

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

10 – 11 February 2010

Question: aet 109

Topic: Bank Guarantee – Bank of Queensland

Hansard Page: E74 (11/02/2010)

Senator MCGAURAN asked:

Senator McGAURAN—This question is to Senator Sherry. It is still on the bank guarantee and on the Bank of Queensland. Do you object if I quote something from the newspaper? The newspaper reports that the Chief Executive Officer, David Liddy, was very upset that he was not consulted prior to the announcement of the abolition of the bank guarantee. Is that so? If so, why not? More so, I come back again to this obsession the government had with the big four and putting everyone else aside. Obviously there was huge consultation with Westpac, because prior to the announcement—

Senator Sherry—Why do you say there was consultation with Westpac? What evidence do you have?

Senator McGAURAN—Let me ask you the question: was there? Prior to the announcement there was an enormous surge by Westpac—

Senator Sherry—Of what?

Senator McGAURAN—of borrowing to take advantage of the final days of the guarantee and yet the Bank of Queensland were left out of that.

Senator Sherry—Senator, I can indicate to you that I am advised that there was no consultation with anyone—

Mr Murphy—from the department

Senator Sherry—As far as the department goes, it did not consult with anyone; nor did I. I can take the question on notice for the Treasurer. The surge you referred to—

Senator McGAURAN—It was \$9 billion, I think

Senator SHERRY—It was a surge in what, sorry?

Mr Murphy—They raised funds. Westpac raised funds in December. The other major players had announced that they had no wish to continue to raise funds through the guarantee. Westpac's decision was a commercial decision.

Senator McGAURAN—But if you knew the announcement—

Mr Murphy—These banks raise funds all the time. That was their decision.

Senator McGAURAN—If you knew the announcement was coming, you would take advantage of it in its last, dying days.

Senator Sherry—But that was December last year. The announcement was made, I think, last Sunday, whatever date that was. So what is the issue, Senator?

Senator McGAURAN—Were the major banks consulted about the abolition of the guarantee?

Mr Murphy—No.

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Senator Sherry—As far as the department, my office and I are concerned, the answer is no and I will take the question on notice for the Treasurer.

Answer:

On 7 February 2010, the Treasurer announced the Government's intention to close the Guarantee of Large Deposits and Wholesale Funding (Guarantee Scheme) on 31 March 2010.

Australia's Guarantee Scheme, unlike most other schemes in place internationally, did not have a defined exit date. When announcing the establishment of the Guarantee Scheme on 12 October 2008, the Prime Minister noted that it would be withdrawn when market conditions normalised.

The Treasurer has maintained close communications with the banks (including the regional banks), building societies and credit unions over the period of the global financial crisis. Given the temporary nature of the Guarantee Scheme, the impact of exit was raised in discussions. However, there was no consultation process on the timing of the announcement of closure of the Guarantee Scheme. The Government also kept in close communication with the Council of Financial Regulators throughout this time, and announced the closure of the Guarantee Scheme following Council's advice that it was no longer required.