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Wednesday 20th August 2014.

The Secretariat,
Financial System Inquiry,
G.P.O. Box 89,
SYDNEY, N.S.W. 2001

Dear Sir/Madam,

My wife and I attended the public consultation last Thursday evening (14/08) at the Victorian State Library, Melbourne.

Thank you for giving the public the opportunity to dialogue with committee members and I was impressed with the courteous way David Murray and the other two gentlemen handled the – at times – emotional points presented by members of the public.

As we generally agreed with the thrust of what was expressed from the floor, both of us, having already forwarded submissions, felt no pressing need to say anything, however, during discussions on 'bail-ins', one of the committee gentlemen seemed to indicate that there had NOT been any bail-ins in Australia.

I believe there has been at least one instance of bail-in in Australia, but before I had the courage to speak on this issue, and not having any of the enclosed information with me there to back me up, the session ended. So I am writing to present my thoughts and evidence on this issue.

Michael Cannon, in the mid 1960's, produced a book generally named *The Land Boomers* with a number of subsequent editions up to 1995. This is a documentation of mainly the Victorian 1880's boom, its collapse and consequences.

In the 1986 edition, of *The Land Boomers*, chapter 32, "H.G. Turner and the Commercial Bank." Pp 228-239, it details the collapse of the Commercial Bank of Australia Ltd in 1893 and its resurrection.

Briefly, according to Cannon, the Commercial, the biggest Melbourne bank at the time, due to financing too many suspect building societies; too many risky accounts of land speculators and accepting too high a ratio of deposits to capital and reserves, shut its doors on 5th April 1893 after a large run on the bank and its shares. "beared" down from £12 (1888) (\$1,683) to £2/08/- (\$337) just before closure.

Previously, the bank's directors unsuccessfully petitioned the

Victorian Government to publicly promise the financial backing of the State and the Associated Banks, to help the bank through its difficulties. The Government was only prepared to offer £2million (\$280,000 million) to assist the bank, but the directors decided to go it alone and gamble on suspension and reconstruction.

These reconstruction proposals of the Commercial Bank were approved by its shareholders and depositors on 7/4/1893 and quickly approved by the Victorian Supreme Court.

The reconstruction scheme basically involved the calling up of all outstanding capital, and the compulsory conversion of fixed deposits into preference shares. Current accounts under £100 (\$14,027) could still be operated on, but other current obligations were postponed.

When the British depositors got wind of the proposal, they appealed to the Full Court for abolition of the clause forcing depositors to take preference shares instead of cash. The court was sympathetic, but in the end the scheme was approved.

(I believe a similar scheme was foisted on to depositors by one of the distressed Spanish banks in recent times)

Writing later, Henry Giles Turner, General Manager of the Commercial Bank, said of the reconstruction scheme: 'It was admittedly an infraction of the unwritten law and honourable traditions of the English banking system. It was fully open to the charge of being oppressive and inequitable.'

He justified the measure, as otherwise £12m (\$1.68 billion) of advances would have to be converted to cash and as there was no market, it would have meant ruin to its borrowing customers with dire consequences to the community.

The bank remained on the brink of the abyss for many years.

In 1896 a 'rearrangement scheme' was approved to avoid suspension of trading again whereby all deposits were frozen, and one-thirtieth paid back at a time.

It took about 30 years to extinguish the bank's £12 million in liabilities.

Perhaps it could be summed up by a contemporary who lived through the period, "When the Commercial Bank failed in 1893 it should have stayed shut. It was in a most awfully putrid state, for out of £13 million (\$1.83 billion) of assets only about £2 million was realizable. The bank was able to reopen because under its scheme of reconstruction the Supreme Court allowed it to annex £2 million worth of customers' deposits and turn them into preference shares at 4 per cent. The ordinary capital left from the wreck was only £95,619, (\$13.4 million) and lucky holders of ordinary shares were so protected by an unjust scheme of reconstruction that they now draw the bulk of the profits." (George Meudell.)

If that was not bail-in, what was?

Michael Cannon ended the chapter with the statement about the Commercial Bank: "...it is once again one of the strongest of the Associated Banks, a position achieved at a human cost which is beyond calculation."

Notes: 1. Approximate today's equivalent dollar values have been calculated from Historical Series CPI figures, from 1850 kindly supplied by the Reserve Bank of Australia and current ABS figures. The CPI figure (Sydney) for 1893 is 1.51 whilst the current CPI figure for Melb. (and nationally) is 105.9 at 30/6/2014.

I.E. £1 in 1893 therefore £1 X $\frac{105.9}{1.51}$

X 2 = approx \$140.27 today

This equates to roughly a 70 times ratio between 1893 & 2014.

I.E. £1 value in 1891 would have a value of about £70 today (which is approx \$140).

2. Michael Cannon's book is still available in libraries if the Committee desires to read the full story of what I have outlined above or indeed, the whole book to get an idea of the whole sorry affair that afflicted particularly the Victorian Colony in the 1880's and 1890's.

Yours faithfully,

A handwritten signature in dark ink, appearing to read 'Allan J. Clark', with a stylized flourish at the end.

Allan J. Clark.