



Australian Citizens Party

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MEDIA RELEASE

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If super fund derivatives are a worry, what about the banks?

The last Treasurer questioned the safety of super fund derivatives, but the biggest derivatives gamblers are the banks. Only a public post office bank will keep deposits truly safe.

Just-released correspondence between the Treasurer and Reserve Bank of Australia (RBA) Governor has highlighted another reason Australia needs a public post office bank—a safe place for deposits.

In November 2021, the Treasurer Josh Frydenberg wrote to RBA Governor Dr Philip Lowe to express concern “that some superannuation funds appear to be engaging in a large number of derivatives transactions”.

The identities of these funds are not revealed.

Frydenberg noted that while super funds can use derivatives as a risk management tool, “such transactions also have the potential to expose superannuation funds to large liabilities if not prudently managed”.

With more than \$3.3 trillion in Australian super funds, the super sector is “systemically important”, he emphasised. “It is therefore important that the extent and nature of the use of derivatives is examined, including the implications for the operation of our financial system *during times of stress.*” (Emphasis added.)

He requested the Council of Financial Regulators (CFR), which Dr Lowe chairs, advise him by 30 June 2022 on “any concerns” about this heavy use of derivatives by super funds, including as to “any broader implications in terms of financial system stability”.

In the reply, which was only sent on 29 June 2022, one day before the deadline, and therefore to new Treasurer Jim Chalmers, Dr Lowe and the CFR effectively said “there’s nothing to see here”.

Click here to watch Digital Finance Analytics Principal Martin North and Citizens Party Research Director Robert Barwick discuss this correspondence in [The Guardians Of Your Super Say “Nothing To See Here”!](#)

Lowe claimed that derivatives use, while “concentrated amongst a handful of funds”, is “predominantly for risk management purposes”.

“It raises no particular concerns at this point of time”, he wrote.

Already this answer raises more questions: why do only a handful of super funds use derivatives heavily for “risk management”? Don’t all funds face similar risks? Also, why didn’t Lowe quantify “predominantly”?

Bank gambling

Dr Lowe also claimed that the laws and regulations governing their use by super funds are “sound and comprehensive”.

“One important element of this framework is that trustees are not permitted to use derivatives *for gearing purposes* (SIS Act)”, he elaborated. “The main effect of this constraint is that use of derivatives is limited to risk management [actually contradictory to ‘predominantly’] and derivatives *may not be used to gain leveraged exposure to market risks.*” (Emphasis added.)

So the RBA governor and CFR are saying that the heavy use of derivatives by some super funds is nothing to worry about because there are restrictions on their use, ensuring they cannot be used for risky leverage to generate much larger profits.

This then raises a very big question: Do any of these restrictions, that supposedly ensure super trustees only use derivatives safely, apply to the banks?

Because if super derivatives deals are large, the derivatives gambling by banks is massive! And unlike

super funds, there is far less transparency in the banks.

When Australia's banks first started trading in derivatives in the late 1980s, they always reported their gross exposure in their annual reports.

Following the derivatives-triggered global financial crisis in 2008, however, first CBA in 2012, and then the other Big Four banks stopped disclosing their derivatives exposure.

RBA figures of aggregate Australian bank derivatives exposure reveal that Australian bank derivatives gambling soared after the GFC, from \$14 trillion in 2008, to more than \$50 trillion in 2019, to now slightly less at \$48 trillion.

If the RBA and CFR cannot assure Australians that this massive bubble of derivatives is all for risk management, and not for gearing to leverage higher profits, then they are effectively acknowledging that derivatives gambling by the banks isn't safe.

And because the banks are self-regulated, except for certain capital requirements enforced by the Australian Prudential Regulation Authority (APRA), a notoriously weak regulator, they cannot give this assurance.

Postal bank

These are the banks that hold Australian's savings and business deposits, which are at real risk from the banks' exposure to derivatives gambling.

Australian bank deposits are at more risk since the Turnbull-Morrison government snuck through their secret "bail-in" law on 14 February 2018, to confiscate deposits to prop up failing banks.

In 2018 and 2019, the Citizens Party worked with Bob Katter and Pauline Hanson to twice introduce legislation for a "Glass-Steagall" separation of banks with deposits, from investment banking and all other forms of speculation, in order to protect Australians' deposits from bail-in and a derivatives meltdown. The government blocked the bills from going to a vote, both times.

The best way to provide a truly safe place in the financial system, in which Australians who are rightly concerned about these risks can deposit their savings, is by establishing a public post office bank.

As a public bank owned by the government, deposits in a post office bank would be fully government-guaranteed.

It would be like the original Commonwealth Bank, which also started in post offices in 1912, and which not only guaranteed the deposits of its own customers, but in the 1914 financial emergency averted a nation-wide bank run by announcing it stood behind all of the private banks.

These are straightforward solutions to the financial crisis that is looming over the Australian economy, but they are opposed by the powerful Big Four banks and their supplicants in the major political parties.

The postal bank will break the monopoly of the Big Four, and their power over the Australian economy and political system.

If you support a secure financial system that serves the Australian people and the real economy, join the fight!

[Click here to sign the Citizens Party's petition for a post office people's bank.](#)