

Date 28/07/2014

251 Centre Rd
BENTLEIGH VIC 3204

To the Secretariat,
Financial System Inquiry,
GPO Box 89,
SYDNEY, NSW 2001.

Dear Sir/Madam,

Please permit me to express concern over the amount of derivatives the Australian banking sector holds, around \$23 trillion and the rate of increase since 2007-8; about 76%. Should not this amount be reduced significantly as I understand this huge amount is well above the total assets and capital of the banking industry.

It also seems to me that derivatives trading in general is of doubtful value to the general economy as it seems to generally be a giant gambling activity among banks and other institutions. What about channelling a lot of this activity and finance into developing our physical and human economy?

The Financial System Inquiry Interim Report's concern over the banks' high exposure in the Mortgage Market, I feel, is quite justified. It would not surprise me, if in an event of a significant decrease in the value of the property market, the banks' assets and capital would not cover the possible losses as seems to have happened in a number of overseas economies.

This brings me to ask the following question: "if in the event of a collapse of the property market or, derivatives trading goes belly-up, who intervenes to save the ship?"

The Tax-payer, (Bail-out),; or the

bank(s)' shareholders, bondholders and depositors, (Bailin)?

May I respectfully suggest that in regards to investing in the property market mortgages, the Banking Industry require a much larger capital/reserve base, perhaps returning to 19th century practice of restricting bank lending to the amount of capital and reserves held by the particular lending institution. This could be brought in gradually to allow the sector to adjust.

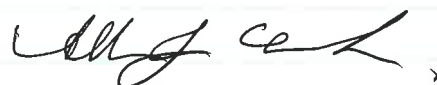
Regarding derivatives. I don't believe ordinary depositors should (nor should the tax-payers) have to pay for risks taken by a bank's activities that should be undertaken by Investment Banks.

I therefore urge that banks be divided into two parts, each separate and independent to each other.

One part would operate as a traditional commercial bank, with perhaps some Government guarantee, whilst the other part would become an investment bank, dealing in more higher yield/riskier instruments such as derivatives. It goes without saying that the present derivatives held by the present banking entities would go to the investment bank.

There would be no Government guarantee given to the Investment Banks, so potential investors would ascertain the risks when investing, the rising or sinking according to the rules of market capitalism.

Yours faithfully



Allan J Clark.