



Australian Government

The Treasury

AUSTRALIAN GOVERNMENT'S 2008 DEPOSIT AND WHOLESALE FUNDING GUARANTEES

DESIGN AND OPERATIONAL PARAMETERS

The Australian Government's deposit and wholesale funding guarantee arrangements will operate as set out below.

Purpose of the guarantees

The Prime Minister announced the deposit and wholesale funding guarantees on 12 October 2008.

The Government guarantees are designed to promote financial system stability and ensure the continued flow of credit throughout the economy at a time of heightened turbulence in international capital markets.

The guarantees apply to authorised deposit-taking institutions (ADIs) incorporated in Australia, which as a group, are of systemic importance to the functioning of the financial system and the broader economy, and which are subject to prudential regulation by the Australian Prudential Regulation Authority (APRA) in accordance with international standards.

Recent developments in international wholesale funding markets have restricted the ability of Australian financial institutions to access funding, with potentially serious implications for liquidity and lending activity.

To address these pressures, the guarantees are designed to assist Australian banks, credit unions and building societies to continue to access funding in domestic and international credit markets. The guarantees are also designed to ensure that Australian institutions are not placed at a commercial disadvantage vis-à-vis their international competitors that have received similar government guarantees on their bank debt.

Scope of the guarantees

The guarantees will be limited to Australian owned banks, Australian ADI subsidiaries of foreign banks, credit unions and building societies ('eligible ADIs'). The guarantee will apply to the foreign branches of eligible ADIs but not their foreign subsidiaries.

Wholesale funding guarantee

The guarantee will be extended on an issue by issue basis. Eligible securities will be restricted to securities issued by eligible ADIs with a term of up to 60 months with the guarantee to apply for the full term of the relevant security including in the period following the closure of the scheme to new issuances.

The facility will be restricted to senior unsecured debt instruments. Certificates of deposit and bank bills will be covered by this facility. They will not be covered by the deposit guarantee. The guarantee will not cover structured debt.

The facility will apply to debt issuance in all major currencies including AUD, NZD, Euro, USD, Sterling, Yen and HKD. It will apply to eligible securities issued domestically or off-shore.

The Government will withdraw the facility once market conditions have normalised.

Deposit guarantee

The Government has guaranteed the deposits in eligible ADIs for a period of three years.

For deposits of or under \$1 million, the guarantee will be free. For deposits over \$1 million an eligible institution will be able to obtain coverage, in return for a fee. For example, if a person holds \$1.5 million in deposit accounts in an ADI, the first \$1 million would be guaranteed for free and a fee would be payable to obtain the guarantee for the remaining \$500,000.

The threshold applies per depositor per institution. That is, the threshold applies to the total amount of funds held by a depositor in (separate) deposit accounts with an ADI.

Coverage of the deposit guarantee

The guarantee applies to deposits held in eligible ADIs by all types of legal entities, including individuals, partnerships, businesses, trusts (including in their offshore branches) and government entities.

The guarantee will not apply to products that are not deposit products with eligible ADIs. It does not apply to market-linked investment products such as share portfolios or managed funds, as these products provide an incentive for investors to pursue higher returns through investments that may involve greater risks, including the risk of making capital losses. It will also not apply to retirement income products including annuities.

The guarantee will not apply to products offered by non-ADI entities, including non-ADI subsidiaries of Australian ADIs. These entities are not subject to the prudential regulation framework that applies to ADIs, which protects the interests of depositors. Because of this, non-ADI entities are not permitted to offer deposits in Australia.

It will apply to the deposits held in eligible institutions, regardless of where the depositor resides. It will apply to deposits held in any currency.

Non-prudentially regulated investment sector

The Government has received representations from a broad range of stakeholders not covered by the guarantee who have raised concerns about the impact of the guarantees on their products or institutions. These include cash management trusts, mortgage trusts, unlisted property trusts, and debentures.

The Government understands the important role played by the non-prudentially regulated investment sector in supplying finance to the Australian economy.

The Secretary to the Treasury and the Chairman of ASIC will examine immediately (in consultation with industry) the impact of the global financial crisis on the non-prudentially regulated investment sector and, in consultation with the other financial regulators, will provide advice to the Government as soon as possible on what actions might be appropriate to foster the ongoing health and vitality of this important sector of the economy.

To assist consumers to understand the operation of the guarantees, ASIC will monitor their operation to ensure that appropriate disclosures are made to consumers so that they can determine if their product is covered by the guarantees.

A threshold of \$1 million will be applied to the deposit guarantee and will be applied on a per customer basis. For amounts over this threshold, a fee will be charged to ADIs if their depositors wish to have access to the guarantee.

The threshold will reduce the incentive to move funds from the short term money market into deposits.

Fee Structure and level for the guarantees

Fees will be set at a single rate for all maturities for eligible securities up to 60 months, with a different rate applying to eligible ADIs based on their credit rating. The fees will apply to the wholesale guarantee and to the guarantee for deposits above the \$1 million threshold. The fees will be levied on a monthly or quarterly basis depending on the liability.

The fee scale, on a per annum rate, is outlined in Table 1.

Table 1

Credit Rating	Debt Issues Up to 60 Months
AA	70bp
A	100bp
BBB and Unrated	150bp

Review of parameters

The deposit and wholesale guarantees contain features and variables that may require refinement or adjustment in light of market developments. These include the setting of the appropriate fee level and structure, the threshold for the deposit guarantee and the overall coverage of the scheme. The deposit and wholesale guarantee scheme will be reviewed on an ongoing basis and revised if necessary.

Foreign bank branches

The wholesale funding guarantee will be extended to APRA-regulated foreign bank branches in respect of their short term wholesale funding raised from Australian residents with maturities up to the end of 2009. This will be available at the same premium as applying to eligible ADIs.

Foreign bank branches will also be able to access the deposit guarantee in respect of domestic deposits held by Australian residents on the basis of the fee schedule; however, there will be no fee-free threshold.

Access to these guarantees will be subject to the following conditions:

- The amount guaranteed is limited to 110 per cent of the combined value of short-term wholesale liabilities and deposits held in respect of Australian residents as at 24 October 2008;

- Branches cannot use guaranteed liabilities to support their parents; and
- The guarantee is only available if the liabilities are not guaranteed by the home authorities and the branch provides a statement from the home regulator that the parent bank is meeting relevant prudential requirements.

These requirements will ensure the funding is used for Australian operations only and that Australian taxpayer funds are protected.

Administration of the guarantees

The Reserve Bank of Australia (RBA) will administer the guarantees as agent for the Commonwealth. The RBA will perform administrative tasks, including processing applications from institutions for coverage of liabilities and collecting fees.

The RBA will consult with APRA to ensure that the interests of the Commonwealth are protected. The Rules will allow for information sharing between the RBA, APRA and other relevant agencies. It is proposed that information and statistics about the scheme's operation will be made available on a public website.

The legal framework for the scheme will be deeds entered into by the Commonwealth and the participating institutions. The deeds will refer to scheme Rules that will be published by the Commonwealth.

Details of the scheme, including participating institutions and the liabilities that are covered will be made available on a suitable public website. The Government will provide six monthly reports to Parliament on the scheme operations.

Wholesale funding guarantee

Eligible ADIs must apply to the RBA for coverage of their liabilities. Eligible ADIs will be required to meet set criteria specified in Rules before they receive coverage. The Rules will be released in the near future.

Deposit guarantee over the threshold

Eligible ADIs will apply to the RBA for coverage of their deposits over the \$1 million threshold.

Eligible ADIs would choose whether to 'opt in' to the guarantee for their deposits above the threshold. If an eligible ADI opts in, it would be up to the ADI to determine the most suitable arrangements with its customers for those deposits it wishes to offer on a guaranteed basis

Depending on the arrangement chosen by the ADI, depositors may need to indicate to the ADI whether they wish to receive the benefit of the guarantee for amounts over \$1 million.

If an ADI agrees to opt in, they would be required to pay the relevant fee to the RBA.

The fee would be payable on the value of the depositor's account(s) over the fee-free threshold.

It is expected that the ADI will pass on costs of the guarantee to depositors.

Commencement of guarantee arrangements

The guarantee scheme will commence on 28 November 2008. Up until that date deposits and wholesale funding eligible for the guarantee arrangements will be guaranteed without charge. After that date, deposits over the \$1 million threshold and wholesale funding will only be guaranteed if an application has been made to the RBA and the relevant fee has been paid.