

The Treasury

South Canterbury Finance Limited Information Release

Release Document

April 2011

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Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [2] 9(2)(b)(i) - to protect trade secrets
- [3] 9(2)(b)(ii) - to avoid unreasonable prejudice to the commercial position of the person who supplied the information or who is the subject of the information
- [4] 9(2)(ba) - to protect information that is subject to an obligation of confidence, or that was or could be provided under legal compulsion, where making the information available would be likely to prejudice the supply of similar information and it is in the public interest for that information to continue to be supplied
- [5] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [6] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [7] 9(2)(h) - to maintain legal professional privilege
- [8] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, an [8] appearing where information has been withheld in a release document refers to section 9(2)(i).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

MEMORANDUM FOR

John Park
Treasury

COPIED TO

Andy Wood
Reserve Bank

FROM

Doug Widdowson
Adviser - Domestic Deposit Taking Oversight

DATE

2/04/2009

SUBJECT

**TRUSTEE COMMENTS ON HIGH RISK
ENTITIES**

FOR YOUR

Information

This note serves to update Treasury on recent conversations we have had with Trustee Executors and Perpetual Trust with regard to a number of guaranteed institutions that have been ranked as high risk, or have a high potential impact on the Crown.

The institutions are:

- Equitable Mortgages (Trustee Executors);
- South Canterbury Finance (Trustee Executors); and
- Strata Finance (Perpetual Trust).

Equitable Mortgages

This institution is ranked as having a high risk of possible failure in our latest report to the Crown. Total guaranteed deposits at risk amount to \$140 million and total number of depositors amount to 4,631

Detailed analysis of the company will be forwarded later this week.

[4]

[4]

However, risks remain, and they intend to report to the Bank as soon as they have further information on the entity.

South Canterbury Finance

South Canterbury Finance is ranked as having a moderate risk of possible failure in our latest report to the Crown. However, given its size, the impact of a failure would be severe. Total guaranteed deposits at risk amount to \$1,792 million and total number of depositors amount to 31,322. By guaranteed deposits, it is the largest non bank entity in the scheme.

Detailed analysis of the company will be forwarded later this week.

The Bank had concerns about this company due to assets being misstated and restated over the December/January return period. After these issues were dealt with we noted the following material changes in the company's January 2009 DGS return:

- Related party lending of \$70 million.
- Increase in fixed assets of \$53 million.
- Increase in listed equity investments of \$90 million.

[4]

[4]

However, related to these issues, the Bank believes that some of these transactions may breach clause 6.2(b) of the deposit guarantee contract.

Reason for Breach

- SCF entered into the Crown Guarantee on 19 November 2008.
- SCF total assets (TTA) were:
 - 31/12/08 \$2,136,000k
 - 31/01/09 \$2,230,400k
- 1% of TTA were:
 - 31/12/08 \$21,360k
 - 31/01/09 \$22,300k
- Based on our current understanding we believe that the transaction related to the purchase of the SCF loans by the parent in December 2008 was:
 - A related party transaction under clause 6.2 (b)
 - Exceeded the 1% of TTA limit - \$89.6m against the limit of \$21.36m.
 - Did not have the prior consent of the Crown (confirmed by Treasury)
 - Did not have a written certificate provided by an approved expert that the transaction was arms length (confirmed by Treasury).
- Given the fact that Trustee Executors hold the view that South Canterbury Finance's purchase of the of listed equity investments in January 2009 was from related parties, it appears that this transaction was:
 - A related party transaction under clause 6.2 (b)
 - Exceed the 1% of TTA limit - \$90m against the limit of \$21.36m.
 - Did not have the prior consent of the Crown (confirmed by Treasury)
 - Did not have a written certificate provided by an approved expert that the transaction was arms length (confirmed by Treasury).

In light of this, the Bank recommends that Treasury approach South Canterbury Finance to determine whether these possible breaches, did in fact occur, and on what basis South Canterbury Finance determined that reporting and approval under S6.2(b) was not required.

[3]