COMMONWEALTH INSCRIBED STOCK AMENDMENT BILL 1979

Date Introduced: 6 June 1979
House: House of Representatives

Short Digest of Bill

Purpose

To amend the Commonwealth Inscribed Stock Act 1911 to make provision for the Governor-General to delegate to the Treasurer, or to a delegate of the Treasurer, powers relating to the setting of the terms and conditions of issues and sale of Commonwealth securities. These provisions will allow the introduction, later in 1979, of new arrangements for marketing Commonwealth securities.

Background

The three main classes of Commonwealth securities available to the public are Treasury Bonds, Treasury Notes and Australian Savings Bonds.

(i) Treasury Bonds

The Commonwealth has raised money by way of public issue of Treasury Bonds usually (but not always) four times a year, generally at the same time an existing issue of Treasury Bonds matures. They are raised on terms and conditions determined by Loan Council. The public issue of Treasury Bonds, often called cash and conversion loans, are usually open for six working days for the receipt of cash subscriptions, while the conversion offer to holders of maturing Treasury Bonds remains open for about two weeks after the date on which the securities mature. Subscriptions are accepted in multiples of a minimum subscription of $100 and there is no upper limit to the amount which may be subscribed.

Treasury bonds offered have a range of currencies (ie the life of the security from date of issue to date of maturity) e.g. recent cash and/or conversion loans have usually offered: a short term security (with a currency of between 18 and 30 months); a short to medium term security (between 3 and 7 years); a medium term security (between 7 and 11 years) and a long term security (between 15 and 25 years). Each of the securities offered carries a fixed rate of interest (coupon rate). Treasury Bonds are traded on all
Australian Stock Exchanges and their market price tends to broadly reflect movements in the general level of interest rates.

(ii) Treasury Notes

Treasury Notes are designed for large professional investors, such as banks, insurance companies and short-term money market dealers, and for individual investors and industrial and commercial enterprises holding cash balances that they wish to place in short-term investments pending utilization of the funds. Treasury Notes are on issue daily for periods of 13 and 26 weeks to maturity.

No interest is paid on Treasury Notes but they are issued at a discount and are repayable at par or face value (100%) on maturity thus providing an investor with a return on his investment. The Reserve Bank also provides continuous facilities for rediscounting (repurchasing) Treasury Notes and associated stock prior to maturity should the holder wish to do so.

(iii) Australian Saving Bonds (ASBs)

These securities were first introduced in January 1976, replacing Special Bonds, to meet the needs of small and medium non-professional (household) investors.

ASBs are on sale continuously. They are issued in series, each series usually remaining open until the next goes on sale. The securities usually mature around seven or eight years after the first day of issue. ASBs are not traded on the Australian Stock Exchange. The securities may be redeemed at any time at one month's notice. The minimum subscription is $20 and the maximum holding is $150,000 (all series of Australian Savings Bonds and Special Bonds combined).

The provisions of this Bill will make way for the introduction of new arrangements dealing with the system of marketing the first two types of securities above. The impending introduction of these new arrangements was first announced by the Treasurer in a Press Release on 2 April 1979. The new arrangements are:

- Treasury Bonds are to be made available on a "tap" basis i.e. one or more securities will be available to investors more or less continuously throughout the year. The bonds will be offered to investors by the Reserve Bank as agent for the Commonwealth. The Loan Council will continue to determine the maturity date and coupon rate of
securities issued in the tap. The yields on tap stocks may be varied by the Chairman of the Loan Council from time to time without further consultation with the Loan Council.

Treasury Notes are to be sold by periodic tender by the Reserve Bank as agent for the Commonwealth, instead of continuously at pre-determined prices as at present. In other words, the Reserve Bank will advise participants in the market (who, at the present time are relatively small in number) of the amount of Treasury Notes it wishes to sell and invite bids from them, (presumably) accepting the best offers.

Certain administrative matters such as, for example, how often the Bank will call for bids and whether the tender will be open to all investors or whether the Reserve Bank will deal exclusively with particular investors have yet to be determined. (These matters may have bearing on the desirability of the new tender system).

Some advantages expected from the new arrangements for marketing are outlined in the Treasurer's Second Reading Speech. The main ones are as follows.

(a) Selling Treasury Bonds by tap.

(i) greater flexibility to control volume of bonds sold and the maturity spread.

Under the new system authorities will be able to offer securities for longer continuous periods and to vary the price of the security offered, i.e. issue it at a discount or a premium on its par or face value, thus changing the effective rate of return earned (i.e. the yield) and thereby offering greater flexibility and scope for greater control over the quantity of securities issued and the amount of each security.

(ii) speculation concerning loan results reduced.

The scope for speculation as to future movements in interest rates, which itself may influence the future direction of interest rates, and also creates difficulties in marketing debt, will be reduced; e.g. under the present system if investors consider the the result of a particular loan was 'poor' (i.e. the amount subscribed was less than the amount it was believed the Government was seeking) they may expect the Government to come back to the market at the time of the next loan offering higher interest rates. In the meantime some speculators may attempt to offload their holdings of government securities in order to minimise the prospect of a capital loss. This process places upward pressure on interest rates.
(c) **advantages to institutional investors.**

The periodic disruption of the money market occasioned by the necessity for the Government to raise large amounts to complete borrowing programs over short periods will be avoided under the new system. Additionally, institutional investors (banks, life insurance companies etc.) who take up large amounts of government securities will be more readily able to continuously adjust their portfolios to suit their own requirements, rather than having to make substantial rearrangements of portfolios in the short period of time cash and conversion loan offers are open.

(d) **loan offers at more opportune times.**

Under the present system loan offers are, for practical reasons, usually held to coincide with maturity dates of existing bonds. This may not be the most opportune time to raise loans; e.g. it could be at a time of sharp swings in liquidity associated with tax payments.

(ii) **Selling Treasury Notes by periodic tender.**

Under the present marketing system the prices of Treasury Notes are fixed by the Reserve Bank and the volume taken up depends on the supply and demand for funds in the market.

Under the tendering system, the volume of Notes that can be sold can be determined more precisely by the authorities - the prices will however more fully reflect market views. Thus the Commonwealth will be better placed to ensure that adequate volumes of Treasury Notes are taken up by the private sector to meet policy objectives including to ensure that adequate provision has been made by that sector for periods of expected tightness due to, say, tax payments falling due.

**Main Provisions**

The Principal Act presently provides for the prices and other terms and conditions of issue of Commonwealth securities to be determined by the Governor-General. To allow for the flexibility required under the new arrangements and to avoid the necessity to obtain the Governor-General's approval on each occasion it is proposed to allow the Governor-General to delegate his powers.

Clause 8 inserts a new Part VB into the Principal Act. The new part consists of 2 sections, s.51H and s.51J. New sub-s. 51H(1) provides that the Governor-General may
delegate to the Treasurer all or any of his powers under sections 7 and 51B (i.e. to direct the manner, prices and terms and conditions of issue and sale of stock and Treasury Bonds). The Treasurer may, in turn, authorise other persons to exercise the delegated powers (sub.s.51H (2)). New s.51J allows the Governor-General to give directions to the Treasurer with respect to the exercise of the power. The Treasurer is required to pass on such direction to any authorized persons or he may issue his own directions.

Clauses 3, 4, 6 and 7 amend sections 4, 7, 51A and 51B respectively. The amendments are of a technical nature aimed at clarifying the matters which may be delegated to the Treasurer.