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**Employee Entitlements and Secured Creditors:
Assessing the Effects of the Maximum Priority Proposal**

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ABSTRACT

Corporate failures and consequent default on obligations have, in some circumstances, led to significant losses for employees with accumulated unpaid leave entitlements. The Australian government responded initially to this problem by implementing a government funded compensation scheme. Subsequently it announced a proposal involving legislating for seniority (maximum priority) of entitlements in corporate liquidation which has not been implemented. This paper analyses and provides quantitative estimates of the consequences of changing creditor priority in this manner. Contrary to conventional wisdom and arguments mounted in opposition to such a change, the effect on corporate funding costs would be extremely small. The paper argues that legislation to effect such a change warrants further consideration as a complement to the existing compensation scheme.

KEYWORDS: Insolvency, Credit Risk, Employee Entitlements

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