Australian Citizens Party

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MEDIA RELEASE

6 January 2016

EU's bank 'bail-in' regime heralds fascism, death

On 1 January depositor "bail-in" came into effect across the European Union. Just in time for a new, rapidly building global financial crisis, the EU's bail-in regime empowers financial authorities to confiscate money from bonds and deposits in order to save collapsing banks.

Bail-in was one of four "resolution tools" prescribed by Europe's Bank Recovery and Resolution Directive (BRRD) which came into effect one year earlier, on 1 January 2015, establishing a "single rulebook for the resolution of banks and large investment firms in all EU Member States". (Individual EU member states had the option to adopt bail-in straight away, but they agreed it would apply to all members as of 1 January 2016.)

Bail-in is designed to prevent too-big-to-fail banks from collapsing and setting off a chain reaction meltdown within the US$2 quadrillion global derivatives bubble. The EU Commission used the so-called haircut of bank depositors in Cyprus in March 2013 as its "template" for the BRRD. As happened then, deposits and investments of ordinary people will be stolen—bailed-in to reduce the liabilities of the bank—in the vain hope of protecting the stability of the global financial system. Use of dedicated resolution funds or limited bail-outs—considered "state aid" by the EU Commission—will now only be considered after a bank has bailed in 8 per cent of the value of its assets, but would not preclude further bailing in of creditors' funds. "The exact degree of burden-sharing would depend on the bank in question, the amount of losses that would need to be covered, and the wider economic situation."

A European Parliament press release of 2013 claimed that "shareholders and bond holders [will] take the first big hits" and that "Unsecured depositors (over €100,000) would be affected last..." and assured "Smaller depositors would in any case be explicitly excluded from any bail-in." However, such assurances are practically worthless, as in each bail-in crisis so far, from the original Cyprus bail-in, to Spain's Bankia, to Italy and Portugal, various "rules" have been thrown out the window. In Portugal's Banco Novo case, the Portuguese Central Bank was directed by the European Central Bank to ignore the rule of so-called "equal treatment" for unsecured creditors. Incredibly, the toxic derivatives gambling instruments that melted down the global financial system in 2008 are explicitly excluded from any bail-in action, if they are deemed to be critical for the stability of the financial system.

Banks to die for

The case of the 68 year-old Italian pensioner, Luigino D'Angelo, who committed suicide after losing €110,000 when his bank, Banca Etruria, was bailed in on 28 November 2015, epitomises the deadly threat bail-in presents to the masses of ordinary bank customers. D'Angelo had written a letter before his death, accusing his bank of stealing all his savings, after he was assured the "subordinated bonds" sold to him were safe.

Banca Etruria was one of four Italian banks that collapsed in November 2015, along with Banca Marche, CariFerrari and CariChieti. Over 10,000 shareholders and junior bond holders lost money in the so-called "orderly" resolution. Astoundingly, it actually could have been worse. Italian Prime Minister Matteo Renzi reportedly acted to pre-empt the introduction of the 1 January bail-in laws, because then it would have involved deposits. In a parliamentary hearing on 9 December, head of supervision at the Bank of Italy Carmelo Barbagallo said that a million savers would have been affected under the new regime.

"The bail-in can exacerbate—rather than alleviate—the risks of systemic instability caused by the crisis of individual banks", Barbagallo maintained.

On 29 December Portugal's Novo Banco—the already bailed-out "good bank" remains of the Espirito Santo Banking Group—expropriated €12 billion from its senior bondholders to recapitalise itself. Instantly, the remaining bondholders "ran" on the bank; the value of Novo Banco's bonds fell from 94 cents on the dollar in the morning, to 14 cents in the afternoon.

Fortune magazine, in a 23 December piece titled, "The Many Things That Could Go Badly Wrong for Europe in 2016", stated that the new EU bail-in model is "meant to weed out the zombie banks from the healthy ones. But clean-ups like this *invariably mean brutal transfers of wealth from one class to another*, causing the kind of political storm hated by governments". (Emphasis added.)

Hence the need for governments to resort to increasingly fascist measures of control over their populations. The terrorism scare that is being used to rapidly strip away civil liberties is a pretext: as in Hitler's Germany in the 1930s, bankers are demanding such measures, to guard their system against the popular uprising that they know policies such as bail-in will trigger. A 28 May 2013 report by JPMorgan Chase entitled "The Euro Area Adjustment: About Halfway There" spelled it out. That report singled out the explicitly anti-fascist provisions in the constitutions of southern periphery countries such as Spain, Portugal, Italy and Greece as the obstacle to "further integration in the [EU] region". Political systems "established in the aftermath of dictatorship" tend to feature "weak executives; weak central states relative to regions; constitutional protection of labor rights; consensus building systems which foster political clientalism [*sic*]; and the right to protest if unwelcome changes are made to the political status quo", Wall Street's biggest bank complained.

The EU's bail-in regime has come into effect just in time for the financial crisis that is gathering to explode in 2016. Defaults in the US$5 trillion of debt associated with the oil and gas sector are expected to hit at least 25 per cent—higher than the defaults in the much smaller sub-prime mortgage sector that triggered the global financial meltdown in 2008. The risk of sovereign defaults beginning with Puerto Rico, and the knock-on effect on the global debt bubble of the US interest rate rise, are also potential triggers of an implosion of the US$2 quadrillion global derivatives bubble.

Glass-Steagall

The criminal insanity of bail-in is indisputable when you consider the alternative: a Glass-Steagall separation of commercial banking from the speculation and gambling of investment banking. Instead of allowing banks to gamble, loot and pillage, and then stealing their customers' savings to prop them up when they go bust, don't let them gamble in the first place! Under the US *Glass-Steagall Act* of 1933, which lasted for 66 years until 1999, there were no systemic banking crises in the United States because no bank was too big to fail, no commercial bank that held deposits was allowed to engage in reckless gambling that put those deposits at risk, and the investment banks that did gamble and lost were made to wear their own losses or fail, without any risk to the system.