

## Treasury Report: Retail Deposit Guarantee Scheme - Update and Timeline

<b>Date:</b>	3 August 2010	<b>Report No:</b>	T2010/1435
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### Action Sought

	<b>Action Sought</b>	<b>Deadline</b>
Minister of Finance (Hon Bill English)	<p><b>Note</b> the timeline for when you can expect to receive further advice in relation to South Canterbury Finance.</p> <p><b>Forward</b> to the Prime Minister for his information.</p>	

### Contact for Telephone Discussion (if required)

<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>1st Contact</b>
John Park	Manager, Guarantees Scheme		✓
Joanna Gordon	Manager, Financial Markets		

### Minister of Finance's Office Actions (if required)

Forward to the Prime Minister for his information.
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**Enclosure: No**

3 August 2010

## **Treasury Report: Retail Deposit Guarantee Scheme - Update and Timeline**

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### **Executive Summary**

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#### **Purpose**

This report provides you with:

- a timeline for when you can expect to receive further advice in relation to South Canterbury Finance (SCF); and
- advice if you are approached about this issue by SCF or potential “white knights”.

#### **Timeline**

There are two main work streams underway in Treasury in relation to SCF:

- the assessment of proposals from “white knights” to support SCF; and
- pre-positioning for the potential failure of SCF.

The work underway in each of these areas and when you can expect advice on these issues is summarised below.

#### **Assessment of “white knight” proposals**

As you are aware, Treasury officials have been approached with several high level proposals for how SCF could be supported by the government and third parties to prevent it from defaulting (T2010/1331 refers). To date Treasury have declined to provide in principle support for these proposals.

We have contracted KordaMentha to undertake due diligence on the assets of SCF to ensure we are well-placed to assess any concrete proposals that we are presented with over the coming weeks. It is possible that proposals could be presented close to the date when we expect SCF to default (late August 2010), and will require a quick turnaround. We will keep you informed of our assessment of proposals received.

#### **Pre-positioning for potential failure**

Our central assumption is that SCF is likely to default near the end of August 2010 due to liquidity pressures and a failure to comply with its trust deed. Treasury is pre-positioning for the potential failure of SCF. Our objectives in doing this are to ensure the Crown’s interest as creditor is protected through any failure resolution process, while meeting the Crown’s obligations under the Retail Deposit Guarantee Scheme (DGS).

The main streams of work underway are:

- Preparing for payout by contracting Computershare Investor Services (CIS) to manage claims to eligible depositors.
- Conducting a review of the register of creditors of SCF to ensure we can expedite any payout process.

- Further investigating how the Crown's interests can be protected in the event of a receivership. We have contracted a piece of work from KordaMentha about the receivership process and asset realisation strategies.
- Developing options to accelerate repayment to creditors in order to reduce post-acceleration interest costs. Imprest Supply has been increased as a contingency measure to enable these options to proceed if approved. These options will likely require Cabinet approval if they involve making payments outside the authority granted under the existing DGS Permanent Legislative Authority (PLA). We expect to provide you with further advice on these issues within the next two weeks.

### **Approaches from SCF and others**

You may be approached by South Canterbury Finance (SCF) or potential "white knights" in relation to the future of SCF. It is important that you engage in these issues when it comes to decision making. In the meanwhile, we will keep you informed of any developments as issues may move quickly. Given that we are not at a point of decision making, if you are approached by potential "white knights", we suggest you direct them to the company (SCF). If you are approached by SCF management, we suggest you direct them to the Treasury Guarantee Scheme team.

### **Recommended Action**

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We recommend that you:

- note** the timeline for when you can expect to receive further advice in relation to South Canterbury Finance;
- note** you may be approached by South Canterbury Finance and/or potential "white knights"; if you are approached by potential "white knights", we suggest you direct them to the company (SCF) and if you are approached by South Canterbury Finance, we suggest you direct them to the Treasury; and
- forward** this report to the Prime Minister for his information.

John Park  
**Manager, Guarantee Scheme  
for Secretary to the Treasury**

Hon Bill English  
**Minister of Finance**