Dear Mr Murray and panel,

The Inquiry you are charged to conduct will be incomplete, unless it includes the threat currently facing the Australian people of a total collapse of the financial system, as a consequence of the reckless speculation by Australia's banks in financial derivatives that are based on Australia's property bubble.

Furthermore, your Inquiry should investigate the solution that which has broad support around the world: that of a complete separation of all retail banking from all investment and related banking, as mandated in the successful United States law which lasted from 1933-1999, the Glass-Steagall Act.

Both issues cited above come under Point 2 of your Inquiry's Terms of Reference.

The following points summarise the systemic risks confronting the Australian financial system, and why a full Glass-Steagall banking separation is the only solution:

- Australia's financial system is concentrated in just four banking conglomerates, which are by definition too-big-to-fail (TBTF);
- all four of these banking conglomerates are heavily exposed to the real estate market, which accounts for about 60 per cent of their combined business;
- this exposure to real estate is far higher than the banks in most other countries;
- the median value of Australia's residential real estate has soared in a little over a decade, to more than 7 times median annual household income, and in some pockets even higher, which is well above the historical house price to annual income ratio of 3-3.5 times—this, by any definition, constitutes a "bubble";
- the major banks in that time borrowed hundreds of billions of dollars from overseas to lend into the domestic property market, which borrowings caught them out in the October 2008 credit crunch, such that they were only kept solvent by the Rudd government's emergency guarantee (the banks have reduced this exposure since then, but it is still in the hundreds of billions);
- the major banks have entered into many trillions of dollars' worth of derivatives contracts that are related to their exposure to the real estate market, such as interest rate swaps and currency swaps on their hefty overseas borrowings;
- even more alarming than the volume of the banks' derivatives exposure, is the accelerating rate of growth in their use of derivatives, and the decision by Australia's largest bank, CBA, in 2012 to no longer disclose the full face value, aka notional principal, of its rapidly growing derivatives obligation.

Therefore, in the event of an inevitable collapse in property prices, Australia's banks will be wiped out. Moreover, the impact will flow through to their derivatives counterparties, which has implications for the global financial system.
How will the Australian government and Australia's banking authorities—RBA, APRA and ASIC—respond to such an event?

Presently, there are two possible responses on the agenda:

1. Bail-out/bail-in;

2. Glass-Steagall

The first involves non-gamblers paying the debts of gamblers. NOT ACCEPTABLE and will cause riots.

The second – Glass-Steagall – is the only viable and fair solution.

Yours sincerely

Annie Barry