



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

17 April 2018

Banking Royal Commission is a game-changer—it must be expanded

The Financial Services Royal Commission in its first fortnight of hearings in March laid bare the massive mortgage fraud in the major banks, and exposed the banks as criminal enterprises. This week it is holding hearings into the big banks' financial advice scams, and the "vertical integration" structure that enables the banks to direct depositors into their other businesses to be fleeced. The political shock waves coming from the Royal Commission's hearings prove that this sort of inquiry was long overdue, and that the politicians like Malcolm Turnbull and Scott Morrison who opposed it were protecting criminal activity.

Commissioner Kenneth Hayne *must* be allowed to expand his inquiry—beyond Turnbull's limited terms of reference that was approved by the banks, into a full investigation of not just banking misconduct, but also APRA (Australian Prudential Regulation Authority) and the other regulators which have abetted the banks' crimes, and APRA's domain of so-called "macro-prudential policy".

Reaction

Like a bright light that sends the cockroaches scurrying, the Royal Commission has sparked all kinds of reactions, in politics, finance and the regulators. Many of these reactions were aired at the *Australian Financial Review's* Banking and Wealth Summit held in the first week of April.

Treasurer Scott Morrison made a declaration that should be used against him in a court of law. As the 4 April *AFR* reported, "The banking industry royal commission hasn't uncovered bad behaviour *that the government didn't know about*, Treasurer Scott Morrison said". (Emphasis added.) Wait, what?! For years the government conveyed the impression that the banks were following world's best practice, with the very best regulation, and any abuses were only on the margins, so there was no need for an investigation. In its first two weeks the RC exposed fraud, involving all of the banks, on a scale that few outside of the victims had considered was possible. Morrison's statement is an admission that the government has actively protected such criminality. The Treasurer went on to say that the issues being uncovered were already being addressed, but tell that to the thousands of ruined victims.

Bankers whinged at the *AFR's* summit that, effectively, they can't make profits if they can't commit fraud! Westpac CEO Brian Hartzer feared that the Royal Commission could force the banks to process mortgage applications manually rather than via the automated computer approval systems that have been at the centre of the mortgage fraud. His entire complaint was an admission that fraud is a huge component of bank profits. According to the 5 April *AFR*, he said, "It's going to have a consequence for cost and efficiency. It's going to have a consequence for the availability of credit and that is most likely going to hit the people who are at the lower end of the spectrum." Hartzer's concern for the "lower end of the spectrum" is fake. They are the people who can't actually afford loans because the fraud has driven house prices sky high, so the banks give them interest-only loans, but also ruthlessly repossess those homes *en masse* when they default.

UBS analyst Jonathan Mott repeated his bank's warning that if the RC called for a higher level of due diligence, meaning a *proper* level of due diligence, it could lead to a credit crunch—the total freeze in bank lending that plunged the USA and Europe into deep recession in the 2008 financial crash. Again, this is an admission of the extent to which the financial sector has become dependent on fraudulent practices.

Game-changer

The problem for the banks and their political protection is that the cat is out of the bag. The RC has already forced high-level individuals and agencies to take stock of how Australia's financial system operates, in light of its revelations. For instance, Australian Competition and Consumer Commission (ACCC) chairman Rod Sims, a dissonant voice at the *AFR* summit on 5 May, pointedly criticised the collusion between the banks, that one executive had virtually confessed to on the stand at the Royal Commission. Noting that there is very little competition between the Big Four banks, Sims said they "accommodate" a "shared interest" when they determine interest rates. "Their behaviour more resembles synchronised swimming than it does vigorous competition", he said. This came very close to accusing the banks of being a cartel, which is highly illegal and would attract huge fines and jail

terms. Bank victim advocate Denise Brailey tweeted, “Rod Sims ACCC delivers speech on WHY the BANKS are running a CARTEL but he won’t say ‘CARTEL’. I will call it!!”

Another indication of the game-change was on display in Parliament on 27 March when APRA chairman Wayne Byres appeared before the House Standing Committee on Economics at the end of the first fortnight of RC hearings. Committee chair Sarah Henderson, a Liberal, grilled Byres about APRA’s culpability in the crimes of the banks, in a way that the chief bank regulator would not have been grilled by a member of the pro-bank Liberal Party before. Like the public, all MPs have long been assured by the government that the banks are very well regulated, and no doubt many have been shocked by the revelations of the Royal Commission, which prove that APRA has been the banks’ accomplices. Henderson repeatedly pressed Byres to own up to APRA’s failings to police the banks, and would not let him deflect blame on to APRA’s fellow regulator ASIC (Australian Securities and Investments Commission), as APRA always does.

Expand the investigation!

The Royal Commission is doing a stellar job within the bounds of the terms of reference, which it is pushing to the limit. For instance, it is now inquiring into vertical integration, which Turnbull had not wanted Hayne to do. It must be expanded to investigate macro-prudential policy, which is currently off-limits to the Royal Commission, but it is crucial, as it concerns the rules whereby APRA incentivised the banks into reckless mortgage lending that led to massive mortgage fraud—fraud that APRA ignored.

Is Malcolm Turnbull afraid that if he expands the terms of reference to allow the Royal Commission to investigate APRA and macro-prudential policy, Commissioner Hayne may recommend a Glass-Steagall separation of deposit-taking banks from all other financial businesses?