

Deputy D G De Lisle  
Le Douit Farm  
Les Reveaux  
St Peter's  
Guernsey  
GY7 9DH

13<sup>th</sup> December 2011

Dear Deputy De Lisle,

**RULE 6 QUESTIONS FOR WRITTEN REPLY**

Set out below is the Policy Council's response to the Rule 6 questions for written reply contained in your letters of 6 December 2011 and 8 December 2011.

Yours sincerely



L S Trott  
Chief Minister

### **Question**

*Would the Guernsey depositors in Landsbanki not have been better off if the States of Guernsey had backed them as secured creditors like the British and Dutch governments did?*

### **Response**

The Policy Council wishes to reiterate the comments made by the Chief Minister in the States Assembly on 30 November 2011 – in response to your Rule (5) and supplementary questions – that the Policy Council’s original answer more than adequately addressed this matter.

However, for the avoidance of doubt, the Council will repeat the crucial distinction between Landsbanki Guernsey depositors and the British and Dutch depositors of Landsbanki Islands HF, which makes it impossible to draw parallels between the States of Guernsey and the British and Dutch governments in this manner.

As explained in the States Assembly last month, Landsbanki Guernsey depositors are direct depositors of Landsbanki Guernsey Limited, and not Landsbanki Islands HF. This is a different situation to that of the Icesave depositors who were direct depositors of Landsbanki Islands HF. The UK and Dutch Governments are standing in the shoes of the Icesave depositors through the UK and Dutch depositor compensation schemes. Such schemes are for retail customer protection, and, for example, the UK scheme is funded by financial institutions in the UK. As the UK and Dutch governments were aware that the Icesave depositors had priority status in the Landsbanki Islands HF winding-up, i.e., as direct depositors of Landsbanki Islands HF, the UK and Dutch governments also knew that when standing in the shoes of the Icesave depositors through the Financial Services Compensation Scheme they would also be granted priority status. Hence they would recover the majority of their funds. Therefore, it is simply not possible to draw the parallels which you seek to, in your question, between the States of Guernsey and the British and Dutch governments.

The Commerce and Employment Department oversees the Guernsey Banking Deposit Compensation Scheme, which came into force on 26 November 2008. On the basis of advice from the Law Officers, the Commerce & Employment Department advised the States of Deliberation that the scheme could not be retrospective in operation. Therefore, for the States of Guernsey to have ‘backed’ Landsbanki Guernsey Limited depositors in the manner you suggest would involve spending taxpayers’ money to cover any residual losses not recovered by the Royal Court-appointed Joint Liquidators. The Policy Council will take this opportunity to reiterate, as has been consistently communicated to the States Assembly and the wider public, that it is the clear and consistent view of the Policy Council that the States should not spend public funds on this matter. States Members have advised of their support for this position.

The Policy Council would again point out that Landsbanki Guernsey depositors have so far received recoveries to the value of 85 pence in the pound and that the Royal Court-appointed Joint Liquidators advise that depositors stand to recover, in total, between 87 and 91 pence in the pound.

### **Question**

*How far will Guernsey's 100 million [sic] Depositor Protection Scheme expect to provide protection over a 5 year period given the potential loss of £117 million in one bank, namely Landsbanki?*

### **Response**

The Policy Council is pleased to note that you have amended the wording of your original supplementary question, as articulated in the 30 November 2011 States Debate, to now include the word *potential*. However, it remains necessary to clarify that Landsbanki Guernsey Limited depositors do not stand to lose £117 million as a result of the collapse of Landsbanki Guernsey Limited. Indeed, as the Chief Minister confirmed to the States Assembly on 30 November 2011, in response to a supplementary question from Deputy Parkinson, the £117 million was not lost in the Landsbanki Guernsey Limited collapse, and the Royal Court-appointed Joint Liquidators advise that the total recovery for depositors is set to be the region of 87 to 91 pence in the pound.

In answering your question, the Council has sought the advice of the Commerce & Employment Department, which is responsible for overseeing the Guernsey Banking Deposit Compensation Scheme. For the avoidance of doubt, and as you do not specify in which currency you are discussing the "100 million [sic] Depositor Protection Scheme", the answer given below refers to pounds sterling.

The Guernsey Banking Deposit Compensation Scheme is only designed to protect retail customers in respect of the first £50,000 of deposits placed by each customer. As such the total maximum cover per bank is significantly less than the total of deposits on its balance sheet both because, with some minor exceptions, non-retail deposits are not covered and because of the limit on compensation. In the case of a bank of Landsbanki's size it is thus most unlikely that the £100 million Scheme cap would be relevant. The Board of the Scheme is prohibited by law from disclosing details in respect of any one bank, but has indicated that for the five banks whose retail deposit base is closest in size to the indicated figure for Landsbanki's total deposit base, the maximum amount of compensation payable would be in the region of 19% of total retail deposits; no bank in this group is affected by the £100 million cap. The Board has no information which would enable it to establish how much of Landsbanki's deposits would have been classified as retail deposits; the actual maximum pay-out for a bank of its size might in practice be substantially smaller as a percentage of the total deposit base.

The Policy Council would take this opportunity to convey its view that your enquiries relating to this matter are misdirected. As the Council has been at pains to explain to you on numerous occasions in the States Assembly, matters relating to the recovery of depositors' money are the concern of the Royal Court-appointed Joint Liquidators. The Council would also point out that political responsibility for the Guernsey Banking Deposit Compensation Scheme rests with the Commerce & Employment Department, and not the Policy Council.