



**Credit Union**  
Industry Association

28 April 2006

Dr Philip Lowe  
Assistant Governor  
Financial Systems Group  
Reserve Bank of Australia  
GPO Box 3947  
SYDNEY NSW 2001

Dear Dr Lowe

### **Financial Claims Compensation Scheme**

Thank you for your letter dated 31 March 2006 regarding two additional changes to the Council of Financial Regulators' proposal for the establishment of a Financial Claims Compensation Scheme (FCCS). We are pleased to have the opportunity to comment on those changes.

The Credit Union Industry Association (CUIA) reiterates its earlier position that a case for a deposit insurance scheme has not been comprehensively made. CUIA remains of the view that there are significant protections already existing under the prudential regulatory framework and that ADIs are now intensively regulated and prudently managed.

Further, CUIA member credit unions also participate in an APRA-approved industry support scheme, the Credit Union Financial Support Scheme (CUFSS), which is designed to provide liquidity support to participating credit unions in certain circumstances. CUFSS has a role in monitoring the performance of participating credit unions and this acts as a further enhancement to the sound prudential management of credit unions in Australia.

Notwithstanding our overall position, we have considered the proposed changes to the Scheme. The proposed reduction of the cap from \$50,000 to \$20,000 is in line with our earlier submission and, as we indicated previously, CUIA believes that a cap at this level will ensure that small retail investors will be eligible to receive immediate emergency relief in the event of the collapse of an ADI without significantly altering competitive behaviours and placing large burdens on surviving institutions. Accordingly, the proposed reduction is supported.

In terms of the ranking proposal, this appears to be a sensible change that ensures that the "guaranteed" portion of the retail deposits paid out by the Scheme is ranked before the balance of the remaining deposits held by the failed institution. This appears to be a natural and equitable outcome for both small retail depositors and the surviving ADIs. In the event that the Scheme was introduced, CUIA would support the proposal for the FCCS to have first claim over the assets of the failed institution.

Thank you again for the opportunity to comment. If you have any questions, please do not hesitate to contact me on (02) 8299 9053 or at [mdegotardi@cuscal.com.au](mailto:mdegotardi@cuscal.com.au).

Yours sincerely,

**MARK DEGOTARDI**  
Senior Adviser