



Mr John Lonsdale
General Manager
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

30 June 2011

Financial Claims Scheme

Dear Mr Lonsdale

ANZ is pleased to provide a submission on the Consultation Paper on the Financial Claims Scheme (FCS). In our submission, we have addressed the following:

- The cap which should apply to the FCS from October 2011
- Whether the cap should cover foreign currency deposits
- Whether the FCS should apply to the foreign branches of ADIs
- Whether the FCS should provide additional coverage to depositors whose funds are held in selected pooled trust accounts
- The most appropriate activation arrangements for the FCS
- Whether an additional payment mechanism should be introduced, to enable FCS payments to be made by transfer of deposit funds
- Whether transitional arrangements should apply if the Government decides to lower the FCS cap and narrow the scope of the scheme from October 2011.

A general issue in relation to the proposed changes to the FCS is whether the scheme will still apply to non-household deposits, such as small to medium enterprise and corporate depositors. The Consultation Paper refers to the primary function of the FCS as being to protect retail depositors, but later refers to all depositors.

The cap on deposits covered by the FCS

ANZ agrees that the cap should be lowered to between \$100,000 and \$250,000 per depositor per ADI from October 2011, as this would:

Group Corporate Affairs

- Provide adequate coverage for the majority of depositors. A cap of \$100,000 would cover just over 88% and a cap of \$250,000 would cover just over 95% of depositors who hold accounts with ANZ
- Mitigate moral hazard
- Be consistent by international standards on deposit insurance caps.

ANZ contributed to the ABA submission and notes that there is more detailed discussion of this issue in that submission.

Coverage of foreign currency deposits

ANZ supports the recommendation of the Council of Financial Regulators (CFR) that the FCS should no longer apply to foreign currency deposits from October 2011, as the majority of retail deposits are denominated in Australian dollars.

Coverage of foreign branches of ADIs

ANZ supports the recommendation of the CFR that the FCS should no longer apply to deposits held by foreign branches of ADIs. In ANZ's view, withdrawal of this coverage is appropriate because:

- It would only have a small impact on the overall coverage of the FCS
- It would reduce the complexity and costs of complying with APRA reporting requirements

Application of the FCS to Pooled Trust Accounts

ANZ supports the CFR recommendation that the FCS should be amended to allow payments under the cap to each beneficiary of a restricted class of pooled trust accounts (PTAs), such as those required by statute.

We also support the proposed approach that funds held in the restricted class of PTAs should not count towards the beneficiary's overall aggregate balance of deposit funds held with an ADI.

Activation of the FCS

ANZ's view is that earlier activation of the FCS is preferable for both ADIs and consumers, in terms of providing more flexible payout options and greater depositor certainty. ANZ therefore supports the CFR recommendation that the Treasurer have discretion to activate the FCS as soon as APRA has appointed a statutory manager, rather than waiting for APRA to apply to wind-up a distressed ADI.

ANZ also supports the CFR recommendation that the FCS should be automatically activated either at the time APRA applies for a winding-up order or at the time the Court issues a winding-up order for an insolvent ADI.

Mechanisms for paying FCS claims

ANZ generally supports the introduction of an additional payment mechanism enabling the transfer of protected deposit accounts from a failed ADI to an ADI that has agreed to assume the liabilities. However, as there could be significant technology challenges in allowing such a transfer to occur, our view is that any additional payment mechanism

should not be mandatory. The feasibility of any such mechanism would need to be assessed in the particular circumstances of the transfer.

Transitional arrangements

ANZ supports the CFR recommendation that any narrowing of the FCS occurs in a single step. We consider that a single step for changes would limit the impacts for industry, while also reducing the potential for confusion for depositors.

ANZ also considers that a 12 month period from the date of announcement of any changes to the FCS is sensible and would allow sufficient time for ADIs and depositors to make appropriate adjustments to their affairs.

ANZ would be pleased to provide any further information on this submission. I can be contacted on (03) 8654 3459 or Michael.Johnston2@anz.com.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Michael Johnston', with a long horizontal flourish extending to the right.

Michael Johnston
Head of Government & Regulatory Affairs