Citizens Electoral Council of Australia

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Independent Political Party

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Aussie banks double down on derivatives gambling

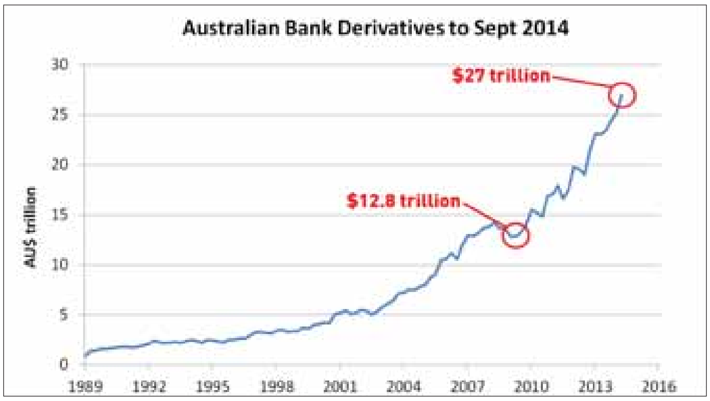
The gambling addiction of Australia's banks is spiralling out of control. The banks' combined total of outstanding derivatives obligations has doubled in the six years since the global financial crisis erupted in 2008, to $27 *trillion*.

Derivatives are straight out bets, which bankers and financial speculators lay on interest rates, currency exchange rates, and market indices, and increasingly complex and risky combinations of all three. In his 1997 book *F.I.A.S.C.O.: Blood in the Water on Wall Street*, former derivatives salesman Frank Partnoy, exposed them as instruments of financial fraud, able to hide losses and even make losses appear as profits for a time. Before the 1990s, derivatives were banned in many jurisdictions under the same laws that banned gambling. However, once unleashed, derivatives gambling snowballed to many times world GDP.

Renowned investor Warren Buffett called derivatives "financial weapons of mass destruction"; the 2008 GFC was in fact a derivatives chain-reaction meltdown, for which the bankruptcy of Wall Street investment firm Lehman Brothers was the trigger.

However, since then, instead of governments and banking authorities banning derivatives speculation, and cancelling the accumulated gambling debts, they have chosen to prop up the derivatives bubble (on the backs of ordinary people through brutal austerity); consequently, the global derivatives bubble has ballooned to an estimated $2 quadrillion ($2,000 trillion), compared to world GDP of around $70 trillion.

Ominously for Australians, the fastest growth in derivatives gambling has been in Australia's banking system. During the 2008 meltdown, Australians were falsely assured their banks were "sound", and the strongest in the world, despite them having to beg the Rudd government for guarantees without which they would be "insolvent sooner rather then later". Immediately following 2008, the Big Four went on a run of record profits, with CBA in the lead (in 2012 CBA suddenly decided to stop disclosing its full derivatives exposure—see graph below). However, the banks' profits haven't been matched by the performance of the economy, raising the question of how they are generated. Only two markets kept pace with bank profits: the housing bubble, and the banks' derivatives trading. The two are incestuously intertwined.



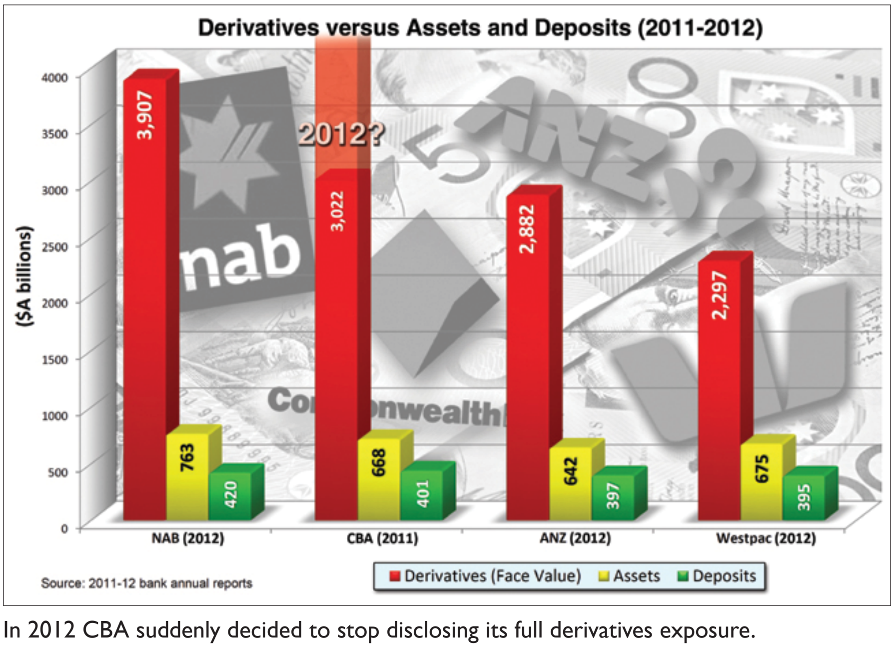
A graph showing the accelerating growth of Australian bank derivatives.

The housing bubble is an example of a classic gold rush mentality among the banks, which are all piling in to extract the most profit before the seam inevitably runs out. The banks use derivatives to make it look as if the extreme risk to which they are exposed, from a property crash, doesn't actually exist. It's a variation on the gambler at the race track betting their house on the favourite, but thinking they are covered because they also put $10 on the 100-1 shot. In the banks' case, they are "hedging" through interest rate swaps and currency swaps, in case the interest rates rapidly go in a different direction, or the $A and other currencies suddenly shift. However, what they can't hedge against is a systemic meltdown globally, and that's when their derivatives bets will suddenly send them bankrupt overnight.

The part of this that should worry all Australians is that the same banks that are doubling down on their bad bets also hold 80 per cent of all bank deposits in the nation. The only way to protect the public from the fall out is for a Glass-Steagall separation of the Australian banking system. This will require the Big Four banks to be split up into completely separate retail banks and investment banks: the retail banks will get the deposits, and government protection; the investment banks will get the derivatives and some government advice: sink or swim. That way, when they sink from their gambling, the public won't wear their losses.

The CEC is leading the fight for a full Glass-Steagall separation of the Australian banking system.

Join us.



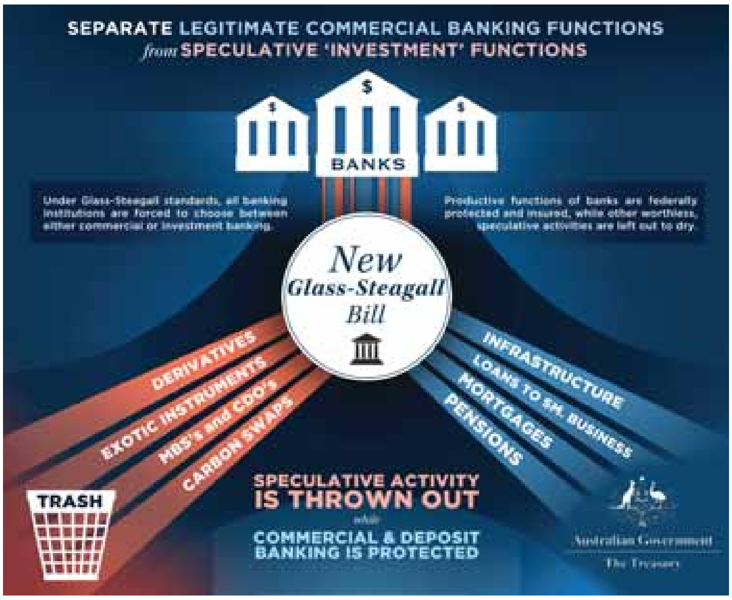
In 2012 CBA suddenly decided to stop disclosing its full derivatives exposure.
Please go online to read more on this subject:
http://cecaust.com.au/main.asp?sub=releases&id=2013_02_22_CBA_Hiding.html

Australia Urgently Needs a *Glass-Steagall* Separation of Banks

Citizens Electoral Council Petition to Federal Parliament

TO THE HONOURABLE THE SPEAKER AND MEMBERS OF THE HOUSE OF REPRESENTATIVES

This petition of the Citizens Electoral Council of Australia draws to the attention of the House the threat facing Australia's banking system from the deepening global financial crisis, which puts at serious risk the bank deposits of the Australian people, and essential banking services for the real economy.



Australia is now vulnerable because our banking system is concentrated in just four banks, which between them hold the overwhelming majority of deposits and provide the majority of banking services, but which have dangerously exposed themselves to shocks in the global financial system, including through nearly $20 trillion in derivatives speculation.

We therefore ask the House to take immediate action to protect deposits and essential commercial banking services, by enacting strict banking separation as did U.S. President Franklin Roosevelt's Glass-Steagall Act 1933. Glass-Steagall split deposit-taking, standard commercial banks from Wall Street's speculative investment banks, creating entirely separate entities under different roofs, thus successfully protecting the U.S. banking system until Glass-Steagall's repeal in 1999. We ask the House to apply the Glass-Steagall principle to Australia through legislation to divide each of the four major banks into two parts:

1) normal commercial banks as per Glass-Steagall standards, and

2) institutions involved in investment banking and other forms of speculation. Banks that speculate will then do so with their own money and at their own peril, with no government protection whatsoever.

Name	Signature	City/Town/State*	Phone*	Email*
1.				
2.				
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Please post back to CEC Australia, PO Box 376 COBURG VIC 3058

*Voluntary information

GET A FREE PACK

For a a free copy of the CEC's brand new pamphlet, Glass-Steagall NOW!, which includes a detailed exposé of the criminal fraud inherent in the derivatives trade that all of Australia's major banks are heavily involved in, call toll-free **1800 636 432**, or send this coupon to:

CEC, PO Box 376, Coburg, Victoria, 3058.

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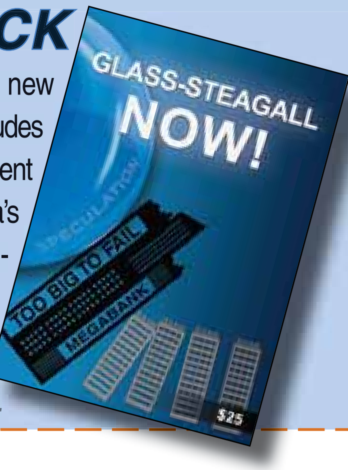

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