

Attachment 7.08

AOFM: Letter from Michael Bath to Steve Knight re: domestic interest rate swaps

January 2015





Australian Government

Australian Office of Financial Management

Mr Steve Knight
Chief Executive Officer
NSW Treasury Corporation
Level 22, Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

Dear Steve,

In response to your request to share the Australian Office of Financial Management's (AOFM's) experience with transacting domestic interest rate swaps during the period up to mid- 2009, I offer the following observations.

The AOFM's operations take into account a range of risks, including funding, market, credit and operational. This involves comprehensive and carefully structured financial risk management, assurance, reporting, financial administration and accounting activities.

In November 2008, the AOFM commenced a program to unwind its portfolio of domestic interest rate swaps (to receive fixed / pay floating rates). At that time, the portfolio comprised 177 swaps with a notional face value of \$20.65 billion. The program was largely completed by May 2009, when the AOFM stopped actively seeking terminations. In total, 130 swaps were unwound (by paying fixed / receiving floating rates) representing a notional face value of \$15.25 billion.

The tenor of these swaps ranged from 0.18 years to 8.25 years, with an average of around 4 years. For your information a list of the each of the terminated swaps is attached to this letter.

Based on the AOFM's experience of that time, I also offer the following general observations regarding these transactions:

1. Despite the wide spread of maturities, market liquidity could best be described as 'thin' during the onset and immediate aftermath of the financial crisis; and
2. Executing the swaps in a significantly shorter time period would, in our view, have been problematic.

The AOFM's swap termination program and the manner in which it was undertaken are a matter of public record. Further information can be found in the AOFM's 2008-09 Annual Report.

Kind regards,



Michael Bath
Director, Financial Risk

5 January, 2015

AOFM Swap Terminations				
Deal Number	Effective maturity date	Original maturity date	Face value	Tenor
575	17-Feb-09	23-Apr-09	100,000,000	0.18
582	24-Feb-09	21-May-09	100,000,000	0.24
613	24-Feb-09	16-Feb-10	100,000,000	0.98
617	19-Mar-09	23-Mar-10	100,000,000	1.01
624	20-Mar-09	28-Apr-10	100,000,000	1.11
638	14-Oct-08	11-Jul-10	100,000,000	1.74
639	20-May-09	13-Jul-10	100,000,000	1.15
641	17-Feb-09	18-Jul-10	100,000,000	1.41
643	24-Feb-09	25-Jul-10	100,000,000	1.41
644	19-Mar-09	28-Jul-10	100,000,000	1.36
645	18-Mar-09	03-Aug-10	100,000,000	1.38
646	18-May-09	08-Aug-10	100,000,000	1.22
648	17-Feb-09	16-Aug-10	100,000,000	1.49
649	20-May-09	18-Aug-10	100,000,000	1.25
652	26-May-09	30-Aug-10	100,000,000	1.26
653	12-May-09	01-Sep-10	100,000,000	1.31
655	12-May-09	15-Sep-10	100,000,000	1.35
657	26-May-09	11-Oct-10	100,000,000	1.38
658	24-Feb-09	13-Oct-10	100,000,000	1.63
659	18-May-09	20-Oct-10	100,000,000	1.42
661	06-May-09	26-Oct-10	200,000,000	1.47
662	18-May-09	02-Nov-10	100,000,000	1.46
664	12-May-09	10-Nov-10	100,000,000	1.50
666	26-May-09	22-Nov-10	150,000,000	1.49
668	21-May-09	29-Nov-10	100,000,000	1.53
669	08-May-09	05-Dec-10	200,000,000	1.58
3387	22-May-09	16-Jul-11	100,000,000	2.15
3563	20-Mar-09	16-Aug-11	100,000,000	2.41
3710	22-May-09	12-Sep-11	100,000,000	2.31
3775	08-Dec-08	12-Oct-11	100,000,000	2.84
3995	20-Mar-09	15-Nov-11	100,000,000	2.66
10200	12-Jan-09	13-Oct-13	100,000,000	4.75
10222	28-Apr-09	15-Oct-13	200,000,000	4.47
10322	19-Feb-09	24-Oct-12	100,000,000	3.68
10389	08-May-09	31-Oct-13	100,000,000	4.48
10671	28-Apr-09	07-Nov-13	100,000,000	4.53
10771	12-Feb-09	17-Nov-12	100,000,000	3.76
10818	04-Mar-09	20-Nov-13	100,000,000	4.72
10925	15-Apr-09	28-Nov-12	100,000,000	3.62
10980	03-Feb-09	02-Dec-13	100,000,000	4.83
11234	17-Feb-09	10-Dec-12	100,000,000	3.81
11661	13-Jan-09	21-Jan-14	100,000,000	5.02
11749	21-Apr-09	30-Jan-13	100,000,000	3.78
11789	15-May-09	03-Feb-13	100,000,000	3.73
11903	21-Apr-09	12-Feb-13	200,000,000	3.82
11979	15-Apr-09	20-Feb-13	100,000,000	3.85
12015	21-Apr-09	25-Feb-13	100,000,000	3.85
12314	03-Mar-09	05-Mar-13	100,000,000	4.01
12336	13-Jan-09	10-Mar-13	200,000,000	4.16
12438	08-Apr-09	19-Mar-13	100,000,000	3.95
12493	04-Mar-09	29-Mar-13	100,000,000	4.07
12500	13-Jan-09	30-Mar-13	200,000,000	4.21
12636	29-Apr-09	08-Apr-13	100,000,000	3.95
12662	06-May-09	15-Apr-13	100,000,000	3.95
12698	19-Mar-09	21-Apr-13	100,000,000	4.09
12702	10-Dec-08	22-Apr-13	200,000,000	4.37
12747	22-Dec-08	30-Apr-13	150,000,000	4.36
12769	22-Dec-08	04-May-13	200,000,000	4.37
12841	04-Mar-09	13-May-13	150,000,000	4.19
12880	12-Feb-09	19-May-13	200,000,000	4.27
12943	11-Dec-08	25-May-13	200,000,000	4.45
13119	06-Mar-09	08-Jun-15	100,000,000	6.26
13173	15-May-09	10-Jun-15	100,000,000	6.07
13202	03-Feb-09	17-Jun-15	100,000,000	6.37
13211	12-Mar-09	18-Jun-15	100,000,000	6.27
13488	01-Apr-09	16-Jul-15	100,000,000	6.29

13519	19-Mar-09	21-Jul-13	100,000,000	4.34
13538	04-Feb-09	22-Jul-13	100,000,000	4.46
13545	15-Apr-09	23-Jul-13	100,000,000	4.27
13555	13-Mar-09	26-Jul-13	100,000,000	4.37
13563	02-Feb-09	27-Jul-13	100,000,000	4.48
13570	06-May-09	28-Jul-13	200,000,000	4.23
13621	05-Mar-09	30-Jul-15	100,000,000	6.41
13688	15-Apr-09	05-Aug-15	150,000,000	6.31
13752	22-Dec-08	12-Aug-13	150,000,000	4.64
13787	21-Apr-09	18-Aug-15	150,000,000	6.33
13805	02-Feb-09	20-Aug-15	150,000,000	6.55
13860	02-Apr-09	26-Aug-13	100,000,000	4.40
13922	22-Dec-08	03-Sep-13	150,000,000	4.70
13944	04-Feb-09	07-Sep-13	100,000,000	4.59
13989	20-Feb-09	09-Sep-15	200,000,000	6.55
14061	22-Dec-08	17-Sep-13	150,000,000	4.74
14107	19-Mar-09	22-Sep-15	100,000,000	6.52
14130	30-Mar-09	24-Sep-13	100,000,000	4.49
14269	20-Apr-09	08-Apr-15	100,000,000	5.97
14286	13-Jan-09	13-Apr-15	100,000,000	6.25
14344	29-Apr-09	20-Apr-15	100,000,000	5.98
14354	30-Mar-09	22-Apr-15	100,000,000	6.07
14398	18-Feb-09	29-Apr-15	100,000,000	6.19
14478	15-May-09	05-May-15	100,000,000	5.98
14515	08-Apr-09	10-May-15	100,000,000	6.09
15476	14-Jan-09	25-Jan-15	100,000,000	6.03
15499	08-May-09	28-Jan-15	150,000,000	5.73
15516	01-Dec-08	01-Feb-15	100,000,000	6.17
15576	02-Apr-09	04-Feb-15	100,000,000	5.85
15619	02-Apr-09	09-Feb-15	100,000,000	5.86
15666	05-Mar-09	14-Feb-15	100,000,000	5.95
15677	13-Mar-09	15-Feb-15	200,000,000	5.93
15736	02-Feb-09	23-Feb-15	100,000,000	6.06
15899	21-May-09	09-Mar-11	150,000,000	1.80
16021	02-Apr-09	31-Mar-11	200,000,000	1.99
16167	21-Apr-09	13-Apr-11	200,000,000	1.98
19761	26-May-09	04-May-11	100,000,000	1.94
19864	03-Mar-09	17-May-17	100,000,000	8.21
20158	26-May-09	26-Jun-11	100,000,000	2.08
20338	17-Feb-09	14-Jul-11	100,000,000	2.40
20352	18-Feb-09	19-Jul-11	100,000,000	2.41
20539	19-Mar-09	11-Aug-11	100,000,000	2.40
20568	26-May-09	16-Aug-11	100,000,000	2.22
20935	29-Apr-09	20-Sep-11	100,000,000	2.39
21105	09-Apr-09	09-Apr-17	100,000,000	8.01
21129	09-Jan-09	10-Apr-17	100,000,000	8.25
21163	17-Mar-09	12-Apr-17	100,000,000	8.08
21215	01-Apr-09	20-Apr-17	100,000,000	8.06
21238	08-Apr-09	25-Apr-17	100,000,000	8.05
21350	21-Apr-09	07-May-17	100,000,000	8.05
21445	06-Mar-09	15-May-17	200,000,000	8.20
21483	02-Mar-09	17-May-17	100,000,000	8.21
21574	07-May-09	30-Nov-11	100,000,000	2.57
21584	17-Dec-08	01-Dec-11	100,000,000	2.96
21669	17-Dec-08	08-Dec-16	100,000,000	7.98
21693	15-May-09	13-Dec-11	200,000,000	2.58
21886	29-Apr-09	15-Jan-11	100,000,000	1.72
21939	24-Nov-08	24-Jan-11	100,000,000	2.17
22114	17-Dec-08	14-Feb-11	100,000,000	2.16
22351	17-Dec-08	14-Mar-11	100,000,000	2.24
22397	17-Dec-08	19-Mar-11	100,000,000	2.25
22614	07-Apr-09	18-Apr-11	100,000,000	2.03
24255	13-Feb-09	18-Apr-11	100,000,000	2.18
24385	19-Feb-09	18-Apr-11	100,000,000	2.16
24497	22-Dec-08	18-Apr-11	100,000,000	2.32