

Treasury Report: Retail Deposit Guarantee Scheme - Amended Policy Guidelines

Date:	21 October 2008	Report No:	T2008/2024
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Action Sought

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Minister of Finance (Hon Dr Michael Cullen)	<p>a Agree to the sub delegations outlined in the paper.</p> <p>b Agree to the amended policy guidelines attached.</p> <p>c Agree that the policy guidelines be made publicly available, including being published on the Treasury website.</p> <p>d Refer this report to the Prime Minister.</p>	By 9am Wednesday 22 October 2008.

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
John Whitehead	Secretary to the Treasury	9176040 (wk) [deleted – privacy, OIA s9(2)(a)]	✓
Joanna Gordon	Manager, Regulation and Market Performance	9176939 (wk) [deleted – privacy, OIA s9(2)(a)]	

Minister of Finance's Office Actions (if required)

None.

Enclosure: Yes

Treasury Report: Retail Deposit Guarantee Scheme - Amended Policy Guidelines

Summary

As you aware, as we implement the retail deposit guarantee scheme, we need to refine the details of the scheme and the administrative arrangements. This report seeks your approval to sub-delegation of the authority to give guarantees and amendments to the policy guidelines which guide the exercise of discretion under the delegation to the Secretary to the Treasury (attached).

Delegation of authority to give guarantees

On 13 October 2008, you delegated to the Secretary to the Treasury the authority to give guarantees and publish relevant statements in the gazette as part of the management and administration of the Crown Deposit Guarantee Scheme. You also consented to sub-delegation of that authority.

Given the scope of the scheme, the demands on the Secretary's availability and the need for administrative efficiency, the Secretary considers that he should sub-delegate that authority to the following Senior Treasury Officials (Deputy Secretary, Michael James; Assistant Secretary, Jeremy Corban; and Director, Economic Performance, Brian McCulloch). These officials have been selected based on their seniority, expertise and acumen. The sub-delegations will also assist if any significant conflicts of interests arise, that is if the relevant decision maker has significant holdings with or interests in an applicant.

Information deleted under s9(2)(h) to maintain legal professional privilege.

As a result, we recommend that you provide your specific written consent to the Secretary's sub-delegation, of the power to grant guarantees and publish relevant statements in the gazette under section 65ZD of the Public Finance Act that you have delegated to him, to Michael James, Jeremy Corban and Brian McCulloch.

Policy Guidelines

The policy guidelines for the delegated administration and management of the scheme have been amended. Material changes have been made to the "Overarching Principles" and "Other Factors" sections. Those changes ensure consistency with the Crown Guarantee Deeds, following the amendments implementing your decisions on 14 October 2008 (T2008/2013). Crown Law have provided a quality assessment and these comments have also been incorporated in the guidelines. Other minor amendments have been made to ensure full consistency with the Crown Guarantee Deeds.

Once you approve these we recommend that they be made available prominently on our website (with appropriate communications messages and legal qualifiers). This will enable applicants to better understand the application process and may stem the number of applications (and queries) from entities that clearly fall outside the intent of the scheme.

We will also be able to develop our operational procedures around these guidelines.

Communications

We are also proposing the policy guidelines be made publicly available (on the website) to assist potential applicants in determining whether to apply for coverage under the scheme or not.

Recommended Action

We recommend that you:

- a **note** that on 13 October 2008, you delegated to the Secretary to the Treasury the authority to give guarantees and publish relevant statements in the gazette as part of the management and administration of the Crown Deposit Guarantee Scheme;
- b **note** that given the scope of the Crown Retail Deposit Guarantee Scheme, the demands on the Secretary's availability and the need for administrative efficiency, the Secretary considers that he should sub-delegate that authority to officials with appropriate seniority, experience and acumen;
- c **agree** to the sub-delegation of that authority to Deputy Secretary, Michael James; Assistant Secretary, Jeremy Corban; and Director, Economic Performance, Brian McCulloch;
Agree/disagree.
- d **agree** to the amended policy guidelines attached;
Agree/disagree.
- e **agree** that the policy guidelines be made publicly available, including being published on the Treasury website;
Agree/disagree.
- f **refer** this report to the Prime Minister.
Agree/disagree.

John Whitehead
Secretary to the Treasury

Hon Dr Michael Cullen
Minister of Finance

CROWN RETAIL DEPOSIT GUARANTEE SCHEME - POLICY GUIDELINES

These guidelines cover the exercise of discretion under the delegated authority granted to the Secretary to the Treasury by the Minister of Finance regarding the management and administration of the Crown's Retail Deposit Guarantee Scheme.

Discretion

The decision to enter into a Crown Guarantee with any specific entity is at the sole discretion of the Crown.

Overarching Principles

The grant of a Crown Guarantee to an Entity must be “necessary or expedient in the public interest.”

The key “public interest” factors when considering the provision of a Crown Guarantee are:

- a the maintenance of public confidence in New Zealand's financial system; and
- b maintaining the confidence of general public depositors in New Zealand financial institutions.

Entities Eligible to Apply for the Crown Guarantee

The Entities eligible to apply for the Crown Guarantee are:

- a Banks registered under the Reserve Bank of New Zealand Act 1989;
- b Building Societies as defined in the Building Societies Act 1965;
- c Credit Unions as defined in the Friendly Societies and Credit Unions Act 1982;
- d Other bank like entities (such as finance companies), existing on 12 October 2008, which issue Debt Securities.
- e Other bank like entities (such as finance companies), established after 12 October 2008, which issue Debt Securities and have a BBB- rating or higher.
- f Qualifying Collective Investment Schemes.

Debt Securities mean any interest in or right to be paid money that is, or is to be, deposited with or lent to any person (whether or not the interest or right is secured by a charge over any property); and includes—

- a Debenture, debenture stock, bond, note, certificate of deposit, and convertible note; and

- b An interest or right that is declared by regulations to be a debt security for the purposes of the Securities Act 1978; and
- c A renewal or variation of the terms or conditions of any such interest or right or of a security referred to in paragraph (a) or paragraph (b) of this definition;—

but does not include—

- d An interest in a contributory mortgage where the interest is offered by a contributory mortgage broker; or
- e Any such interest or right or a security referred to in paragraph (a) or paragraph (c) of this definition that is declared by regulations not to be a debt security for the purposes of the Securities Act 1978.

A Qualifying Collective Investment Scheme means:

- a an arrangement or scheme to which a participatory security (within the meaning of section 2(1) of the Securities Act 1978) relates;
- b a superannuation scheme (within the meaning of section 2A(1) of the Superannuation Schemes Act 1989); or
- c a unit trust (within the meaning of section 2(1) of the Unit Trusts Act 1960),

that invests exclusively in:

- d New Zealand government securities; or
- e Debt Securities issued by an entity that is covered by the Crown Deposit Guarantee Scheme.

Relevant Criteria

Entities applying for the Crown Guarantee should meet all of the following criteria:

- a issue Debt Securities or be a Qualifying Collective Investment Scheme;
- b be in the business of borrowing and lending, or providing financial services, or both;
- c carry out a substantial portion of their business in New Zealand; and
- d do not primarily provide financial services or lend to related parties and/or group members.

Other factors that may be considered in exercising discretion to offer, or refuse to offer, the Crown Guarantee

- a The size of the Entity;
- b The credit worthiness of the Entity, including any rating agency reports on the Entity;
- c The number of depositors in the Entity;
- d The related party exposure of the Entity;
- e The quality of the information provided by the Entity;
- f Whether the accounts of the Entity are audited;
- g That the business practices of the Entity meet reasonable standards;
- h That the individuals with control of the Entity are of good character;
- i That the individuals with control of the Entity have the business experience and acumen relevant to the operation of the Entity;
- j Whether, and the extent to which, the Entity's overall business is bank-like in nature;
- k The length of time the entity has been in business;
- l The track record of the entity with respect to such matters as whether it has met its payments as they fell due and maintained solvency;
- m The importance of the entity to the New Zealand financial system; and
- n Any other factors relevant to:
 - the maintenance of public confidence in New Zealand's financial system; and
 - maintaining the confidence of general public depositors in New Zealand financial institutions.

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