SUBMISSION ON POLICY ISSUES IDENTIFIED IN THE INTERIM REPORT

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Commissioner Hayne has raised the question in his Interim Report, 'What can be done to prevent the conduct happening again?'

The number one answer to that question is break up the banks.

Virtually all of the misconduct examined by the Royal Commission stems from the banks being 'too-big-to-fail' conglomerates of multiple financial service businesses.

For instance, if commercial banks were separated from investment banking, they wouldn't be able to do the trading in securities and derivatives on mortgages which made them lower their lending standards, and even commit fraud, so they could increase their mortgage lending.

Without the incentives to concentrate most of their lending into speculating on the housing bubble, they would have more interest in lending to - and looking after - their small business and farm customers.

If commercial banks were not 'vertically integrated' with wealth management, stock broking, insurance and superannuation, they wouldn't be able to fleece customers with financial advice that lures them into buying products and investments from the other businesses that the banks own.

If the banks were broken up, and commercial banks were only allowed to take deposits and make loans, and were kept separated from other financial services and speculation, the financial system would be much simpler, and therefore the regulators would be better able to do their job. The banks would not be too big to fail, so APRA would not be able to use 'financial stability' as the excuse for allowing the banks to get away with financial wrongdoing.

The Commissioner must recommend full 'Glass-Steagall'-type separation of the banks to safeguard the future of Australia.

I also urge the Commissioner to investigate the Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018, with respect to the banks' ability to change the terms and conditions of deposit accounts without notice, to allow APRA to order a bail-in of deposits.

The government, itself, agrees that this law conforms with the international bail-in regime established by the G20 Financial Stability Board (FSB) - based at the Bank for International Settlements (BIS) in Basel, Switzerland - as laid out in the FSB's 'Key Attributes of Effective Resolution Regimes', which *explicitly includes* depositors - called 'uninsured, unsecured creditors' - in its section on 'Bail-in within resolutions'.

In all other jurisdictions that have established bail-in systems in compliance with the FSB - including New Zealand, the EU, and the United States - deposits can be bailed in.

The language of this APRA crisis resolution powers legislation is so broad that it can include deposits in its 'conversion or write-off' provisions, under the words "any other instrument".

This capability presents an appalling possibility, and is a fundamental breech of trust in the covenant between the banks and their customers, and I ask that the Commissioner find that this power must be removed.