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"Bail-in" – the British Crown's Plot for Global Genocide

Fight Bankers' Plan to Steal Your Deposits!

12 August 2013—The Citizens Electoral Council has blown the cover off an international plot to sneak Cyprus-style "bail-in" legislation through the Australian parliament, so that bankers can steal money from *your* bank account, to prop up banks proclaimed "Too-Big-To-Fail". The TBTF banks, also known as Systemically Important Financial Institutions, or SIFIs, include Australia's "Big Four": CBA, ANZ, Westpac, and NAB. This law will open the door to the seizure of *all* bank accounts—not just those over $250,000—and their conversion to near-worthless shares in the banks thus "recapitalised", as has already happened in Spain and Cyprus.

Just do the maths: The Australian government's Financial Claims Scheme of $20 billion per bank (which purports to protect deposits of up to $250,000) could not even *begin* to insure the Big Four banks' eligible deposits of close to $200 billion per bank. Furthermore, Australian banks hold *$21 trillion* of derivatives contracts, many or even most of which will turn into losses in the financial meltdown. And Australia's Big Four are so intertwined with the *$1.4 quadrillion* global derivatives market, centred in the Global Systemically Important Financial Institutions (G-SIFIs) of London and Wall Street, that Australian banks are now targeted as part of the supranational "bail-in" policy. The purpose of the planned legislation is to allow deposits to be seized from *all* Australian bank accounts: from individuals, churches and charitable institutions, schools, hospitals, trade unions, small and large businesses, local councils, and state governments alike.

The drive for bail-in, detailed on pages 2 and 3 of this *New Citizen*, is being led by the Swiss-based Bank for International Settlements (BIS), the "central bank of world central banks". The Financial Stability Board (FSB), headquartered at the BIS, is directing the top levels of Australia's Treasury, Reserve Bank, and banking regulator APRA to draft the bail-in legislation. Kevin Rudd's first act as restored prime minister was to name an FSB member, senior Treasury official Jim Murphy, as his chief of staff. Meanwhile, the G20 group of nations, which Australia will chair as of 1 December 2013, has publicly committed itself to implementing the FSB's "Key Attributes of Effective [Bank] Resolution Regimes", prominent among which is bail-in.

The BIS and FSB are in a pell-mell rush to consolidate a global fascist dictatorship, centred on the British Crown's City of London financial nexus. After all, the Bank of England founded the BIS in 1930, still dominates it, and these two institutions financed Hitler's regime in the 1930s. The Crown is desperate to consolidate its power as the world plunges into the next phase of financial crisis, which insiders expect to erupt in the near future and which will be far worse than the 2007-08 Global Financial Crisis (GFC) or even the Great Depression of the 1930s.

The Real Plot: Global Genocide

The real reasons for the mad drive for global "bail-in" are deeper. With increasing vehemence over recent decades, and invariably under a "green" cover, the British Crown has proclaimed its intent to reduce the world's population from almost seven billion, down to one billion or less. We have previously documented the Crown's hands-on leadership in applying this agenda globally and in Australia, including the elimination of the Murray-Darling Basin food bowl, and Australian agriculture generally, as a prime example of the agenda.[1] The Crown-centred European oligarchy wants to obliterate the system of sovereign nation states anchored upon advancing science and technology and rising population levels, established during the 15th-century Golden Renaissance, because sovereign nations threaten that oligarchy's world rule. This is particularly true under conditions of global financial collapse, when the oligarchy may be weakened, as happened in the 14th century. We either allow bail-in to be passed, and so plunge into Hell, or we in Australia, along with the U.S. and other key nations, implement Glass-Steagall and national banking legislation, to unleash a renaissance of sovereign nation states, cooperating to build new great infrastructure projects and a worldwide economic recovery. And from there, we must take up mankind's destiny to master the challenges of our Solar System and move on into the vast reaches of outer space.

1. *The New Citizen*, Oct/Nov 2011, "Defeat the British Crown's Green Fascist Dictatorship" [www.cecaust.com au/pubs/pdfs/cv7n6_part2of2.pdf].

In March anguished Cypriots protested the plan to seize their deposits. Bail-in has been a death sentence to Cyprus and its people (see page 3). The same policy is now planned worldwide, including for Australia.

Defeat the bail-in:
Pass Glass-Steagall to Bankrupt City of London, Wall Street

Since the end of the fixed exchange rate Bretton Woods financial system in 1971, the world has increasingly been dominated by a criminal financial conglomerate centred in the City of London and its Wall Street appendage. In hundreds of court cases in various nations over the last decade alone, honest investigators have proven that this London-centred "Too Big To Fail" cartel of private megabanks launders the estimated $1 trillion dollars annual profits of the world's drug trade; has systematically looted local councils, state governments, and even entire nations of trillions of dollars through rigging the London Interbank Offered Rate (LIBOR) interest rate, which determines the value of most financial instruments in the world; and has invested virtually nothing in the physical economy, while driving raw materials and food prices through the roof by financial speculation.

In addition, since the 2007-08 GFC, which was *caused* by these banks' rampant speculation, U.S., U.K., Australian, and European governments, i.e., taxpayers—you, have bailed out these megabanks to the tune of at least $20 trillion, perhaps much more. This same cartel is behind the current campaign to ram through "bail-in" legislation in every country, enabling the outright theft of any and all deposits.

It is time to bankrupt this criminal cartel. We in Australia, as elsewhere, must implement Glass-Steagall legislation to separate the operations of commercial banks that hold deposits and lend to businesses and households, from the speculative and outright criminal financial activities of the London and Wall Street investment banks.

In 1933, U.S. President Franklin Delano Roosevelt's Glass-Steagall law reined in Wall Street and enabled him to launch an economic recovery and build the mighty sinews of war to defeat fascism. The London/Wall Street gang oversaw the systematic weakening of Glass-Steagall regulations throughout the 1980s, until they orchestrated its final repeal in 1999. The huge deposit base of commercial banks was then grabbed for use in speculation. That led directly to the present, existential global economic and financial crisis.

Today a global push to reinstate Glass-Steagall is being led by U.S. statesman and physical economist Lyndon H. LaRouche, Jr., in a situation even more dire than what FDR faced: either we wield the power of sovereign nation states to crush this British monetary empire once and for all, or it will crush most of the world's population. As LaRouche wrote in June of this year, "We bankrupt the British oligarchy before they get to strike the first blow and bankrupt [us]."

There is excellent motion in the U.S. towards restoring Glass-Steagall. U.S. House of Representatives Resolution 129, the *Return to Prudent Banking Act of 2013,* was introduced in January and now has 74 co-sponsors from both major parties; a sister bill by the same name was introduced into the U.S. Senate in May; and another Senate bill, the *21st Century Glass-Steagall Act of 2013*, was introduced in July.

Twenty-five state legislatures in the U.S. have passed or are considering resolutions calling on the federal Congress to re-enact Glass-Steagall, while the parliaments of Italy, Iceland, Belgium, Sweden, and Switzerland are considering Glass-Steagall laws. Even sane forces in the City of London have called for Glass-Steagall, as in recent editorials of the *Financial Times*. Sixty per cent of all British MPs have declared their support for total banking separation, while on 24 June Sir Peter Tapsall, Britain's longest-serving MP and himself a former fund manager, proclaimed, "I am absolutely convinced if we do not go back to something approaching Glass-Steagall, it will be an absolute disaster when the next banking crisis hits us." The CEC has launched a mass mobilisation to force a Glass-Steagall bill into the Australian Parliament, and a CEC petition calling for the Glass-Steagall separation of Australia's Big Four banks was tabled on 3 June.

The Evidence of a Bail-In Law Planned for Australia

After five years of budget-sapping "bail-out" packages for the international banks and unlimited money-printing by the U.S. Federal Reserve, Bank of England and European Central Bank under megatrillion-dollar "quantitative easing" programs, the global financial oligarchy has now hoisted the banner of "bail-in" for their terminally ill Global Systemically Important Financial Institutions (G-SIFIs). Banks in trouble from gambling with derivatives will no longer be "bailed out" at government and taxpayer expense, so the line goes, but "bailed in" by docking their own shareholders and creditors, including depositors. As shown by the Cyprus confiscation template and the involuntary conversion of ordinary depositors into shareholders in Spain, "bail-in" means unlimited stealing from businesses and the population. Major international forums like the G20 have been stampeded into endorsing the "bail-in" model.

The Financial Stability Board of the financial oligarchy's Bank for International Settlements also deems it essential for every major nation to adopt individual enabling legislation for bail-ins. Australia is no exception, but the FSB's minions hope you won't find out about it beforehand. Even members of Parliament have difficulty obtaining information from government financial institutions about the status of this legislation. But the FSB confirms that it is "in train." The documents cited below illustrate the bankers' intense push for an Australian bail-in law during 2010-13.

1. FSB and IMF target Australia

Oct. 2011. An international Financial Stability Board "Common Data Template" scheme listed Australia's financial sector as "globally systemically important".

FSB FINANCIAL STABILITY BOARD

Understanding Financial Linkages: A Common Data Template for Global Systemically Important Banks

6 October 2011

	Table 3A. Exposures to national financial systems (Level 1 countries) (Final Phase)
Indicative timing:	End 2014
Dimensions:	• Country (30) • Sector (7 to 12)
Potential crossings of the raw data:	• 5-way crossing: Co x Se x In x Cu x Ma • Variant: Two 3-way crossings: Co x Se x In AND In x Cu x Ma
Frequency:	Quarterly
Reporting lag:	4 weeks
Details of potential breakdowns:	**Countries (30): Level 1-** *25 jurisdictions identified by the IMF as having globally systemically important financial sectors:* Australia, Austria, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, Italy, India, Ireland, Japan, Luxembourg, Mexico, the Netherlands, Russia, Singapore, South Korea, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. *And 4 members of the FSB not in the above list:* Argentina, Indonesia, Saudi Arabia, South Africa *and 1 Significant off-shore banking centre:* Cayman Islands

Countries (30): Level 1- *25 jurisdictions identified by the IMF as having globally systemically important financial sectors:* Australia, Austria, Belgium...

2. Treasury seeks legal advice for bail-in

2010-2011. As the government department responsible for drafting bail-in legislation, the Treasury contracted the Government Solicitor for legal advice.

Australian Government
The Treasury

THE TREASURY
ANNUAL REPORT
2010-11

Table 7: List of new consultancies over $10,000 in 2010-11

Consultant name	Description	Contract price $	Selection process[1]	Justification[2]
Australian Government Solicitor	Legal services for the Takeovers Panel	$50,000	Select tender	A
Australian Government Solicitor	Legal services relating to cost recovery for litigation process	$12,000	Open tender	A
Australian Government Solicitor	Tied legal advice on bail-in mechanism in Australia	$15,000	Direct sourcing	A
Australian Government Solicitor	Provide legal advice in relation to Roy Morgan Pty Ltd v Commissioner of	$28,600	Panel	A

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Australian Government Solicitor — Tied legal advice on bail-in mechanism in Australia

3. Treasury calls for bail-in powers

Sept. 2012. Treasury discussion paper calls for the banking regulator APRA to be given extra powers to deal with a banking crisis—including bail-in powers.

Australian Government
The Treasury

Strengthening APRA's Crisis Management Powers
Consultation Paper
September 2012

In this context, the FSB's Key Attributes set out the types of resolution powers that jurisdictions should have available for dealing with financial institution distress. These include the need for robust statutory powers to:

- facilitate bail-in.

4. IMF: Australia "exploring" bail-in

Nov. 2012. When the IMF inspected Australia's financial system, it was informed that bail-in was on the agenda.

FINANCIAL SECTOR ASSESSMENT PROGRAM UPDATE

AUSTRALIA

FINANCIAL SAFETY NET AND CRISIS MANAGEMENT FRAMEWORK

TECHNICAL NOTE

NOVEMBER 2012

INTERNATIONAL MONETARY FUND

VI. CRISIS MANAGEMENT AND RESOLUTION OF SYSTEMICALLY IMPORTANT BANKS

55. **The structure of the Australian banking sector calls into question whether extraordinary tools for resolving large ADIs may be necessary.**[51] The banking sector is highly concentrated and dominated by four ADIs, which together hold approximately 76 percent of total banking assets. The remainder of the banking sector comprises four mid-sized and a number of small Australian-owned ADIs, credit unions and building societies (representing approximately 8 percent of banking sector assets), foreign-owned banks (representing approximately 3 percent of banking sector assets), and branches of foreign banks (representing approximately 9 percent of banking sector assets). With respect to the large ADIs, ordinary liquidation proceedings could prove unmanageable due to their size and interconnectedness.

[51] Australia's crisis management framework includes such measures as bridge bank, recapitalization, merger, etc., and they are exploring bail-in options.

5. Private bankers welcome bail-in

Jan. 2013. Australian Financial Markets Association members—all financial institutions in Australia—have combined annual financial derivatives turnover of $125 trillion.

AFMA

AFMA

In terms of the role of the special manager, we do not see it as their role to, if appointed, to enact a bail-in of the firm. The FSB's Key Attributes lays out its principles for executing a bail-in within resolution. We welcome the role of the bail-in tool for a resolution. However, APRA, as the resolution authority, should have the power to enact a bail-in for banks incorporated in Australia during a resolution. It is important to clarify that a bail-in is not a recovery tool, nor should it be enacted by an SM. It is a tool for resolution to be used by the resolution authority.

6. FSB reveals Australian legislation "in train"

April 2013. Just weeks after the Cyprus bail-in, the FSB stated in a bail-in progress report to the G20 that an Australian bail-in law was "in train".

FSB FINANCIAL STABILITY BOARD

15 April 2013
PLEN/2013/55

Implementing the FSB Key Attributes of Effective Resolution Regimes – how far have we come?

Report to the G20 Finance Ministers and Central Bank Governors on progress in reforming resolution regimes and resolution planning for globally systemically important financial institutions (G-SIFIs)

(1) **Completing the resolution toolbox for banks** - It is critical that authorities have a broad range of powers at their disposal when faced with a crisis. This is not the case in all FSB jurisdictions. In many jurisdictions, resolution authorities still lack the powers set out in the *Key Attributes* to achieve rapid transfer of assets and liabilities and to write down debt of a failing institution or convert it into equity ("bail-in"), although legislation is in train in some jurisdictions (including Australia, Brazil, the EU, France, Germany, Indonesia, Singapore and South Africa) to align national regimes fully with the *Key Attributes*.[7]

The British Empire's chain of command for bail-in

British Crown
Highest level of the City of London-centred financial oligarchy, the ruling elite of the British Empire today.

Privy Council
Formal body of advisers to the Crown, functions as the ruling body of the British Empire.

Bank of England
The centre of power in the City of London, the BoE is the prototype of all modern central banks, "independent" of government authority, i.e., unaccountable to democratic control; it has operated under a Privy Council-issued Royal Charter since 1694.

Bank for International Settlements
The "central bank of central banks", started in 1930 by Bank of England Governor Montagu Norman, with Nazi financier Kurt von Schröder and Hitler's future Finance Minister Hjalmar Schacht on the board of directors.

FSB Financial Stability Board
Founded in 2009 amidst the Global Financial Crisis, out of the Financial Stability Forum chaired by British Crown agent of influence and current European Central Bank head Mario Draghi (called "Mr. Brittania" for having mass-privatised Italian industry as mandated at a 1992 conference on the U.K. Royal Yacht), the FSB is headquartered at the BIS in Switzerland. Senior Australian bureaucrats occupy FSB management positions.

AUSTRALIAN COUNCIL OF FINANCIAL REGULATORS
The CFR, which represents Australia's four financial authorities, is the conduit for the supranational BIS-FSB apparatus to dictate banking policy to Australia.

Reserve Bank of Australia (RBA):
Governor Glenn Stevens, Chairman CFR
Assistant Governor Malcolm Edey

Australian Prudential Regulation Authority (APRA):
Chairman John Laker
Executive General Manager Charles Littrell

Commonwealth Treasury:
Secretary Martin Parkinson
Executive Director Jan Harris

Australian Securities & Investments Commission (ASIC):
Chairman Greg Medcraft
Commissioner John Price

Reserve Bank of Australia
Governor Glenn Stevens: FSB Steering Committee
Assistant Governor Guy Debelle: Chair, BIS Basel Markets Committee
Chris Aylmer, Matthew Boge: BIS Basel Committee on the Global Financial System
Colleen Cassidy: Director, BIS Basel Financial Stability Institute

APRA Australian Prudential Regulation Authority
Next APRA Chairman Wayne Byres: Secretary-General, BIS Basel Committee on Banking Supervision
Deputy Chairman Ross Jones: President, BIS International Organisation of Pension Supervisors
General Manager Helen Rowell: Co-chairman, BIS Joint Forum on Financial Conglomerates

Commonwealth Treasury
Barry Sterland: FSB Steering Committee
Jim Murphy: FSB Standing Committee on Supervisory and Regulatory Cooperation; Chief of Staff to PM Kevin Rudd

Australian Securities & Investments Commission
Chairman Greg Medcraft: Chair, BIS International Organisation of Securities Commissions
Immediate Past Chairman (to 2011) Tony D'Aloisio: Immediate Past Chairman (2010-2012), BIS Joint Forum

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The Cyprus Template for Mass Murder

The lie that bail-in is necessary to ensure "financial stability" is fully exposed in Cyprus, where its imposition in March this year has been a death sentence for the Cypriot economy and people. The Cyprus confiscations also expose the lie that deposits covered by a guarantee will not be touched, because at the outset the European banking authorities who dictated the bail-in openly announced that they intended to seize a chunk of all deposits; only a huge public backlash forced the Cypriot parliamentarians to dig in their heels and reject that measure. The bankers were forced to retreat to outright seizure of deposits above the 100,000 euro level guaranteed by the E.U., but they greatly restricted access to deposits under 100,000—a de facto seizure.

The instant it was imposed, the bail-in triggered a liquidity freeze, bringing the economy to a halt. To stop the remaining money from fleeing the banks and the country, withdrawals from bank accounts were capped at 300 euros per day. Businesses could not pay their bills and were forced to lay off workers and close their stores, food and other essential imports to the island nation stopped because merchants refused to accept letters of credit from Cypriot banks, and electricity consumption plummeted 25 per cent in the first two weeks.

Four months on, the latest figures show that domestic bank deposits have shrunk by 70 per cent, leaving the day-to-day economy on its knees. "It means that all the little stores, the family stores, what people are living off, have just been eliminated," reported Helga LaRouche, chairwoman of Germany's Büso political party on 27 July.

Cyprus has the fastest growing unemployment in the eurozone, rising from 11.7 per cent to 17.3 per cent in one year, most of the gain since March; youth unemployment in parts of the island is 45-50 per cent, while a study done at the University of Nicosia forecasts that year-end unemployment for 2013 will be 24.6 per cent, on its way to 40 per cent by 2015; GDP will have contracted by as much as 22 per cent by the end of 2013, a loss of one fifth of the economy in one year.

Protestors in Nicosia exposing the truth about the impact of bail-in on Cyprus.

The ABCs of "Bail-in": What You Must Know

Q. What is bail-in, exactly?

A. Under the propaganda line of "protecting the taxpayer" from endless government-funded "bail-outs" of private megabanks, the Bank of England and the Bank for International Settlements have invented "bail-in": when a speculative megabank either fails or is in danger of doing so, various classes of the debt owned by its creditors, such as the bonds the banks sell to raise funds, are forcibly converted into equity (stock) in the bank. This "recapitalises" and saves the bankrupt bank. The trick? Your deposit also makes you a creditor of that bank—an "unsecured creditor", to be precise—and your funds can be seized and turned into bank stock as well.

Q. I just have a basic savings account. Am I an "unsecured creditor"?

A. The grim truth is yes, you are. It would come as a huge shock to the 99.999 per cent of bank depositors who aren't accountants, that they are classified as "unsecured creditors". It isn't often stated directly, which is one of the reasons that Cyprus was such a surprise, but, as a Sep. 2011 paper published in the Reserve Bank of New Zealand's *Bulletin* explained: "Unsecured creditors include a wide range of individuals and entities. At one end of the spectrum, there are large international financial institutions that invest in debt issued by the bank (commonly referred to as wholesale funding). At the other end of the spectrum, are customers with cheque and savings accounts, and term deposits... Each has freely invested in a private institution and has enjoyed a return on that investment whilst accepting the risks associated with the investment."

There you have it: the modern banking system claims that, for example, a school kid opening a savings account accepts "the risks associated with the investment", in the same way as huge investment funds that lend to banks on the wholesale money market do.

Q. I have heard something about seizing bank deposits, but this is just for inactive accounts, right?

A. No, it is deposits in *all* bank accounts—individuals, small and large businesses, charities, churches, schools, municipal and shire councils, state governments, the lot.

Q. But if they grab my deposit and convert it into bank shares, doesn't that at least preserve my money?

A. This is a straight-out scam, because shares are the least secure of all investments, as 200,000 Spaniards discovered to their horror in May. Customers of Spain's large Bankia bank whose savings accounts had been forcibly converted into shares when Bankia floundered a year earlier, found that when they were finally able to sell those shares, the price had collapsed by 80 per cent. Individuals bore the steepest losses—the European authorities had permitted large investors to sell a week earlier, at only a 50 per cent loss.

Q. What is the likelihood that an Australian bank will fail? Aren't they the strongest in the world?

A. Are you kidding? First of all, remember that they would have collapsed already in 2008 had the Rudd government not put up guarantees for them, and they are in far worse shape today, media hype and government propaganda to the contrary notwithstanding. A clear sign of impending trouble is the CBA's recent decision to hide the true level of its multi-trillion dollar derivatives exposure, for the first time ever **(Fig. 1)**.

Q. But isn't there some kind of government guarantee for all deposits up to $250,000?

A. Formally, yes, but in reality, no. National and international banking authorities admit that Australia's guarantee, the Financial Claims Scheme, can't work, because it doesn't provide even close to enough money to guarantee the deposits in the Big Four banks—which is almost 80 per cent of total deposits in Australia **(Fig. 2)**.

That's why the *Australian Financial Review* reported on 6 March 2013 that, "In a globally unique policy, the Reserve Bank of Australia will supply banks with a permanent bailout facility worth up to $380 billion by 2015." That's also why the government has just announced it will levy a new tax of 0.05 to 0.1 per cent on all bank deposits to build up a "reserve buffer", and also the reason behind the drive to enact bail-in legislation in Australia. Why all this, if Australia's banks are indeed "the safest in the world"?

Q. What about my superannuation?

A. Any money that is in a bank account will be seized; most super is already risky, because it is in shares—including bank shares—whose value can evaporate in a heartbeat, not to mention that the government has just expanded its planned confiscation of so-called "lost" super accounts up to $6,000. But bail-in is a cash-grab on a much greater scale, and Cyprus shows how bail-in will also devastate the businesses in which your super is invested.

FIG. 2

CONFIDENTIAL

COUNCIL OF FINANCIAL REGULATORS
MINUTES OF THE TWENTY SEVENTH MEETING, 19 JUNE 2009

APRA noted that a pre-funded deposit insurance scheme in Australia would not be insurance in the true sense, as failure by one of the four largest institutions would be likely to exceed the scheme's resources.

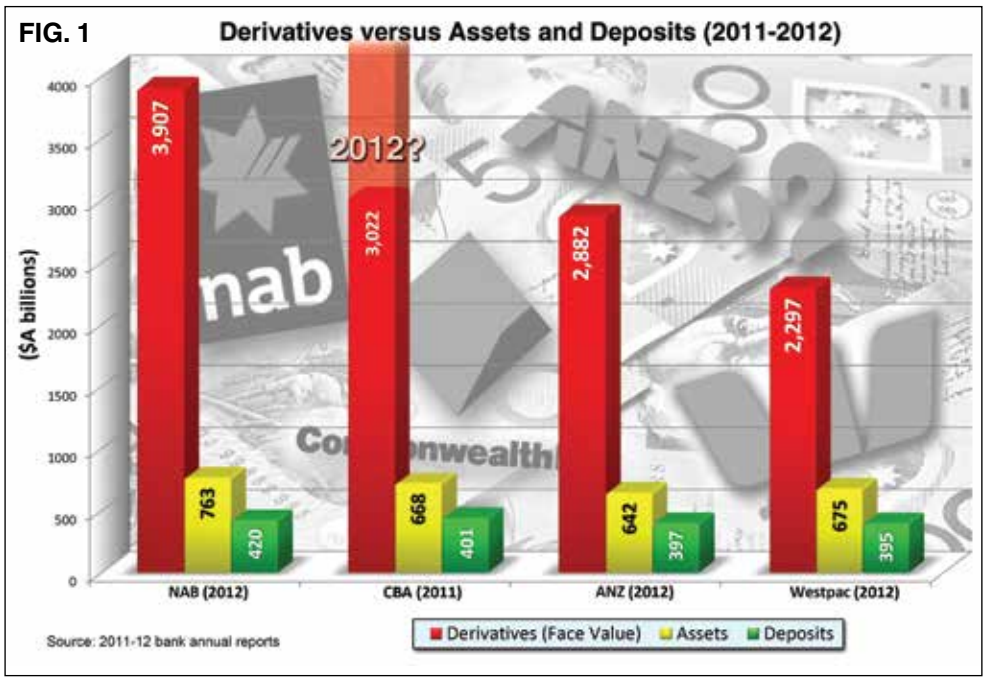
FSB FINANCIAL STABILITY BOARD

Peer Review of Australia
Review Report
21 September 2011

The limit of AU$20 billion per ADI would not be sufficient to cover the protected deposits of any of the four major banks, even though their assets would ultimately be sold to fund any depositor reimbursements if the FCS was used in the resolution process. In any event, there could be circumstances in which these banks would be deemed too big to undergo payout and liquidation.

FIG. 3

FIG. 1



For 20 years, the CBA, like the other Big Four banks, disclosed its derivatives exposure—until 2012. Now, following an explosion in derivatives speculation that outpaced even that of the other big banks, CBA suddenly refuses to release its true exposure. Whether hidden or disclosed, the derivatives obligations of all Big Four banks swamp the value of their assets and deposits. When the banks blow, as they assuredly will without Glass-Steagall, what will happen to your deposits?

Q. Joe Hockey is the Shadow Treasurer in opposition to the government, and he has been assuring everyone that there will be no bail-in in Australia. Surely Joe Hockey would know?

A. Joe Hockey is a liar **(Fig. 3)**. One year before the 2008 GFC, as he and his wife were selling almost all they owned in preparation for a huge global crash, he was simultaneously assuring his constituents that he "vehemently disagreed" that "the world is facing a collapse of the financial markets."

Q. Who is scheduled to oversee this "bail-in" in Australia?

A. The Australian Prudential Regulation Authority (APRA), an unelected, secretive body established in 1998 as a de facto subsidiary of the Bank of England's Prudential Regulation Authority (PRA) and the Bank for International Settlements. It will exercise dictatorial control over the bail-in process: as specified in the bland, technocratic jargon of the BIS's Basel Committee on Banking Supervision's (BCBS) 2012 "Core Principles for Effective Banking Supervision", there must be "no government or industry interference which compromises the operational independence of the supervisor". The present head of the BCBS Secretariat is Wayne Byres, presently an APRA Executive General Manager who will become head of APRA next year.

Q. What can I personally do to stop this tyranny?

A. *Demand that your Federal MP introduce a bill to implement Glass-Steagall immediately.* Give money to help the CEC get this paper out everywhere; donate time to participate in CEC activities to spread this message, and join the CEC. In particular, get this newspaper to everyone you can find in the police force and in the military, because if this power gets passed and used to steal deposits, the Australian people will be so angry that the government will use former PM John Howard's fascist anti-terror laws, passed in 2002-03, to suppress a popular backlash.

If you happen to be a financial insider or government employee who knows of this plan and is horrified by it, call or email us to tell us what you know.

How safe is your super?

Shortly after the CEC began its campaign in June 2013 to stop secretive plans by the Swiss-based Bank for International Settlements (BIS) to ram bail-in legislation through the Australian parliament, State Super Financial Services Australia (SSFSA) issued the following "Investment Viewpoint". Given the document's timing, as well as its obvious intent to reassure SSFSA's clients and perhaps others as to the stability of the Australian and global financial system—in which case bail-in would presumably never be needed—we reply, sequentially, to each of the SSFSA's assertions.

The purpose of "bail-in" legislation is to save those Too Big To Fail banks (including Australia's Big Four), whose unbridled speculation caused the 2008 GFC in the first place, and is now plunging the world into a far worse crisis. One of these TBTF banks, JPMorgan Chase & Co., is the Custodian for the SSFSA. The bank is one of the world's largest traders in derivatives, with over $75 trillion in current deals, and has just agreed to pay the US government an unprecedented $13 billion in fines for multiple crimes including rigging bond markets, betting against its own customers, mortgage fraud, and fixing electricity and commodity prices. In Italy, meanwhile, prosecutors seek its indictment for fraud in collusion with Italy's third largest bank, the scandal-ridden Monte dei Paschi in Siena in which JPMorgan Chase owns extensive shares (and in which the SSFSA has also invested). To protect such ill-gotten gains, JPMorgan Chase is leading the crusade in the United States against the reintroduction of the Glass-Steagall law to split normal commercial banking from the speculative activities typical of investment banks.

We have italicised certain words or phrases in the SSFSA document for emphasis, and explain their actual meaning in our accompanying commentaries.

Craig Isherwood
National Secretary
Citizens Electoral Council

What is the SSFSA?

Its public documents state that the SSFSA "provides past and present NSW and Commonwealth public sector employees and their family members with financial planning and funds management services". Managing more than $12 billion, the SSFSA was established by the SAS Trustee Corporation, itself 100 per cent owned by the SAS Trustee Corporation Pooled Fund. The present and former managers of the SAS Trustee companies, like many super fund managers, have been drawn from the ranks of former executives of such speculative giants as Deutsche Bank, National Australia Bank, Macquarie Group Limited, ABN AMRO, Royal Bank of Scotland, and Lazard, among others.

The SSFA document "Investment Viewpoint"

Investment Viewpoint

STATE SUPER Financial Services AUSTRALIA

27 August 2013

What is the risk of a bank failure for Australian depositors?

The focus of global banking regulatory activity since the Global Financial Crisis (GFC) has been to reduce the probability and the severity of a repeat of the banking crisis that occurred in 2008. Regulators have approached this task by targeting the regulatory and operating environment within which banks operate.

The CEC responds: Notice that the "focus of global banking regulatory activity", is *not* to ensure the expansion of the world's *actual physical economy* nor the full employment and well-being of its citizens in all nations, but to ensure the safety of the banks. Ironically, if the former were ensured, then the latter obviously would be also. At present, however, according to those regulators' own figures, the banks are lending but a small fraction of their deposits into the real economy while the bulk of their funds are tied up in speculation on the financial markets.

In essence, the business of a commercial bank, one focused on accepting deposits and providing loans, revolves around using deposits to advance loans. They make a margin on the loan that is above the cost of the funds they have lent, delivering a profit to shareholders.

CEC: That is indeed the function of a "commercial bank" under the Glass-Steagall-style separation of commercial and investment banks which prevailed in the United States, for instance, from 1933 until the 1980s and in many other countries as well, but not the way banking functions at present, either in the U.S. or most of the world. The "margin" which the banks now make is drawn overwhelmingly from speculation, notably in the international derivatives trade now estimated at $1.4 quadrillion, 20 times the GDP of the entire world. Banking in the service of speculation rather than of the physical economy inevitably leads to a financial crash.

Prior to the GFC, the relatively lax global regulatory oversight of banks meant they could increase their leverage and maintain a very low level of capital to underpin those borrowings. A high level of leverage leads to strong profitability in a positive credit growth environment but also increases the sensitivity of the system to negative impacts from systemic shocks. In the GFC, we saw the equity of global banks being significantly reduced or extinguished entirely. In addition, if it was not for Governments providing guarantees for bank deposits and supporting the debt of banks, more banks would have defaulted.

CEC: That last sentence is the understatement of the year: in fact it is almost universally acknowledged that without such government guarantees *the entire world banking system would have collapsed*. And had the government of Australia not provided open-ended guarantees to all of the Big Four banks, those banks by their own admission would have certainly failed.

The negative impact of the GFC on banks was exacerbated by two contributing factors. One was the interconnected nature of the global banking system. In effect, banks conducted business with each other, whether that was in holding the debt of another bank or as a counterparty to a derivative transaction.

CEC: This is precisely what we said above: the banks were (and still are) mainly conducting speculative transactions with each other, not lending to the real economy.

The second issue was the increased size of investment banking operations. With these activities came greater exposure to increasingly complex derivative transactions. In the heat of the crisis, without clarity on the size and types of exposures to these transactions for individual banks, banks did not want to lend to each other, as they were not aware of the exact level of derivative exposure of the other bank. As a result, inter-bank activity froze and without this activity, the liquidity (the ability of a bank to pay back cash in the short-term) was significantly reduced. For some banks, this saw them default on their liabilities (i.e. Lehman Brothers) or get very close to such a situation. Indeed, without the significant injection of liquidity to capital markets provided by government agencies, the GFC would have caused even greater damage.

CEC: The above constitutes a straightforward admission that derivatives speculation *caused* the GFC. And the derivatives exposures of what the BIS terms Global Systemically Important Banks (G-SIBs), have soared since then. So have those of a second tier known as the Domestic Systemically Important Banks (D-SIBs), which include Australia's Big Four, each of which ranks among the top fifty largest banks in the world. Thus the BIS demands that each G20 nation enact bail-in legislation to prepare for the coming inevitable collapse, which has been temporarily forestalled by the "significant injection of liquidity by governments" to save the banks, estimated to be $23 trillion from the US Federal Reserve alone.

It is worth noting that the vast majority of derivative positions for commercial banking operations are for the management of interest rate risk within their assets and liabilities. This is quite distinct from the more exotic derivatives that were seen at the centre of the GFC. However, as noted above, the interconnectedness of the system meant that banks stopped wanting to deal with other banks because they were worried about potential insolvency and potential derivative exposures.

CEC: Following the passage of Glass-Steagall legislation in 1933, the world got along just fine for almost six decades without derivatives to "manage interest rate risk". In fact, such "plain vanilla" derivatives as "interest rate swaps" have helped bankrupt hundreds of U.S. cities, hospitals, school boards, etc., which were pressured or forced into buying them before the banks would agree to float their bonds.

In fact, most interest rates worldwide are pegged to the London Interbank Offered Rate (LIBOR), which a London-centred cartel of major banks has illegally run up and down like a yoyo for the past two decades for their own profit, thus ensuring "interest rate volatility". Most of those same banks are now under investigation by U.S., British, and Swiss authorities for also rigging the ISDAfix, a benchmark number used worldwide to calculate the price of interest rate swaps. In fact, the New Jersey-based firm ICAP, the world's largest broker of interest rate swaps, admitted on 25 September 2013, that it, too, had been involved in LIBOR rigging.

But even assuming that the "vast majority of derivative positions" are indeed contracted for banks' "management of interest rate risk", why has the Commonwealth Bank taken to *hiding* its actual derivatives exposure? And has there been so much "interest rate risk" that the derivatives holdings of all of Australia's Big Four have soared since 2008?

Regulatory Response

Regulators have responded to those issues by seeking to moderate the ability for banks to leverage their asset base and to operate across a broad spectrum of activities. The regulators are seeking to reduce the banks' risk profiles and moderate the interconnectedness of the global banking system. …

CEC: If that be true, then why in Australia, for instance, do the Big Four boast an astoundingly high average leverage rate (the ratio of loans to capital) of 26.5 to 1? By comparison, the leverage rate of the Long-Term Capital Management (LTCM) hedge fund shortly before its collapse in 1998 almost blew out the world's entire financial system, was 27 to 1.

The updated regulatory environment will mean commercial banks have a lower risk profile. *However, we would not suggest that the new measures mean a future banking crisis will not occur because in reality a banking crisis largely reflects a crisis of confidence. Given the current scenario of elevated indebtedness of banks and governments globally, confidence could be easily affected*. We have seen this happen when European debt concerns surfaced a number of times in recent years.

CEC: This constitutes a virtual admission that we are heading for a new GFC.

Depositor Positioning

[The SSFSA document here touts the importance of the $250,000 per depositor "guaranteed" by the Financial Claims Scheme.]

CEC: The FCS is worthless, as APRA and the FSB themselves have acknowledged. (See Fig. 2, p. 3 of this *New Citizen*.) Compare, for instance, the FCS "guarantee" of $20 billion per bank with the actual deposits of the Big Four as of 2012: ANZ, $397 billion; CBA, $428 billion; NAB, $420 billion; Westpac: $395 billion.

The importance of depositors to the banking system is also recognised by the Financial Stability Board (FSB), which has defined the "Key Attributes" for a resolution strategy to maintain a functioning system in the face of systemic stresses. …

CEC: One could drown in the hypocrisy here: the same FSB which is pushing full-steam ahead to bail-in depositors, claim to have those same depositors' best interests at heart, as amplified in the following paragraph.

[P]rotecting depositors is a key part of the FSB's resolution requirements in the face of a banking crisis. This focus on depositors helps bolster confidence in the banking system. The prioritisation of depositors can also be seen in the fact that depositors have a priority claim on the assets of a failed Approved Deposit-taking Institution (ADI), ahead of *other unsecured creditors*. APRA is charged with the prudential regulation and supervision of Approved Deposit-taking Institutions and has a mandate to ensure that, *under all reasonable circumstances*, they meet their financial promises to depositors, within a stable, efficient and competitive financial system. …

CEC: Note the admission here that depositors are in fact "unsecured creditors". Presuming they are not bailed-in, they supposedly rank first for payouts from a failed bank. In fact, then-Treasurer Wayne Swan ushered the *Banking Amendment (Covered Bonds) Act 2011* through Parliament which created a new, "secured" form of financial instrument which is guaranteed *ahead of depositors*, notwithstanding the *1959 Banking Act* which did prioritise depositors.

Meanwhile, the phrase "under all reasonable circumstances", is an escape hatch so big you could drive a semi-trailer through it. Will a global financial crash be regarded as a "reasonable circumstance"? If not, then any "prioritisation of depositors" goes out the window.

The Risk to Australian Bank Depositors

Overall, the Reserve Bank of Australia views the Australian banking system as well capitalised and strongly regulated. However, the system's reliance on some proportion of funding from overseas does mean we cannot be totally insulated in the event of global financial stress. Since the GFC, Australian banks have sought to moderate their reliance on funding their operations from overseas borrowing and this has been effective, with typical levels of overseas borrowing moderating from over 60% to around 30%. Importantly, on average, this borrowing has also been extended in maturity to reduce the shorter-term sensitivity to stress events in global financial markets.

CEC: Overseas borrowing is indeed a vulnerability, especially when such borrowing is used to make more mortgage loans to feed the Australian housing bubble. But a much greater vulnerability is the $23 trillion in derivatives held by Australian banks. That is the elephant in the room.

Overall, we would agree that the Australian banking system appears to be robust when compared to other banking systems. This view is underpinned by the broad support from credit rating agencies, who believe Australia's major banks are amongst the highest rated banks globally. The asset profile of Australian banks is typically more skewed towards the domestic housing market than for some of their global counterparts and this drives the strong focus of the RBA and credit rating agencies upon the health of the Australian residential housing market.

CEC: The exposure of Australia's banks to the domestic housing market is a terminal vulnerability, because the housing market is just one big bubble waiting to explode. The present debate as to whether the recent 5.5 per cent growth in house prices constitutes a bubble is a fraud—the Australian housing market has been a bubble for the best part of the last decade. Historically, house prices stay at a multiple of around 3 times annual income, i.e. around $150,000 for a household income of $50,000. In Australia it has been around 7 times annual income for a decade—the highest in the world. Already in April 2010 *The Economist* magazine calculated that Australian house prices were the most overpriced in the world, while a recent UBS report observed that "Australia may have the world's most leveraged landlords, making the nation more vulnerable to a property market collapse than regulators, banks and investors expect."

As noted above, there is a Government guarantee in place for depositors up to a level of $250,000. The question of whether this guarantee could be taken away in the case of a banking crisis is extremely difficult to answer but the FCS and depositor preference is enshrined in legislation. The example of Cyprus suggests that it could not be completely ruled out; however, we would underline the significant difference in the position of Australian banks to those in the periphery of Europe. …

CEC: Do you feel safer now? Without quite saying it outright, this whole paragraph basically admits what the CEC has been saying all along – that "depositor preference" *will* be taken away, "enshrined in legislation" or not. As for the "significant difference" in Australian banks, remember that they almost collapsed in 2008 and are in much worse shape today, with far higher derivatives and a loan base tied up in the world's worst property bubble.