Retail Deposits Guarantee Scheme
Cashflow projections for Investor Payout (including post acceleration interest) and Receiver Distributions

Cashflow forecasts are produced to enable the DMO to plan for the Crown to meet its cash obligations under the Guarantee Scheme, to inform the calculation of post acceleration interest liabilities for defaulting entities and to enable the provision for loss given default to be stated on a net present value basis. The process of forecasting cashflows is fraught with many uncertainties, this paper sets out the assumptions which underpin the forecast for the approval of the provisioning committee.

Investor Payout & Receiver Distribution Assumptions

Variable	Assumption
Which entities will default	The cash flow projection is based on the default of the entities for which provision has been made in the June accounts
The timing of any default	Default timing is based on key known triggers identified in provisioning papers – for instance, credit downgrades, liquidity walls, inability to renew prospectuses.
The claiming pattern of investors	Under the original deed covering investments made up to 31 Dec 2009, the Crown is liable for post acceleration interest in most cases until the date of repayment. The Crown requires a claim to be made to assess eligibility before investors can be paid out, therefore the Crown cannot impel investors to make a claim. It is therefore assumed that investors will fall into three categories - those who need the money immediately and will put in a claim early, - those who will claim when their investment was due to mature (as this was when they expected the money), and - those who will hold off claiming in the interest of continuing to earn high interest rates. The early claimers are expected to net off against the late claimers and thus on average the maturity profile of the entity is the best indicator of claiming pattern. Under the revised deed the Crown is able to limit the period that interest is payable, based on a reasonable period to submit a claim. The Interest calculation therefore assumed that investments made under the revised deed would be paid out 10 weeks post default and that investments under the original deed would be paid out on maturity date.
The amount of distribution from receivers	The loss given default per entity has already been calculated for provisioning. This includes the cost of receivership. Therefore the receiver payout is assumed to be the gross amount paid out by Treasury less the loss given default.
The timing of distributions	In SCF's case advice on big receiverships (greater than $1b) was sourced from PWC who advised that the total process could take 6 years, distribution was thus assumed to be spread evenly over the 5 years subsequent to default. For most the other entities in the provision the distribution pattern for National finance has been used as the model – the distribution took 3 years with the final payment being about 20% of the total.
Discounted cash flows	Cash flows of both payout to investors and distributions from receiverships have been discounted to present value using Government discount rates. The net effect is to increase the anticipated loss given default by $74m, due to the extended timeframe for distribution from receiverships exceeding the benefit gained from the spread of the timing of payout.

Departmental costs of Administering the Guarantees

In addition to the actual Crown cashflows for investor monies paid out and receiver distributions, there are likely to be some additional costs incurred for risk monitoring/management and for managing the payout process itself. These costs would be covered by the PLA. These costs are estimated at a further $2.25m for investigations and $10m for payout which is allocated across the years based on the payout pattern.