

*Autoridade Bancária e de Pagamentos de Timor-Leste*

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*Banking and Payments Authority of Timor-Leste*

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**PRESS RELEASE**

**REPORTING OF PETROLEUM FUND RESULTS**

There have been recent reports in the media concerning alleged “losses” suffered by the Petroleum Fund. One headline was: “Petroleum Fund loses \$5.8 million in a year”. It was implied that the “losses” arose as a result of poor management, whether by the Banking and Payments Authority (BPA), the Minister of Planning and Finance, the Investment Advisory Board, or as a result of defects in the Operational Management Agreement.

The BPA believes that such statements do not reflect the actual results achieved by the Fund, and the figures quotes do not indicate mismanagement by the authorities responsible for determining the investment policy or investing the Petroleum Fund.

To assist members of the public to better understand the issues, the BPA has prepared a Briefing Paper “Valuation and Financial Reporting of Investments in Government Bonds” that explains some of the underlying concepts associated with the Petroleum Fund’s investments in US Government bonds.

The Briefing Paper explains how the original purchase cost of a bond in the market is almost certainly different from its face value, whereas its maturity value is always equal to its face value. The difference is a function of market interest rates and the coupon rate of the bond, and is recognised as part of income over time in a process known as amortisation. If a bond is purchased at a higher price than the face value, the amortisation will be negative. If a bond is purchased at less than face value, the amortisation will be positive. The amortisation arises as a result of bond market mathematics, and is not an indicator of whether the Fund is being managed well or not.

The paper explains how the most appropriate method of assessing the management of a bond portfolio is not by studying the amount of the amortisation, but by comparing the financial results achieved with a benchmark index. The Fund’s Quarterly Reports contain information that allows members of the public to regularly assess performance on this basis.

The overall income of the Petroleum Fund for the past two years has been almost identical to the benchmark index determined by the Minister of Planning and Finance.

This achievement by the BPA has been the subject of favourable comment from international financial agencies such as the IMF and World Bank.

The Paper is available for download from the BPA's web site <http://www.bancocentral.lt/PF/Otherpub.asp>.

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