

Treasury Report: Australian DGS legislation

Date:	2 June 2009	Report No:	T2009/1347
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	For information – follow up to Treasury Report T2009/1271	3/06/09

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Joanna Gordon	Manager - Financial Markets & Institutions	[Withheld – privacy]	[Withheld – privacy]	
Peter Wilding	Senior Analyst - Financial Markets & Institutions	[Withheld – privacy]	[Withheld – privacy]	✓

Minister of Finance's Office Actions (if required)

Please re-submit Treasury Report (T2009/1271) for signature.

Enclosure: No

Treasury Report: Australian DGS legislation

Executive Summary

In response to a Treasury Report (T2009/1271) on the legislative issues around extension of the Retail Deposit Guarantee Scheme you asked for more information on the legislative framework for the Australian deposit guarantee scheme. This report provides a brief overview of the legislation supporting the Australian scheme.

The Australian scheme is set out in the Financial System Legislation Amendment (Financial Claims Scheme and Other Measures) Act 2008, which implemented the Financial Claims Scheme. The Financial Claims Scheme is a permanent scheme for depositor protection, announced in June 2008. The Act provides for the scheme to cover 100% of deposits (up to A\$1 million) for a period of three years. [Withheld – prejudicial to relations]

Recommended Action

We recommend that you note the contents of this report.

Joanna Gordon

Manager- Economic Performance Group
for Secretary to the Treasury

Hon Bill English
Minister of Finance

Purpose of Report

1. You asked for information on how the Australian deposit guarantee scheme is legislated for, and what will happen when it expires. This report provides a brief summary.
2. The Australian Government put in place the legislative framework for the guarantee of deposits in Australian authorised deposit-taking institutions (ADIs) at the end of October 2008.
3. The Financial System Legislation Amendment (Financial Claims Scheme and Other Measures) Act 2008 implemented the Financial Claims Scheme (a permanent deposit protection arrangement which had been announced in June 2008) but with more generous cover. That is, a three year 100% guarantee of deposits up to A\$1 million in ADIs. The Australian guarantee arrangements cover:
 - small deposits up to and including A\$1 million under the Financial Claims Scheme; and
 - large deposits (those over A\$1million) can be covered for a fee under the Deed of Guarantee entered into by the Commonwealth Government on 20 November 2008.
4. The Financial Claims Scheme also includes provisions to provide compensation to policyholders in failed general insurance companies.
5. Additional levy powers allow the Australian Prudential Regulatory Authority (APRA) – the authority which administers the scheme - to levy the industry to cover any expenditure relating to the Scheme which is not recovered from the insolvency of an ADI.
6. The legislation also provides for creditor preference in insolvency to be amended with a new ranking of:
 - APRA's claims against the ADI due to its assumption of paid-out depositors rights;
 - APRA's claims for costs of administration in the winding up of the ADI;
 - The ADIs other deposit liabilities in Australia;
 - The ADIs other liabilities in order of priority.
7. This arrangement promotes APRA's claims above that of any other Australian depositors – which are already preferred to any other creditor.
8. [Withheld – prejudicial to relations]
9. The initial limit proposed for the Financial Claims Scheme when it was announced in June 2008 was A\$20,000. [Withheld – prejudicial to relations]
10. [Withheld – under active consideration]