

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates 25-26 February 2009

Question: aet 5

Topic: Australian Business Investment Partnership

Hansard Page: Written

Senator EGGLESTON asked:

1. Who first proposed the Commercial Property SPV; the major banks or the Government?
2. Did Treasury receive any representations from foreign banks saying that they were looking to pull back from their Australian exposures?
3. Did Treasury consult with the foreign banks before the SPV announcement?
4. Did the foreign banks inform Treasury that they were looking to pull out?
5. Could this encourage foreign banks to leave, by offering a price that is above market price
6. I refer you to page 55 of the February 2009 RBA Statement on Monetary Policy which says:

“while there is a risk that some foreign lenders will scale back their Australian operations ... at this stage there is little sign of this, with most of the large foreign owned banks planning to maintain their lending activities in the Australian market”.

Do you disagree with the Reserve Bank’s assessment?

7. What evidence does Treasury have for holding a different view to the RBA?
8. Did Treasury consult with the RBA about the SPV proposal before the Prime Minister announced it?
9. Did Treasury consult APRA about the SPV proposal before the announcement and if not, why not?
10. What modeling did Treasury do to back up the Prime Minister's claim that the SPV would support around 50,000 construction jobs? Was the modeling even done by Treasury or was it done by consultants?
11. When was Treasury asked to do the modeling; a week before the announcement, the day before or on the morning of the announcement itself?
12. How was the calculation derived?
13. Did the proposal – which involves potentially a \$30 billion Commonwealth Government exposure - go to Cabinet for approval?

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates 25-26 February 2009

14. Who took the decision on such a large exposure?
15. Were other Commonwealth Departments consulted; such as Finance? Did they provide any co-ordination comments on the proposal?
16. Why was the advice of David Murray totally ignored; especially when Treasury lacks any genuine expertise and understanding of how banks work and the intricacies of the commercial property sector?
17. Is David Murray still involved in this work, despite his opposition to it?
18. Why did Treasury and the Prime Minister ignore the concerns of the banks regarding the exaggerated construction focus of this proposal?
19. Can you tell us what proportion of projects to be financed by this facility are likely to involve construction projects as distinct from existing and tenanted commercial buildings?
20. How is Treasury planning to be totally objective in assessing the various project proposals, especially given the dominant interests of the four major banks?
21. What specific expertise does Treasury have on the commercial property sector? If Finance was not consulted why not, since it at least has an Asset Management Group?
22. Will Treasury be engaging outside experts? If so can you guarantee that the expert will be selected using a fully transparent and competitive process?
23. How much is this expected to cost the taxpayer?
24. What is so special about commercial property? What about small business lending and consumer credit; are you planning another SPV for this?
25. Why have the regional banks been excluded? Is it not the case that the regional banks - such as Suncorp - have significant exposures in the commercial property sector?
26. What experience can you cite from around the world of attempts to prop up asset prices?
27. If the Government's policy of artificially inflating commercial property prices above a market clearing level is successful, what are the implications for the market? (e.g.: unoccupied property, higher rents for tenants etc, encouragement of further construction leading to a bigger oversupply of commercial property).
28. If it increases the construction of commercial property, what are the consequences for supply and valuations?
29. If market clearing price is held up artificially, therefore excess supply, is it good use of limited capital to keep surplus capacity? If commercial prices fell, would tenants pay more or less?
30. If commercial property is not propped up and some assets are sold, do they believe that the new purchasers will leave those assets idle?

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates 25-26 February 2009

31. I note the press release by the Treasurer on the appointment of Ahmed Fahour from the National Australia Bank as the “interim” CEO of the Australian Investment Business Partnership. What process was undertaken to select Mr Fahour? Did the Treasury advertise the job? If so, how many applications were received? What were the selection criteria? Who was on the selection panel?
32. How much will Mr Fahour be paid? Will the National Australia Bank continue to employ or pay Mr Fahour?
33. How will the perceived conflict of interest in Mr Fahour’s appointment be managed? Will he be required to divest himself of any shares or other interests in NAB for example?
34. Will he have to recuse himself every time a decision needs to be made that will have a material affect on NAB or any of its competitors?
35. Why did the Government decide to appoint a CEO before the legislation to establish RuddBank has been introduced; isn’t this pre-empting Parliament?
36. What would happen if Parliament decides to vote against the enabling legislation? Does Mr Fahour’s contract have a compensation provision in this event?
37. Does this appointment conform with the Government’s guidelines for the appointment of public officials?
38. Where will Mr Fahour be located?
39. Will this be a full-time CEO position?
40. How many employees will RuddBank have?
41. How many branches will RuddBank have?

Answer:

1. The Government first started working on this particular initiative late last year, as part of its broader efforts to support the Australian financial system. As part of those efforts, the Government has had a range of discussions with the major banks over the past few months regarding actions the Government may take to address potential liquidity problems that may emerge.

The National Australia Bank approached Government late last year with its views on commercial property financing issues. Subsequently, the Government discussed commercial property financing issues with all four major banks.

The final proposed terms of ABIP were subsequently developed with the active participation and contribution of Treasury and the four major banks.

2. In the development of ABIP, Government officials held a range of discussions with foreign bank representatives. Foreign banks were unable to give guarantees that they would be in a position to retain their current exposures to the Australian economy in general, including commercial property.

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates 25-26 February 2009

Further observations on the potential withdrawal of foreign bank funds have been provided in Treasury's submission to the Senate Economics Committee Inquiry into the ABIP Bill.

3. Yes.
4. Further observations on the potential withdrawal of foreign bank funds have been provided in Treasury's submission to the Senate Economics Committee Inquiry into the ABIP Bill.
5. Considerable work has been undertaken in designing ABIP to address potential 'moral hazard' issues.

One of the key factors driving the decision of foreign banks to enter a market is the stability and liquidity of that market. ABIP is designed to support and enhance stability and liquidity in the Australian financial system. Rather than supporting withdrawal, ABIP may therefore encourage foreign banks to stay in Australia.

ABIP will also provide an incentive for borrowers to encourage foreign lenders to remain in syndicates, as it will price at a small premium above the market.

There will also be an incentive for the major Australian banks to discourage foreign banks from using ABIP as an 'easy exit' strategy from the Australian commercial property market, as their exposure would effectively be passed (in part) to the major banks via ABIP.

ABIP will be re-financing quality assets, not taking on poor credit risks. Hence, if a foreign bank withdraws from a borrowing that ABIP ultimately refinances, they will miss out on providing finance to a creditworthy borrower paying market price. In other words, they will withdraw on liquidity or strategic grounds, not risk or price.

6. Treasury's views on the risk of foreign lenders scaling back their operations are set out on pp. 9-11 of Treasury's submission to the Senate Economics Committee's Inquiry into the Australian Business Investment Partnership Bill 2009.
7. See response to Question 6.
8. Yes
9. Before the announcement, Treasury engaged in general dialogue with APRA regarding commercial property financial issues. After the announcement, APRA was consulted regarding the specifics of the SPV proposal.
10. Treasury examined the cyclical behaviour of activity and employment in the commercial property sector in previous severe economic downturns. On the basis of historical experience Treasury assessed that without action, a combination of weak demand and tight credit market conditions would see economic activity in the commercial property sector decline by around 1/3 with consequent job losses of up to 50,000. Consultants were not used.
11. Treasury provided the estimates on 23 January 2009.
12. As answered in Question 10.
13. The proposal was agreed by the relevant sub-committee of Cabinet.

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates 25-26 February 2009

14. The proposal was agreed by the relevant sub-committee of Cabinet.
15. Other Commonwealth Departments, including Finance were consulted. .
16. The advice of David Murray was not ignored. David Murray was involved in the design of ABIP from the outset and has continued to participate throughout the development process.
17. David Murray is still involved in this work. David Murray was involved in the design of ABIP from the outset and has continued to participate throughout the development process.
18. The Government has taken into account the views of the banks on the proposal. ABIP will focus on completed commercial property investments and partly completed development projects with secured pre-commitments.
19. It is not possible to quantify the proportion of projects in advance.
20. All decisions regarding the loan portfolio will rest with the Board of ABIP, not with Treasury or any other Department.

In addition to the advice provided by ABIP management, the Commonwealth representative on the Board of ABIP will have access to external, independent advice to enable an objective assessment of any project proposals.

21. Treasury engaged external, independent experts to provide advice on the commercial property sector and the development of the proposal.
22. Treasury has engaged outside experts. Treasury:
 - sought legal advice from the Australian Government Solicitor (AGS) with regard to constitutional and commercial issues. The AGS is a member of the Treasury Legal Services Panel which consists of four legal service providers which were selected following an open tendering process in 2006.
 - has sought commercial banking/finance expertise from Credit Suisse to help inform the establishment of ABIP. The method of procurement followed for this advice was direct sourcing, in accordance with the *Commonwealth Procurement Guidelines (paragraph 8.33b refers)* where for reasons of extreme urgency brought about by events unforeseen by the agency, the property or services could not be obtained in time under open tendering arrangements. Requests for Quotation (RFQ) were sought from three prospective providers.
 - has sought advice from David Murray, as part of his broader contract with Treasury for advice in relation to the global financial crisis and its impact on the Australian financial services sector.

Transparency of the procurement process will be ensured through the annual reporting of consultancies in the Treasury Annual Report, the Senate Order reporting of consultancies over \$100,000 and the gazettal of all contracts on AusTender with a value of \$10,000 or more.

23. The cost of legal and commercial banking advice up to 12 May 2009 is expected to be no more than \$500,000.

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates 25-26 February 2009

24. (a) The generally highly leveraged nature of commercial property assets makes this sector particularly vulnerable to a liquidity shortage. Moreover, there are substantial and pivotal linkages between the financial sector and real economy via the commercial property sector.
- (b) The Treasury is monitoring conditions across all financial markets. Further potential responses in relation to the global financial crisis are a matter of policy for government.
25. (a) The regional banks have not been excluded from ABIP. ABIP may finance commercial property that has one or more other Australian banks as members of the syndicate, even if one of the four major banks is not a participant in the financing arrangements.
- (b) Regional banks, including Suncorp also have exposure to commercial property.
26. A very wide range of government interventions around the world would have direct and indirect implications for asset prices during the current global financial crisis.
27. ABIP is not designed to hold up prices artificially. See Treasury submission to Senate Economic Committee inquiry into the ABIP Bills (p17).
28. ABIP is not designed to hold up prices artificially.
29. ABIP is not designed to hold up prices artificially.
30. This would be a decision for the purchasers. ABIP is not designed to hold up prices artificially.
31. Mr Fahour was selected based on his expertise. Mr Fahour is an experienced and talented executive with extensive financial sector expertise, and will be central to the successful establishment of ABIP. He also brings a unique commercial skill set to ABIP. Mr Fahour's appointment was a decision made by Government, and is for an interim period only. No advertisements were made.
32. a) Subject to Mr Fahour's contract, Mr Fahour will be paid up to a maximum amount of \$8,300 GST inclusive per calendar month from 20 February 2009 (consistent with pay of a deputy secretary equivalent) until the first meeting of the Board of Directors of ABIP at which the Board of Directors will be required to appoint a permanent Chief Administrative Officer, or 31 July 2009.

In addition, reimbursements for the cost of travel, accommodation and incidental expenses may be reimbursable by the Treasury where:

- (a) they are incurred solely for the purpose of this Contract; and
- (b) they are fully substantiated by the Contractor.

Further, where the Treasury is obliged under the Superannuation Guarantee (Administration) Act 1992 (Cth) (the SG Act) to provide superannuation on behalf of the Contractor, the Treasury will pay the amounts due under the SG Act into the account nominated by the Contractor.

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates 25-26 February 2009

- (b) The National Australia Bank will not continue to employ or pay Mr Fahour. Mr Fahour resigned from the NAB on 20 February 2009
33. Mr Fahour is subject to the normal requirements and required to declare all potential conflicts of interest.
 34. All decisions regarding the loan portfolio will rest with the Board of ABIP. Mr Fahour will not be a member of the Board of ABIP.
 35. (a) Given the potential withdrawal of financiers, it is beneficial for ABIP to be operational shortly after the passage of the legislation.
(b) No.
 36. Mr Fahour is engaged until the first meeting of the Board of Directors of ABIP, or 31 July 2009, subject to termination or suspension by the Treasury.
 37. Mr Fahour is being engaged as a contractor by Treasury in accordance with the procedures for such engagements.
 38. The location of ABIP offices will be a decision for the Board of ABIP, upon establishment. Mr Fahour is currently located in Melbourne.
 39. Mr Fahour is currently engaged on a part time basis, and for an interim period only.
 40. This is a decision for the Board of ABIP.
 41. ABIP is not a bank, and will therefore not have branches. The number of ABIP offices is a decision for the Board of ABIP.