



1 February 2012

Financial Claims Scheme for Authorised Deposit-taking Institutions

Key Features of the Financial Claims Scheme

- The Financial Claims Scheme (FCS) for Authorised Deposit-taking Institutions (ADIs) is the Australian Government's guarantee on deposits and is administered by APRA.
- The FCS protects depositors by guaranteeing deposits (up to the cap) held in ADIs incorporated in Australia and allows quick access to deposits if an ADI becomes insolvent.
- A permanent guarantee cap of \$250,000 has been in place since 1 February 2012.
- The cap applies per account-holder, per ADI.
- Term deposits which existed on or before 10 September 2011 are covered up to \$1 million until 31 December 2012 or until the deposit matures—whichever occurs sooner.
- The Treasurer's [press release](#) from 11 September 2011 contains background and details of the new permanent scheme

Coverage of the Scheme

Types of ADIs covered by the FCS

The FCS applies to deposits held with ADIs incorporated in Australia. This includes:

- Australian banks, building societies and credit unions; and
- foreign subsidiary banks.

Please refer to the APRA website for a full [list of ADIs](#).

The FCS **does not apply** to deposits held in the following types of financial institutions:

- branches of foreign-incorporated ADIs operating in Australia (listed as 'branches of foreign banks' on the APRA website);
- Specialist Credit Card Institutions and Providers of Purchased Payment Facilities; and
- interest-bearing investments in finance companies and other institutions that are not ADIs supervised by APRA.



Types of deposit accounts covered by the FCS

The FCS applies to a wide range of deposits held with ADIs, including:

- savings accounts;
- call accounts;
- term deposits;
- current accounts;
- cheque accounts;
- debit card accounts;
- transactions accounts;
- personal basic account;
- cash management accounts;
- farm management deposits;
- pensioner deeming accounts;
- mortgage offset accounts, either 100 per cent or partial offset, that are separate deposit accounts;
- trustee accounts;
- retirement savings accounts; and
- first home saver accounts that are deposit accounts.

The FCS only applies to deposits denominated in Australian dollars.

Amount covered by the FCS

The Australian Government guarantees deposits held in ADIs up to \$250,000 per account-holder, per ADI.

For term deposits which existed on or before 10 September 2011 and continue to be held, special transition rules apply until 31 December 2012. Please see below.

Grandfathering of term deposits

'Grandfathering' involves maintaining coverage (at the previous cap level of \$1 million) for existing term deposits for a given period of time to enable depositors and ADIs to adjust their exposure accordingly.

A grandfathering provision has been put in place for term deposits that existed on 10 September 2011. For these deposits, the \$1 million cap will apply until the earlier of either:

- the maturity date - for term deposits which mature between 1 February 2012 and 31 December 2012; or
- 31 December 2012 - for term deposits which mature on or after this date.

The new \$250,000 cap will then apply.

For term deposits opened or rolled over after 10 September 2011, the \$250,000 cap applies from 1 February 2012. If a term deposit rolls over, the rollover date is taken to be the maturity date for the purpose of the FCS.



Types of account-holders covered by the FCS

The FCS applies per account-holder, per ADI. Each distinct account-holder is covered by the guarantee up to the cap at the time the FCS is invoked.

‘**Account-holder**’ is defined in section 5(1) of the Banking Act 1959 as ‘an entity (as defined in section 960-100 of the Income Tax Assessment Act 1997) that holds in its name, or keeps in its name, (either alone or jointly with another entity) an account or covered financial product with an ADI’.

‘**Entity**’ as defined in the Income Tax Assessment Act 1997 includes:

- an individual;
- a body corporate;
- a body politic;
- a partnership;
- any other unincorporated association or body of persons;
- a trust;
- a superannuation fund; and
- an approved deposit fund.

Multiple accounts with one ADI

The FCS applies per account-holder per ADI. It is applied on an aggregated basis across all eligible deposit accounts held by an account-holder with an ADI.

Example of how this applies under a cap of \$250,000:

- An account-holder has three deposit accounts each containing \$100,000.
- These three accounts are held with one ADI, meaning that the account-holder holds a total of \$300,000 with this ADI.
- These accounts are protected up to the \$250,000 FCS cap.
- The remaining \$50,000 is not guaranteed under the FCS and will need to be claimed through the liquidation process.

Example of how this applies to account-holders with existing term deposits:

- An account-holder had an existing term deposit account on 10 September, containing \$1 million, and an at-call account containing \$250,000. The term deposit matures on 1 July 2012 and is rolled over on that date.
- These two accounts are held with one ADI, meaning that the account-holder holds a total of \$1.25 million with this ADI.
- The FCS provides protection, in this example, of up to \$1 million until 1 July 2012.
- From 1 July 2012, the FCS protects the depositor up to \$250,000. The remaining \$1 million is not guaranteed by the FCS and will need to be claimed through the liquidation process.



Joint accounts

In the case of joint accounts, each account-holder's share of the joint account will be added to other deposits held in their name and the FCS cap will be applied to the aggregated amount for each account-holder. Each account-holder is entitled to an individual guarantee up to the FCS cap of \$250,000.

How does the FCS apply to branches of Australian ADIs operating overseas?

The overseas branch operations of Australian ADIs are still covered by the FCS until proposed legislative changes are passed.

How will deposits held in foreign currency accounts be treated?

Balances denominated in foreign currency accounts are not covered by the FCS.

Administration of the Financial Claims Scheme

When would the FCS apply?

The FCS is activated when the Australian Prudential Regulation Authority (APRA) has made an application to have an ADI wound up and when the Minister has declared that the FCS will be applied to that ADI.

The FCS would only be used in a situation where an ADI is insolvent and where the best course of action is to close the ADI and wind it up.

Who will administer the FCS if it is invoked?

APRA is responsible for the administration of the FCS and for making payments to account-holders.

Who provides the money to make payments under the FCS?

The Government initially provides the funds to make payments under the FCS. Monies paid under the FCS are then recovered from the ADI in the winding up process. There is provision to make up any shortfall by applying a levy on the ADI sector.

How will deposits be repaid under the Financial Claims Scheme?

As administrator of the FCS, APRA is responsible for determining the amounts payable to each account-holder and arranging for payments to be made. The means of payment will be determined according to the circumstances of the failed ADI. Options include, but are not limited to:

- payment by cheque;
- electronic transfer of funds into bank accounts nominated by account-holders at another ADI; or



- electronic transfer of funds into new bank accounts opened by APRA in the names of account-holders in a designated ADI.

Account-holders will be advised how their deposits will be paid to them and what actions they need to take to access their money.

How quickly will payments be available?

APRA aims to pay account-holders their money as quickly as possible. For basic, non-complex accounts, particularly transaction and at-call accounts, it is intended that account-holders will receive or be able to access their funds (up to the cap applicable at the time) within 7 days of the FCS being invoked. Other accounts may take longer.

Further Information about the Financial Claims Scheme

Why was the FCS cap changed?

The original cap, set at \$1 million in October 2008, was intended as a temporary measure to assist the financial system through a particularly turbulent period. At that time, the Government committed to review the settings of the FCS after three years. The cap of \$250,000 reflects the soundness of the Australian financial system and brings the scheme more into line with its counterparts in other countries.

When did the \$1 million cap on the FCS finish?

The \$1 million cap finished on 1 February 2012. From this date, a cap of \$250,000 applies to deposits held with ADIs.

How long will the new scheme guaranteeing deposits to \$250,000 be in place? Will there be another revision of the cap?

The \$250,000 guarantee is a permanent guarantee scheme. There is no expiry date for this cap.

FCS Prudential Standard for ADIs

APRA has released Prudential Standard APS 910 Financial Claims Scheme to assist ADIs to comply with the requirements of the FCS. This was announced via a [media release](#) on 22 December 2011. Please refer to the APRA website for a copy of [APS 910](#).

Government deposit guarantee seal

An Australian Government guaranteed deposits seal has been developed. ADIs can choose to display this seal to help customers easily understand that their deposits are protected under the FCS. If your financial institution chooses not to display the seal, that doesn't mean your account is not guaranteed. To view the seal and to find out more visit ASIC's [MoneySmart website](#).