely

Jonathan Hutson
Acting General Manager
29 August 2005

Submission to the Inquiry by the Joint Committee of Public Accounts and Audit into Audit Report No. 22 2004-2005 Investment of Public Funds

Introduction

The Department of Finance and Administration (Finance) appreciates the opportunity to make a submission to the Joint Committee of Public Accounts and Audit (JCPAA) inquiry into Audit Report No. 22, 2004-2005 *Investment of Public Funds*.

Finance notes the issues raised by the Australian National Audit Office (ANAO) in the audit report and considers that it will serve to focus agencies' attention on compliance issues relating to the investment of public funds.

Under the financial framework, Chief Executives of *Financial Management and Accountability Act 1997* (FMA Act) agencies and directors of *Commonwealth Authorities and Companies Acts 1997* (CAC Act) bodies are responsible for the proper management of investments. Finance provides guidance, where appropriate, to assist entities to understand their statutory responsibilities. In the audit report, the ANAO acknowledged that Finance has in the past written to agencies, drawing their attention to their statutory obligations regarding investment under the financial framework.

Addressing the audit key findings

The ANAO audit made seven recommendations that addressed the three main areas of compliance, value for money in investment strategies and financial reporting of the investment of public funds. Recommendations five, six and seven have direct relevance to Finance.

- Recommendation No.5: "The ANAO *recommends* that reporting of interest rate exposures be improved by the Department of Finance and Administration providing guidance to entities on the preferred approach to calculating and reporting weighted average interest rates".
    - In response to this recommendation, Finance issued *FinanceBrief 25 - Disclosure of Effective Interest Rates*, issued 25 February 2005. This brief provides guidance to agencies on the disclosure of effective interest rates, including weighted average effective interest rates, in general purpose financial reports. (Appendix A)

- Recommendation No.6: "The ANAO *recommends* that the Department of Treasury prepare and maintain a comprehensive and accurate record of all investment approvals provided by the Treasurer, and their current status".

    In February 2005, with the passing of the *Financial Framework Legislation Amendment Act 2005* (FFLA Act), the power to authorise additional classes of investments under paragraph 18(3)(d) of the CAC Act was transferred from the Treasurer to the Finance Minister. The Finance and Banking Branch within Finance now manages the administration of the approval function. In response to this recommendation, Finance has undertaken the following:

    - Finance has contacted all CAC bodies subject to section 18 of the CAC Act and has developed a register that records all current approvals. While CAC directors are responsible for investments they manage, Finance requires entities to submit a robust business case that explains why the approvals are

needed and why the existing authority is insufficient. Finance will subsequently assess each case on its merits.

- Recommendation No.7 (part (c)): "The ANAO *recommends* compliance with legislated restrictions on investing activities be promoted by: where necessary, relevant central agencies issuing guidance to investing entities to explain the legislative framework for investing public funds.

In order to assist relevant entities with their statutory obligations to comply with either the FMA Act or the CAC Act, Finance has issued the following guidance:

- *Finance Circular No. 2005/05 – Investment of Surplus Money*, issued 16 May 2005, which explains statutory obligations under section 18 of the CAC Act, including further guidance on the phrase "on deposit with a bank". (Appendix B)
- *Finance Circular No. 2005/11 – Investment of Public Monies under Section 39 of the FMA Act.* This circular explains the statutory obligation of Chief Executives delegated investment powers by the Finance Minister (Appendix C).

In developing Finance Circular No 2005/05, Finance considered the Committee's previous comments on investments by Commonwealth authorities. In 1994 the then Joint Committee of Public Accounts reviewed the *Commonwealth Authorities and Companies Bill 1994* and stated that "Commonwealth authorities that are not GBEs or SMAs are not so commercially oriented and should be required to invest surplus money conservatively". The JCPAA conducted a follow-up review in March 2000 (Report 374), which reflected no change to its view on this matter.

Conclusion

Finance considers that entities are more aware of their responsibilities in relation to managing their investment activity as a result of both the recommendations of the audit and guidance issued by Finance. The guidance issued by Finance should further assist entities to focus attention on their responsibilities to manage their investment activities and comply with their statutory obligations.

Department of Finance and Administration
August 2005

FinanceBrief 25

Disclosure of Effective Interest Rates

FinanceBriefs are issued by Accounting Policy Branch as guidance on specific accounting and reporting topics. FinanceBriefs do not take precedence over the financial reporting regulatory framework, which encompasses the Finance Minister's Orders, Australian Accounting Standards and UIG Consensus Views.

Introduction

The purpose of this FinanceBrief is to provide guidance to agencies on the disclosure of effective interest rates, including weighted average effective interest rates, in general purpose financial reports.

This FinanceBrief is based on the provisions of paragraphs 5.4 to 5.4.10 of AAS 33/AASB 1033 *Financial Instruments: Presentation and Disclosure*. These provisions require entities to disclose information useful in evaluating an entity's exposure to the effects of future changes in interest rates.

The Effective Interest Rate

The effective interest rate for a financial instrument is the rate that discounts the future cash flows, up until the maturity date or the next repricing date, to the current carrying amount of the instrument at the reporting date. It is, in effect, the internal rate of return on the instrument. An example of how the effective interest rate can be calculated is given in the following paragraph. Other methods may be acceptable where they lead to a result that is not materially different.

An instrument with a carrying amount of $100,000 that pays $10,000 at 30 June for the next two years and $110,000 on maturity in three years time has an effective interest rate of 10%. This can be demonstrated as follows:

$$\frac{10{,}000}{(1+10\%)} + \frac{10{,}000}{(1+10\%)^2} + \frac{110{,}000}{(1+10\%)^3} = \$100{,}000$$

Note that the above calculation is based on *future* cash flows. Interest rate risk disclosures under AAS 33 are *not* measures of investment returns over the period covered by the financial report.

Effective interest rates can be calculated for any monetary financial instruments involving future payments that create a return to the holder and a cost to the issuer involving the time value of money. They are not calculated for non-monetary or derivative assets. For those entities permitted to engage in hedging[1], the effect of hedging is taken into account in determining effective interest rates. For example, an entity using interest rate swaps to convert fully a floating-rate exposure to a fixed rate exposure will disclose a fixed effective interest rate.

Disclosure of effective interest rates is required even where the financial instrument does not give rise to a recognised asset or liability. Entities should disclose information to enable users of financial reports to understand the nature and extent of any exposure to interest rate risk. For example, an entity that had committed to lend funds at a future date should disclose the stated principal, interest rate, term to maturity of the amount to be lent and other significant terms of the transaction.

Effective interest rates should always be presented as an annual rate. For example, a bill with 90 days to maturity, a maturity amount of $100,000 and a carrying amount of $99,000 would have an effective interest rate of 4.1% ($100,000/$99,000 * 365/90).

[1] Hedging arrangements are subject to the requirements of Finance Circular 2002/01 *Foreign Exchange (Forex) Risk Management*.

Weighted Average Effective Interest Rates

Where an individual financial instrument is material relative to an entity's total holding of financial assets or financial liabilities, the effective interest rate should be disclosed for each such instrument. Where no single financial instrument is material in this way, financial instruments are grouped by class for disclosure purposes.

In determining suitable classes, entities should distinguish between those financial instruments that are:

- exposed to interest rate price risk (eg fixed interest rate securities);
- exposed to interest rate cash flow risk (eg floating rate debt); or
- not exposed to interest rate risk.

It is desirable to group instruments denominated in different currencies or having substantially different credit risks into separate classes when those factors result in instruments having substantially different effective interest rates.

Weighted average rates should be calculated by weighting individual effective interest rates by the carrying amount of each instrument. This can be demonstrated by considering a financial asset class comprising 3 assets, with a total carrying amount at the reporting date of $267,000:

Asset 1 – Carrying amount $100,000
Matures in 1 year
Annual Effective interest rate 11.5%
Asset 2 – Carrying amount $55,000
Matures in 2 years
Annual Effective interest rate 13.12%
Asset 3 - Carrying amount $112,000
Matures in 5 years
Annual Effective interest rate 5.01%

The weighted average effective interest rate is 9.11% ie
(0.115* $100,000/$267,000)+
(0.1312*$55,000/$267,000)+
(0.0501*$112,000/$267,000).

Note that no adjustment is made for the fact that the length of time to maturity is different for each asset. This is because individual effective interest rates are already expressed as annual amounts.

Australian Equivalents to International Financial Reporting Standards

AASB 132 *Financial Instruments: Presentation and Disclosure* will replace AAS 33 and AASB 1033 for reporting periods beginning on or after 1 January 2005. The requirements of AASB 132 in respect of effective interest rate disclosures are generally the same as those of AAS 33. In particular, the accounting treatments outlined in this Finance*Brief* are consistent with the provisions of AASB 132.

Australian Government
Department of Finance and Administration

Finance Circular No. 2005/05

To all statutory authorities subject to section 18 of the *Commonwealth Authorities and Companies Act 1997*

Investment of Surplus Money

Purpose

This Circular describes the investment restrictions under section 18 of the *Commonwealth Authorities and Companies Act 1997* (CAC Act) and gives guidance to assist relevant statutory authorities to comply with subsection 18(3), focussing on the definition of amounts "on deposit with a bank".

Target Audience

This Circular is relevant for staff in areas that deal with the investment policy and strategy for a statutory authority that is subject to subsection 18(3) of the CAC Act. Statutory authorities subject to subsection 18(3) include:

- Commonwealth authorities under the CAC Act, other than a government business enterprise (GBE) or statutory marketing authority (SMA)[1]; and
- Three additional statutory corporations that are not Commonwealth authorities under the CAC Act, but are subject to the investment restrictions of section 18 (see further details in paragraph 6 below).

Officials in Departments of State who provide advice to Ministers relating to statutory authorities may also be interested in this Circular.

Key Points

1. The directors of a Commonwealth authority, consistent with their general officers' duties, are responsible for ensuring that the authority complies with the CAC Act. Directors therefore need to satisfy themselves that the authority is complying, where relevant, with the investment restrictions under subsection 18(3) of the CAC Act.

2. The scope of permitted investments for authorities under paragraphs 18(3)(a)-(c) is conservative. Surplus money may only be placed on deposit with a bank or

[1] Bodies are prescribed as GBEs or SMAs in the *Commonwealth Authorities and Companies Regulations 1997*. These bodies are subject to the investment regime under section 19 of the CAC Act.

invested directly in securities issued or guaranteed by the Commonwealth, a State or a Territory. An authority can, however, seek approval from the Minister for Finance and Administration (Finance Minister) to invest in a category of investment outside paragraphs 18(3)(a)-(c) of the CAC Act.

3. Taking into account the legislative history of the meaning of money "on deposit with a bank", the position of the Department of Finance and Administration (Finance) is that this means amounts placed with a bank in a savings or other interest-bearing account, in the name of the authority.

4. If there is any uncertainty as to whether an investment complies with section 18, authorities should obtain clarity over the compliance of investment choices through seeking the Finance Minister's approval for the particular class of investment.

Investment Restrictions under the CAC Act

Section 18 of the CAC Act

5. Section 18 of the CAC Act applies to a Commonwealth authority, other than a GBE or SMA. It provides both the power for Commonwealth authorities to invest surplus money, and the restrictions on this power. Section 18 states:

(1) This section applies to a Commonwealth authority that is not a GBE or an SMA.

(2) The authority must pay all money received by it into an account maintained by it with a bank.

(3) The authority may invest surplus money:
  (a) on deposit with a bank;
  (b) in securities of the Commonwealth or of a State or Territory;
  (c) in securities guaranteed by the Commonwealth, a State or a Territory; or
  (d) in any other manner approved by the Finance Minister.

(4) A provision in the authority's incorporating law to the effect that the authority must not enter into a contract involving the expenditure or payment of more than a specified amount of money without the approval of a specified person does not apply to a contract for the investment of money under subsection (3), unless the provision expressly states that it applies to such a contract.

(4A) The Finance Minister may, by written instrument, delegate any of the Finance Minister's powers or functions under this section to an official (within the meaning of the *Financial Management and Accountability Act 1997*). In exercising powers or functions under a delegation, the official must comply with any directions of the Finance Minister.

(5) In this section ***surplus money*** means money of the authority that is not immediately required for the purposes of the authority.

6. Currently, three statutory corporations that are not Commonwealth authorities under the CAC Act are also subject to the investment regime under section 18.[2]

[2] The enabling legislation of the Australian National Training Authority (ANTA), the NEPC Service Corporation and the National Transport Commission provides that section 18 of the CAC Act is to apply to the authority. However, ANTA is currently expected to be abolished on 30 June 2005, with its functions transitioning to the Department of Education, Science and Training.

7. An authority may only invest money under this section if it is not immediately required for the purposes of the authority. The explanatory memorandum for the *Commonwealth Authorities and Companies Bill 1996* stated that the clause allowed any money surplus to the authority's immediate operations to be invested in the manner specified in subsection 18(3), including any manner approved by the Treasurer.[3]

8. The *Financial Framework Legislation Amendment Act 2005*, which commenced on 22 February 2005, transferred the power to approve additional investments under paragraph 18(3)(d) of the CAC Act from the Treasurer to the Finance Minister.[4]

Compliance with section 18

9. The directors of a Commonwealth authority are responsible for ensuring that the authority meets its obligations under the CAC Act. Accordingly, directors need to satisfy themselves that the authority is complying with section 18.

10. Section 32 of the CAC Act also requires a Commonwealth authority to maintain an audit committee, whose functions include helping the authority and its directors to comply with the CAC Act.

Exceptions to section 18

11. A small number of Commonwealth authorities are currently exempt from either all or part of section 18 of the CAC Act.[5] Each has a provision in its enabling legislation stating the extent to which the requirements of section 18 of the CAC Act do not apply to the authority.

12. If the directors of any additional Commonwealth authorities (other than GBEs or SMAs) believe that their investment powers may not be limited to section 18 of the CAC Act, they are invited to contact Finance to discuss this position.

Money "on deposit with a bank"

13. The phrase "on deposit with a bank" in paragraph 18(3)(a) of the CAC Act should be interpreted as money placed in a savings or other interest-bearing account with a bank, such as an ordinary savings account or a term deposit. There should be a direct banker/client relationship between the authority and the bank, with the account in the name of the authority. This position has been developed taking into account the terms of section 18 and its legislative history (refer **Attachment A**).

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[3] Explanatory Memorandum for the *Commonwealth Authorities and Companies Bill 1996*, page 7.
[4] Under section 174 of the *Financial Framework Legislation Amendment Act 2005*, approvals that were previously granted by the Treasurer under paragraph 18(3)(d) of the CAC Act remain valid.
[5] As at the date of publication, these are: Australian National University, Coal Mining Industry (Long Service Leave Funding) Corporation, Indigenous Land Corporation, Australian Military Forces Relief Trust Fund, Royal Australian Air Force Veterans' Residences Trust Fund, Royal Australian Air Force Welfare Trust Fund, Royal Australian Navy Relief Trust and Reserve Bank of Australia.

14. Some statutory authorities may have considered the definition of "on deposit with a bank" to include additional products, such as certificates of deposit (CDs) issued by a bank. However, CDs are negotiable bearer debt securities, issued at a discount to the face value.[6] The explanatory memorandum for the *Commonwealth Authorities and Companies Bill 1996* reflects that the only securities permitted by section 18 are securities guaranteed or issued by the Commonwealth, a State or a Territory.[7]

15. Finance considers that securities such as CDs are outside the scope of paragraphs 18(3)(a)-(c). Likewise, other investment products (such as floating rate notes, bank bills of exchange and cash management trusts) that are not savings or other interest-bearing accounts with a bank, are not considered "on deposit with a bank". Accordingly, authorities wishing to invest in CDs, or any other products outside the scope of paragraphs 18(3)(a)-(c), should seek approval for this investment.

16. Paragraph 18(3)(d) of the CAC Act allows authorities the flexibility to seek the Finance Minister's approval to invest in other classes of investment outside those allowed directly under paragraphs 18(3)(a)-(c).

Other Investments and Cases of Uncertainty

17. For the Finance Minister to consider an application from a statutory authority seeking to invest in classes of assets outside those allowed under paragraphs 18(3)(a)-(c), the responsible Minister for the statutory authority will need to write to the Finance Minister, detailing the business case for why it is appropriate for the statutory authority to have the ability to invest in additional classes of assets.

18. Before seeking formal approval through the responsible Minister, however, authorities should contact Finance to discuss any proposed applications under paragraph 18(3)(d).

19. Additionally, in circumstances where there may be doubt over the compliance of particular investments, authorities should obtain certainty by seeking the Finance Minister's approval for the investment.

Contacts

20. For information on the process of seeking the Finance Minister's approval for additional classes of investments under paragraph 18(3)(d) of the CAC Act, please contact the Branch Manager, Finance and Banking Branch, telephone (02) 6215 2148 or email *Banking@finance.gov.au.*

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[6] APRA Insight, 4th Quarter 2004, http://www.apra.gov.au/insight/home.cfm. See also the definition in Edna Carew, *The Language of Money*, Allen and Unwin, reproduced online at http://www.anz.com/edna/dictionary.asp

[7] Explanatory Memorandum for the *Commonwealth Authorities and Companies Bill 1996*, page 7.

21. If you have any questions or comments about this Circular or the CAC Act more generally, please contact Legislative Review Branch in Finance at *LRB@finance.gov.au* or visit our website at http://www.finance.gov.au/.

Jonathan Hutson
Division Manager
Financial Framework Division
16 May 2005

Australian Government
Department of Finance and Administration

Finance Circular No. 2005/11

To all agencies delegated investment powers under section 39 of the *Financial Management and Accountability Act 1997* (FMA ACT)

Investment of public money - section 39 of the *Financial Management and Accountability Act 1997*

Purpose

This circular provides guidance to *Financial Management and Accountability Act 1997* (FMA Act) agencies on compliance with section 39 of the FMA Act.

Target Audience

This circular is relevant to Chief Executive Officers of FMA Act agencies (and their delegates) that have powers to invest public money in accordance with section 39 of the FMA Act.

Key Points

1. As a general principle, public money administered by FMA Act agencies cannot be invested. The power to invest public money in accordance with section 39 of the FMA Act can only be obtained via a delegation from the Finance Minister or a delegation by the Treasurer regarding the management of public debt or authorised by legislation. The Treasurer has delegated investment powers to the Australian Office of Financial Management.

2. Delegations by the Finance Minister are provided to individual Chief Executives in relation to specific moneys (usually moneys standing to the credit of special accounts that have a clear business need for investment).

3. Section 39 also places requirements on how investments are to be administered and the limitations on the types of instruments authorised.

Authorised investments

4. If a Chief Executive is delegated with investment powers by the Finance Minister or Treasurer then that Chief Executive (or delegate) can only invest in the following authorised investments:[1]
   - securities of the Commonwealth or of a State or Territory;
   - securities guaranteed by the Commonwealth, a State or a Territory;
   - a deposit with a bank, including a deposit evidenced by a certificate of deposit (see paragraph 5 for further details); and
   - any other form of investment prescribed by the FMA Regulations,[2] which comprise:
     - a bill of exchange accepted or endorsed only by a bank (bank bill); and

[1] Subsection 39(10) of the FMA Act details the types of authorised investments.
[2] FMA Regulation 22

Australian Government
Department of Finance and Administration

Finance Circular No. 2005/11

To all agencies delegated investment powers under section 39 of the *Financial Management and Accountability Act 1997* (FMA ACT)

Investment of public money - section 39 of the *Financial Management and Accountability Act 1997*

Purpose

This circular provides guidance to *Financial Management and Accountability Act 1997* (FMA Act) agencies on compliance with section 39 of the FMA Act.

Target Audience

This circular is relevant to Chief Executive Officers of FMA Act agencies (and their delegates) that have powers to invest public money in accordance with section 39 of the FMA Act.

Key Points

1. As a general principle, public money administered by FMA Act agencies cannot be invested. The power to invest public money in accordance with section 39 of the FMA Act can only be obtained via a delegation from the Finance Minister or a delegation by the Treasurer regarding the management of public debt or authorised by legislation. The Treasurer has delegated investment powers to the Australian Office of Financial Management.

2. Delegations by the Finance Minister are provided to individual Chief Executives in relation to specific moneys (usually moneys standing to the credit of special accounts that have a clear business need for investment).

3. Section 39 also places requirements on how investments are to be administered and the limitations on the types of instruments authorised.

Authorised investments

4. If a Chief Executive is delegated with investment powers by the Finance Minister or Treasurer then that Chief Executive (or delegate) can only invest in the following authorised investments:[1]
   - securities of the Commonwealth or of a State or Territory;
   - securities guaranteed by the Commonwealth, a State or a Territory;
   - a deposit with a bank, including a deposit evidenced by a certificate of deposit (see paragraph 5 for further details); and
   - any other form of investment prescribed by the FMA Regulations,[2] which comprise:
     - a bill of exchange accepted or endorsed only by a bank (bank bill); and

[1] Subsection 39(10) of the FMA Act details the types of authorised investments.
[2] FMA Regulation 22

- a professionally managed money market trust if the Finance Minister or Treasurer is satisfied that the only investments managed by the trust are securities of the Commonwealth, a State or a Territory; securities guaranteed by the Commonwealth, a State or a Territory; or a deposit with a bank, including a deposit evidenced by a certificate of deposit.

5. As noted in paragraph 4, a Chief Executive (or delegate) with delegated investment powers can invest in 'a deposit with a bank, including a deposit evidenced by a certificate of deposit'[3]:

   - A deposit with a bank is money lodged with a bank[4] at call or at term, such as an ordinary savings account or a term deposit; and
   - A certificate of deposit is a negotiable bearer debt security, issued at a discount to the face value.
     - a Chief Executive (or delegate) investing in certificates of deposit must obtain a certificate from the issuing institution that evidences the investment.

6. A Chief Executive (or delegate) should note that the following investments are outside the scope of investments described as 'a deposit with a bank':

   - medium term notes and fixed or floating rate notes;
   - money market trusts / cash management trusts; or
   - bills of exchange (that do not comply with FMA Regulation 22).

7. Under the *Bills of Exchange Act 1909,* bank bills may be payable to "order" or "bearer". Bank bills payable to "order" may need to be endorsed if sold prior to maturity. If endorsed, the first endorser and each subsequent endorser (each subsequent seller of the bill) incur a contingent liability because each endorser may become responsible for the payment of the face value of the bill should the bill be dishonoured at maturity. For FMA agencies, this may result in public money becoming payable and therefore FMA Regulation 9 through 13 must be considered.[5] However, most bank bills traded in the market are bearer bills and do not require endorsement and therefore do not create this contingent liability.

Other requirements of Section 39

8. Investments entered into by a Chief Executive (or delegate) must be in the name of the 'Minister for Finance of the Commonwealth' or in the case of investments for the purpose of managing public debt, 'The Treasurer of the Commonwealth'.[6]

9. If the amount invested is debited from a special account, then expenses relating to the investment may also be debited from the special account. Upon realisation, the proceeds of the investment must be credited to the special account from which the investment was originally debited.[7]

10. Where trust moneys are invested under section 39 the trust moneys must not be invested in a manner that is inconsistent with the terms of the trust.[8]

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[3] Subsection 39(10)(a)(iii)
[4] For the definition of a bank refer section 5 of the FMA Act.
[5] For information on FMA Regulation 13 refer http://www.finance.gov.au/finframework/fc_2004_10.html
[6] Subsections 39(7) and 39(8) for delegations of the Finance Minister and Treasurer respectively.
[7] Subsections 39(4) and 39(5)
[8] Subsection 39(3)

11. A Chief Executive (or delegate) who has been delegated investment powers must also have regard to Schedule 10 of the *Financial Management and Accountability (Finance Minister to Chief Executives) Delegation* (as amended), which requires the delegate to:

- take all reasonable steps to obtain the maximum return available on authorised investments; and
- advise the Australian Office of Financial Management prior to making an investment or authorising an investment involving an amount of $15 million or more.

Investment management

12. A Chief Executive (or delegate) that has been delegated investment powers should ensure their agency develops an investment management plan that will enable the Chief Executive (or delegate) to effectively monitor and manage the investments held by the agency. While the structure of this plan will be dependent on the amount invested and the complexity of the investment structure, an investing agency should consider the following as a foundation to its investment plan:

- access to an adequately skilled internal treasury expert or investment adviser;
- risk analysis and management;
- return analysis; and
- a documented investment strategy.

13. The *Finance Ministers Orders – Requirements and Guidance for the Preparation of Financial Statements of Australian Government Entities* detail the reporting requirements of agencies that have investments.

14. While there is no formal requirement for agencies to provide detailed performance reporting information through external reporting processes (eg. Annual Reports), monitoring of investment performance provides a useful management tool to support decision-making in relation to the treatment of current investments and the focus of future investment.[9] Performance information may include a combination of qualitative and quantitative data.

Contacts

15. If you have any queries, please contact the Banking Team, Finance and Banking Branch at Banking@finance.gov.au

Mike Loudon
Acting Division Manager
Financial Framework Division
29 August 2005

[9] Agencies should ensure that they also obtain documentation (ie memoranda or term sheet) prior to making investment decisions and keep adequate records of investments held to evidence compliance with the FMA Act, including sections s39 and s48. There are some financial statement disclosure requirements, for example, disclosure of effective interest rates, *FinanceBrief 25*:http://www.finance.gov.au/ace/finance_briefs.html