Australian Citizens Party

Craig Isherwood, National Secretary
PO Box 376, COBURG, VIC 3058
Phone: 1800 636 432 **Email:** info@citizensparty.org.au **Web:** citizensparty.org.au

MEDIA RELEASE

21 June 2018

Is Australia sitting on a ticking derivatives nuclear bomb?

Martin North of Digital Finance Analytics has looked deeper into the CEC's warnings about the derivatives danger lurking in Australia's banking system, in a 20 June YouTube and blog post titled "The $37 trillion black hole".

Click here to read North's post, which includes a link to the video.

MacroBusiness posted the analysis under the heading, "Is Australia sitting on a ticking derivatives nuclear bomb?"

Every Member of Parliament must read this post! Send it to your MP, and insist they support Bob Katter's private member's bill for a Glass-Steagall banking separation to stop banks from gambling in derivatives.

North opened: "There is a chart doing the rounds courtesy of the CEC (an Australian Political Party, who is advocating the introduction of a Glass-Steagall banking separation bill, and which is likely to be tabled late June) which shows that the total value of financial derivatives in Australia is around $37 trillion. I have had a number of people ask about this data, which is not attributed. What does it show, and is it right?"

He then proceeds to confirm that the CEC's figures, which come from the Reserve Bank of Australia, are correct, and, in fact, notes that other sources put the derivatives exposure of Australia's banks even higher. A November 2017 study of derivatives in the Asia-Pacific published by the International Swaps and Derivatives Association (ISDA) put the figure at $42.3 trillion, while the Australian Financial Markets Association records $47.2 trillion in notional derivatives outstanding.

Martin North's post is a must-read for any Australian layperson who is concerned about the risks in the banking system, but doesn't understand the complexities involved, like derivatives. Everyone knows that derivatives were at the centre of the 2008 crash, and the movie *The Big Short* did an excellent job of explaining how those derivatives worked. North brings that home for Australians, with his valuable insights into how Australia's banking system interacts with these products that American investor Warren Buffett called "financial weapons of mass destruction".

North concludes his post by emphasising the importance of a Glass-Steagall separation of the banking system:

"And this is the point," he wrote, "banks who play in the derivatives area actually have additional risks in their business, which are not knowable, but potentially large. In a crisis, it risks the rest of the business. There is no ring fence.

"And this is where Glass-Steagall comes in, because this legislation would separate the trading operations from core banking operations, and protect depositors as a result. The current 'all mixed up' universal banks are totally exposed.

"But such a change would also have an immediate impact on both the profitability and capability of banks, which is why they will resist any such move, despite it now being proposed in Italy, and already in existence in some form in China.

"The bottom line is the $37 trillion is a good representation of the current gross exposures in our banking system, and this dwarfs the banks' current balance sheets, and the country's total economy. The risks are literally enormous, and in a system-wide banking crash, when multiple parties are exposed, a bail-out if required would likely have profound economic effects. It might be enough to swamp the entire economy. That's how big the potential risks are. That's why Glass-Steagall is worth pursuing."

More endorsements of Glass-Steagall

The original *Glass-Steagall Act* in the USA, which kept American banks and customer deposits safe for almost 70 years, was passed 85 years ago on 16 June. To mark the anniversary, the US edition of *The*

Guardian ran a column by Ganesh Sitaraman headlined, "The case for Glass-Steagall Act, the Depression-era law we need today".

On 15 June, British financial commentator Liam Halligan published in Unherd.com "Nomi Prins: The central banking heist has put the world at risk", which is a report of an interview with former US investment banker turned whistleblowing author Nomi Prins, about her new book *Collusion: How Central Bankers Rigged the World*. Both Prins and Halligan emphasised the urgent need for Glass-Steagall, so bankers can't hold deposits hostage in a financial crisis.

Any way you look at it, a Glass-Steagall separation of deposit-taking banks from other financial services and speculation should be a cornerstone principle of banking. This is why all Australians should support, and demand politicians support, Member for Kennedy Bob Katter's private member's bill that he will introduce in Parliament on Monday, 25 June, seconded by Member for Denison Andrew Wilkie, to enact a full, Glass-Steagall separation of Australia's banks.
