



# Cabinet Business Committee

CBC Min (09) 10/1

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## Minute of Decision

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### Extending the Retail Deposit Guarantee Scheme

#### Portfolio: Finance

On 10 August 2009, the Cabinet Business Committee **agreed to recommend** that Cabinet:

#### Extending the Retail Deposit Guarantee Scheme (DGS)

- 1 note that a decision to end the Retail Deposit Guarantee Scheme (DGS) on 12 October 2010 (retain the status quo) or extend the DGS (to 31 December 2011) is finely balanced;
- 2 note that the decision to favour extending the DGS on revised terms is to achieve a less disruptive and potentially less costly exit from the DGS;
- 3 note that for the extension of the DGS to have the anticipated benefits, and not just delay the inevitable adjustment process, it needs to promote adjustment by being on more limited and risk sensitive terms than the current DGS and have a definitive end date;
- 4 agree to extend the DGS;

#### Length of transitional DGS

- 5 agree that the extended DGS will expire on 31 December 2011;

#### Institutional coverage

- 6 agree that the extended DGS will be voluntary for deposit taking institutions;
- 7 agree that the extended DGS will only be open to institutions that are already members of the current DGS with the exception of any new entrant New Zealand registered banks that may wish to join and with discretion to allow merged entities to join the scheme where that reduces the Crown's risk;
- 8 agree that only institutions with a credit rating of BB or above will be eligible for the transitional DGS and that collective investment schemes (CISs) will not be covered, that is, some (BB- or below, and unrated; and CISs) members of the current DGS will not be eligible;

## Depositor coverage

- 9 agree to set a per depositor per institution coverage cap of up to \$500,000 for banks and up to \$250,000 for non-bank deposit takers;

## Fees

- 10 agree that fees will apply to all guaranteed deposits (full book);
- 11 agree that fees will be risk sensitive and based on the probability of default, and likely loss given default, so as to balance efficiency and stability objectives;
- 12 note the Minister of Finance will set a fee schedule in line with the principles outlined in paragraphs 10 and 11 above, indicative as follows:

### Proposed fee schedule

Credit rating	Finance Companies (bpts)	Banks, Credit Unions, Building Societies, PSIS (bpts)
AAA +/-	15	15
AA+	15	15
AA	15	15
AA-	20	15
A+	25	20
A	30	20
A-	40	20
BBB +	60	25
BBB	80	30
BBB-	100	40
BB+	120	50
BB	150	60

## Management tools

- 13 note that the Crown's powers to manage exposure under the current and extended DGS could be extended to include:
- 13.1 authorisation of deposit book growth and asset acquisition;
- 13.2 change of control authorisation requirement;

## Resolution tools

- 14 agree that the Crown's powers to resolve defaults under the extended DGS be extended to include the redefinition of what constitutes a trigger for default so institutions entering statutory management would not be in default and depositors would not need to be paid out immediately;

- 15 authorise the Minister of Finance to take further detailed decisions on the design features of the extended DGS;

## Legislation

- 16 agree to the extended DGS being enacted by new legislation;
- 17 note that the Minister of Finance recommends the new legislation be passed under urgency in order to provide market certainty, and urgency could be used for some or all stages of the legislation;
- 18 agree that the Minister of Finance seek the support of key support and opposition parties to pass legislation for the DGS;
- 19 agree that the legislation:
  - 19.1 confirm the establishment of the current DGS and enable an extension of the DGS only until 31 December 2011, on terms and conditions including eligibility criteria the Minister of Finance considers fit;
  - 19.2 provide permanent legislative authority for the cost of undertaking investigations, to make payments under guarantee and expenses incurred administering those claims;
  - 19.3 ensure that any payments to creditors under the guarantees are debts due to the Crown from the guaranteed entity;
  - 19.4 ensure such payments will be given the same priority as that held by the relevant creditor, the reason being that if the Crown does not pay out to depositors in full, for example, if the individual has a deposit in a non-bank in excess of the \$250,000 cap, this can have the result of the Crown losing the priority it would otherwise have;
- 20 authorise the Minister of Finance to take further decisions on the detail of the policy and legislation if required;
- 21 note that if significant policy issues arise in drafting, the Minister of Finance will refer these to the Cabinet Economic Growth and Infrastructure Committee for consideration;

## Communication

- 22 agree to announcing the extension of the DGS following Cabinet's decisions and a decision on the Parliamentary timetable for the Bill, and securing support from other key support and opposition parties;

## Financial implications

- 23 note that the operating costs of the current DGS and Wholesale Funding Guarantee Facility (WFGF) were approved as two separate output classes within Vote Finance Multi-Class Output Expense Appropriation (MCOA) – State Sector and Economic Performance Policy Advice and Management;
- 24 agree to “ring fence” these output classes into a single annual appropriation from 1 September 2009, and transfer existing output classes into this new appropriation;
- 25 note that if funding is not required it will be available to be returned to the government as savings to apply to other priorities;

- 26 agree to establish a new Departmental Output Expense “Crown Guarantee Schemes” in Vote Finance, with this appropriation to be the responsibility of the Minister of Finance;
- 27 agree that the output class scope shown in the Estimates will be “This appropriation is limited to the implementation and operation of the Crown’s Deposit Guarantee Scheme and Crown’s Wholesale Funding Guarantee Facility excluding expenses incurred in connection with administering claims under a guarantee or indemnity given under the scheme”;
- 28 note that the total direct operating costs of extending the scheme (\$5.293 million) are due to immediate costs in the 2009/10 financial year to reissue the Crown Deed of Guarantee to eligible institutions for the extension period (\$0.755 million) and the operating costs for the extension period from 12 October 2010 to 28 February 2012 including a two month wind-down (\$4.538 million);
- 29 note that the additional immediate operating costs in 2009/10 financial year (\$0.755 million) will be met from existing funding for the DGS already in Vote Finance;
- 30 note that Vote Finance will require funding for the direct operating costs of the extension to the DGS from 12 October 2010 to 28 February 2012 as only costs for the two year scheme to 12 October 2010 had previously been approved;
- 31 approve the following changes to appropriations to implement the proposals in paragraphs 4 and 23–30, with the following impact on the operating balance:

	\$m - increase/(decrease)						
<b>Vote Finance Minister of Finance</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16 only</b>
Departmental Output Expense: Crown Guarantee Schemes	4.383	3.717	2.401	0.225	0.225	0.225	0.225
<b>Departmental Multi-class Output Expense:</b> State Sector and Economic Performance Policy Advice and Management							
Crown Deposit Guarantee Scheme	(3.100)	(0.700)	-	-	-	-	-
Wholesale Guarantee Facility (funded by revenue Crown)	(1.283)	(0.655)	(0.225)	(0.225)	(0.225)	(0.225)	(0.225)
<b>Total Operating Impact</b>	<b>-</b>	<b>2.362</b>	<b>2.176</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

- 32 [ Withheld – under active consideration

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- 33 note that while operational expenses within the control of the Treasury are provided from the annual departmental output expense appropriation, other departmental expenses incurred for administering of the deed of guarantee beyond those envisaged in the annual appropriation, including costs of investigation (under the Crown Deed of Guarantee) and costs of processing of claims made under the guarantee, are currently paid under the permanent legislative authority (PLA) authorized by section 65ZG of the Public Finance Act 1989 (the Act) and will be paid under a PLA within the proposed legislation;

- 34 note that payments in respect of guarantees and indemnities currently authorised by section 65ZG of the Act, will be authorised under a PLA within the proposed legislation and reported as Non-Departmental Other Expenses;
- 35 note the following forecast change as a result of the proposals in paragraphs 10–12 to increase Crown non-tax revenue from fees charged by the Crown for the guarantee with a corresponding impact on the operating balance:

	<b>\$m - increase/(decrease)</b>				
<b>Vote Finance Minister of Finance</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>
Non-Tax Revenue: Crown Deposit Guarantee Scheme	-	[Withheld – prejudice commercial position]	[Withheld – prejudice commercial position]	-	-
<b>Total</b>	-	[Withheld – prejudice commercial position]	[Withheld – prejudice commercial position]	-	-

- 36 [ Withheld – economically disadvantage Crown ]
- 37 [ Withheld – under active consideration ]
- 38 [ Withheld – under active consideration ]
- 39 agree that the changes to appropriations proposed in paragraph 31 and/or under paragraph 38 above be included in the Supplementary Estimates for the relevant year and that, in the interim, the increases be met from Imprest Supply.

Committee Secretary

Reference: CBC (09) 88

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**Distribution: (see over)**

**Present:**

Hon John Key (Chair)  
Hon Bill English  
Hon Judith Collins  
Hon Anne Tolley  
Hon Christopher Finlayson  
Hon Dr Wayne Mapp  
Hon Steven Joyce  
Hon Kate Wilkinson

**Officials present from:**

Office of the Prime Minister  
Department of the Prime Minister and Cabinet  
The Treasury  
Reserve Bank of New Zealand

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