

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

10 – 11 February 2010

Question: aet 97

Topic: Bank Deposits Guarantee – Frozen Funds

Hansard Page: E37 (11/02/2010)

Senator COLBECK asked:

Senator COLBECK—I want to ask some quick questions about the bank deposits guarantee. I understand that the government made an announcement in respect to the wholesale funding guarantee, which has been withdrawn. What is the timeframe for the removal of the bank deposits guarantee? What is its ongoing effect on those funds that are frozen? Are there any moves to modify what is currently happening in that respect?

Dr Henry—No, there are not. At the time that the guarantee was announced—which, if my memory serves me correctly, was 12 October 2008—the government said that the deposit guarantee, which was for deposits up to \$1 million, would remain in place for a period of three years and would then be reviewed.

Senator COLBECK—What about the contributing effects of that on particularly those accounts that remain frozen because of the fear of flight from those funds? How do we manage to get around that particular circumstance and the impacts that that is having at quite a personal level in some circumstances?

Dr Henry—As for those funds that you are referring to, we have been monitoring developments in those funds. We were monitoring developments in those funds actually before the guarantees were announced and we have continued to monitor developments in those funds subsequently. Whilst it is true that a significant number of the funds remain frozen to redemptions, except in cases of hardship and some other cases where redemptions are being made, I think the general story is that the industry has continued to manage the liquidity of those funds very well. That is the general story. Where individuals with investments in those funds are experiencing difficulty there are arrangements in place, which ASIC in particular is monitoring, to allow access to the funds. Our colleagues from Markets Group would be able to add further detail.

Senator COLBECK—So there is a formal process in place for access in hardship conditions to funds that are currently held?

Dr Henry—Yes, there are specific conditions which if satisfied would allow access. The precise details I can get for you and I am quite happy to take that on notice or, alternatively, a question could be put to one of the Markets Group people here.

Senator COLBECK—I would certainly be interested. I have some constituents of retiring age whom I would consider to be doing it fairly tough, particularly one of the partners. The other is of pension age, living in fairly meagre circumstances in a camper van in a caravan park and wanting to buy a house but has funds frozen in one of these accounts and would like to get access to them. His request to me, and he has asked the Prime Minister this, is how he goes about it. I think I have probably gone one better in having a chat to you, with you being in the suit that you are in. But if there were hardship provisions that we could point him to that would perhaps be a response. From my perspective, this puts a real-life perspective on the situation that exists with a lot of people out there having these accounts. I am not sure as to

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your perspective on the need for continuation of the guarantee. I would be interested in that. Certainly that is the real-life impact of what is going on in some circumstances.

Answer:

In recognition of the difficulties faced by some investors unable to access their capital, the Australian Securities and Investments Commission (ASIC) announced in October 2008 special hardship measures allowing fund operators to approve early redemptions in certain circumstances. Following further consultation with the industry, ASIC announced extensions to these provisions in August 2009.

The hardship grounds were extended to include the beneficiary of the estate of a deceased member, where the beneficiary is suffering financial hardship. ASIC also clarified the provisions applying to the unemployed, being someone who is unemployed for at least three months without any other means of support.

These changes were added to the three hardship exceptions established in October 2008:

- where individual investors are unable to meet reasonable and immediate family living expenses;
- compassionate grounds (for example, situations involving medical costs for serious illness, funeral expenses or foreclosure); or
- permanent incapacity.

The amount available to investors was also changed in August 2009, with the monetary cap on a withdrawal made pursuant to a hardship application set at \$100,000 per year, compared with the previous limit, which was \$20,000 plus 50 per cent of the balance of the fund member's investment. As an example, an eligible member with an investment worth \$100,000 is able to withdraw their entire investment. Previously, the member could only have withdrawn a maximum of \$60,000.

Furthermore, fund members can apply for four withdrawals per calendar year, as opposed to the once-only withdrawal limit previously in place. Details of these measures are publicly available from ASIC's information helpline and from its website.

Under the guidelines, ASIC approves fund managers to apply the hardship measures for their unit holders on a case-by-case basis, subject to the circumstances of the fund. Investors who are suffering hardship are encouraged to contact their fund directly to inquire about whether hardship relief is available and if so, how to lodge a hardship application.