



Retail Deposit Guarantee Scheme and Wholesale Funding Guarantee Facility

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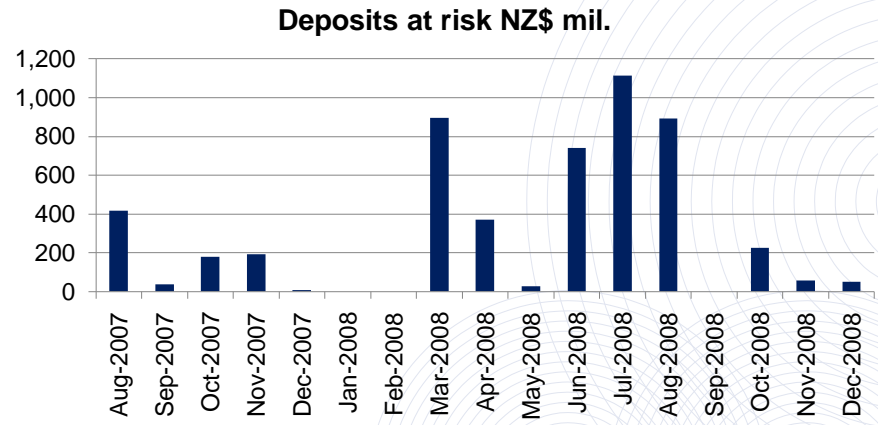
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Background

- **International Events**
 - Sub prime crisis
 - Housing “bubble”
 - Bank bailouts
 - Australian deposit guarantee announcement
- **Domestic Environment**
 - Finance company failures
 - Loss of confidence
 - Fundamentally sound financial system on a foundation of well-capitalised foreign-owned (mainly Australian) banks

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Finance Company Failures



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Crown Retail Deposit Guarantee Scheme

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What is the purpose of the scheme?

- to ensure continuing depositor confidence in New Zealand given international financial market turbulence.
- The scheme is similar to those now offered by other countries, including Australia, and follows other measures that have been undertaken by the Reserve Bank to ensure the liquidity of the banking system.

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What does the scheme do?

- Crown guarantee of the deposits by retail investors in approved eligible institutions.
- Guaranteed until 12 October 2010.

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How does the scheme operate?

- Policy guidelines agreed by the Minister of Finance are published on Treasury website.
- Eligible entities follow application process.
- Treasury obtains advice from other regulators.
- Crown Deeds of Guarantee under the Public Finance Act.
- “Necessary or expedient in the public interest”

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Which institutions are eligible?

- Categories of eligible institutions
 - **Banks** registered under the Reserve Bank of New Zealand Act 1989;
 - **Building societies** as defined in the Building Societies Act 1965;
 - **Credit Unions** as defined in the Friendly Societies and Credit Unions Act 1982;
 - Other bank like entities (such as **finance companies**), existing on 12 October 2008, which issue Debt Securities.
 - Other bank like entities (such as **finance companies**), established after 12 October 2008, which issue Debt Securities and have a BBB- rating or higher.
 - Qualifying **collective investment schemes**.
- Eligibility criteria:
 - Issue debt securities to the public
 - Are in the business of borrowing and lending, or providing financial services, or both
 - Carry out a substantial portion of their business in New Zealand.
 - Do not primarily provide financial services or lend to related parties and group members
 - Not in breach of trust deed or other default conditions

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Which institutions are approved?

- Listed on the Treasury website
 - 12 banks
 - 7 building societies
 - 20 credit unions
 - 32 finance companies and others
 - 15 collective investment schemes

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Some Approved Institutions



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Which depositors are covered?

- In banks: Residents and non-residents
- In non-banks: NZ tax residents and NZ citizens
- Includes individuals, corporates, trusts
- Excludes financial institutions

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What deposits are covered?

- Debt securities: any interest in or right to be paid money that is deposited with or lent to another person.
 - includes deposits, term deposits, current accounts, bonds, bank bills and debentures.
- Capped at \$1 million per “person” per institution

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What is the guarantee fee?

- No fee is charged to depositors
- Approved institutions pay a fee
 - Institutions with retail deposits above \$5 billion
 - 10 basis points per annum on all deposits covered above \$5 billion
 - Institutions with retail deposits below \$5 billion
 - Fees on growth from 12 October 2008, depends on credit rating:

– AA- (or above)	10 basis points per annum
– A+, A or A-	20 basis points per annum
– BBB+, BBB, BBB-	50 basis points per annum
– BB+ and BB	100 basis points per annum
– Below BB (or unrated)	300 basis points per annum

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Are collective investment schemes guaranteed?

- Collective investment schemes (such as Portfolio Investment Entities [PIEs], unit trusts and superannuation schemes) can apply for cover provided:
 - they invest exclusively in New Zealand government securities or debt securities issued by institutions covered by the Crown guarantee;
 - they do not increase their investments in guaranteed institutions that are not registered banks beyond the level that existed as at 12 October 2008; and
 - their rules ensure any money paid under the guarantee will only be distributed to retail members.
- If a financial institution has been approved under the deposit guarantee scheme, are any collective investment schemes it offers automatically covered by the guarantee?
 - No, they are not automatically covered by the guarantee; they have to be individually approved.

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How does the claims process work?

- Depositor submits a *Notice of Claim* form.
- Claims verified against the entity's records.
- Approved claims paid in full to depositor by the Crown as soon as practicable.
- Includes interest and principal up to \$1m.
- Crown takes over depositor's rights in receivership, liquidation, etc.

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What will happen after 12 October 2010?

- The government offered the deposit guarantee for a two-year term as a response to international financial market turbulence.
- This will give time to see how well international financial markets stabilise.
- The ongoing need for, and design of, an arrangement, if any, to replace the deposit guarantee scheme is being considered and options will be announced in due course.

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Wholesale Funding Guarantee Facility

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What are the objectives?

- Facilitate access to international financial markets during a time of market volatility
- Encourage withdrawal from scheme as markets return to normal
- Avoid risk associated with overly-concentrated future maturities
- Ensure that the Crown can continue to fund itself efficiently

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Which institutions are eligible?

- Substantial borrowing and lending operations in New Zealand
- Investment grade credit rating (BBB- or better)
- Level of capital above regulated minima
- Issue (or guarantee issue by wholly owned subsidiaries) of senior negotiable or transferable debt securities in wholesale finance markets

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Who has been approved?

- Wholesale guarantee facility
 - Bank of New Zealand
 - ANZ National Bank Limited
 - Westpac New Zealand Limited
- Eligibility certificates
 - BNZ \$180m Domestic 5 Year
 - BNZ \$105m Domestic 5 Year

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Fees for Wholesale Guarantee

- Determined by credit rating of issuer and term of the instrument:
 - AA- and above
 - Term of 1 year or less 70 basis points per annum
 - Term of more than 1 year 90 basis points per annum
 - A- to A+
 - Term of 1 year or less 130 basis points per annum
 - Term of more than 1 year 150 basis points per annum
 - BBB- to BBB+
 - Term of 1 year or less 180 basis points per annum
 - Term of more than 1 year 200 basis points per annum

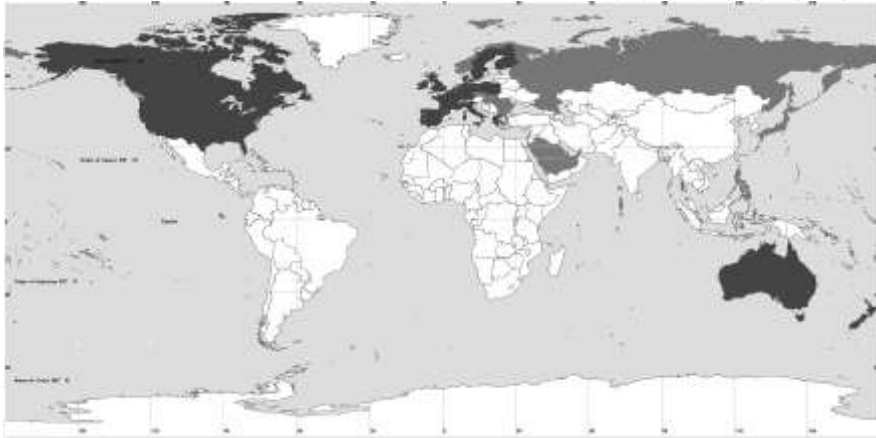
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International Situation

- Governments across the world are introducing similar schemes
- Schemes have same general objective (facilitating access to funding) but details differ

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Countries implementing a guarantee



Key: Dark Gray – Wholesale & Retail Guarantee
Gray- Retail Guarantee only

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Accounting for deposit guarantees?

- NZ IAS 39 sets out how to account for financial guarantee contracts, but presumes a fair value exchange.
- IPSASB has prepared an exposure draft covering such schemes, expected to be released shortly.
- Disclosures will be required, and are being made in interim reports, on the nature and extent of the exposure and how it is being managed.
- Critical accounting issue is recognizing and quantifying any obligation arising from the guarantee. Hierarchy of options to do this include:
 - Determining a value from observable prices
 - Modelling an value based on assessments of probability of default and loss given default
 - Reporting a best estimate when events make a default event likely

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More information

- www.treasury.govt.nz/economy/guarantee
- Includes:
 - Lists of approved institutions
 - Deeds of Guarantee
 - Policy guidelines
 - Questions & answers
 - Claims process