

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

10 – 11 February 2010

Question: aet 47

Topic: Bank Guarantee – Wholesale Funding

Hansard Page: Written

Senator EGGLESTON asked:

1. The Government announced last Sunday that it would remove the guarantee on wholesale funding. How were banks and mutual societies consulted in the decision? Were they informed before the Treasurers announcement?
2. What modelling has APRA completed with regards to how removing the guarantee will affect the wholesale funding arrangements of Australian banks? What conclusions did this modelling make?
3. The Government announced that the ‘guarantee arrangements would remain in place until market conditions have normalised.’ Does APRA believe that market conditions have now normalised in the wholesale market?
4. The Council of Financial Regulators advised the Government that no Australian bank, building society or credit union will now need the wholesale guarantee to fund itself. Is APRA aware of consistent comments from the mutual sector that the guarantee needs to remain in place for some time in the future?
5. How will this funding impact upon the mutual banking sector? Is APRA confident that mutuals will be able to source wholesale funding without the guarantee?
6. Smaller banks, credit unions and building societies were forced to pay higher fees to have funding guaranteed by the Government. Can APRA release details of the amount of fees collected by: those institutions rated AAA to AA-; those institutions rated A+ to A-, and those institutions rated BBB+ and below?
7. Can APRA also release details of how many funds were guaranteed by: those institutions rated AAA to AA-; those institutions rated A+ to A-, and those institutions rated BBB+ and below? Can these figures be broken up into short-term and long-term funding?

Answer:

1. 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When announcing the establishment of the Guarantee Scheme on 12 October 2008, the Prime Minister noted that it would be withdrawn when market conditions normalised.

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

10 – 11 February 2010

The Government has maintained close communications with the 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.

Once the Treasurer had announced the forthcoming closure of the Guarantee Scheme, Treasury consulted with representatives of the banks, building societies and credit unions on the rule changes that were made to effect a clear and definite exit from the guarantee.

2. APRA's assessment was based on a review of the annual funding plans it collects from individual ADIs. These plans demonstrated that ADIs had funding strategies in place to meet their business needs that did not rely on the ability to continue to issue Government-guaranteed debt.
3. Given that the larger ADIs were increasingly able to access wholesale funding markets on an unguaranteed basis (smaller ADIs did not typically use the wholesale guarantee), APRA's assessment was that the guarantee was no longer needed to provide a means for ADIs to access wholesale funding.
4. No.
5. Only one mutual organisation accessed the wholesale guarantee to issue term debt funding so the removal of the guarantee will have minimal impact on the sector.
6. This is a matter for the Reserve Bank of Australia.
7. This is a matter for the Reserve Bank of Australia.