Too Big to Fail

The current system, as I understand it, allows banks to get involved in the derivatives markets so gambling the money of depositors. As such they expose themselves to risk of failure, not only to depositors but to other banks – a feature of derivatives – and hence the economy as a whole when loss of liquidity is the issue.

This is completely unacceptable.

An alternative measure when a bank cannot meet its obligations to its depositors/creditors, adopted in Greece, to take money from depositors, does nothing to stop the gambling and still leaves depositors heavily exposed.

What I, as a depositor wants is for my money to be safe when I deposit it in a bank. If I'm prepared to take risks with my money they I will invest in other options. I certainly don't want the bank to be taking risks with my money so that they do well should they have luck with their investments. We saw that happen – illegally - in some Commonwealth Bank scheme. Currently it is quite legal for banks to invest in derivatives using ordinary deposits.

At the time of the GFC, derivative arrangements involved about three quarters of a quadrillion dollars. Now I understand that it stands at 2 quadrillion! Hardly seems a safe arrangement, yet our banks have such investments. Indeed I recall the Commonwealth Bank removing its reports on such investments from their annual report on the grounds that it "wasn't relevant." Surely it is relevant when discussing the topic of "Too Big to Fail."

The gambling of depositors' money in ordinary bank accounts must be regulated against. A method existed in the USA, which, had it not been 'de-regulated' would have saved us from the Global Financial Crisis. It was the Glass-Steagall Act which protected depositors and the economy by separating commercial and investment banking – the only robust way to do so.

Under such a system, the Big Four and Macquarrie would be split up into entirely separate institutions – commercial banks and investment banks. No joint ventures would be permitted. Anybody depositing their money with an investment bank would know they were taking a risk and, furthermore, would expect to share the dividends in the event of good investments – rather than the banks taking all the benefit while the going is good. If they fail there should be no need for a bail-out as investors would know that their investments were at risk. Liquidity would not be an issue. If there is criminal activity then it should be easier to prosecute.

The GFC seemed to indicate a high degree of criminality involved, but I don't know of many prosecutions. The derivatives market seems to be quite open to manipulation by criminals and depositors not only need to be protected from them but the criminals should not be protected from prosecution when ordinary depositors are affected.

I understand that the Glass-Steagall option was considered in the interim report but that it was dismissed as being "expensive." It would certainly expensive to those who can invest depositors' money in risky schemes that pay good dividends for the moment. They will no longer be able to do so. Indeed they would have to share any gains with depositors in the investment banks. Thus it is certainly more expensive to them than the alternative of being allowed to access depositors funds in the case of serious difficulties.

Thank you for the opportunity to have my say.