

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Estimates 22-23 October 2008

Question: sbt 27

Topic: Bank Deposit Guarantee

Hansard Page: Written

Senator Bushby asked:

1. When did the Government first seek advice about this package (all three elements announced – guarantee of deposits, guarantee for wholesale term funding, and the additional \$billion in RMBS's)?
2. Did Treasury produce advice that the guarantee for deposits held by approved deposit taking institutions should be increased from a \$20,000 capped guarantee to a guarantee unlimited in amount?
3. The guarantee in unlimited – it doesn't matter whether it is for \$100,000 or \$100 million – is that correct?
4. Did Treasury produce advice to the Government that the guarantee for deposits held by deposit taking institutions should be capped?
5. Did Treasury produce advice of any figure to which the deposit guarantee should be limited?
6. Does Treasury agree that a consequence of an unlimited guarantee is that the commercial paper market is now disadvantaged by having a lower effective credit rating than a deposit with the smallest credit union?
7. Was this an unintended consequence at the time the policy was agreed to or was it considered and accepted collateral damage?
8. Did Treasury seek the advice of the Reserve Bank on the likely consequences for the commercial bill market of producing an uncapped guarantee?
9. Did Treasury undertake any consultation with firms that operate in the bill market?
10. What was the process for explaining which financial products were included in the guarantee and which were not?

Answer:

1. We are unable to provide a response to this question, as it goes to the nature of policy advice to Government.

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2. We are unable to provide a response to this question, as it goes to the nature of policy advice to Government.
3. Until midnight on 27 November 2008, all eligible deposits were guaranteed without charge. From 28 November 2008, deposits above the \$1 million fee-free threshold are only guaranteed if the institution has applied for the guarantee and agreed to pay the relevant fee.
4. We are unable to provide a response to this question, as it goes to the nature of policy advice to Government.
5. We are unable to provide a response to this question, as it goes to the nature of policy advice to Government.
6. For deposits of over \$1 million the Guarantee is available on application, for a fee. This minimises any impact on the commercial paper market.
7. A range of competing objectives have been considered in implementing the guarantees.
8. Treasury had a range of discussions with the RBA regarding the guarantee arrangements.
9. In the course of the global financial turbulence and in developing the Government's relevant policy responses, Treasury has consulted with and received representations from a wide range of stakeholders including firms that operate in the bill market.
10. Information on the coverage of the guarantee arrangements has been provided on the Treasury website and on the guarantee scheme website.

In addition, the Treasurer's declaration of covered financial products under subsection 5(8) of the *Banking Act 1959*, which provides the coverage of the Financial Claims Scheme, along with the other relevant legislation is available via links from the Treasury website.

Treasury has also provided information via industry associations to assist ADIs with handling enquires from their customers.