

25 November 2008

GUARANTEE SCHEME FOR LARGE DEPOSITS AND WHOLESALE FUNDING APPROPRIATION BILL 2008

Second Reading

Mr BRADBURY (Lindsay) (8.18 p.m.) — I rise to support the Guarantee Scheme for Large Deposits and Wholesale Funding Appropriation Bill 2008. I will turn my attention shortly to the elements of the bill as I would like to speak on some of the specifics that are proposed within it. I would like to begin by commenting on some of the remarks made by the shadow Treasurer in her contribution to the House. I think one of the interesting things about the opposition throughout this debate has been the complete lack of consistency in their position. We can go back to 12 October, the day on which the very significant package was announced by the Prime Minister. The Prime Minister took strong and decisive action in delivering a package of measures that were designed to achieve a couple of things: firstly, to deliver greater certainty and stability into the financial markets but also to ensure greater liquidity. One of those measures was to ensure that there would be greater investment by the Australian Office of Financial Management in residential mortgage backed securities.

I heard what the shadow Treasurer said and I have heard the Leader of the Opposition on numerous occasions claim credit for being the architect of this plan to buy up residential mortgage backed securities to provide greater liquidity to the institutions that fall outside the ADI net. I want to put on record that the comments that the Leader of the Opposition refers back to and the comments that he cites to suggest that he was the one that put this on the agenda were in an interview with Laurie Oakes on 22 September. I want to read the passage that provides the genesis of the so-called contribution that the Leader of the Opposition made to this particular debate. He said:

We know that it has been very, much harder for banks, particularly the second-tier banks and financial institutions, to refinance mortgages and that's one of the reasons why the cost of mortgages has gone up, why interest rates have gone up. Now, in other markets, the government, particularly in the US, the government is taking a role, proposing to buy back, buy some of these securities, in effect to provide additional liquidity to take the pressure off mums and dads.

That is what the Leader of the Opposition relies upon to say that he was the one that gave the government the idea of directing the Australian Office of Financial Management to invest in residential mortgage backed securities. I have got to tell you that that is not what they are doing in the United States. They are buying up bad mortgages. There is no suggestion from anyone in this place, at least now—there was on this occasion by the Leader of the Opposition—that we would be looking to take on the mortgage liabilities of individuals in respect of bad mortgages. That has never been what this discussion has been about. Providing greater liquidity through the residential mortgage backed security market is not about providing greater liquidity to bad mortgages but about providing greater liquidity in that marketplace so that the non-ADI institutions are able to access the necessary funds that they need in order to continue to lend within our residential mortgage market. I am horrified to think that the Leader of the Opposition, who relies upon this passage to say that he was setting the agenda, was in fact

mistakenly comparing the goings-on in this jurisdiction with the troubled assets relief program in the United States, which is something of a fundamentally different character. So let it be noted, when they say that he was the architect of this idea, that he was wrong.

I will move on to the other elements of the package that was announced on 12 October, because of course the bill before us is part of the implementation strategy of those announcements. Apart from investing in more RMBS there was also a commitment to deliver an unlimited guarantee in respect of deposits. Of course this parliament has passed legislation in relation to the Financial Claims Scheme to protect deposits up to \$1 million held by Australian incorporated authorised deposit-taking institutions. That has been secured. Of course that leaves open the issue of those deposits above \$1 million, and that moves on to the third element of the package of measures that was announced on 12 October—the third element being providing a guarantee in relation to wholesale term funding. Of course this bill is about implementing that particular announcement.

The bill before us is only part of the overall guarantee scheme. It is important to recognise that. The guarantee scheme and its implementation has been ongoing for some months. In large part it will be implemented through contractual arrangements between the executive, the Commonwealth through the executive, and the institutions that are involved. Indeed that is not unremarkable; that is the way in which guarantees have been implemented in countries such as the UK and New Zealand. What is before the House on this occasion is a bill that provides a standing appropriation so that, in the event that there is a call on that guarantee, the executive has the capacity to immediately respond by providing funds—by drawing down on funds from the consolidated revenue fund. The bill also provides a borrowing power in the event that funds held in the consolidated revenue fund are insufficient to meet any obligations arising under the guarantee.

It is a part—and it has become a more significant part—of the implementation of the guarantee scheme. It has become more significant because of the role and the contribution of the opposition in this debate. Let us clearly understand what has occurred here. On day dot, on October 12, the opposition came forward and said: 'We will support this package. We will move heaven and earth to ensure the passage of this legislation. We won't quibble.' Those were the words of the Leader of the Opposition. But we have seen nothing but quibbling ever since. Amidst all of the sniping, all of the political games and the political point-scoring that has occurred on the part of the opposition, the only thing that has been achieved is the injection of greater uncertainty into the marketplace. These measures are designed to achieve nothing other than the delivery of certainty into the marketplace but those efforts are being undermined by those on the other side, who are determined to score political points day after day—often with no real impact in terms of the overall architecture of any of the schemes that are in place but in order to take those pot shots. But in doing so let them understand that they are merely contributing to an undermining of the confidence that these measures are designed to instil.

It was interesting to see an article in the Herald Sun back on 8 October where Terry McCrann said:

OK, I'll take Malcolm Turnbull at his word. The Opposition Leader really is an idiot and doesn't understand how financial markets work.

The article goes on to say:

There's a bigger worry than Turnbull just making an idiot of himself. Again, he apparently doesn't understand that we are living in extremely dangerous times.

Terry McCrann understands that we live in dangerous times. When you live in dangerous times you need security, safety and stability not the unpredictability, the uncertainty and the fear-mongering that has occurred from the Leader of the Opposition and those on the other side. At a time of a global economic security crisis we need steady hands behind the wheel. Unfortunately all we have had has been these political pot shots from the Leader of the Opposition, throwing more fuel onto the fire of uncertainty that has been ravaging the international financial markets. These are not the actions of a person capable of leading this country at a time of need; instead the Leader of the Opposition would be much better served by contributing in the bipartisan way that he keeps promising, and genuinely trying to achieve bipartisan outcomes.

I note that in the Australian Financial Review this morning there were a number of remarks in one of the articles by Laura Tingle. One of the comments contained within the article was:

The government has been resisting introducing the legislation—

that is the legislation we are now talking about—

and the banks have supported this position—because it will make the job of eventually unwinding the guarantee more difficult and it may delay the finalisation of the guarantee before it begins operation on Friday.

So what we have there is contrary to what the shadow Treasurer just told us. She said that there were absolutely no reasons why anyone would contemplate introducing the guarantee scheme in relation to wholesale funding and large deposits without introducing legislation. Well, there we have it. Not only was the government intending to do it, the government was in concert with the key stakeholders, who saw that the most expeditious, quickest and fastest way of introducing this scheme was through the executive action of the government entering into contractual arrangements with the respective institutions. Of course that has occurred. A deed of guarantee has been entered into on an interim basis and it is publicly available for those who are interested. These are the contractual arrangements that deliver the guarantee. That will continue to be the case but we will be providing, as a result of the passage of this bill, a standing appropriation and a borrowing power in relation to any future need to call upon the guarantee—however unlikely and remote that might be. That also raises the issue of the remoteness of the likelihood of ever having to call on the guarantee. Clearly that was one of the reasons why there was no intention to introduce legislation to accompany the administrative arrangements that were already in place.

I mentioned earlier the fact that the Leader of the Opposition has been lacking in his contribution to this debate by merely hyping up the uncertainty that has surrounded the current global financial crisis. I make the point that, around the time that the guarantee was introduced in relation to deposits, the Leader of the Opposition was contributing on that occasion to stirring up uncertainty within the marketplace. If I can return to the Financial Review article from this morning, I note that there were some comments there that tapped into the disquiet within the banking sector and in particular amongst key stakeholders within the financial services sector. The article reads:

Banking sources have been uneasy about earlier comments made by Mr Turnbull about the deposit guarantee, believing his push for a \$100,000 limit also helped undermine confidence among larger depositors in the lead-up to the October 12 announcement of the unlimited guarantee being put in place.

Clearly sources within the industry understand that these are dangerous times. These are uncertain times and the very trigger-happy approach of the Leader of the Opposition in coming forward and taking pot shots left, right and centre is only adding to that uncertainty. If the Leader of the Opposition is fair dinkum and genuine about his commitment to bipartisanship, he will appreciate the need to temper his comments and to ensure that he is not contributing to this uncertainty.

Interjection

Mr Pearce—*I'm sure he'll take your advice!*

Continue

Mr BRADBURY—He would do well to take the member for Aston's comments to heart and take my advice on this matter. Can I say in relation to the threshold of \$1 million that, if you listened to the shadow Treasurer, you would come to the view that this is part of a one-off decision taken by the government without any reference to the advice of the key regulators. I refute entirely the suggestion that the government acted without the total support of the key regulators or that it did not act upon their recommendations. The Governor of the Reserve Bank is a member of the Council of Financial Regulators and, acting upon the advice of the Council of Financial Regulators, the government made its announcement on 12 October.

I draw the attention of the House to a further announcement made by the Treasurer on 24 October, when the Treasurer enunciated the reasons for the slight shift in the approach towards the \$1 million threshold. The Treasurer said:

Today the Prime Minister and I received advice from the Council of Financial Regulators—

and of course we know that on the Council of Financial Regulators we have the Reserve Bank Governor, the Secretary to the Treasury, the Chairman of APRA and the Chairman of ASIC—all the key regulators. So acting upon that advice:

... the Government has decided that a threshold of \$1 million be implemented, over which a fee will be charged to receive the benefits of the deposit guarantee.

Importantly, it goes on to say:

This fee will ensure the deposit and wholesale funding guarantees apply in a consistent manner for larger investments, for which deposits and securities are interchangeable. In particular, it will ensure that the deposit guarantee does not provide disincentives for market participants to operate in short-term money markets.

So, clearly there is a very reasonable justification here for the threshold. Acting upon the advice of the Council of Financial Regulators, the government has recognised that we do not want to be making investments in the short-term money markets unattractive. We do not want to be providing disincentives in that particular area of the market by providing an unlimited guarantee beyond the \$1 million without

that guarantee having at its core at least the requirement for a fee to be charged in return for that guarantee and that that fee be levied in a comparable way to the way in which it would apply to deposits at that level. So clearly what we have here is sensible, reasonable policy based on the advice of the regulators—contrary to what those on the other side say.

In relation to the scope of the guarantee, I want to turn my attention to its coverage, because of course the government has already implemented the Financial Claims Scheme, which has protected deposits held by authorised deposit-taking institutions—Australian incorporated ADIs—up to the value of \$1 million. This guarantee scheme will, for a fee, protect deposits above \$1 million. It will also protect all deposits with Australian branches of foreign banks, once again for a fee. It will also protect wholesale funding for Australian incorporated ADIs—and that is both short-term and long-term wholesale funding—and will provide a guarantee in respect of short-term funding for foreign bank branches where funds are raised from Australian residents.

In terms of how ‘short-term’ and ‘long-term’ are classified, short-term are those liabilities with initial maturities of up to 15 months and might include such instruments as bank bills, certificates of deposit, commercial paper and certain debentures. In relation to longer-term liabilities, we are talking about liabilities with terms of maturity of 15 to 60 months, which would include bonds, notes and certain debentures. This guarantee will apply to these instruments whether they are offered domestically or in international markets. It is important to acknowledge that.

When all these measures are taken into account, what we see is a package of measures designed to restore certainty and confidence to our financial markets. Since the announcement of the government back on 12 October, we have already seen some improvements in the unclogging of the arteries of the international financial system. We are starting to see more interbank lending at more competitive rates. We are seeing a narrowing of spreads. All of these factors have resulted from the decisive action that the government took in making its announcements on 12 October. The challenge for those on the other side is: do they support these measures?

Interjection

Ms Ley interjecting—

Continue

Mr BRADBURY—I hear the member opposite suggest that they do support the measures, and we welcome their support. But, for people who support the measures, there is a lot of criticism and a lot of nay-saying going on on that side. I ask two questions of the speakers to come. Firstly, what is the opposition’s position in relation to the \$100,000 cap? Do they still retain that position, or do they support the view of their leader—at least on one occasion—when he said they have now abandoned it? Listening to the shadow Treasurer, all I hear is a continued adherence to that policy even though the Leader of the Opposition has since abandoned it.

They carp and they argue about the unintended consequences of providing the guarantee and the impact it has been having on those institutions that fall outside of the ADI net. I ask them a simple question: are they proposing that we extend the guarantee to those institutions? Because if you listen to the shadow Treasurer, it almost sounds as though that is the only conclusion you can draw from the argument she is putting. Are the opposition seriously suggesting that we should extend the coverage of



this guarantee to managed funds and other investment funds that are not regulated in the same fashion as the authorised deposit-taking institutions that are currently proposed to be the beneficiaries of this scheme? The member for Aston has gone quiet on that one, but I am sure that we will be enlightened by subsequent speakers in this debate, because if they are not prepared to put up—(Time expired)