



Australian Government

Australian Office of Financial Management

INFORMATION MEMORANDUM

TREASURY INDEXED BONDS

DESCRIPTION

Treasury Indexed Bonds are capital-indexed bonds with the capital value of the investment adjusted by reference to movement in the Consumer Price Index (CPI). Coupon Interest Payments will be made quarterly, at a fixed rate, on the adjusted capital value. At maturity, investors will receive the adjusted capital value of the security - the value as adjusted for movement in the CPI over the life of the bond.

ISSUER

The Commonwealth of Australia.

3 October 2017

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1. DESCRIPTION DETAILS

1.1. DESCRIPTION

Treasury Indexed Bonds are capital-indexed bonds with the capital value of the investment adjusted by reference to movement in the CPI. Coupon Interest Payments will be made quarterly, at a fixed rate, on the Nominal Value - the capital value as adjusted for movement in the CPI over the life of the bond. At maturity, investors will receive the Nominal Value of the security.

1.2. ISSUER

The issuer is the Commonwealth of Australia ('the Commonwealth').

1.3. AUTHORITY TO ISSUE

Section 4 of the *Commonwealth Inscribed Stock Act 1911* provides for the creation of Treasury Indexed Bonds for the raising of money by way of loan. Treasury Indexed Bonds are issued in accordance with section 3A of the *Commonwealth Inscribed Stock Act 1911* and other Acts containing specific borrowing authority, or the Financial Agreement between the Commonwealth and the Australian States.

Treasury Indexed Bonds are issued in such amounts, in such a manner and upon such terms and conditions as the Treasurer of the Commonwealth of Australia directs. The Treasurer has authorised officers of the Australian Office of Financial Management ('AOFM') to exercise this power on his behalf.

Treasury Indexed Bonds will be issued with the terms and conditions set out in this Information Memorandum. Subject to these terms and conditions, Treasury Indexed Bonds may be issued from time to time by tender, by syndicated offering, by official subscription, by conversion of an official investment, or by any other method deemed appropriate. Other methods of issue are referred to in section 5 below.

In accordance with section 13AA of the *Commonwealth Inscribed Stock Act 1911* principal money secured by any stock and interest on that principal (if any) shall be payable out of the Consolidated Revenue Fund of the Commonwealth, which is appropriated to the extent necessary for such payments.

1.4. AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT

The AOFM is the Australian Government agency responsible for the management and administration of Treasury Indexed Bonds.

1.5. REGISTRAR

The Registrar is Computershare Investor Services Pty Limited ('CIS').

1.6. CHANGES IN REGISTRAR

The Commonwealth reserves the right to appoint another Person as its Registrar or paying agent, or for the AOFM to perform those functions. In such circumstances, Bondholders will be advised at the relevant time.

1.7. CURRENCY OF INFORMATION

The information in this Information Memorandum is correct and complete as at the date of the cover page (the 'Effective Date'). The distribution of this Information Memorandum or any offer or issue of Treasury Indexed Bonds after that date does not imply that there has been no change since that date in the affairs or financial condition of the Commonwealth or any other Person or entity or that the information is correct at any time after the Effective Date. This Information Memorandum may be withdrawn, modified or supplemented by the Commonwealth at any time. Any series of Treasury Indexed Bonds will be taken to be issued on the basis of the Information Memorandum that is in effect as at the date of issue of such series of bonds.

1.8. AUTHORISED MATERIAL

Only information contained in this Information Memorandum or as otherwise authorised in writing by the Commonwealth may be relied on as having been authorised by or on behalf of the Commonwealth.

1.9. LIMITED RESPONSIBILITY FOR INFORMATION

No syndicate member appointed in connection with a syndicated issue of Treasury Indexed Bonds is liable for any loss or damage of any kind whatsoever arising as a result of any information in this document, notwithstanding any negligence, default or lack of care by it or that such loss or damage was foreseeable, except to the extent that liability under the *Competition and Consumer Act 2010*, the *Corporations Act 2001* or any other applicable statute or other law cannot be excluded.

The Issuer has prepared and has authorised the issue of this Information Memorandum and accepts responsibility for the information contained and incorporated by reference in it.

1.10. OFFSHORE ASSOCIATES

Treasury Indexed Bonds issued by the Commonwealth must not be purchased by an Offshore Associate of the Commonwealth other than one acting in the capacity of a dealer, manager or underwriter in relation to the placement of the Treasury Indexed Bonds or in the capacity of a

clearing house, custodian, funds manager or responsible entity of an Australian registered scheme.

2. COUPON INTEREST

2.1. COUPON INTEREST PAYABLE ON NOMINAL VALUE

Bondholders will receive Coupon Interest Payments on the Nominal Value at a fixed Coupon Interest Rate.

2.2. PAYMENT FREQUENCY, AMOUNT AND FIRST COUPON

Coupon Interest Payments are made quarterly in arrears on each Coupon Interest Payment Date up to and including the Maturity Date. Coupon Interest Payments will be for a full quarter. Interest will cease to accrue on Treasury Indexed Bonds from the Maturity Date.

The date of the first Coupon Interest Payment on a Treasury Indexed Bond will be specified in the Invitation to Tender.

Coupon Interest Payments for stock shall be as calculated on the basis of the following formula:

$$g \times \frac{K_t}{100}$$

where g and K_t are as defined under section 6.1

e.g. with the level of the CPI at the beginning and end of the relevant two quarter period 110 and 112 respectively (that is, p as defined in section 6.1 is 0.91), a fixed annual Coupon Interest Rate of 4.00% and K_{t-1} defined in this example as 100, the next Coupon Interest Payment would be calculated as follows:

$$1.00 \times \frac{100.91}{100} = \$1.01 \quad \text{where: } 100.91 = K_t = 100 \left[1 + \frac{0.91}{100} \right]$$

Coupon Interest Payments shall be rounded to the nearest cent (0.5 cent being rounded up).

If the change in the CPI for any relevant two quarter period is negative, the Nominal Value will be adjusted downwards and the Coupon Interest Payment will be paid on this reduced amount. However, no quarterly Coupon Interest Payment will be based on a Nominal Value of less than \$100. If the Nominal Value falls below \$100, the Coupon Interest Payment will be made on \$100, i.e. an amount of $g \times \frac{100}{100} = g$.

If the Nominal Value does fall below \$100 and Coupon Interest Payment(s) are calculated as above, succeeding Coupon Interest Payments and or principal payments will be reduced by the difference between the Coupon Interest Payment made (i.e. g) and the payment

which would otherwise have been made except for this provision (i.e. $g \times \frac{K_t}{100}$).

2.3. COUPON INTEREST ENTITLEMENT AND EX-INTEREST PERIOD

Bondholders Registered at the close of business on the Record Date (the close of business eight calendar days prior to the Coupon Interest Payment Date) will be entitled to the next Coupon Interest Payment. Bondholders who acquire Treasury Indexed Bonds that settle during the Ex-Interest Period are not entitled to the next Coupon Interest Payment.

Example 1: The 3.00% 20 September 2025 indexed bond makes a Coupon Interest Payment on Tuesday, 20 December 2016. The Record Date for this Coupon Interest Payment is Monday, 12 December 2016.

Example 2: The 1.25% 21 February 2022 indexed bond makes a Coupon Interest Payment on Monday, 21 November 2016. The Record Date for this Coupon Interest Payment is Friday, 11 November 2016 (ten days prior to the Coupon Interest Payment Date, since the date eight days prior to the Coupon Interest Payment Date falls on a weekend).

2.4. MODE OF COUPON INTEREST PAYMENT

Where Treasury Indexed Bonds are held directly in the Register, the Registrar will make Coupon Interest Payments in Australian Dollars by cheque or direct credit to an Australian Dollar denominated bank account with an Australian financial institution. The Registrar will accept instructions from Bondholders in regards to Coupon Interest Payments. To ensure timely payment, investors should notify the Registrar of their payment instructions and any change in address.

Where Treasury Indexed Bonds are lodged in the Austraclear system, Coupon Interest Payments will be made in the manner described in the Austraclear System Regulations.

If the Coupon Interest Payment Date is not a Business Day, payment will be made on the next Business Day without payment of additional interest.

Coupon Interest Payments will be rounded to the nearest cent (0.5 cent being rounded up).

3. FEES AND TAXATION

3.1. FEES

Coupon Interest Payments and repayment of Nominal Value at maturity will be made free of any fees, charges, deductions or levies of the Australian Government except to the extent required by law.

3.2. STAMP DUTY

Issues and transfers of Treasury Indexed Bonds will be free of stamp duty imposed by the Commonwealth and the Australian States and Territories.

3.3. TAXATION

Taxation may affect returns to investors.

Neither the issuer nor the Registrar is able to provide taxation advice to current or potential Bondholders. The information contained in this section is of a general nature only and is not to be treated as binding on the Australian Taxation Office. Tax outcomes for Bondholders may differ depending on their particular circumstances.

The issuer and Registrar will be entitled to rely upon information given by a Bondholder as to that Bondholder's residency when making any necessary deductions or withholdings from Coupon Interest Payments to the Bondholder for Tax.

3.3.1. INTEREST WITHHOLDING TAX

Interest withholding tax must apply to Coupon Interest Payments made to a Bondholder who is:

- an Australian Resident for income taxation purposes who derives the Coupon Interest Payments in carrying on business at or through a permanent establishment outside Australia; or
- a non-resident for income taxation purposes who does not derive the Coupon Interest Payments in carrying on business at or through a permanent establishment in Australia,

unless an exemption applies.

The Registrar will assume a Bondholder (and any other Person who beneficially derives interest under the Treasury Indexed Bonds jointly with a Bondholder) is either an Australian Resident for income taxation purposes or carries on business at or through a permanent establishment in Australia for income taxation purposes unless the Bondholder advises the Registrar otherwise. Australian Residents for income taxation purposes can be individuals, companies, partnerships,

trusts or superannuation funds that are able to satisfy the residency test applicable to the entity as provided by the Tax laws. However, the Registrar will be required to withhold an amount from Coupon Interest Payments where the Bondholder has not advised the Registrar of its actual status and

- the recipient of the Coupon Interest Payment has a foreign address according to any records in its possession or records kept on its behalf about the transaction to which information relates;
- the Registrar is authorised to make the Coupon Interest Payment at a place outside Australia;
- a foreign resident is or becomes entitled to receive the Coupon Interest Payment or part of it from the Registrar in Australia; or
- a foreign resident is or becomes entitled to have the Registrar in Australia credit to the foreign resident, or otherwise deal with on the foreign resident's behalf or as the foreign resident directs, the Coupon Interest Payment or part of it,

unless an exemption applies.

Coupon Interest Payments on Treasury Indexed Bonds are eligible for exemption from interest withholding tax provided the Treasury Indexed Bonds satisfy the 'public offer test' under section 128F of the *Income Tax Assessment Act 1936*. Unless otherwise announced at the time of issue, the Commonwealth will seek to issue Treasury Indexed Bonds in a manner that satisfies the 'public offer test'.

Australia has signed a number of new or amended double tax treaties with foreign jurisdictions which effectively prevent interest withholding tax from applying to certain recipients.

3.3.2. ABN/TFN WITHHOLDING TAX

Bondholders are not required to advise the Registrar of their Tax File Number (TFN) or Australian Business Number (ABN). However, if the Bondholder does not provide a TFN or ABN and does not claim an exemption from providing a TFN or ABN, then the Registrar is required by law to withhold an amount of interest equal to the top marginal rate of Tax plus any relevant levies (for example, the Medicare levy), unless an exemption applies. Assuming the requirements of section 128F of the *Income Tax Assessment Act 1936* are satisfied with respect to the Treasury Indexed Bonds, then this requirement should not apply to payments to a Bondholder who is not an Australian Resident and who does not derive the payment in carrying on business at or through a permanent establishment in Australia.

3.3.3. NO ADDITIONAL AMOUNTS PAYABLE

For the avoidance of doubt, in the event that any payment made by the Commonwealth in respect of Treasury Indexed Bonds is made subject to deduction or withholding for or on account of any Taxes, duties, assessments or governmental charges of any nature, no additional amounts shall be payable by the Commonwealth in respect of such deduction or withholding.

3.3.4. TAX ON SALE OF TREASURY INDEXED BONDS

In some cases Australian Residents and non-residents may be liable for Australian Tax on any gains on the sale of Treasury Indexed Bonds. In general, gains are taxed at the Bondholder's relevant rate of Tax. Australian Residents and non-residents are taxed at different rates.

3.3.5. SPECIAL TIMING RULES FOR CERTAIN DISCOUNTS ON SECURITIES

If Treasury Indexed Bonds are issued or purchased at a discount to their Face Value the Tax laws may operate to require Bondholders to bring to account as income the discount over the term the Treasury Indexed Bond is held by the Bondholder.

3.3.6. TAXATION OF FINANCIAL ARRANGEMENTS

Bondholders may be subject to taxation of financial arrangements (TOFA) rules. The applicability of the TOFA rules and the basis of any application will depend on a number of factors, including the type and size of the entity, the features of the particular bond and the making of various elections.

The TOFA rules can operate to require a Bondholder to bring to account for income tax purposes the gain on the bond over the period that it is held. Both an Australian Resident and non-resident holder may make a taxable balancing adjustment upon ceasing to have the bond.

Individuals who are Bondholders may be subject to the TOFA rules in respect of bonds. Individuals can also make an election that the TOFA rules apply to their financial arrangements.

The TOFA rules apply to income years commencing on or after 1 July 2009 on an elective basis, and income years commencing on or after 1 July 2010 on a mandatory basis for relevant taxpayers.

3.3.7. FURTHER INFORMATION

For more information regarding taxation matters, please contact the Australian Taxation Office or a tax adviser.

4. TENDER PROCEDURES

The following is a summary of the key details of the procedures for Treasury Indexed Bonds issued or repurchased via a tender. Further information on bidding procedures is available in the AOFM Tender System Conditions of Operation, available at www.aofm.gov.au. The procedures described below do not limit the Commonwealth's right to repurchase Treasury Indexed Bonds by any other method.

4.1. ANNOUNCEMENT OF PERIODIC TENDERS

Invitations to Tender will be made from time to time. Each invitation will include details of:

- each series of Treasury Indexed Bonds for which bids or offers will be invited;
- the amount to be offered or repurchased of each series;
- the date of and Nominal Value for the first Coupon Interest Payment;
- the closing time and date for bids or offers; and
- the settlement arrangements.

All Invitations to Tender and all tenders of Treasury Indexed Bonds shall be made in terms of and pursuant to this Information Memorandum.

4.2. ELIGIBILITY TO TENDER

Bids or offers for Treasury Indexed Bonds at competitive tenders conducted via the AOFM Tender System may only be submitted by parties that are registered with the AOFM. Details of the registration process are contained in the AOFM Tender System Conditions of Operation.

4.3. TENDER BASIS AND BID OR OFFER FORMAT

Bids or offers for Treasury Indexed Bonds must be submitted in accordance with the AOFM Tender System Conditions of Operation.

Bids or offers for Treasury Indexed Bonds will be received on a competitive tender basis.

The Yield bid or offered may be expressed to a maximum of four decimal places (e.g. 3%, 3.0%, 3.00%, 3.000% or 3.0000%). Yield bids or offers must be a whole multiple of 0.0025% (e.g. 3.0000%, 3.0025% or 3.0050%). Yields submitted that are not a whole multiple of 0.0025% will not be accepted.

4.4. SIZE OF BIDS OR OFFERS

Each bid or offer for Treasury Indexed Bonds must be for a minimum parcel of \$1,000,000 Face Value and in multiples of \$1,000,000 thereafter.

4.5. COMMISSION

No commission will be paid on Treasury Indexed Bonds issued or repurchased by tender.

4.6. BID OR OFFER SUBMISSION AND MODIFICATION

Bids or offers for Treasury Indexed Bonds may be submitted by either:

- transmitting and committing a bid or offer via the AOFM Tender System; or
- any other method specified in the AOFM Tender System Conditions of Operation.

Bids or offers submitted via the AOFM Tender System are subject to the conditions outlined in the AOFM Tender System Conditions of Operation.

A bid or offer that has been committed within the AOFM Tender System may be altered or revoked by the bidder or submitter prior to the time announced for closure of the tender according to the clock in the AOFM Tender System.

A bid or offer that has been committed within the AOFM Tender System cannot be altered or revoked by the bidder or submitter after the time announced for closure of the tender according to the clock in the AOFM Tender System.

A bid or offer cannot be committed within the AOFM Tender System after the time announced for closure of the tender according to the clock in the AOFM Tender System.

The AOFM may alter or revoke a bid or offer it considers to have been submitted in error, at any time.

4.7. TENDER CANCELLATION OR POSTPONEMENT

The Commonwealth reserves the right to cancel or postpone a tender by reason of any circumstance including a circumstance beyond the control of the AOFM and, without limitation, partial or total failure, malfunction or overload of the AOFM Tender System, industrial action or other emergency.

4.8. UNDERISSUANCE/UNDERACCEPTANCE

The Commonwealth reserves the right to accept bids or offers for the full amount of an Invitation to Tender or any part thereof and to reject any bid or offer or part thereof on any grounds whatsoever, notwithstanding that the full amount of Treasury Indexed Bonds in an Invitation to Tender has not been taken up.

4.9. ALLOTMENT OF TENDER STOCK AT TENDERS FOR THE ISSUE OF TREASURY INDEXED BONDS

Acceptance of bids will be made in ascending order of Yield bid, that is, 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 Indexed Bonds allotted to each bid will, in the first instance, be calculated proportionately to the amount of bids at that Yield and rounded down to the nearest \$1,000,000 (Face Value). If following this the total amount allotted is lower than the total amount offered, bids at the highest accepted Yield will be rounded up to the nearest \$1,000,000 (Face Value), firstly in order of the amount by which they were initially rounded down (largest amount first) and then in the time order in which they were committed in the AOFM Tender System (earliest first), until the total amount offered is reached. No bidder will be allotted an amount greater than the amount bid.

The Commonwealth 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.

4.10. ACCEPTANCE OF OFFERS AT TENDERS FOR THE REPURCHASE OF TREASURY INDEXED BONDS

Acceptance of offers will be made in descending order of Yield offered, that is, from the highest Yield offered to the lowest Yield accepted. Repurchases will be made at the Yields offered.

At the lowest Yield accepted, the amount of Treasury Indexed Bonds repurchased from each offer will, in the first instance, be calculated proportionately to the amount of offers at that Yield and rounded down to the nearest \$1,000,000 (Face Value). If following this the total amount repurchased is lower than the total amount available for repurchase, offers at the lowest accepted Yield will be rounded up to the nearest \$1,000,000 (Face Value), firstly in order of the amount by which they were initially rounded down (largest amount first) and then in the time order in which they were committed in the AOFM Tender System

(earliest first), until the total amount available for repurchase is reached. No offeror will sell an amount greater than the amount offered.

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

Notice of acceptance or rejection of an offer or any part thereof will be made available to each offeror as soon as possible after acceptance.

4.11. ACCEPTANCE OF OFFERS AT TENDERS FOR THE REPURCHASE OF MULTIPLE TREASURY INDEXED BOND SERIES

A Reference Yield will be set for each series of Treasury Indexed Bonds for which offers are invited. The Reference Yield will be set with reference to prevailing secondary market yields. For each offer, the Offer Spread will be calculated as the difference between the Yield offered and the Reference Yield.

Acceptance of offers will be made in descending order of Offer Spreads (across the series offered), that is, from the highest spread offered to the lowest spread accepted. Repurchases will be made at the Yields offered.

At the lowest Offer Spread accepted, the amount of Treasury Indexed Bonds repurchased from each offer will, in the first instance, be calculated proportionately to the amount of offers at that Offer Spread and rounded down to the nearest \$1,000,000 (Face Value). If following this the total amount repurchased is lower than the total amount available for repurchase, offers at the lowest accepted Offer Spread will be rounded up to the nearest \$1,000,000 (Face Value), firstly in order of the amount by which they were initially rounded down (largest amount first) and then in the time order in which they were committed in the AOFM Tender System (earliest first), until the total amount available for repurchase is reached. No offeror will sell an amount greater than the amount offered.

The Commonwealth may set the maximum volume of a particular series to be repurchased. In this case offers will be accepted in the manner described above until that maximum is reached (if it is reached), from which point offers for that series of Treasury Indexed Bonds would not be accepted. Offers for other series would be accepted in the manner described above for the remainder of the amount available for repurchase.

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

Notice of acceptance or rejection of an offer or any part thereof will be made available to each offeror as soon as possible after acceptance.

4.12. OTHER REPURCHASE METHODS

The Commonwealth reserves the right to repurchase Treasury Indexed Bonds in any manner deemed appropriate, including, but not limited to the repurchase procedures described above.

5. OTHER METHODS OF ISSUE

5.1. OFFICIAL SUBSCRIPTION

The Reserve Bank of Australia (RBA) and certain other official bodies may, from time to time, apply for Treasury Indexed Bonds.

Amounts to be taken up in this way at the time of a tender will be indicated in the Invitation to Tender and will be additional to the amount offered for public tender. Such allotments will be at the weighted average issue Yield(s) announced for the relevant tender.

5.2. OTHER ISSUANCE METHODS

The Commonwealth reserves the right to issue Treasury Indexed Bonds in any manner deemed appropriate. This includes, but is not limited to, the Commonwealth appointing a syndicate of financial institutions from time to time for the placement of Treasury Indexed Bonds on conditions that may be agreed at such time. The Commonwealth may pay fees to syndicate members as may be agreed at the time.

6. SETTLEMENT FOLLOWING ISSUE OR REPURCHASE

6.1. SETTLEMENT PRICE

Following the issue or repurchase of Treasury Indexed Bonds the settlement price per \$100 Face Value, rounded to the third decimal place except during the last interest period (the period beginning when a Treasury Indexed Bond goes ex-interest for the second last time) when there is no rounding, shall be calculated on the basis of the following formula:

$$\text{PRICE PER \$100 FACE VALUE} = v^{f/d} \left[g(x + a \frac{f}{d}) + 100v^n \right] K_t \frac{\left(1 + \frac{p}{100}\right)^{-f/d}}{100}$$

where $v = \frac{1}{1+i}$ where $i =$ annual percentage Real Yield / 400.

e.g. where stock is allotted at a Real Yield of 4.65 per cent per annum:

$$i = \frac{4.65}{400} = 0.0116$$

$x = 1$, if there is a Coupon Interest Payment due to the buyer of the bonds at the next Coupon Interest Payment Date.

$x = 0$, if there is no Coupon Interest Payment due to the buyer of the bonds at the next Coupon Interest Payment Date.

$K_t =$ Nominal Value at the next Coupon Interest Payment Date (whether or not there is a Coupon Interest Payment due to the buyer of the bonds).

$$K_t = K_{t-1} \left[1 + \frac{p}{100} \right] \text{ where}$$

$K_{t-1} =$ Nominal Value at the previous Coupon Interest Payment Date.

K_t is equal to \$100 (the Face Value of the stock) at the date one quarter before the date on which the stock makes its first Coupon Interest Payment.

K_t and K_{t-1} are rounded to two decimal places.

$p =$ half the semi-annual change in the CPI ending in the quarter which is two quarters prior to that in which the next Coupon Interest Payment

falls (for example, if the next Coupon Interest Payment is in November, p is based on the movement in the CPI over the two quarters ended in the June quarter preceding).

$$p = \frac{100}{2} \left[\frac{CPI_t}{CPI_{t-2}} - 1 \right] \text{ rounded to two decimal places, where}$$

CPI_t is the CPI for the second quarter of the relevant two quarter period, and

CPI_{t-2} is the CPI for the quarter immediately prior to the relevant two quarter period.

f = the number of days from the Settlement Date to the next Coupon Interest Payment Date.

d = the number of days in the quarter ending on the next Coupon Interest Payment Date.

g = the fixed quarterly Coupon Interest Rate payable (equal to the annual fixed rate divided by 4).

n = the number of full quarters between the next Coupon Interest Payment Date and the Maturity Date.

$$a_{\overline{n}|i} = v + v^2 + \dots + \frac{1-v^n}{i}. \text{ Except if } i = 0 \text{ then } a_{\overline{n}|0} = n$$

The settlement amount will be rounded to the nearest cent (0.5 cent being rounded up).

6.2. CONSUMER PRICE INDEX

The CPI to be used for the purpose of this Information Memorandum shall be the 'All groups CPI: Weighted average of eight capital cities' as maintained and published quarterly by the Australian Bureau of Statistics.

If, for any reason, the CPI is not published for any quarter for which it is relevant for the purposes of this Information Memorandum, or if publication is delayed until after the date on which a Coupon Interest Payment is determined, the CPI published for the previous quarter will apply in the interim. On subsequent publication of the actual CPI figure for that quarter by the Australian Bureau of Statistics, adjustment to the Nominal Value and/or Coupon Interest Payment will be made.

If the Australian Bureau of Statistics were to cease to publish the CPI and were to publish another index that it stated to be in replacement of the CPI, then that index shall be used for the purposes of this Information Memorandum.

If the Australian Bureau of Statistics were to cease to publish the CPI without publishing a replacement index, or if any methodological change were to be made to the coverage, periodicity, or basic calculation of the CPI which, in the opinion of the Treasurer, constituted a change in the CPI which would be materially detrimental to the interests of Bondholders, the AOFM would publish a notice in the Commonwealth Gazette as soon as practicable following the announcement of the change informing Bondholders and offering them the right to redeem their Treasury Indexed Bonds at market-related prices as determined by the AOFM. Repayment to Bondholders who exercise such a right will be on a date specified by the AOFM no later than six months from the date of publication of the last CPI figure made prior to such a change as is referred to earlier in this paragraph. In these circumstances, a notice setting out the administrative arrangements for redemption and payment will be sent to Bondholders at their registered address by the Registrar at the appropriate time. In the event that Bondholders choose not to redeem their holdings under this provision, the quarterly adjustments to the Nominal Value and Coupon Interest Payments applying to Treasury Indexed Bonds not redeemed shall be calculated according to an index to be announced by the Treasurer which, for the purposes of this Information Memorandum, shall be deemed to be a replacement for the CPI.

If the reference base of the CPI is changed after Treasury Indexed Bonds are issued, p and Kt values already published will remain unchanged. The index which shall be used for the calculation of subsequent p and Kt values shall be the CPI numbers expressed on the new base as published by the Australian Bureau of Statistics.

If a relevant CPI number is revised after the Coupon Interest Payment is made on a particular Coupon Interest Payment Date, a subsequent adjustment will be made to the Nominal Value and/or Coupon Interest Payments to take account of any discrepancy.

6.3. SETTLEMENT FOLLOWING TENDER

Unless otherwise specified in the Invitation to Tender, settlement in the Austraclear System is to take place before the End of Day (as defined in the Austraclear System Regulations) on the second Business Day following the tender.

If a bidder fails to make due payment of any amount payable to the Commonwealth in respect of any allotment pursuant to a bid, the

Commonwealth may cancel the allotment of Treasury Indexed bonds to that bidder.

If an offeror fails to deliver to the Commonwealth any Treasury Indexed Bonds that are to be repurchased in accordance with the terms of an accepted offer, the Commonwealth may cancel that repurchase from that Bondholder.

6.4. FORM OF BONDS

Treasury Indexed 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.

7. REGISTRATION AND TRANSFER

7.1. REGISTRATION OF BONDS

Treasury Indexed Bonds may be held by individual Persons, or two or more Persons as joint tenants with right of survivorship. Organisations or trusts that are not incorporated should complete their application in the full name(s) of the trustee(s). No notice of any trust in respect of any Treasury Indexed Bonds will be entered in the Register or receivable by the Registrar. Each Bondholder is to be regarded as the absolute beneficial owner of the Treasury Indexed Bonds registered in its name and the Commonwealth and the Registrar shall not be affected by any trust or other equity affecting any Treasury Indexed Bond, whether or not it is aware of the same.

If two or more Persons apply to be Registered as Bondholders as tenants in common, the Registrar may, after receiving an application from either Person and notifying the other Person(s) of its intention to do so, divide the Treasury Indexed Bonds into the share for which each Person is expressed to be entitled and register each Person as the holder of the Treasury Indexed Bonds representing the Person's share. If the Treasury Indexed Bonds cannot be divided into shares where the Face Value amount is a multiple of \$1,000 the Registrar may refuse to accept the application.

7.2. STATEMENT OF HOLDINGS

On application by any Bondholder, the Registrar will issue to the Bondholder a statement of holdings certifying that the Bondholder is the Registered holder of the Face Value amount of the Treasury Indexed Bonds referred to therein.

7.3. NOTICES OF TRANSACTION

Notices of transaction for Treasury Indexed Bonds will be issued by the Registrar to the transferee following the registration of a transfer or issue of Treasury Indexed Bonds. These notices do not constitute a statement of holdings, but merely advise the registration of the Treasury Indexed Bonds.

A notice will be issued by the Registrar to the transferor following the registration of a transfer of Treasury Indexed Bonds.

7.4. REGISTER

The issue of Treasury Indexed Bonds will be effected and evidenced by particulars of the Treasury Indexed Bonds being entered into the Register by the Registrar.

In the case of Registered Stock, the Registrar shall enter into the Register the following particulars:

- name and address of the Bondholder;
- Face Value of the Treasury Indexed Bonds held;
- Coupon Interest Rate payable on the Treasury Indexed Bonds;
- Coupon Interest Payment Dates of the Treasury Indexed Bonds;
- Maturity Date of the Treasury Indexed Bonds;
- such other particulars as may, from time to time, be required by the Commonwealth; and
- such other particulars as may, from time to time, be considered necessary by the Registrar.

The Registrar may correct errors and remedy omissions in the Register.

7.5. TRANSFER OF BONDS WITHIN THE AUSTRACLEAR SYSTEM

Subsequent to the issue of Treasury Indexed Bonds, the bonds may be transferred to other Persons in parcels that are a multiple of \$1,000 Face Value.

A Bondholder may effect the transfer of Treasury Indexed Bonds through the Austraclear System in accordance with the Austraclear System Regulations.

7.6. TRANSFER OF BONDS OUTSIDE THE AUSTRACLEAR SYSTEM

Subsequent to the issue of Treasury Indexed Bonds, the bonds may be transferred to other Persons in parcels that are a multiple of \$1,000 Face Value.

A Bondholder may effect the transfer of Treasury Indexed Bonds through the lodgement of a completed Transfer and Acceptance Form with the Registrar.

On production to the Registrar of a duly executed Transfer and Acceptance Form and any such other evidence as the Registrar may require to prove the authority of the Persons signing the same to sign on behalf of the transferor, the Registrar will enter in the Register the name of the transferee as the Registered holder of the Treasury Indexed Bonds to which the form of transfer relates.

When the right to any Treasury Indexed Bond is acquired by any Person in any manner other than by a form of transfer, the Registrar, on application by or on behalf of the Person entitled, and on being satisfied

that the Person is entitled to be Registered as the Bondholder, will enter the Person in the Register as the holder of the Treasury Indexed Bonds.

Upon registration of a form of transfer or other assignment on the Register, the transferee will be recognised as entitled to the Treasury Indexed Bonds.

No transfer will be Registered by the Registrar during the final Ex-Interest Period prior to the Maturity Date.

8. REPAYMENT AT MATURITY

8.1. REPAYMENT

Treasury Indexed Bonds are not repayable prior to the Maturity Date.

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

Where the Treasury Indexed Bonds are lodged in the Austraclear System the Treasury Indexed Bonds will be repaid at Nominal Value on the Maturity Date in the manner described in the Austraclear System Regulations.

If the Maturity Date is not a Business Day, payment will be made on the next Business Day without payment of additional interest.

8.2. REPAYMENT INSTRUCTIONS

In the case of stock lodged in the Register, the Registrar will effect the repayment of the Nominal Value of maturing Treasury Indexed Bonds by cheque or direct credit to an Australian Dollar denominated bank account with a financial institution registered in Australia, and in accordance with the Coupon Interest Payment instruction held by the Registry. **Instructions as to the repayment of the Nominal Value of maturing Treasury Indexed Bonds may be lodged with the Registry no later than close of business on the Record Date for the final Coupon Interest Payment.** Where no instructions have been provided in time, payments of proceeds will be effected by cheque payable to the Bondholder and posted to the address recorded in the Register.

In all cases, the final redemption value shall be no less than \$100 Face Value, irrespective of the movements in the CPI over the life of the security.

9. SECONDARY MARKET FOR TREASURY INDEXED BONDS

After issue Treasury Indexed Bonds may be traded in the secondary market.

The Australian Financial Markets Association (AFMA) has published conventions that apply to trading in the over-the-counter market of long-dated debt securities such as Treasury Indexed Bonds. These details can be viewed at AFMA's website at www.afma.com.au.

Treasury Indexed Bonds are traded on the secondary market on a Real Yield basis with the price per \$100 Face Value calculated using the Treasury Indexed Bond pricing formulae on the AOFM's website at www.aofm.gov.au.

10. OTHER

10.1. FUNGIBILITY

The Commonwealth shall be at liberty from time to time to issue Treasury Indexed Bonds fungible, respectively, with any outstanding series of Treasury Indexed Bonds whether by Invitation to Tender or otherwise. Any such new issuance will have the same Maturity Date and Coupon Interest Rate.

10.2. PURCHASE AND CANCELLATION

The Commonwealth or agents of the Commonwealth may at any time offer to purchase, beneficially, Treasury Indexed Bonds from any Person. Any Treasury Indexed Bonds so purchased may be lent, retained, sold or cancelled at the discretion of the Commonwealth.

10.3. CORPORATIONS ACT 2001

The issue and sale of Treasury Indexed Bonds does not require the production of a Product Disclosure Statement in accordance with section 1010A of the *Corporations Act 2001*.

10.4. TRUSTEES

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

10.5. STOCK EXCHANGE QUOTATION

It is intended to apply for the quotation of Treasury Indexed Bonds on the Australian Securities Exchange as soon as possible after issue.

10.6. USE OF INFORMATION MEMORANDUM

This Information Memorandum is intended for use only in connection with the offer of Treasury Indexed Bonds in Australia and must not be sent to any Person outside Australia in any jurisdiction in circumstances in which the offer of Treasury Indexed Bonds or use of this Information Memorandum would be unlawful.

10.7. PRIVACY

The AOFM and Registrar collect and hold personal information about Bondholders for the purposes of administering Treasury Indexed Bonds. Bondholders may request access to any personal information held about them by contacting the Commonwealth Inscribed Stock Registry (see contact details in section 12). Bondholders may also request correction of any personal information held about them.

10.8. MODIFICATION OF THE INFORMATION MEMORANDUM

The Commonwealth may withdraw, modify or supplement this Information Memorandum at any time, provided that, in the case of a modification to the terms of Treasury Indexed Bonds that have been issued before that modification (“Existing Bonds”), the modification must, in the Commonwealth’s opinion, satisfy one or more of the following conditions:

- a) the modification is of a formal, minor or technical nature or is made to correct a manifest error; or
- b) the modification is made to comply with mandatory provisions of law; or
- c) such modification is not in the opinion of the Commonwealth materially prejudicial to the interests of holders of Existing Bonds.

Any such amendment takes effect on the publication of the amendment on the AOFM website, or such later date as the Commonwealth may specify in the amendment.

11. GLOSSARY OF TERMS

The following definitions apply to this Information Memorandum:

AOFM Tender System	The system used by the AOFM to conduct tenders for the issuance and repurchases of Commonwealth Inscribed Stock.
AOFM Tender System Conditions of Operation	The conditions from time to time existing and published on the AOFM website entitled 'Australian Office of Financial Management Tender System – Conditions of Operation'.
Austraclear System	The system for the clearance and settlement of debt securities operated by Austraclear Limited.
Australian Office of Financial Management or AOFM	The Commonwealth of Australia acting through and represented by the Australian Office of Financial Management (AOFM).
Australian Resident	A Person able to satisfy an Australian residency test as defined in Australian tax law.
Bondholder	In respect of any Treasury Indexed Bond, the Person whose name from time to time is entered into the Register as the holder of that Treasury Indexed Bond.
Business Day	A day not being a Saturday or Sunday on which banks are open for general banking business in Sydney.
Commonwealth	The Commonwealth of Australia.
Consumer Price Index (CPI)	The Consumer Price Index (CPI) is a measure of the overall price level in the economy. The CPI is calculated quarterly using the price of a fixed basket of consumer goods.
Coupon Interest Payment	The amount paid or due to be paid on the Coupon Interest Payment Date.
Coupon Interest Payment Dates	The dates in each year on which a Coupon Interest Payment is payable on a Treasury Indexed Bond and includes the Maturity Date.
Coupon Interest Rate	The interest rate payable in respect of a Treasury Indexed Bond expressed as a percentage per annum.

Dollars or \$	The lawful currency of Australia.
Ex-Interest Period	The period after the Record Date up to and including the next Coupon Interest Payment Date. Treasury Indexed Bonds settled during this period will not be entitled to that Coupon Interest Payment.
Face Value	The principal or par value amount of a Treasury Indexed Bond, unadjusted for changes in the CPI.
Invitation to Tender	An invitation issued by the Commonwealth pursuant to this Information Memorandum specifying the details of the Treasury Indexed Bonds to be offered or repurchased by way of tender.
Maturity Date	The date, as specified in the Invitation to Tender on which the Treasury Indexed Bonds are to be repaid.
Nominal Value	The CPI-adjusted capital value of the bond (K , as defined under 'Settlement Price').
Offer Spread	The difference between the Yield offered and the Reference Yield for an offer at a tender for the repurchase of multiple Treasury Indexed Bond series.
Offshore Associate	An Offshore Associate of the Commonwealth means an associate (as defined in section 128F of the <i>Income Tax Assessment Act 1936</i>) that is either a non-resident of Australia that does not acquire the Treasury Indexed Bonds in carrying on a business at or through a permanent establishment in Australia or, alternatively, a resident of Australia that acquires the Treasury Indexed Bonds in carrying on a business at or through a permanent establishment outside of Australia.
Person	Includes an individual, firm, company, corporation or unincorporated body of persons or any state or government or any agency thereof (in each case, whether or not having separate legal personality).

Real Yield or 'Yield'	Is the rate of return on a Treasury Indexed Bond (expressed as an annual percentage) above the rate of inflation, as measured by changes in the CPI, for a given purchase price, assuming the bond is held until the Maturity Date. The calculation of the Real Yield assumes all Coupon Interest Payments are invested at the same real rate of return.
Record Date	Close of business on the eighth day before the relevant Coupon Interest Payment Date or Maturity Date or, if this is not a Business Day, the preceding Business Day.
Reference Yield	The yield with which offers at tenders to repurchase multiple Treasury Indexed Bond series are compared to calculate the Offer Spread. The Reference Yield will be set for each series of Treasury Indexed Bonds for which offers are invited with reference to prevailing secondary market yields.
Register	The register of holdings of Treasury Indexed Bonds maintained by the Registrar and 'Registered' has a corresponding meaning.
Registrar	Computershare Investor Services Pty Limited (ACN 078 279 277) or such other Person appointed by the Commonwealth to maintain a Register in respect of Treasury Indexed Bonds and perform such payment and other duties specified in that agreement. The Registrar of the Commonwealth Inscribed Stock Registry.
Settlement Date	The value date for transfer of ownership as notified in the Invitation to Tender.
Tax	Any tax, levy, duty, rate or tariff of any nature, including withholding taxes, which is imposed or collected by a government agency.

12. DIRECTORY

For issuer information, bidding and tender information and to register as a bidder contact:

Mail

Head of Funding and Liquidity
Australian Office of Financial Management
Treasury Building
Langton Crescent
PARKES ACT 2600

Telephone

+61 2 6263 1141

Email

enquiries@aofm.gov.au

For settlements information contact:

Mail

Settlements Manager
Australian Office of Financial Management
Treasury Building
Langton Crescent
PARKES ACT 2600

Telephone

+61 2 6263 1147

Email

settlements@aofm.gov.au

For the Registrar contact:

Mail

Computershare Investor Services Pty Limited
GPO Box 2237
MELBOURNE VIC 3001

Telephone

+61 3 9415 4390

1800 674 996 (inside Australia)

Email

cgs@computershare.com.au

For Austraclear contact:

Telephone

1300 362 257

Email

cad@asx.com.au