

## New Government Guarantee on Bank Deposits

The Australian Government has announced a permanent cap of \$A250,000 under the Financial Claims Scheme (FCS), effective from 1 February 2012. Here is what you need to know.

On 11 September 2011 the Government made three key announcements.

- **Existing \$A1 million cap** - will continue to apply until 1 February 2012
- **Permanent cap introduced** - a permanent guarantee cap will be introduced from 1 February 2012, subject to the continued advice of financial regulators that this remains appropriate
- **Amended cap level** - from 1 February 2012 the permanent guarantee cap will be revised to \$A250,000 per account holder per institution.

### The Australian Banking System

The Government comments that the permanent level reflects the strength of the Australian banking system. It notes that Australia's credit unions, building societies and banks are highly capitalised and have benefited from years of tough supervision by world-class regulators. Institutions are very soundly managed by international standards, having developed strong practices of responsible lending and risk management and are very well funded for the period ahead, having significantly reduced the amount of funds they borrow offshore as they move to more stable, longer-term funding.

In its announcement the Government stated that given the fundamental strength of our banking system, and its very sound positioning to meet new Basel III global regulatory reforms, financial regulators have advised that it is now appropriate to adjust the settings of the FCS.