Submission:

To whom it may concern,

I am writing to you in my capacity as a patriotic citizen, who is alarmed at the thoroughly bankrupt state, both financially and morally, of Australia's banking and finance sectors.

Rather than attempting to re-invent the wheel, I would like to quote, at length, from a press release issued by the Citizens Electoral Council of Australia on 6 August, 2014. I will simply state that I am in full personal agreement with the following statement:

> "Financial System Inquiry chairman David Murray suggested 4 August that Australia should consider imposing a "legal separation" between the investment and retail parts of banks, which is called "ring-fencing".
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> He was echoed a day later by visiting former Bank of England Governor Mervyn King, who recommended that to avoid the "terrible moral hazard" of taxpayers bailing out too-big-to-fail banks Australia should look at the ring-fencing law enacted last year in England, based on the recommendation of an inquiry into the British financial system conducted by Sir John Vickers, the author of ring-fencing.
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> Australians who have followed the CEC's campaign for separating investment banking from retail banking should be aware: ring-fencing is NOT the same as the banking separation imposed by the Glass-Steagall Act, which was a total separation of the retail and investment banking sectors—no cross ownership, no shared directors, no contact whatsoever.
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> By contrast, the Vickers ring-fencing is the old "Chinese walls" separation, in which investment banking and retail banking still operate in the one bank, under the one board of directors, but supposedly kept legally separate.
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> When Vickers' proposal was debated in the British Parliament last year, experienced City of London bankers slammed it as unworkable, and warned that investment bankers would always look for ways around the separation.
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> In the House of Lords debate 26-27 November 2013, Labour Party peer Lord Barnett warned, "We are told by others that the professionals do not think that the new [Vickers' ring-fencing] system will work. We have heard that a firm of private consultants called Kinetic Partners surveyed 300 people [financial professionals], of whom 35 thought that it would work; the rest did not, and they are the people who know what it is all about. The noble Lord, Lord Forsyth of Drumlean, who spent seven or nine years as an investment banker, told us that '*bankers are extremely adept at getting between the wallpaper and the wall. If they can find a way to get around something, they will.*' We have seen that succeed. The financial crisis has been too big for us now to experiment. Now is the time for action, otherwise the lobbyists will have won yet again… However, if we managed to introduce a UK form of Glass-Steagall, strengthened to prevent lobbyists succeeding, we will have achieved

something that has never been achieved before. We cannot wait for another big financial crisis. We must do it now…" [Emphasis added.]

Conservative Lord Lawson, former Chancellor of the Exchequer, declared, "I have always been in favour of full separation—I came out publicly in favour of it long before the Vickers commission was even set up. We know that this works. It worked in the United States for many, many years under the Glass-Steagall arrangements, and it is no accident that serious problems emerged after the *Glass-Steagall Act* had been repealed… Another of the things that the Vickers commission did not consider is the problem of governance. The ring-fence is a curious system, because there is one company with two subsidiaries—the retail bank and the investment bank—and we are told that they are completely separate, but they are together. There is a real question whether that model of governance is workable…"

Conservative Lord Hamilton of Epsom said, "My noble friend the Minister described the ring-fencing as robust. I do not know how he can speak with such confidence… I do know that many people in the City today are, as we speak, *working on ways to get around the ring-fence and to make sure that money held in clearing banks can be used in investment banks*. The problem is there is an enormous financial incentive to get around this ring-fence…" [Emphasis added.]

The attempt by these members of the Lords to amend the ring-fencing law so that it transitioned into full Glass-Steagall was narrowly defeated by just nine votes, but months later, the 5 April 2014 London *Telegraph* reported Lord Lawson's continued opposition to ring-fencing:

"Lord Lawson, the former Chancellor, has delivered a stinging attack on the Government's banking reforms, warning that they will not ensure the safety of the financial system. 'I don't believe our problems can be solved by a ring-fence between investment banking and commercial banking,' he told a conference… 'The Vickers model of corporate governance is one that has never worked anywhere in the world, and I don't believe it is workable. And I don't know any senior banker who believes privately that this model is workable'. Lord Lawson has been a long-time advocate of the full break-up of large universal banks…"

The *Glass-Steagall Act* was enacted in the U.S. in 1933 after it became evidence that the Wall Street banks which caused the Great Depression had repeatedly side-stepped the existing restrictions on contact between investment banking and commercial banking, which were similar to ring-fencing. Only the full Glass-Steagall separation stopped investment bankers from preying on the savings of the customers of commercial banks."

Yours sincerely,
Andrew James Reed.