

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June – 3 June 2010

Question: BET 367

Topic: Frozen Property Trusts

Hansard Page: Written

Senator EGGLESTON asked:

1. Many retail investors have been unable to withdraw their funds from property trusts due to those trusts freezing redemptions. Some commentators have blamed the introduction of the government guarantee on retail deposits at banks. What is your view? What can be done or should be done to free up the frozen deposits?

Answer:

Investment funds had been under liquidity pressure for some time prior to the announcement of the Government's deposit guarantee on 12 October 2008. This was as a result of the property downturn and the general turmoil in financial markets. These conditions led to the resultant lack of fresh investment inflows and increased demands for redemptions creating a liquidity problem for funds.

While markets are improving, these funds still do not have sufficient ready cash available to pay out all redemption requests.

The law enables funds, during periods of illiquidity, to freeze redemptions until their position improves. The freezing of funds ultimately protects the long term value of the fund for the benefit of all investors.

Once a fund has improved its liquidity position, the law requires it to offer all investors an equal opportunity to redeem their investments. If there is insufficient money available to meet all requests, a pro rata offer will be made to those investors wishing to redeem. In this way, equal and fair treatment of all investors is ensured.

To improve the efficiency of this process, ASIC has permitted funds to offer members the ability to make a single withdrawal request that remains effective for a 12 month period. ASIC has also established special hardship measures, which provide members, in certain circumstances, access to some of their funds where it may otherwise not be available.

It is expected that as the economy improves and confidence returns, more funds that froze redemptions in 2008 will be making more frequent withdrawal offers to members.

The Government continues to monitor the situation.