



# Australian Citizens Party

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## MEDIA RELEASE

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### **Europe to extend ‘bail-in’ to guaranteed deposits—don’t give crisis powers to banking technocrats!**

When the government and financial authorities assure you your deposits are guaranteed, *don’t believe them*. They have proven time and again that in a financial crash they will put the survival of banks and their powerful owners first. The latest example of this is a European Union move to amend existing “bail-in” legislation to enable bank regulators to freeze even bank deposits that are covered by a government guarantee. The derivatives speculators who cause banking crises will be exempt from the EU’s “moratorium” on bank withdrawals, but not so the people’s daily access to their savings!

Presently the Australian government is trying to legislate crisis resolution powers for the Australian Prudential Regulation Authority (APRA) that could be used to bail in depositors, all the while assuring the public their deposits are guaranteed up to \$250,000. Europe’s experience shows that once regulators go down the path of bail-in there is no end, and in their desperation to prop up a failing system they will look for ways to grab everything they can.

#### **‘Pre-resolution moratorium’**

An [8 November European Central Bank \(ECB\) opinion paper](#) “on revisions to the Union crisis management framework” declares open slather on deposits and unsecured debt. The proposal would amend the EU-wide Bank Recovery and Resolution Directive (BRRD), which as of 1 January 2016 introduced a bail-in regime to Europe, to include a “pre-resolution moratorium tool”. This would allow banking authorities to freeze deposits for five days in financial institutions that are “failing or likely to fail”—*including those guaranteed by governments*. In the EU that means all deposits up to €100,000.

The moratorium tool would allow unelected banking technocrats to “suspend payment and delivery obligations” on deposits, and thereafter determine whether depositors can “withdraw a limited amount of deposits on a daily basis” to cover the cost of living. Incredibly, this is described as a “limited exemption on a discretionary basis”, i.e. the freeze on withdrawals would be the rule, access to your own savings for living expenses would be the exemption. The ECB claims the new “far-reaching powers” will be “exercised only in extreme circumstances”, where “the competent authority determines that it is not possible to apply less intrusive measures”.

The moratorium won’t be a one-off. The ECB concedes it could repeat such five-day freezes under extenuating circumstances, which it assuredly would have to under conditions of a global financial crash; the ECB paper doesn’t propose any safeguards, merely saying that successive moratoria should “as a rule” be avoided.

The ECB states that the new moratorium tool is necessary to provide banking authorities time to determine if a bank must be put into resolution. They argue the bleeding obvious: that if guaranteed deposits are not included in the moratorium, depositors would rush to withdraw their funds to “ensure uninterrupted access”, believing a bank failure imminent. This would be “counterproductive”, said the ECB. No kidding, but it only confirms the insanity of bail-in, as it actually destroys confidence in banks.

#### **Eyeing off Asia**

A new report by ratings agency Moody’s, titled “Banks–Asia-Pacific, Asia’s bank resolution reforms show mixed progress”, reveals the urgency in the drive to finalise a cross-border bail-in framework in Asia before a new crisis hits, in order to protect global derivatives trades. “In most APAC [Asia Pacific, including Australia] jurisdictions, authorities still lack statutory powers to bail in creditors”, [Moody’s moans in a 20 November press release](#) announcing the report. “Basel III contractual securities [so-called “hybrid” or “contingent convertible” (coco) bonds which convert to worthless shares in the bank during a crisis] remain the only type of bail-in-able instruments in most markets”, and represent only some 2 per cent of bank assets in APAC banking systems. “Only Hong Kong and New Zealand authorities have the power to bail in depositors, and only unprotected depositors in the case of Hong Kong”, the release complains.

**The solution: people before gambling debts**

In the 2007-08 global financial crash, banks were bailed out to arrest the meltdown of the Too-Big-To-Fail (TBTF) banks' US\$1.2 *quadrillion* (!) in derivatives bets. To pay for this bailout, governments borrowed massively and then imposed brutal austerity budget cuts which crushed their economies. Quantitative easing (central bank money-printing) reinflated the speculative bubble that caused the crash, while lending into the productive economy declined.

In response to public rage that the banks that caused the crisis were bailed out, international financial authorities unveiled their new "bail-in" scheme—supposedly to have the banks' creditors foot the bill instead of taxpayers. Where bail-in has been used in Europe, "subordinate bondholders" who are the equivalent of depositors have lost their life-savings, while taxpayers have still had to bail out the banks anyway! Bail-in is not sufficient alone, because no amount of deposits can cover the losses from multi-trillion dollar derivatives bets. Moreover, bail-in actually preserves the very flaw it was claimed to fix—TBTF banks. [The Bank of England specifies](#) that some banks can be allowed to fail without affecting the wider economy, but others that are too large or complex would destabilise the system and must therefore be saved. Likewise says the ECB opinion paper in regard to derivatives: they are too complex so can't be bailed in, unlike "long-term unsecured vanilla [*sic*] debt"—vanilla meaning your savings! Exemptions from the new ECB withdrawal moratorium would also apply to financial market infrastructure including central counterparties (CCPs—derivatives clearing houses) and the transfers of the Bank for International Settlements (BIS), which designed the bail-in regime.

Every new aspect of bail-in is in fact a powerful argument for the opposite approach to banking security: the Glass-Steagall separation of deposit-taking banks from speculation. Glass-Steagall protects deposits absolutely, and guarantees financial stability by separating essential banking functions that support the real economy from the casino economy.

The CEC urges all Australians to register their disgust with the proposal to legislate bail-in powers for APRA, and demand Glass-Steagall instead. Write to the Senate Economics Legislation Committee which is inquiring into the APRA bill today; submissions close on 18 December 2017.