Australian Citizens Party

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MEDIA RELEASE

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Banks struggle with bail-in capital requirements; go with Glass-Steagall instead

The farce of bail-in is playing out in Australia right now, with the banks complaining to the regulator that they can no longer find suckers to buy the bail-in bonds that are supposed to be their buffer against a crash.

It's the latest example of why the whole bail-in system should be scrapped, in favour of Glass-Steagall laws that keep deposit-taking banks safe by separating them from risky investment banking and other financial services.

Bail-in is the scheme concocted by the Bank of England following the 2008 banking crash, and implemented through the Bank for International Settlements (BIS) and Financial Stability Board (FSB) based in Basel, Switzerland. Stripped of all of the confusing technicalities, their plan amounts to protecting banks from crashes by increasing their capital buffer against losses, instead of requiring them to stop the reckless financial gambling that causes crises in the first place. The buffer is called Total Loss-Absorbing Capacity (TLAC), at the centre of which are pernicious instruments known as "bail-in bonds"—hybrid securities that are sold as tempting, high-interest bonds, but which, when a bank runs into trouble, convert into effectively worthless shares in the bank.

Bail-in also includes deposits, which the FSB mandates can be written off or converted to shares to save a failing bank. The bail-in systems legislated in the USA, Europe, UK, New Zealand and Canada all include deposits in a bail-in; the Australian government snuck bail-in legislation through Parliament in February 2018, which they denied includes deposits, but which has loopholes big enough to drive a truck through that in an emergency can allow deposits to be bailed in. However, the government doesn't deny that its legislation includes bail-in bonds.

TLAC

On 8 November 2018, the bank regulator, Australian Prudential Regulation Authority (APRA), issued a paper that said the banks should raise $75 billion in extra TLAC capital by selling more so-called "Tier II" bonds, a.k.a. bail-in bonds.

On 14 January, Jonathan Shapiro reported in the *Australian Financial Review* that in their responses to the paper the banks asked APRA to reconsider the plan, because it would be too difficult to sell bail-in bonds in the current market.

Shapiro reported: "Westpac treasurer Curt Zuber said he supported the APRA proposal to build a large buffer in the form of Tier II capital in principle but said the global fixed income market had moved away from buying Tier II bonds. 'As we go through cycles, it is potentially problematic for the banks to get the volumes they need in an economic way for the system which allows for the balance we want to achieve,' he said."

This is a major admission, which reflects the growing concern that the financial system is in danger of another crash. With APRA's encouragement, Australia's banks were able to sell around $100 billion worth of bail-in bonds over the last 6-7 years. These bonds were very tempting to investors, for two reasons. First, they carried interest rates of up to 8 per cent, offering unbelievably good returns in the post-GFC low-interest environment.

Second, and more importantly, the investors assumed that because the bonds were being issued by Australia's major banks, which were touted as the strongest in the world, there was no risk that they would be bailed in. That's assuming they were even aware that these hybrid bonds *could* be bailed in. While the Bank of England, for instance, forbade British banks from selling bail-in bonds to retail investors, so-called mums and dads, on the basis that they might not understand their full risks, APRA allowed Australia's banks to aggressively target mum-and-dad investors, to whom they sold bail-in bonds amounting to $43 billion.

The Citizens Electoral Council was the first to warn investors that, contrary to their propaganda, Australia's banks weren't safe, and that they were being set up to wear the banks' losses. In an 8 July 2016 release headlined "Warning to Australian investors: Beware hybrid securities, a.k.a. 'bail-in' bonds!", the CEC warned:

"Australia's big banks are careening along a cliff's edge at breakneck speeds with ordinary investors strapped to their bumpers as human shock absorbers. Bank regulator APRA is allowing the big banks to sell to unsuspecting Australian investors products that are illegal for banks in other countries to sell to anyone but other financial institutions."

On 26 October 2017, Greg Medcraft, the outgoing boss of the Australian Securities and Investments Commission (ASIC), warned in testimony to the Senate that bail-in bonds sold to mum-and-dad investors were "a ticking time bomb". Medcraft said most investors would not believe that they would be bailed in, but, he emphasised, "Yes, they'll be bailed in. … Basically, they can be wiped out—there's no default; just through the stroke of a pen they can be written off. For retail investors … these are very worrying. They are banned in the United Kingdom for sale to retail. I am very concerned that people don't understand…."

Now, following the revelations of the Hayne Banking Royal Commission and with property prices plunging, the banks are effectively admitting that the market has less confidence in them—there aren't as many suckers willing to be human shock absorbers. Investors are more aware that if they buy bail-in bonds, there is a very real danger they will be bailed in.

Glass-Steagall

It is past time that we end this farce of bail-in, which is nothing more than a scam to prop up banks' gambling debts with their customers' and investors' savings, and instead impose real restrictions on financial gambling. And that means breaking up the banks along the Glass-Steagall division of commercial banks from investment banking and other financial services.

Glass-Steagall works! It protected the USA's banks from systemic crises while it was in force from 1933 to 1999, and it's what Australia needs to protect the people from the risks building up in our banking system. Whether or not the Hayne royal commission's final report due 1 February recommends it, the CEC has legislation in Parliament ready to go, the Banking System Reform (Separation of Banks) Bill 2018, that will do the job.

What you can do

Phone, email or write to your Member of Parliament to demand they:

1. Break up the banks, by passing Banking System Reform (Separation of Banks) Bill 2018.
2. Audit the Big Four banks, using the Auditor-General, to assess the risk of a banking crash .