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

22 September 2016

Regulator confirms many Aussie investors will lose their money to save banks

Now that Australia's banks have had a number of years to heavily sell hybrid securities to retail investors, the Australian Prudential Regulation Authority (APRA) has confirmed that such securities will be the first bank liabilities written off—"bailed in"—in a banking crisis.

APRA has allowed Australia's banks to sell these hybrids, also known as "bail-in" bonds, to unsuspecting mum and dad investors, even though the UK and other jurisdictions forbid their sale to retail investors due to their complex risks. The Australian banks have gone out of their way to target those investors, offering such high interest rates that a self-funded retiree who is floundering in the present low-interest climate would find them impossible to knock back. For instance, in February the Commonwealth Bank issued almost $1 billion in hybrid securities with an interest rate of 7.5 per cent—a much higher return than investors would get in a standard investment, and backed by Australia's biggest and most "profitable" bank, no less.

Almost all investors would jump at the chance, without realising that the securities contain multiple triggers which automatically convert them into far less valuable, or even worthless, shares. Such triggers include major shocks to the bank, in which case holders of hybrid securities get kicked off the bank's list of creditors and instead become holders of shares that will be plunging in value (creditors have claims over the bank's assets, shareholders do not). The triggers can also include less dramatic events, such as the Australian bank's New Zealand subsidiary getting into difficulty (New Zealand's major banks are all owned by Australia's banks), or a stock market plunge that reduces the bank's capital below a certain threshold. These minor triggers will also convert the bonds into shares (hence the name hybrid).

In the 1 September *Australian Financial Review*, James Eyers reported that APRA chairman Wayne Byres—who previously worked at the Bank for International Settlements which cooked up "bail-in"—used a 30 August speech to the Actuaries Institute to "remind" investors that the higher returns they get from hybrids reflect the higher risk. Of course—so why has APRA allowed banks to target retail investors with these risky products, when other jurisdictions do not?

Byres answered this question with this bombshell: "Viewing these capital instruments as simply higher-yielding substitutes for vanilla fixed-interest investments, let alone deposits, is something to be counselled against, since from APRA's perspective *holders of these instruments are providing the important first lines of defence that we can call into action*, in some instances even ahead of shareholders, to aid an orderly resolution [i.e. bail-in]", he said. (Emphasis added.)

Byres statement confirms the danger that the CEC warned of in its 8 July 2016 release headlined "Warning to Australian investors: Beware hybrid securities, aka 'bail-in' bonds!", which stated:

"The hybrids are called 'bail-in bonds' because APRA is expected to let Australia's banks count them towards their TLAC—total loss-absorbing capacity—which is a requirement of the global 'bail-in' regime that the Bank for International Settlements is dictating to the world. Bail-in is intended to preserve Too Big To Fail (TBTF) banks by ensuring that significant losses from their reckless speculation are worn by ordinary depositors and investors, not the banks, so that such losses don't trigger another 2008-style meltdown. … The banks are knowingly selling a product that will make unsuspecting investors wear their losses so they can continue recklessly gambling in the property bubble and derivatives. Australia as yet doesn't have depositor bail-in, because the CEC exposed and defeated the plans for such legislation in 2013-14, so APRA is bringing in bail-in through the back door."

Bail-in turns bank customers into human shock absorbers to wear the impact when banks crash; the alternative is to make everyday banks super-safe, through a full Glass-Steagall separation of the banking system. This will keep the commercial banks that hold deposits completely separated from all forms of risky financial speculation, which is the stock in trade of investment banks, hedge funds and equity funds, stock brokerages, insurance companies and wealth managers.

Glass-Steagall is now dominating the financial debate worldwide, but it is opposed by the Too Big To Fail Wall Street-City of London banks which would be broken up under Glass-Steagall and stopped from gambling with deposits. The CEC is leading the fight in Australia against bail-in and for Glass-

Steagall—if you are really concerned about financial security for you and your family, join the fight to make the entire financial system secure!
