

Introduction to exchange-traded Australian Government Bonds (eAGBs)

Course Module 1



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Topic 1: Investing for income and security

Why invest in fixed income securities?

One of the main reasons investors choose to invest in fixed income securities is for stability and predictable income. Unlike equity securities (shares), which can be volatile, fixed income securities provide regular interest payments and are expected to return your initial investment (face value) at maturity, for indexed securities the adjusted face value is returned.

Exchange-traded Australian Government Bonds (eAGBs) are a type of fixed income security.

What are eAGBs?

eAGBs offer a simple and accessible way to invest in Australian Government Bonds (AGBs). AGBs are fixed income securities issued by the Australian Government that provide:

- Regular interest payments (also called coupon payments); and
- Repayment of face value at maturity, or in the case of Indexed Bonds repayment of CPI adjusted face value.

Unlike AGBs (which trade in large parcels in OTC markets and are typically only accessible to wholesale investors), eAGBs:

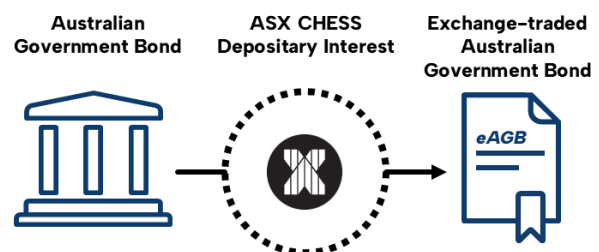
- Trade in small and large parcels – making them accessible to retail investors; and
- Trade and settle on ASX – in the same way you buy or sell ASX listed shares.



How do eAGBs work?

An eAGB works as follows:

- An eAGB holder will have a beneficial interest in an AGB in the form of CHESS Depositary Interests (CDIs).
- A CDI is a financial product which is a unit of beneficial ownership in the underlying security or financial product to which it relates. eAGBs are a type of CDI granted over government bonds. Further information about CDIs generally can be obtained on [the ASX website](https://www.asx.com.au).
- An eAGB holder accordingly obtains an interest in the economic benefits (including coupon interest and maturity payments) attached to the AGB over which the CDIs have been issued.
- A one unit holding of an eAGB provides beneficial ownership of \$100 Face Value of the AGB over which it has been issued.

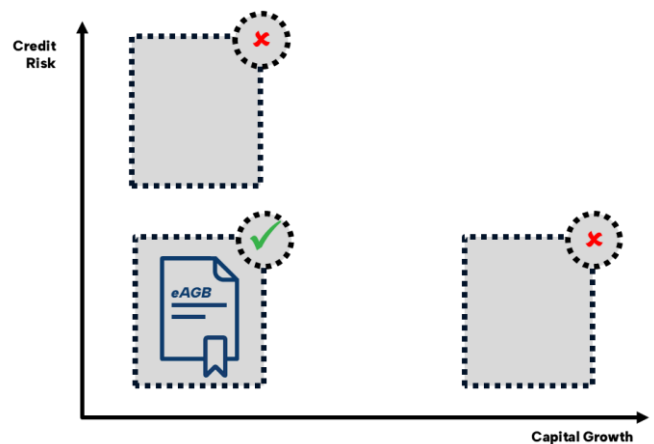


The trade-off between risk and return?

AGBs have the lowest credit risks because they are issued by the Australian Government.

This means, as a holder of an *eAGB*, you can have a high degree of confidence that you will receive your regular income payments and receive repayment of the face value at maturity.

However, this lower risk typically means a lower return compared to investments with higher credit risk.



Topic 2: exchange-traded Australian Government Bonds

Key elements of eAGBs

eAGBs have four key features:

Feature	Description
Face Value	A one unit holding of an eAGB provides beneficial ownership of \$100 Face Value of the underlying AGB over which it has been issued.
Maturity Date	The date the Australian Government repays the face value and stops paying interest
Coupon Rate	For eTBs, it is the interest income paid to the holder expressed as a percentage of its face value. For eTIBs, it is interest income paid to the holder expressed as a percentage of its face value adjusted for movements in the Consumer Price Index (CPI)
Payment Cycle	How often interest (coupons) are paid to the eAGB holder – either quarterly or every six months

Buying and selling eAGBs

eAGBs trade on the ASX, making them accessible to both retail and wholesale investors.

eAGBs can be bought and sold through the full range of ASX market participants – from full-service brokers to online execution-only brokers.

Your broker will require your bank account for payment of your coupons. You will also receive a CHESS holding statement which itemises your holding.

Coupon payments and redemptions at maturity are generally made via electronic funds transfer into an Australian dollar bank account with a financial institution in Australia. Australian, United States, Great Britain, New Zealand and Canadian resident investors must nominate a valid Australian bank account; otherwise payments will be withheld until such time as a valid bank account is nominated. Payments to investors that reside outside the above-mentioned jurisdictions will be made by paper cheque where a valid bank account has not been nominated.

Settlement structure of eAGBs

Bonds issued by the Australian Government have historically traded in large amounts on wholesale markets, which are typically inaccessible to retail investors. In contrast, eAGBs are structured to be accessible for individual retail investors.

eAGBs are bought and sold like shares. They settle through CHESS and your holdings are managed through a registry, just like shares.

For this to be able to happen, eAGBs are traded on ASX and settle through CHESS as CHESS Depositary Interests (CDIs).

It is useful to know that eAGBs trade via CDIs – however understanding the mechanics of CDIs is not essential for your investment.

Topic 3: Choice of exchange-traded Australian Government Bonds

Types of eAGBs

There are two types of eAGBs:

Type	Description
1 Exchange-traded Treasury Bonds (<i>eTBs</i>)	Provide regular fixed interest payments every six months and returning face value at maturity.
2 Exchange-traded Treasury Indexed Bonds (<i>eTIBs</i>)	<i>eTIBs</i> are capital-indexed bonds. The Face Value of the <i>eTIBs</i> are adjusted by reference to movement in the Consumer Price Index (CPI). Coupon interest payments are paid quarterly in arrears, at a fixed rate, on the Face Value as adjusted for movement in the CPI over the life of the bond. At maturity, investors will receive the Face Value adjusted for movement in the CPI over the life of the <i>eTIB</i> .

There are a range of *eTBs* and *eTIBs* on issue offering different maturity dates and coupon rates. A full list of eAGBs on issue is available on [the ASX website](#).

Why inflation matters?

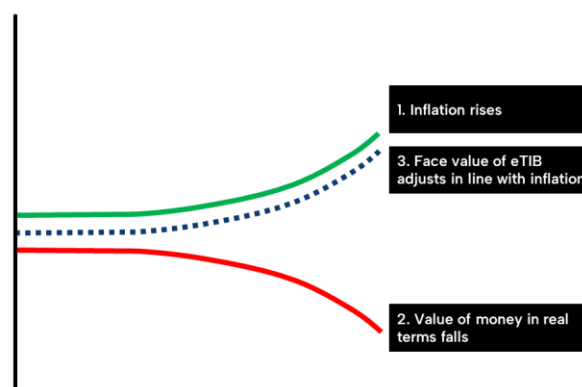
eTIBs offer you some protection against the effects of inflation.

Inflation is a risk to your capital because it erodes the value of money over time. \$100 today may not have the same purchasing power next year.

If you are concerned about inflation and its eroding effect, *eTIBs* may be a suitable product for you to consider.

Module 4 explains *eTIBs* in detail.

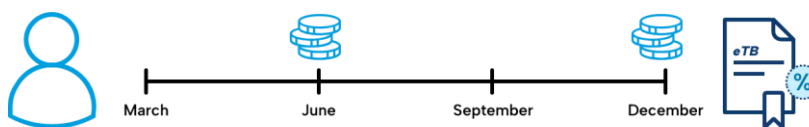
eTIBs adjust their face value in line with inflation



When your income is paid

Another difference between the types of eAGBs are how frequently you receive your coupon payments.

eTBs pay coupons every six months while eTIBs pay every three months.



Summary

- When you buy an *eAGB* you get a security that delivers a defined income stream for a defined period. At the end of that period the *eAGBs* face value is paid to the holder. With *eAGBs*, you are not locked into holding them for any pre-set timeframe.
- This flexibility means you can sell part or all of your *eAGB* holdings when you need to, subject to there being buyers willing to pay your desired price and subject to the ASX Operating Rules, trading hours and *eAGB* quotation conventions.
- The market price of an *eAGB* may rise or fall creating the potential for profit or loss.
- There are two types of *eAGBs* available:
 - exchange-traded Treasury Bonds (*eTBs*); and
 - exchange-traded Treasury Indexed Bonds (*eTIBs*).
- *eTBs* are equivalent to a simple (vanilla) bond. *eTIBs* compensate you for the effects of inflation by their face value adjusting in line with the Consumer Price Index (CPI).