

The Treasury

South Canterbury Finance Limited Information Release

Release Document

April 2011

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- [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
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- [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.

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

Date: 18 December 2009

SH-11-4-3-4



THE TREASURY
Kaitohutohu Kaupapa Rawa

To: Minister of Finance

AIDE MEMOIRE: SOUTH CANTERBURY FINANCE

This aide memoire is to update you on our understanding of the state of play as it relates to South Canterbury Finance (SCF) before the Christmas and New Year break. This is for your information only.

Pressure on the company still exists and can be expected to continue over the near term

SCF is still under some considerable pressure following its success in raising funds to settle its US private placement liabilities in October 2009. However, as indicated to you at the time, while this particular issue has been resolved, other issues still persist and will continue to put pressure on the company going forward.

We met with SCF advisers earlier this week and we are advised that, while there are some very difficult issues to deal with going forward, the management and board are working to address these issues.

Of the potential issues coming up in the near term, maintaining credit ratings, and audit and reporting of accounts (for December 2009 due in March 2010) are two of the more obvious ones. This requires Southbury (SCF's parent) to organize a successful convertible notes issue in order to bring equity into the accounts. (Under the condition of the guarantee deed, Treasury will be asked to provide consent to enable this). The convertible notes issue also affects how rating agencies might view SCF but we cannot know when such a review might take place. We may be able to get some prior warning of any rating change but SCF itself may not get much, if any, notice.

Treasury continues to monitor the situation but is not recommending a change in the approach previously advised

As part of the monitoring regime for the company, we are keeping in contact with SCF on their reorganization and restructuring actions. There have been some board and management changes at SCF, with two independent directors being appointed to the board and the CEO and CFO recently resigning. We were more assured that the issues facing SCF are being seriously tackled, although the job ahead is still very difficult and it may not, ultimately, prevent the failure of the firm.

SCF have signed up to the revised guarantee deed, so from January 2010 Treasury will have more powers to request information from the firm although we are not experiencing any significant problems with requests made to date.

We will continue to keep watch over this situation. We have contingency plans in place for over the Christmas/New Year break in the remote likelihood they might be required. We are also continuing to work on wider crisis preparedness. At this point, we are not seeing a case to move from the advice we provided to you earlier on crisis response.

and the SCF situation specifically. However, we will keep an open view as to the suite of potential options.

Others are seeking potential opportunities and may seek to enjoin the Crown in these (i.e. as per the situation as presented in October 2009)

In this context, there are also other interested parties who see the potential for gain in taking over SCF and possibly to do this ahead of any significant restructuring. These are the same interests that were seeking Crown support over the October/November period.

The type of deal that you might be presented with is that the Crown bears some of the risk of the transaction through some form of Crown underwriting of the risks associated with SCF. This could be the Crown providing an undertaking in the form of additional guarantee to support the company or acquiring/underwriting impaired assets.

We understand that there has been recent increased activity around such a proposal and that both you and also senior people in Treasury have had hints about the fragility of SCF situation and we also expect, pressure will be applied for the Crown to partner in any such “rescue” proposal.

This is no different from the situation in October 2009 and, as noted above, our advice has not changed on this. In some respects, it appears to us to be a recirculation of news that you are already aware of.

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