

SUBMISSION TO THE ROYAL COMMISSION INTO FINANCIAL SERVICES INDUSTRY – RESPONSE TO THE INTERIM REPORT

1. The public no longer trust the banking services industry and what they say and do. This also applies to the regulators since the Global Financial Crisis of 2007/08.
2. The Council of Financial Regulators, chaired by the Reserve Bank is wanting in performance.
3. The lack of trust is not at the branch level per se but with the regulators and operators

The culture of the financial sector needs change. The pursuit of profit is based on greed instead of putting customers' interests first.

The focus on financial stability is myopic because it is favouring the large financial institutions and their risk taking (gambling) above the interests of customers. This is a 'structural imbalance' that is dangerous because of its concentration of power and political influence.

Large players in the financial industry are 'to big to fail', too complex to manage and need to be broken apart. A modern Glass-Steagall is needed to bring any sense of confidence back to the banking system. The evidence is in. Risk taking by the banking sector (including the risk taking in derivatives) is higher now than before the GFC. A Glass -Steagall structure, an already proven structure, would separate the high risk-taking behavior of the industry from the security needed over customer deposits.

The existing regulatory structure of the Council of Financial Regulators must be changed because it is too narrowly focused on financial stability. In part, it is the regulators who are to blame for the massive bet on inflation in the housing sector which is now at risk. None of the regulators are without blame.

The need for public disclosure on what and how decisions are made by the regulators is paramount, particularly as all operate from a same view position. The role of the individual regulator and how they connect with one another needs clarity. Without this clarity and what has been exposed by the Royal Commission, the Council of Financial Regulators presents as not fit for purpose.

Failure to disclose to the public, the risk-taking behavior of the financial services industry and the regulators is frightening. APRA has shown to be weak and ineffective in protecting the interests of customers.

In 2014, Australia as a member of the G20 agreed to a management strategy to use private monies to BAIL IN the financial services industry in the event of a crisis. EU, UK, USA and NZ governments have advised their depositors that deposits and other financial instruments could be converted to an institution's capital for recapitalization, write down/write off.

Australia's response has been in the Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018 (FSLA). Regulators such as APRA are emphatic that Australian deposits are not part of any Bail In under the legislations Conversion and Write Off Provisions and have interpreted the relevant wording 'any other instrument' in the FSLA to exclude deposits. APRA sets the prudential standards for registered financial institutions. The

regulator's interpretation is inconsistent with the G20 agreement and what countries elsewhere have done. This inconsistency questions the competency and integrity of advice from APRA to financial institutions. Institutions, regulated by APRA as part of the Council of Financial Regulators, are in turn adamant that deposits are excluded from the FSLA's Conversions and Write Off Provisions although the FSLA does not define the meaning of the term 'any other instrument.' Yet this is the very provision that could be activated to convert customer deposits in financial institutions to an asset on the balance sheet of financial institutions. This is duplicitous behavior. It also is evidence that the behavior of the financial institutions cannot be separated from the regulators in respect of the impact on the interests of depositors.

The Australian public needs to be told if Australia has agreed to customer deposits being captured by the FSLA's Bail In or not and if not why was Australia exempt? It is this sort of behavior by the Council of Financial Regulators that demands transparency. As it stands it is an indictment that the financial services industry and the Council is far too narrowly focused on financial stability for the large institutions and their risk taking behaviour as opposed to serving the interests of customers.