DEPARTMENT OF THE
PRIME MINISTER AND **CABINET**
TE TARI O TE PIRIMIA ME TE KOMITI MATUA

Reference: OIA-2018/19-0067

6 September 2018

[redacted]

Dear [redacted]

Official Information Act request relating to South Canterbury Finance

Thank you for your Official Information Act 1982 (the Act) request received on 12 August 2018. You requested:

> *"... 1.) All papers, reports, memos, correspondence and emails received by the Department of Prime Minister and Cabinet during 2010 to 2012 regarding South Canterbury Finance (later renamed FCS Loans) or related parties / entities, Southbury Group, Southbury Corporation, Aorangi Securities Ltd, Hubbard Funds Management and Allan Hubbard*
> *2.) All Cabinet Minutes pr Papers relating to discussions during 2010 to 2012 regarding South Canterbury Finance (later renamed FCS Loans) or related parties / entities, Southbury Group, Southbury Corporation, Aorangi Securities Ltd, Hubbard Funds Management and Allan Hubbard. ..."*

On 24 August 2018, we wrote to you transferring the second part of your request to the Treasury. This response covers the remainder of your request as set out in part one above.

In preparing this response, we have interpreted the scope of your request to not include any correspondence received by the Department of the Prime Minister and Cabinet (DPMC) from individual members of the general public, including any relevant Official Information Act requests DPMC received. If you had intended your request to include such correspondence, please advise.

Information being released

From searches of information held by DPMC for information relevant to your request, the only information identified are; transcripts of a media interview, and draft transcripts of Post Cabinet Press Conferences held by the Prime Minister of the day which were subsequently forwarded to DPMC. I have decided to release the relevant extracts from these transcripts as listed below.

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Item	Date	Document Description/Subject
1.	30/08/2010	Excerpt from Draft Transcript of Post Cabinet Press Conference
2.	6/09/2010	Excerpt from Draft Transcript of Post Cabinet Press Conference
3.	6/09/2010	Extract of Transcript from Breakfast, TV One, TVNZ Interview
4.	20/09/2010	Excerpt from Draft Transcript of Post Cabinet Press Conference
5.	4/10/2010	Excerpt from Draft Transcript of Post Cabinet Press Conference
6.	4/4/2011	Excerpt from Draft Transcript of Post Cabinet Press Conference

This response may be published on the Department of the Prime Minister and Cabinet's website during our regular publication cycle. Typically, information is released quarterly, or as otherwise determined. Your personal information including name and contact details will be removed for publication.

You have the right to ask the Ombudsman to investigate and review my decision under section 28(3) of the Act. You can contact the Ombudsman online via the Ombudsman website, by email (info@ombudsman.parliament.nz) or by post to The Ombudsman, PO Box 10152, Wellington 6143. Further details can be found on the Ombudsman website at: www.ombudsman.parliament.nz.

Yours sincerely

Karen Jones
Executive Director
Strategy, Governance and Engagement

EXCERPT FROM DRAFT TRANSCRIPT OF POST-CABINET PRESS CONFERENCE: MONDAY, 30 AUGUST 2010

PM: OK, good afternoon. I would like to start by making a few comments following the speculation in recent days about South Canterbury Finance. As you are aware, the trustees of South Canterbury Finance will be faced tomorrow with a decision on whether the company can continue operating. It is important to understand the Government's role here. We have three objectives: firstly, making sure that people who have deposits with South Canterbury Finance have some certainty; secondly, if there is a cost to the taxpayer, ensuring that that cost is minimised; thirdly, whatever may take place, ensuring that any disruption to the wider economy is kept at a minimum. As you will appreciate, for commercial reasons I cannot comment in detail about South Canterbury Finance, which is a member of the Retail Deposit Guarantee Scheme. That is the firm approach we have taken with respect to all companies in the scheme. It is important to note that South Canterbury Finance is still operating, and we do not want to prejudice any commercial discussions that may be taking place with private parties.

That said, the Minister of Finance briefed Cabinet today on South Canterbury Finance. Bill English also advised that he is not going to leave for overseas tonight as scheduled. On balance, he believes he should remain in the country in case he is needed to deal with any aspects arising out of South Canterbury Finance, and I support him in that decision.

It is no secret that South Canterbury Finance's board and management have been working hard to get through a number of challenges. This is a very complex situation for everyone involved, and I would not want to say anything that could prejudice the company's options. However, I would like to make some general comments, particularly about the Government's involvement with the Retail Deposit Guarantee Scheme since 2008. The scheme ensures the interests of both taxpayers and depositors in companies within the scheme are well covered. There has been some confusion about that, so let me clear up a couple of things by setting out some clear principles around the Government's approach to the Retail Deposit Guarantee Scheme.

The scheme was set up in late 2008 by the previous Government, and with our support, to help maintain public and investor confidence in New Zealand financial institutions during what were extraordinary times in the global financial markets. The scheme has fulfilled that role and it continues to work well. Seven finance companies have so far made a call on the scheme, and depositors are getting their money back. In fact, about $250 million of guaranteed deposits are in the process of being paid back. The ultimate cost to the Crown from those seven companies will be well below $250 million, and let me explain why. While we are paying the full amount to depositors, we can recover some of this money, because the finance companies own assets that can be sold and that are reconstructed or wound up. In some cases, we would expect our costs n covering depositors to be offset reasonably significantly.

This leads me to my second point about the retail deposit guarantee. Taxpayers' interests are also covered under the scheme. Some people are questioning why taxpayers are involved in underwriting the retail deposit guarantee, at all. Let me repeat that the scheme was introduced as a temporary measure in what were extraordinary times in financial markets, when the very future of our financial systems around the world were at risk. The alternative of not having a deposit scheme could have been a run on the banks, the collapse of many more financial institutions, and an even bigger liability for taxpayers. Thankfully, the markets are returning to normal and our extended retail deposit guarantee will end on 31 December 2011.

So what is the cost to the taxpayer? There is an overall provision in the Crown accounts of around about $900 million for all companies in the scheme which would expect to make a call on the guarantee. We remain confident that figure will be adequate, and it is already included in our financial forecasts. In making decisions now, the Government will continue to have the interests of taxpayers in mind. In fact, we owe it to taxpayers not to spend any more of their money than is necessary. This is precisely how the retail deposit guarantee was designed to work—to cover depositors in what has been extraordinary times in global financial markets and to also ensure taxpayers' interests are managed appropriately. As I say, I cannot talk about South Canterbury Finance, but I think it is important that everyone understands that the Government is carefully balancing the interests of both depositors and taxpayers.

In terms of my UK trip, by now you will have seen a statement from my office announcing that I will be travelling to the United Kingdom and France at the end of next week. During the visit I will meet with British Prime Minister, David Cameron, in London for bilateral talks as well with deputy Prime Minister, Nick Clegg, and other senior members of the British Government. I will also attend the unveiling of a statue in memory of Sir Keith Park in London, which will be a proud moment for New Zealand. In Paris I will meet with President Sarkozy and other senior Government figures, as well as hold discussions with the OECD. At the invitation of the Queen, my wife, Bronagh, and I will also make a private visit to join Her Majesty at the royal residence of Balmoral in Scotland. I depart New Zealand on the evening of 10 September and return on 19 September. The trip is a good opportunity to establish close links with the new British coalition Government and to build on the solid ties we already share with the United Kingdom. In France I look forward to discussing with Mr Sarkozy cooperation in the Pacific and in Europe.

Finally, in terms of ministerial activity, tomorrow I am in Porirua making an announcement about some Pacific Youth Awards. I will also attend a parliamentary reception for the Silver Ferns and the Australian team. For the rest of the week I am in Auckland at various events and meetings. On Friday I will be undertaking a number of school visits on the North Shore.

Questions.

Media: With South Canterbury Finance, there's been a report that about 20,000 investors and $1.7 billion worth of deposits—would that be the total exposure for the Government—$1.7 billion—or is it a lot less than that?

PM: Well, the exposure is potentially everything that is covered by the Retail Deposit Guarantee Scheme, so I do not have that number to hand, but it is in the order of that magnitude—one and half billion dollars. Plus you have got to remember there are secured depositors, which is not a cost to the Crown, but they rank ahead of everyone else.

Media: So the retail deposit scheme would cover all of that?

PM: That is right. Everybody who is a debenture holder in South Canterbury Finance is covered under the Retail Deposit Guarantee Scheme, and in the event of a collapse of South Canterbury Finance, would be paid out under the Retail Deposit Guarantee Scheme, guaranteed by the Government.

Media: Plus interest as well if that happens?

PM: Yeah, the way the scheme works is they are eligible for their interest to the point at which they repaid at the interest rate that was agreed between themselves and South Canterbury Finance.

Media: So is the flexibility within the scheme—you were saying that there is, obviously, to cover shareholders, but also to cover taxpayer interests—so is the flexibility under that provision to maybe put up some money before a collapse—i.e., before shareholders would have to be paid out?

PM: Well, theoretically the Government could do anything prior to that if it wanted to. The flexibility within the scheme is the capacity for the Crown to repay at any time that it wanted to assume those liabilities.

Media: One of your objectives there is to minimise the cost to the taxpayer. That means you must be weighing pretty heavily whether or not to give the $500 million or so needed to stop South Canterbury Finance collapsing, as opposed to a $1.7 billion to pay out in debebtures?

PM: Firstly, as I said earlier in my opening remarks, it is an ongoing concern until which point it ceases to be, if the trustees decide not to extend the waiver, and that decision they have to reach tomorrow night—on 31 August. The second thing is all I can tell you is the Government has thought very carefully through its objectives, and they are to make sure that those who have deposited money with South Canterbury Finance, covered by the depositor guarantee scheme, can take comfort that they will be repaid in the event of some collapse at South Canterbury Finance, that we are minimising any cost to the taxpayer, and we will want to minimise any disruption to the wider economy.

Media: So you can quite comfortably rule out a bail-out, could you?

PM: I can't and won't do that, because it is not useful for me to speculate. What I can say is we have thought very carefully through our actions, we are very deliberate in what we are proposing we may or may not do if required, and we think we have those three objectives at the forefront of our decision making.

Media: Of all those options that you've talked about, everything you have outlined today is focused quite clearly on the retail deposit scheme, and no talk at all about proactively doing anything to avoid them collapsing?

PM: Well, look, I think the way to characterise that is, that is one objective in terms of mum and dad investors taking comfort that in the event of a collapse, if they are covered under the deposit guarantee scheme, they will be repaid. As I say, there are wider objectives as well—that is, the wider issues in relation to the economy, the assets that are controlled by South Canterbury Finance, and it is also ensuring that the cost to the taxpayer is kept to a minimum—because in the end, in the event that we do have to pay out under the Retail Deposit Guarantee Scheme, whatever loss was incurred by the Crown is ultimately paid by other New Zealand taxpayers.

Media: What advice have you had about the wider economic impact if it fell over?

PM: There has been some advice in that regard, and all I can say is that we have carefully thought through the actions that we would take. We believe the actions, if we are required to take them, are the ones that would minimise that disruption.

Media: Is one of those actions to pay the people back over a period of time, rather than up front, at once?

PM: Look, I do not want to go through that, because that is presupposing that they may collapse. I would rather leave that to another time, if required.

Media: It's clear that the Government would prefer, obviously, a private sector type of bail-out situation?

PM: Yeah, and it is important to understand that they are private operating company at the moment, that they do not face a position of—well, until the trustee's executors decide they are in breach of their waiver, then they continue to be free to operate and I do not want to prejudice their outcomes.

Media: So what should New Zealanders read into the fact that the finance Minister is staying behind—is it that the Government is on the brink of an announcement tomorrow?

PM: Well, I think they should read into it that the Government takes this issue very seriously, firstly, because South Canterbury Finance are a large financial institution in New Zealand. Secondly, there are depositors involved here, there are taxpayers' interests involved here, and that we have spent a long time thinking through our actions and what we believe are the right actions to follow in the event that it is required. So, you know, I think it is wholly appropriate that the Minister of Finance delays his trip.

Media: He said on television yesterday that he would not be delaying his trip. What has changed since about 9.15 on Sunday morning and now?

PM: Well, I think it is just fair to say this is a fairly fluid space that we are operating in.

Media: Are the mechanisms within that scheme to be able to, for example, buy the bad bank loans or do other things than to cover that shareholder, and are they being considered?

PM: Well, I cannot comment on the latter. In terms of the former, yes, there is tremendous flexibility within the scheme.

Media: How worried are you about the potential political backlash if South Canterbury Finance does collapse, and the obvious implications in the South Island for that?

PM: I think an important point to understand here is that depositors, who are usually the affected party that everyone worries about in the event of a collapse of a financial institution, in this case are covered by a deposit guarantee scheme. So we normally worry a lot about depositors losing their money. If there was something untoward that happened to South Canterbury Finance, depositors will not lose their money. There is a big difference here. Now, there are assets that are controlled by South Canterbury Finance, and that is a different issue. But, as I said to you, the Government has three objectives, ultimately: the concerns of depositors, the concerns of taxpayers, and the concerns of the wider economy.

Media: But as the Government, are you concerned about avoiding a situation where receivers are suddenly in charge of farms and that knock-on effect that people may have to have mortgagee sales?

PM: I am extremely comfortable that we have thought through all of the options available to us, and that Treasury and others, who have been involved in significant conversations with South Canterbury Finance and others, have thought through all of the implications.

Media: You're saying that the $900 million left in the contingent liability ________ will be adequate to cover any finance company failures. So obviously you've calculated that the exposure from South Canterbury Finance is well, well below the $1.7 billion that investors have in it?

PM: Yeah, I think it is important to understand the way the scheme works, which is all depositors are covered by the scheme, but clearly there are assets, some of which are more valuable than others. But in the event of a receivership, then those assets are used to offset the costs of the deposits. Now our assessment is that the $900 million that the Crown has provisioned against potential losses from finance companies is adequate and appropriate.

Media: Can you give us a rough guide about what the ______ exposure would be under this scheme—should it be called on _________ times?

PM: I am not sure that would be hugely useful, except to say that we are comfortable that the provision we have got is adequate.

Media: Is your advice that it's under $900 million on South Canterbury alone?

PM: Our advice is, taking into consideration all of the finance companies covered by the Retail Deposit Guarantee Scheme and the likelihood that there may be a call against the Government, that our $900 million is an adequate provision.

Media: So how much has been paid out for those seven, because you said $250 million—

PM: Well, it is—$250 million is the cost of the deposits.

Media: But that's not the exposure—that's significantly less. Can you tell us how much that is?

PM: I do not have it to hand, but it is under half of that, from memory.

Media: So is the Government waiting now to see the outcome of tomorrow's deadline and that might cause Government action or otherwise? Would that be a fair—

PM: Yeah, well, the sequence of events is, it is an operating company. At some time tomorrow, early afternoon or evening, the trustees will have to decide whether they want to extend the waiver that they have extended in the past to South Canterbury. They will have to make an assessment of whether it has the financial means to continue. In the event that it did not, then it will have to take the course of action available to the trustees.

Media: The latest information from the company suggests that the impaired loans are about, I think it was $598 million, or around about that. Is that the order of the current exposure, in that case?

PM: Look, who absolutely knows, but, in ballpark, yes.

Media: So that's roughly the exposure that we would be facing under the retail guarantee scheme—roughly $600 million?

PM: Yeah, in ballpark terms, potentially, but there are a lot of unknowns.

Media: Is there a danger for the Government in negotiating through the flexibility you've got to take the bad loans but to leave the unimpaired loans and the assets in some separate company—in other words, just taking on the sure-fire losses and not being able to offset them against some other assets and maybe get a better price ______?

PM: Well, I think it is fair to say that all of those concerns have been thought through by Treasury, and they have given the Minister of Finance, and therefore the Government, advice on what they think is the best course of action that would minimise the losses to taxpayers, if required.

Media: Because you haven't done that with any of the previous company failures, have you?

PM: Well there has effectively been a course of action with previous companies where they have failed, where the assets have ultimately been sold and offset against the losses—against the deposit.

Media: But there hasn't been a situation where the Government's just taking the bad debts?

PM: No, that is right. That has been the total situation.

Media: Would you be concerned about precedent if the Government is in a position it has to act—any worries about intervening in potential collapses for the future?

PM: Well, I think you need to think about it on a case by case basis. Everyone is different because of size and scale, and magnitude and reach, and all of those type of issues, but we are comfortable that if we take the course of action that it might be required from the Government. We have carefully thought it through. We are going to achieve our objectives and we're going to deal with the best of a difficult situation.

Media: What is your reaction to the assertion that South Canterbury Finance is too big to let it fail?

PM: Well, if you go back to what I was saying earlier, I think when people talk about that, they are talking about the impact on depositors and depositors losing their funds. That is just not a situation that is going to occur here in South Canterbury Finance. So, unlike Hanover, for instance, and others where mum and dad literally lost their cash, in the case of South Canterbury, any losses would be attributed straight back to the Government. So the taxpayers might want to have a view on whether that is good, bad, or indifferent, but that is the reality of it.

Media: So at the moment, is your main concern then to stop the flow-on economic effects and to minimize the cost to taxpayers?

PM: Well, and to ensure that under the Retail Deposit Guarantee Scheme, we honour our obligations.

Media: You said you had advice on, you know, the wider economic implications. Are you able to enlighten us on that? I mean, what are some of the practical effects if this company fails?

PM: Well, I am not going to go into those details. I mean, this is an operating company and it has 24 hours in which to reach some sort of agreement with its trustee executives.

Media: But are those significant concerns? Because you've said that one of the big issues here is investors getting their money back. Mum and dad investors getting their money back is largely put to one side—it's resolved. How significant are those broader economic concerns?

PM: Well, one would always be concerned if there was a problem with a company the size of South Canterbury Finance, and I think we need to be realistic. This is a large company, and it has played a significant part in, particularly, the economy of mid-Canterbury. That said, I think it is important to understand that South Canterbury Finance hasn't been acting in a capacity of being either a mezzanine or SME lender for quite some time. Since, really, about February of this year, it has been reducing the size of its balance sheet. It has not been writing new loans, it has fundamentally been managing the balance sheet that Sandy Meier inherited when he took over control of the company. So, as I say, one would need to think through very carefully what happened next in the event of a receivership, and all I can say is the Government has thought through its actions carefully.

Media: Do you have any advice on—two questions—any advice on (a) how much depositors have in South Canterbury Finance that's not covered by the guarantee? My understanding is it's $1.5 million is and maybe $200 million isn't. Is that—

PM: There is a small amount, I think, that is not, and I would have to check the exact number—I can get it for you. But certainly what I do know is that there are other instruments that are there, but they are secured against other assets. They are not part of the guarantee scheme, but they are secured first against assets.

Media: Are some of those deposits that have been made since January—so they don't get recovered?

PM: I would not have thought so, but I will have to check that for you.

Media: And the second part of the question was, have you got any advice on the internal workings of South Canterbury Finance? Is it the same as the other Hubbard entities, which are, you know, handwritten, and the systems are not clearly up to date, and there's no good record of loans. Are there similar problems in there?

PM: Well, I think it is fair to say that Sandy Meier has been faced with significant challenges since he has taken over in terms of the operation of what has been a very large finance company and not necessarily the systems that one would have thought that operated in a company of that size. There are differences that I think are worth noting between this and the other entities controlled in the Hubbard group, particularly Hubbard Management Funds and also Aorangi—and that is, they are not covered by the Government deposit guarantee scheme.

Media: But the back office, if you like, is it the same sorts of problems?

PM: I think that would be a fair assessment.

Media: To what extent do you have concerns about the potential impact on the dairy industry, given that it's the country's largest exporter?

PM: Well, I think that again they have been a player in that space, obviously, but not significant in 2010, because, as I say, their balance sheet has been reducing. So at the margins there may be some impact, but it may not be as large as people think.

Media: Given the problems that you've indicated it may be a fair assessment to assume there in the back office, can the Government have any confidence that the level of assets that it hopes are there are there?

PM: My understanding is that has been the primary focus of the work of Sandy Meier in the 6 months he has been there. We have a lot of respect for him. I think it is fair to say that they have been working very aggressively to understand which of the assets of South Canterbury Finance are impaired and, if so, how badly impaired they are.

Media: Do you think it's a tough job?

PM: Yes, as I understand it.

Media: Do you think the taxpayers will be surprised that their generosity extends not only to covering the deposits of people in this finance companies but also the interest, given that South Canterbury Finance was advertising only a few days ago for deposits of 8.5 percent when, plainly, it seems the company was probably in no position to be guaranteeing that?

PM: Yeah, I don't want go into the history of that, but the reality of a test case that was taken—one of the earlier finance companies—indicates that the Crown, in the way that the finance deposit guarantee scheme was structured, is liable for the interest, and that is a factor that the Government needs to consider. So it is there and we have to deal with that. It is not in the future, I might add—it has been changed. It is not in the future, but it is at the moment, under this scheme. So, going forward, the interest is not covered, but in the previous scheme it has been.

Media: Do you think placing Mr Hubbard's other interests under statutory management might have damaged South Canterbury's chances of surviving at all in terms of sentiment?

PM: In my view, not in the slightest. If you go back to the middle of last year, that was the point at which South Canterbury Finance started having a credit rating downgrade or a change in its outlook. It has had seven since the middle of last year. It was only the entities put in statutory management—the Aorangi Securities and charitable trusts—and Mr and Mrs Hubbard personally were put in only in June or July of this year. To be perfectly honest, I think the slide in the value of South Canterbury Finance and the deterioration in its balance sheet were of the makings of Mr Hubbard and the management team, and have nothing to do with the Government.

Media: Is statutory management an option for South Canterbury Finance, and, if so, would that trigger the guarantee?

PM: It could be, but I do not want to speculate on that.

Media: Would it trigger the guarantee?

PM: Um—

Media: I think it would.

PM: Yes, I think it would.

Media: Do you think this has the ability to downgrade New Zealand's own credit rating?

PM: Not in the slightest. I mean, if you think about the size of the New Zealand balance sheet, for a start off, it is in the order of over $200 billion. You can do your calculations on what you think the cost to the taxpayer of this might be, but it is tiny in relation to the overall balance sheet.

Media: So are the fiscal implications, though, of having to pay out immediately or in the immediate aftermath maybe $1.5 billion? I understand that the net liabilities are going to be far less than that, but that will take some time to work through and we're faced with a big bill upfront.

PM: Yeah, I think the DMO has actually been raising funds at a faster rate than we have needed them at the moment, so the Crown has plenty of cash to meet that liability, if that was the way it wanted to deal with the situation. So there are no immediate concerns there.

Media: It does look though, doesn't it, as if you'll have to adjust the contingency up?

PM: The $900 million you mean?

Media: Hmm.

PM: No, that is not the advice that we've had.

Media: Can I just clarify that the $250 million already paid out now—or $125 million net; whatever it is—

PM: Yeah—whatever it is, yeah.

Media: —is that out of that $900 million?

PM: Yeah, and it may be less; I will have to go and get the number. One of them had a very small cost; others have been slightly higher.

Media: Is Treasury working with the trustees or the company?

PM: Well, Treasury has been intimately involved with the company itself, actually, for some time.

Media: How long?

PM: Ah, I would have to get an exact date for you, but it is quite some time.

Media: Has the Government been approached by private interests looking to invest in South Canterbury?

PM: I think it is fair to say there have been deals that have been presented to the Government, yes.

Media: From?

PM: Oh, a variety of different parties.

Media: Did they all rely on the Government putting money in, as well, or—

PM: I have not seen all of them. I mean, I do not know the workings of all of the particular deals, but there have been parties that have been interested. But, again if you go back to the tests that the Government wants to meet, it is important to understand that one of those tests has to be minimising the cost to the taxpayer. So we could not, in all good conscience, accept a deal that made that position worse, or put the taxpayer at greater risk. So it is one thing to be offered a deal; it is another thing to be offered a deal which is in the best interests of the taxpayer.

Media: There's one argument, I think, that has been put up—that it would be cheaper in the long run for the Government to bail the company out—but that clearly isn't your position?

PM: Well, look, I do not want to speculate on that today.

Media: Is that the case, though—that, in pure dollar terms, from what we know at the moment it's cheaper to say: "Look, there's the money to keep going.", rather than "There's the money to cover the investors."?

PM: All I can say is that we have thought very carefully through this situation, and I am confident that the course of action that we would take, if we are required to take it, would minimise the cost to the taxpayer and the disruption of the economy….

EXCERPT FROM DRAFT TRANSCRIPT OF POST-CABINET PRESS CONFERENCE: MONDAY, 6 SEPTEMBER 2010

… In relation to South Canterbury Finance, last week the Government set out its carefully considered approach to working through the considerable challenges faced by South Canterbury Finance. Our swift response to the appointment of a receiver for South Canterbury Finance met three clear objectives: first, making sure that South Canterbury Finance's 35,000 depositors had some certainty; second, minimising the cost to the taxpayer; and, third, ensuring that the wider disruption to communities and local economies, particularly in the South Island, was kept to a minimum. On balance, we believe the managed receivership in triggering the retail deposit guarantee will achieve these three objectives.

The Crown has a significant interest in the conduct of the receivership. Many good parts of South Canterbury Finance's businesses are still trading, and it's important that the people and systems supporting these businesses continue to operate normally where that's possible. We would prefer that the assets are sold as a going concern, although we have an open mind about what shape any bids might take.

Finance Minister Bill English, who has coordinated the Government's response to this complex issue, provided Cabinet with another update today. In particular, he confirmed that the receivers had today called for expressions of interest from possible buyers of South Canterbury's assets, and they have today issued a media statement to that effect. This will ensure that the process from here delivers maximum value for taxpayers and minimises disruption to the economy. The receivers, working closely with the Government, will announce more details as they become available in the coming days and weeks.

I'd like to make a couple of final points regarding the net cost of the guarantee scheme for taxpayers. Back in May we had provisioned around $900 million to meet the total expected net costs of the retail deposit guarantee. We still believe this will be adequate to cover all the costs of all the companies in the guarantee. Since then, we have made decisions that have saved more than $100 million by immediately paying out all of South Canterbury Finance's depositors. Taking account of almost $500 million we expect to receive in combined fees from companies in the retail deposit guarantee scheme and the wholesale Government guarantee scheme, this leaves us with a net expected loss to the taxpayer of around $300 million to maybe $400 million in total. Given the acute risks our financial and banking system faced at the height of the global financial crisis in late 2008, the Government is satisfied it has done the right thing. The alternative of not having a guarantee could well have led to a collapse in confidence in the New Zealand banking and financial system. If that had happened, the bill for taxpayers, without doubt would have been significantly higher, as we've seen in other countries. …

… **Media**: On South Canterbury Finance, do you now expect the actual hit to the Government's books to be more around $400 million?

PM: I can run you through that one more time to make it a little bit clearer. Our expectation is that the loss from South Canterbury Finance will be in the order of $500 million to $600 million. In totality, we think the cost of the deposit guarantee scheme will be no greater than the $900 million provision, and may be less. But the important point to note is that we charged fees for both the wholesale and retail deposit guarantee scheme. The retail deposit guarantee scheme fees have largely been received by the Crown. They were in the order of around $200 million to $250 million. There is a further $200 million to $250 million that comes in from the wholesale guarantee scheme, and when that is finally paid you can see that that will earn us around about—I think my numbers were $465 million to $500 million. So the net cost to the Crown of the entire scheme is somewhere in the order of $300 million to $400 million, or maybe $100 a person. When you put that in the context of what the world was facing 2 years ago, I think that is $100 that was worth investing for both the health of the New Zealand economy and the fact that without that retail deposit guarantee scheme our funds would have fled offshore to the Australian scheme. So I think that is about appropriate.

The one thing that was just plain, downright dumb was the way the scheme was established. They didn't charge fees to small players, aka the finance companies, but they did to better credit quality commercial banks. We changed that when we extended the scheme, but the crazy thing was that the South Canterburies of the world went into the scheme and didn't pay virtually anything for it. In fact, the only fees that they paid were when we extended the scheme.

Media: Do you know how much you will actually be paying over to buy out the depositors? It was $1.6 billion. Is that still the figure?

PM: Yes, about $1.6 billion or $1.7 billion. Our expectation is that if it is $1.6 billion, we will get about $1.1 billion back for the assets.

Media: Then there is the loan on top of that. Are you leaving that aside?

PM: The loan is just a prepayment, so we ultimately get that back. The net cost is $500 million to $600 million. But it depends on whether we sell the whole asset as a going concern. It depends on whether we sell the individual pieces. There are always risks. But that is the order of magnitude.

Media: Is there any indication of whether all of those other creditors that are being paid out by a loan are going to take the money and go, or might some of them resist it and want to stay in?

PM: Do you mean in terms of the depositors who are the debenture holders?

Media: In terms of the people who are ahead of the Government in the queue, which the $175 million is going towards—the people who have other debts to South Canterbury Finance.

PM: I think they automatically get paid out.

Media: The ones you are trying to get out the way, if you know what I mean.

PM: Essentially, by triggering the scheme and triggering the receivership, we automatically make those payments, so they don't get a choice; they get their money. Maybe they will use it to buy a finance company. Who knows? Thanks very much…..

Extract of Transcript from Breakfast, TV One, TVNZ Interview, 6 September 2010

… **PIPPA WETZELL**: Mmm, on top of obviously meeting and discussing what's - the deal is with the Canterbury earthquake, South Canterbury Finance, your job now with that is to recoup as much money as you possibly can I guess.

PIPPA WETZELL: Yeah and I think one thing that has not been well understood, I mean numbers get bandied around that the taxpayer is going to end up paying for $1.6 billion or $1.7 billion. Look that isn't right. There are a lot of assets in South Canterbury that can and will be sold and there's already been a lot of expressions of interest to buy those assets. So the final number that will cost the taxpayers considerably less than $1.6 billion...

PIPPA WETZELL: What do you think that final number is?

JOHN KEY: Well in total, we've put away $900 million for all of the finance companies, and one thing that's not well understood is we actually charged banks to be part of that, so we've earned hundreds of millions of dollars there, so the net cost to the taxpayer is going to be quite small, we'll probably quantify that this afternoon. But it's a lot less than people think, but still it's a cost to the taxpayer. But I think you have to put it back in context of two years ago without it, there would have been a collapse in our financial institutions.

PIPPA WETZELL: Much bigger.

JOHN KEY: Yep….

EXCERPT FROM DRAFT TRANSCRIPT OF POST-CABINET PRESS CONFERENCE: MONDAY, 20 SEPTEMBER 2010

.... **Media**:Can I just clarify on the consultation on the South Canterbury recovery regulations. When you are consulting the Opposition, do you mean just the Labour Party, or all Opposition parties? And is it on the basis of confidence, or that they can share that with whom they like?

PM: I can't answer the last bit, because I'm not quite sure. I think it's—I'm almost certain it's—just Clayton Cosgrove, and therefore just Labour. The rationale is that they are Her Majesty's Opposition, and as such they enjoy wider privileges than other political parties. But we are not looking to try to pull a swiftie in passing things through the emergency recovery bill. We're just simply trying to speed up the facilitation of the rebuilding of Canterbury.

Media: When are we going to see the first Order in Council under that legislation?

PM: I can't exactly answer that, but we passed a few last week, so soon, I guess.

Media: Given the concerns about it, as a sign of good faith, wouldn't it be better to make it a bit more transparent?

PM: That's something we could go away and reflect on. I accept that it's a bill with wide-ranging powers; I certainly accept that although it's on the statute book for about 18 months—I think, from memory—it may be that that period of time can be shortened or its reach can be narrowed. Personally, I think it's been the right thing to pass the legislation. I think we need that legislation at this current time, but as soon as we don't need it, or the breadth of it is not required, then we'll look to make some changes….

…. **Media**: What's the latest on South Canterbury Finance?

PM: You're likely to see another couple of entities going into statutory management. We haven't made any more detailed progress on the realisation of assets; certainly, I haven't received any advice on that. I know that the receivers are working on that, but I haven't seen any up-to-date advice on that. In due course it's the view of the finance Minister to release as much of that information and paper trail that was put together through the whole of the South Canterbury Finance affair into the public domain, notwithstanding any that may have to be retained on the basis of confidentiality. But as a general rule we're keen for that information to be put in the public domain.

Media: Roughly when?

PM: I don't know exactly, but I had a discussion with them last week and he says he's looking to do that

Media: The stadium collapse in Southland: was there any discussion of that at Cabinet today, or were any reports called for?

PM: There was a brief discussion because John Carter came to Cabinet to give us an update on the Canterbury earthquake and that was an issue that he raised. I haven't had an opportunity to call him yet but I'm going to call Maurice Williamson this afternoon and suggest that he goes down to Invercargill tomorrow. I think it is something that we need to look into. This is actually a modern building that has collapsed under a very small amount of snow relative to what the building code would indicate is acceptable and it should be able to withstand, so something's seriously gone wrong there and I think we need to understand that a little bit better.

Media: So you're just wanting the Minister to find out more about it? What are you looking for?

PM: Cabinet's view in the first instance was a Minister should go. I think it should be Maurice Williamson, and I think in due course we need to understand what went wrong, because clearly something's gone wrong.

Media: Was there any taxpayer funds?

PM: Not to the best of my knowledge, actually; I think it would have been the Licensing Trust probably down there, but I may be wrong—and the ratepayers.

Media: Do we know how big these other Hubbard entities are that are going into—

PM: They sort of fit in the characterisation of the others, I'd say.

Media: How big?

PM: They're sort of similar entities. It's all part of the puzzle, really, of trying to—

Media: So are they sort of like the trust that will put in—

PM: We put two in last week and we left a couple out. The two that we left out we thought we could leave out, but in hindsight for a variety of reasons we don't think we can now.

Media: So would that cover pretty much all of the Hubbard-connected enterprises either in receivership or in statutory management?

PM: I'd have to say to the best of our knowledge. I say that because we've asked some questions before about all of the entities and haven't necessarily got the straight answer.

Media: From Hubbard?

PM: Correct.

Media: Given the amount of the payout to investors from South Canterbury and some of these issues that are around the whole group, I understand there are calls for a public inquiry. What's your feeling on that?

PM: I don't think that there's a need for a public inquiry, because I think when we release the information into the public domain it will be quite transparent to everyone what's actually taken place. There's no real magic here. I mean, on the one side, quite simply, South Canterbury Finance made loans to people who couldn't repay them. The vast bulk of those risky loans took place between 2007 and 2008 before the guarantee was actually put in place and they formed the majority of the bad bank.

In terms of what we've been doing, contrary to what some people might think, we haven't actually bailed out South Canterbury Finance; we've simply met our obligations under the guarantee. That was because legally there was no way around that, nor would we want to shirk from our responsibilities. I mean, we were part of the Opposition but we supported the guarantee so it would have been quite inappropriate for us to walk away from that.

In terms of the position of whether any other bail-out or other options were possible, we gave Sandy Maier all the support that we possibly could. Treasury worked in that property for a long period of time and, trust me, if they could have come up with a mystery buyer to stop us having to pay out $1.6 billion up front and to have to assume the receivership of South Canterbury Finance, we would have been the first ones voting for it. But that mystery buyer never came. The only offers that we had actually financially—the advice we had from Treasury—put us in a worse financial position than the situation we adopted. As we've said before, yes, some of you have noted that we've assumed obligations that we weren't legally obliged to—like international investors, who weren't covered by the deposit guarantee scheme—but we did that because we believed that, given the size of the assets that we were liquefying, we wanted to have the maximum control. We believe that was in the Crown's financial best interest….

EXCERPT FROM DRAFT TRANSCRIPT OF POST-CABINET PRESS CONFERENCE: MONDAY, 4 OCTOBER 2010

… **Media**: Any progress on South Canterbury Finance and selling assets? Any more offers?

PM: Treasury is likely to make an announcement soon about the next steps in that progress. I will leave it for them to give you that update, but they are working their way through that.

Media: How soon?

PM: I think it's either this week or next week.

Media: Have you read the third statutory manager's report into Allan Hubbard's affairs?

PM: Only on my Blackberry on holiday. So that's about all I've seen—a 3c payout before Christmas and 20c after Christmas, isn't it? I mean I think that ultimately reflects the real issues that we have been highlighting for some time and vindicates the decision we made as a Government to put those entities into statutory management.

Media: Given what has come out, should you have put them into statutory management earlier?

PM: We could only do that on the recommendation of the Securities Commission. As soon as we got that recommendation from the Securities Commission we acted.

Media: The Securities Commission was tipped off by the anonymous letter, is that right?

PM: Correct.

Media: So how much can you know into someone's state of affairs?

PM: There is a process you've got to go through. Ultimately the Securities Commission needs to receive a complaint, the Securities Commission then needs to make a recommendation to Ministers. Both of those things happened and we acted, but we only acted after we had both the recommendation and it was peer-reviewed by—I think—Hugh Rennie QC, from memory.

Media: Did you have an idea that things had been run this way beforehand? Treasury was into South Canterbury for months

PM: Yes, but I think it is important to recognise that there is a distinction between South Canterbury Finance and the entities that are not part of South Canterbury Finance; they are part of Allan Hubbard's personal empire.…

EXCERPT FROM DRAFT TRANSCRIPT OF POST-CABINET PRESS CONFERENCE: MONDAY, 4 APRIL 2011

… **Media**: In regard to the Government guarantee scheme, what new information do we know now in regard to South Canterbury Finance that we didn't know before?

PM: Nothing really. Basically, what the Government's announced today is that the value of South Canterbury's assets are lower than we originally thought at the time by the tune of about $330 million. It's important to understand what that is. It's related party loans made by South Canterbury Finance. So it's not the value, for instance, of the helicopter line or the Scales business. At the time that the receiver took up the accounts, or the responsibility for the accounts, they were unable to establish the value of a lot of those interrelated, or related, party loans. And so now he's had an opportunity to work through that and he's established that there's less value there than he'd originally thought.

Media: Given the economic environment that we're in at the moment, how frustrating is it that another $300 million will be going in to this?

PM: Well, it's frustrating. But I think it's important to understand that we inherited the problem through the previous deposit guarantee scheme. I think it shows you the magnitude of the losses and also the significance of the corporate failure at South Canterbury Finance. And, obviously, that's an ongoing process. I would make one point—because others have made it to the contrary, and not speaking from a position of knowledge—that no potential bid that the Government could have accepted for the assets of South Canterbury Finance would have helped the Government had we accepted that bid. All of the bids had a provision for us to still be responsible for any bad assets when the value of the book could be established. So it wouldn't have made any difference whether we accepted a bid or not.

Media: So of the $1.6 billion to $1.8 billion that the Government had to outlay to underwrite the retail deposit guarantee scheme on South Canterbury Finance, how much of that money does the Government now expect to recoup?

PM: I think the total loss moves from about $800 million in gross terms to about $1.1 billion. We can then take off that the fees that we've earned through the scheme, which were in the order of about $500 million. So I think the whole scheme has cost us about $600 million or $700 million net, on the best information we have at the moment.

Media: How confident are you that there won't be other unpleasant surprises further down the track when it comes to South Canterbury's assets?

PM: I think the receiver has done a lot of good work in the last few months and a lot of due diligence, but it's still the best estimate on what those assets might be worth if they were sold. So I can't rule out further losses.…