



# Australian Citizens Party

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## MEDIA RELEASE

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### **APRA whistleblower: banking regulation failure is not incompetence, but by design**

The collusion of Liberal and Labor in rejecting the need for banking separation in a recent Senate inquiry, and in luring first home buyers into a plunging housing market debt trap, shows that business-as-usual has returned to the banking system. This is very alarming.

But what about the regulators—aren't they in the watchtower keeping us all safe? When the banking royal commission exposed serious misconduct and crimes in the banks, people assumed that the regulators must have been asleep at the switch, even incompetent. The royal commission would have been a wake-up call. Far from it. A former employee of both of the main financial regulators has blown the whistle on the system, exposing that bank regulation is intentionally fake, and that there is no intention, let alone capability, to protect the Australian people from banking predators or financial crises.

Dr Wilson Sy is an astrophysicist whose advanced mathematical and analytical skills led him, in the 1980s, into a second career in investment banking. After witnessing the early investment banking derivatives disaster in the 1990s, Dr Sy went to work for the financial regulators to see how they supervised the financial system. He worked at the Australian Securities and Investments Commission (ASIC) for three years in the early 2000s, and then as the Principal Researcher at the Australian Prudential Regulation Authority (APRA) for six years until 2010. In those roles he experienced how the regulators collect, organise and use the information they need to police the banks. He was effectively manoeuvred out of APRA in 2010, after which APRA shut down its research department.

Yes, you read that right—Australia's chief banking supervisor does not have a research department to investigate potential risks that may be building up in the system! Dr Sy became a whistleblower, but one severely restricted by APRA's extreme secrecy powers. He made submissions to the major financial inquiries, including the 2014 Murray Financial System Inquiry. In 2017 he spoke out against the legislation to beef up APRA's crisis resolution powers to include "bail-in" of deposits, and exposed that the \$250,000 deposit guarantee, the Financial Claims Scheme, was no protection against bail-in because it is not activated. In 2018 he accompanied the Citizens Electoral Council on numerous trips to speak with politicians in Canberra on bail-in and the need for banking separation, and he made a number of submissions to the banking royal commission. Dr Sy should have been a star witness at the royal commission, where he would have been able to testify about everything he knows of the inner workings of the regulators, but cannot usually say without the legal protection that is afforded to witnesses at a royal commission. In an early sign that the royal commission was rigged, he was ignored, as were many other worthy witnesses, such as Denise Brailey of the Banking and Finance Consumers Support Association.

#### **Fake regulation**

Following the banking royal commission, Dr Sy wrote a paper called "The Farce of Fake Regulation: Royal Commission Exposed Australia", which he submitted to the Senate inquiry into banking separation. He exposed what the royal commission covered up—that the regulators are complicit in bank misconduct and crimes, and are oblivious to the risks in the system, because they don't regulate to benefit the community, but are a fig-leaf for self-regulation to benefit the banks.

All Australians concerned about the banking system should read this paper, and should make sure that every politician reads it! [Click here to download "The Farce of Fake Regulation"](#).

"The Australian regulatory system, like the US system and others, has been designed to be weak and ineffective, as a step towards deregulation", Dr Sy declared.

The paper addressed every aspect of the unworkable regulatory structure, under the following subheadings:

**Enforcement Farce**—"The system was never designed with enforcement in mind. Fake regulation was established as a facade to placate the detractors of deregulation."

**Financial Trade Guild**—APRA is not a regulator but the equivalent of a trade guild, funded by its members—the banks—to protect its members.

**Fake Regulation**—It's not that there is no regulation, but fake regulation gives the appearance of regulation to benefit the community, whereas it is actually for the benefit of the industry; fake regulation is worse than no regulation, because under no regulation the public would be more cautious.

**Fake Knowledge**—The regulators only passively collect data, even the Productivity Commission and IMF found major flaws in their data, and within the regulators, “everyone is kept deliberately in the dark about the content of the data”—even though they are responsible for “financial system stability”.

**APRA Lacks Experts**—APRA can't compete with private banks to recruit specialists who understand complex risks such as derivatives, so it remains ignorant; real experts who do get hired find themselves ostracised and unappreciated.

**ASIC Has Silos**—The regulator is divided into silos and the staff don't talk to each other, so complaints don't get acted on, as bank victims know too well.

**Fake Management**—The hundreds of staff at the regulators are kept busy with copious amounts of useless paperwork and red tape.

**Self-reporting Farce**—The regulators rely on the banks to self-report their own breaches, which either doesn't happen or happens too late for effective regulation.

**Tip of the Iceberg**—The banking royal commission was enough to change the public view of the banks and regulators, but it addressed only a fraction of the problem.

**Profit Competition**—Under the current system, the banks are an oligopoly in which they don't compete on prices, but on the sizes of their profits.

**Competitive Looting**—The banking oligopoly is worse than a monopoly, in that the banks compete with each other to loot, which makes the looting worse than a monopoly which doesn't have that competitive pressure.

**Wilful Ignorance**—The industry's funding of academic institutions which teach banking and finance ensures that graduates are churned out who are indoctrinated in a belief in economic rationalism, free and efficient markets, and therefore will not question the system.

**Rigging the Laws**—The banks use their political influence to get laws passed in their favour.

**Flawed Systems**—The global financial crisis in 2008 exposed the system as fundamentally flawed, but has been ignored.

**The Australian System**—Starting with the 1981 Campbell Report, the Australian financial system was deregulated by ideologues who believed in minimal and self-regulation.

**The US System**—Likewise in the USA, through the likes of Alan Greenspan, who in 2008 was forced to admit the crisis showed there was a “flaw” in his model, but nothing much has been done to correct it.

Dr Sy elaborated in detail on all of these topics, to give an insight into the financial system that only an insider can provide. There is a glaring dichotomy between his experience of the regulators, and the way the politicians see them. In short, the elected major-party politicians, who are the only ones who can change the laws to change the system, think the regulators are great. When his fellow MPs complained to Scott Morrison about the banks when he was Treasurer, he always deferred to APRA as the authority that had everything under control.

Labor is equally blind. In their contribution to the report of the rigged Senate Economics Legislation Committee inquiry into the [Banking System Reform \(Separation of banks\) Bill 2019](#), the Labor Party senators on the committee stated:

“The Reserve Bank of Australia, APRA, ASIC and Treasury have responsibility for ensuring the stability and strength of the Australian financial system. *Labor Senators have confidence in the ability of these institutions to manage financial stability risks* and are therefore not considering Glass-Steagall style legislative measures.” (Emphasis added.)

Who is right? The difference between Dr Sy and the politicians is not just that he worked at the regulators, but the politicians were saying the same thing before the royal commission. By definition, the royal commission proved that there have been massive failings of regulation, which the politicians had wilfully ignored. But now, after those failings have been exposed, the politicians are still keeping their heads in the sand.

Dr Sy concluded his paper by calling for the financial system to be structurally separated in the manner of the US *Glass-Steagall Act*, to: simplify regulation and make it possible to be enforced; restore trust in traditional commercial banks and protect deposits; and stimulate the real economy rather than financial speculation.

As any bank victim will confirm, the royal commission did not solve Australia's banking problems. The worsening financial crisis being fuelled by the collapsing property bubble will prove that. Every elected official must read Dr Sy's paper to understand the actual nature of the problem, and Parliament must conduct public hearings at which Dr Sy and other experts can testify and educate MPs on the actual problems and real solutions.

Anything less is fake government.

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