

Mr David Murray, Chairman
Financial System Inquiry
GPO Box 89
Sydney NSW 2001

26 August 2014

Re: Submission to the Financial System Inquiry

Dear Mr Murray,

I am making this submission to the Inquiry as a concerned individual who has had a life-time of work in academic finance, the financial services industry and financial regulation. I neither represent any organisation nor am I paid by anyone.

Judging by the reforms efforts around the world since the global financial crisis (GFC), I am concerned that the implications of the GFC have not been understood, because the underlying assumptions of the global financial system should have changed, but have not.

My main premise is that the GFC has refuted the academic economic theories upon which the global financial system is based. The credit risk models, the mathematics of derivatives, economic forecasting models, etc., all proved inadequate. It is not a matter of incremental improvements which are needed; the underlying assumptions have to be challenged.

In view of the radical changes to the very intellectual foundation which are needed, what can we do in the meantime? Because we are not nearly as clever as we think we are, we need to avoid complexity and sophistication. The financial system should be made as simple and robust as possible to reduce system risk. Some suggestions which have been elaborated in the attachment include:

- simplify corporate structures by restoring Glass-Steagall type separation;
- discourage anti-competitive conglomeration;
- reduce system leverage and prohibit OTC derivatives in regulated institutions;
- decrease secrecy of complex institutional regulation;
- increase consumer protection through transparent disclosure of regulatory data.

We need these changes if we are to have greater flexibility to weather further instabilities from the GFC.

Yours sincerely,
Dr Wilson Sy.