



Australian Citizens Party

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MEDIA RELEASE

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Bail-in danger grows—demand Parliament protect deposits

Australia's banks were already precarious before the COVID-19 pandemic. Now they are in greater danger than ever from the uncertainties of how the economy will work as the government-funded hibernation comes to an end. Those uncertainties were rammed home today by the massive 1,800-point plunge in the US stock market.

The banks don't know how many of their customers will resume repaying their mortgages and business loans, or will default. As these loans are the banks' assets, it is unclear to what extent loan defaults will hit the banks' capital. It is also unclear how much Australian banks and other institutions are exposed to the worsening derivatives threat around the world, including the Collateralised Loan Obligations (CLOs) that are eerily similar to the Collateralised Debt Obligations (CDOs) which brought down the financial system in 2008.

This again raises the question of bail-in, the global policy devised to enable banks to stave off collapse by converting deposits, which are liabilities, into new capital. The Australian government secretly passed a back-door form of bail-in in the 2018 Valentine's Day massacre of democracy with only eight Senators present. To stop that law being used to steal Australian bank deposits, it is imperative that Parliament debate and pass the [Banking Amendment \(Deposits\) Bill 2020](#) that One Nation Senator Malcom Roberts introduced on 27 February, which will exclude deposits from any form of bank crisis resolution.

Deferred loans

In an 8 June article in *The Australian*, "D-day looms for banks over \$224 bn in loans", experienced business commentator Alan Kohler reported that 744,904 people and businesses have currently deferred their repayments on \$224 billion in loans from banks. Kohler noted the "slightly awkward fact" that this represents 90 per cent of the capital of the Big Four banks.

Kohler questioned whether the loans should be considered deferred, or "impaired", which in normal circumstances would require the banks to record losses against them. "If they were accounting normally for loan impairments and provisions for bad and doubtful debts there's probably not much doubt the entire Australian banking system would be insolvent and the economy would be in a lot more trouble than it is now", he observed.

Under the coronavirus restrictions, payments were deferred for six months, which period expires in September. The assumption of hibernation had been that the economy would "snap back"—businesses would pick up where they left off and homeowners would go back to work and resume their repayments. Now it's clear that many businesses which are only hanging on due to the government's Job Keeper payments won't survive when the payments run out, and many homeowners won't keep their jobs or easily find another.

"September is rushing towards the banks", Kohler warned. "How many of the 744,904 people and businesses, and counting, will be able to resume repayments? How long can loan deferrals go for? What proportion of the loans must be classified as impaired at 30 September? What provisions must be struck for future impairments? How much capital would need to be raised to cover these sums? If it's a 12-figure amount (that is, more than \$100 billion), who will supply it?"

Kohler assumes superannuation funds will supply the extra capital, but that's just an assumption. The global interconnectedness and complexity of the financial system must also be factored in, which makes the system unpredictable. Derivatives especially, the financial weapons of mass destruction, are the most unpredictable threat, as their complex equations are based on assumptions that don't include a pandemic shutdown of the economy. Derivatives expert and Wall Street whistleblower Frank Partnoy has just exposed the danger of CLOs in a detailed article in *The Atlantic*, "[The Looming Bank Collapse](#)", which is a warning to the world: "The US financial system could be on the cusp of calamity", he wrote. "This time, we might not be able to save it." Australia's banks between them have close to \$50 trillion in exposure to derivatives.

Overhaul the financial system!

These dangers underscore the urgent need to overhaul the financial system to protect the savings of innocent bank customers, and to make the banks stop being casinos so they serve the community and real economy again. The Citizens Party has prepared a number of Parliamentary bills to fundamentally reform the financial system:

1. The Banking Amendment (Deposits) Bill 2020, introduced by Senator Roberts on 27 February, which will exclude deposits from any form of bail-in. This is likely to be debated in the August sitting of Parliament, so concerned Australians should contact their MPs to demand they support it.
2. The Banking System Reform (Separation of Banks) Bill 2019, first introduced by Bob Katter MP in 2018 and then by Senator Pauline Hanson in 2019, which would impose a strict Glass-Steagall separation of commercial banks with deposits from investment banking and derivatives speculation—Glass-Steagall was the successful American law enacted by President Franklin Roosevelt in the Great Depression which averted any systemic banking crises for the next 70 years.
3. Bills for a national bank like the original “people’s bank”, the Commonwealth Bank, which guaranteed all deposits when it was in operation; and a national development bank, to direct credit into investments in infrastructure and industry that will generate a real economic recovery based on revived manufacturing and agricultural production. There is growing support in Parliament for a national bank and Bob Katter is planning to introduce a national bank bill in the near-future.

Of these bills, Senator Roberts’ bail-in amendment is the one currently up for debate. Join the Citizens Party in fighting for these solutions by contacting your MP with the message that they must support these bills, starting with Senator Roberts’ [Banking Amendment \(Deposits\) Bill 2020](#).

Click here to sign the petition: [Fast-track Australia to economic recovery and prosperity—expand the CEFC into a national development bank!](#)