29 June 2026

Mr. Matthew Wheadon,
Head of Funding, Strategy and Research,
Australian Office of Financial Management

By email: Matthew.Wheadon@aofm.gov.au

AOFM DRAFT TIBmi Information Memorandum

Dear Matt,

AFMA's Inflation Products Committee is comprised of the majority of the major market participants in the Australian inflation-linked bond market and inflation swap market. Members of the committee welcome the opportunity to comment on the AOFM's draft Information Memorandum (IM) underpinning the new monthly CPI Treasury Indexed Bond structure. Comments from committee members are summarised below.

There is general agreement that aligning the product more closely with offshore inflation-linked bond markets should be beneficial for the long-term liquidity and development of the Australian inflation products market. Overall, the members are very supportive of the IM drafting and offer the below refinements for your consideration'

Please note the comments below are provided verbatim.

AFMA Member 1
In the Information Memorandum, the index ratio is only explicitly defined for the settlement date, there is no specification on how the index ratios are to be calculated and how or when they are applied to derive the adjusted capital value for any other day. The assumption would be to use the same formula replacing settlement date with coupon interest payment dates and applied on the coupon interest payment dates. However, I think it would be useful to explicitly spell this out to avoid any misunderstanding.

AFMA Member 2
The primary area of focus has been the treatment of the existing indexed bond lines. Views were mixed as to whether the existing and new structures should coexist over time, or whether market liquidity would be better concentrated in the new benchmark lines. The prevailing concern appears to be the potential fragmentation of liquidity between the existing and new securities

With respect to the Information Memorandum, as currently drafted, it appears that there is no coupon deflation floor. Additionally, given the inclusion of other calculation examples throughout the document, it could be helpful to provide a worked example illustrating the daily interpolation methodology used to derive the index level.

AFMA Member 3
The final quarter pricing – would be good if there was clarification as per the nominal bond for bad business day maturity date.

IM wording:

$$\text{SETTLEMENT PRICE PER \$100 FACE VALUE} = \left(\frac{100+g}{1+\left(\frac{f}{365}\right)i}\right) \times \boldsymbol{Index\,ratio}$$

Where:

$\boldsymbol{i}$ = the annual percentage Real Yield (expressed as above under 'Tender Basis and Bid or Offer Format') divided by 100 (for example, where the TIBSmi are to be allotted or repurchased at a Real Yield of 2.46% per annum, $\boldsymbol{i} = \frac{2.46}{100} = \mathbf{0.0246}$);

$\boldsymbol{f}$ = the number of days from the Settlement Date to the Maturity Date; and

$\boldsymbol{g}$ = the fixed half-yearly Coupon Interest Rate payable (equal to the annual fixed coupon rate divided by 2).

Nominal bond wording (in the AOFM's pricing formulae):

f = the number of days from the date of settlement to the next interest payment date in formulae (1) and (2) or to the maturity date in formulae (3) and (4). In formulae (3) and (4), the maturity date falls on a non-business day, the next good business day (as defined in the Information Memorandum) is used in the calculation of ***f*****.**

The fix above prevents mispricing in the last period but results in mispricing in prior quarters that comes home to roost at the point at which you shift from the standard formula to the near-maturity formula, i.e. at record date for the second last coupon. A fairer way to price would be to use the near-maturity formula as per the IM, but also use it in the standard formula, with the near-maturity price at second last coupon record date being your FV which you then PV the standard bond price from. This method does fall down if the second last coupon also falls upon a weekend, although an adjustment could be made to f in the final quarter price such that if the second last coupon falls on a non-business day, the last good business day prior to the second last coupon is used as the starting point for f and the next good business day is used for maturity.

Above could be fixed by maturities all falling on good business days if that is possible.

AFMA Member 4
On revision of CPI, I think this is a departure from overseas standards and probably requires some justification. I think market functioning will be aided by the first published NSA Index being used for all subsequent pricing as per USD TIPs. If we do wish to diverge, we should probably be a little clearer around how subsequent adjustments are calculated.

Also, what happens if the CPI is revised before the coupon interest payment?

> 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 Capital Value and/or Coupon Interest Payments to take account of any discrepancy.

What is the procedure for long-dated settle near month-end where the appropriate index is not known? I understand ABS changes offset this for T+2 but there appears to still be issues for T+5 etc near certain month-ends, is there an explicit extrapolation process? An ordinary reading of the IM implies you impute flat CPI, which seems suboptimal.

AFMA Member 5

There is explicit definition for Coupon Interest (section 2), but not specifically for Redemption amount It is covered in 1.1 Description, and "Adjusted Capital Value" is also defined… so technically works – but a more specific paragraph in 8.0 Redemption may be helpful or clarify?

> 1.1. DESCRIPTION
>
> TIBSmi are capital-indexed bonds with the capital value of the investment adjusted by reference to movement in the CPI. TIBSmi are denominated in Australian Dollars with coupon interest payable semi-annually in arrear. Coupon Interest Payments are at a fixed rate, on the Adjusted Capital Value - the capital value as adjusted for movement in the CPI over the life of the bond. At maturity, investors will receive the Adjusted Capital Value of the Treasury Indexed Bond.

AFMA Member 6

All looks in order; I have nothing to add.

Yours sincerely,

Mark McCarthy
Director for Markets Policy

The following AFMA Members provided the comments above:

- Barrenjoey
- CBA
- Deutsche Bank
- JP Morgan
- UBS
- Westpac