Citizens Electoral Council of Australia

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Tell the Treasury:
Don't 'manage' the banking crisis, *avert* it—pass Glass-Steagall now!

With more and more indicators pointing to an imminent crash of Australia's housing bubble, which will trigger a collapse of the banking system, the Turnbull government is pushing to legislate "crisis management" powers for the bank regulator APRA (Australian Prudential Regulation Authority).

The Citizens Electoral Council is calling on all Australians who support the Glass-Steagall separation of banks to make a short submission to the Treasury on this legislation, with the message:

Instead of legislating powers to manage the inevitable banking crisis, the government should immediately enact a Glass-Steagall separation to avert it.

ABC's 21 August *Four Corners*' "Betting on the house" is the latest report that exposes the parlous state of the housing bubble, and the extreme exposure of Australia's big banks to that bubble—the highest in the world.

The government has a draft bill, the Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Bill 2017, to give APRA powers to ostensibly "resolve" a banking crisis if and when one occurs. These powers include the power to enforce a capital conversion, which relates to the "bail-in" of certain creditors, to keep the banks propped up. Bail-in is not yet legislated in Australia, nor is it the subject of this legislation, so who those creditors will be is not yet defined. In other jurisdictions, such as the EU, it includes "mum and dad" investors who were encouraged to buy special bank bonds for their retirement savings. In Cyprus in 2013 it even included depositors.

Any form of bail-in is insidious, as it forces the banks' unsuspecting investors and customers to pay with their savings for the reckless and often criminally fraudulent practices of the banks that caused the crisis in the first place, while the banks carry on with those same practices!

It is insane to legislate powers to manage a banking crisis but not make the banks stop doing the things that are creating the crisis, such as gambling in toxic derivatives.

Two things you can do to protect Australia from a banking crash

The CEC calls on all Australians who support the Glass-Steagall separation of deposits from financial gambling to do two things:

1. Make a submission to the Treasury. The government is seeking public submissions on its draft crisis management bill by 8 September. Write an email to the Treasury, which can be as short or as long as you like, to make the essential point:

Instead of legislating powers to manage the inevitable banking crisis, the government should immediately enact a Glass-Steagall separation to avert it.

To make a submission, email to: crisismanagement@treasury.gov.au

2. Take a copy of the CEC's "Proposal for a Glass-Steagall separation of Australia's banks" to your federal MP and Senators. This is a formal proposal to Parliament, intended to explain the Glass-Steagall solution in a way that MPs can understand. They will be expected to vote on this crisis management bill, so it is imperative that they examine the far better Glass-Steagall alternative before they do.

The CEC has a campaign to get the Proposal to every MP and Senator before Parliament next sits in September. It doesn't matter how many times they get a copy—the more the better—so if you haven't yet ordered an electronic copy or hard copy to pass on to your MP, do it today. (Either email a PDF copy with a short message, mail a hard copy, or take a hard copy in to the MP's office.)

(Please email the CEC to let us know when you have sent your submission to the Treasury and/or delivered the Proposal to your MP.)

***** Call 1800 636 432 to order a hard or PDF copy/copies of the CEC's succinct "Proposal for a Glass-Steagall separation of Australia's banking system" to mail, email or deliver to your local MP or Senator. *****

Only Glass-Steagall will save your superannuation

Of the $2.1 trillion that Australians have in superannuation accounts, $264 billion is deposited in Australia's banks, $146 billion is invested in Australian bank shares, and $29 billion is invested in Australian bank bonds.

That is $439 billion, or almost 21 per cent of the total superannuation pool, exposed to the relatively few Australian banks: the Big Four—CBA, NAB, ANZ and Westpac—that control 80 per cent of the market; the slightly-smaller Macquarie Bank; the mid-sized Bendigo Bank, Suncorp, and Bank of Queensland; and a smattering of small banks.

The fate of superannuation is clearly in the Big Four banks, and that's a real worry.

Following its many scandals, the biggest bank, CBA, has copied Australia's other big company BHP and started running ads on television emphasising how much of Australian's superannuation is dependent upon CBA's success.

The none-too-subtle message is: you depend on us for financial security so don't let the government mess with us. There's a term for this—extortion. Superannuants have expressed fear to the CEC that any changes to the banks could put their super at risk.

The truth is, unless the government does step in and fix the banks, and soon, they will collapse and your superannuation will collapse with them.

The banks have two big problems. First, they are up to their eyeballs in Australia's housing bubble, which is proportionally bigger than the US housing bubble that crashed the global financial system in 2008. As noted in the ABC's 21 August episode of Four Corners, "Betting on the house", more than 60 per cent of lending by each of the Big Four banks is for mortgages. Back in the 1990s, before the bubble, it was less than 30 per cent. Their present exposure is greater than that of their big American counterparts, which have less than 40 per cent of their loans in mortgages.

Second, they are addicted to the risky financial gambling instruments that caused the 2008 crash—derivatives. Derivatives are literally financial bets. Bankers take extreme risks with derivatives bets, because they pay off big, but if they lose, it isn't their money—it's yours. The derivatives bets are underwritten by deposits.

Collectively, Australia's banks have $35 trillion in derivatives bets. In 2008 it was $14 trillion. This incredible growth shows that these derivatives are not normal "hedging", as the banks claim—it outstrips every other area of the banks' businesses. Also suspicious is that the two biggest banks, and biggest derivatives gamblers, CBA and NAB, now hide their true derivatives positions. In 2012, after its derivatives had skyrocketed in the two previous years, CBA suddenly stopped disclosing the true amount; NAB followed suit in 2016. What we do know is that their derivatives obligations dwarf their assets and deposits.

What will happen to super in a banking crisis?

Presently, when a banking crisis hits, the $146 billion of superannuation invested in bank shares would immediately evaporate (not to mention the hundreds of billions invested in other shares that would also crash due to the banking crisis).

The $29 billion in bank bonds will either be "bailed in", which means converted to shares that would be instantly worthless, or put at the end of a creditors' queue.

Although most of the $264 billion of superannuation in deposits would be covered by the government's Financial Claims Scheme (FCS) guarantee of deposits up to $250,000 per person, *the government would not have the money to honour this guarantee*. Back in 2009, just after the guarantee was put in place, APRA and Australia's other financial regulators noted that a collapse of one of the Big Four banks "would be likely to exceed the scheme's resources". In 2011, the Financial Stability Board at the Bank for International Settlements in Switzerland observed that the FCS "would not be sufficient to cover the protected deposits of any of the four major banks".

The Glass-Steagall solution

The only way to protect the superannuation exposed to Australia's banks is to protect the banks from a crash. That doesn't mean bowing to the banks' extortion and giving them everything they want; it means forcing them to stop doing the things that will cause the crash.

The solution is called Glass-Steagall, named after the US *Glass-Steagall Act 1933*, which separated commercial banks that held deposits from all other financial services, including investment banking and insurance.

Commercial banking should be boring—and safe! The public deposit their savings, which the banks lend out to real people and real businesses that they are confident will pay them back. Investment banking, on the other hand, is a different species: high-risk, high-reward speculation in securities that should only be done by people who can afford to lose money, and never with our deposits.

For the 66 years the *Glass-Steagall Act* was in force in the USA, there were no systemic banking crises, but its repeal in 1999, allowing financial gamblers to access deposits, fuelled a blizzard of betting on toxic financial instruments called derivatives that caused the global financial crisis just nine years later. The crisis proved that the Glass-Steagall separation should be the cornerstone of any secure financial system.

The Citizens Electoral Council has prepared for the Australian Parliament a "Proposal for a Glass-Steagall separation of Australia's banking system". It recommends the government break up the too-big-to-fail banks into stand-alone commercial banks, by forcing the banks to divest themselves of all of their other divisions—investment banking, wealth management, insurance, stock broking etc. These divisions could either be sold to other companies or floated on the stock market.

Under Glass-Steagall, superannuation investors will know they can keep deposits or hold shares in a commercial bank, confident they are protected from speculation and therefore secure. If they choose to also invest in the other, split-off financial divisions, they would do so fully aware that those investments are less secure. In general, Glass-Steagall would more clearly delineate what is a secure investment and what is a risky investment in the financial system.