

# Investigating the Banksters: The Australian Banking Industry

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*"I know it's completely wrong but fuck it, I might as well. I thought fuck it. We've got so much money on it, we just had to do it."* Colin Roden, Westpac managing director group treasury, ABC, Apr 6, 2016

When conservative politicians start re-discovering their roots and insist that a corrupt financial order are unacceptable, the wheel has well and truly turned. In Australia, where the bankster has been allowed a degree of freedom and impunity since the supposed clean-up of the early 1990s, an oligopoly has essentially been operating without a care in the world. Services have been cut and streamlined; money has been made through rate rigging and manipulation.

Wherever one turns, a sense that the banking sector has essentially gotten away with everything short of physical crime is present. Observations vary from the mild observation by academic Andrew Schmulow about "cultural and ethical malpractices prevalent in Australian banks which our regulations do not address" (*The Conversation*, Apr 12) to more boisterous claims by such bank bencher conservatives as Warren Entsch, who argue that those in his electorate have been "absolutely shafted" by the ways of the Big Four.[1]

Long term conservative and previous wet, Philip Ruddock, has suggested that the banking sector "has serious issues it needs to address if it wants to avoid a royal commission." Other members of the conservative governing coalition are also muttering in discontent, feeling that the Australian Prime Minister, Malcolm Turnbull, ought to move on the topic. "How can senior members of the government," asked Entsch, "make a captain's call and pre-empt this [parliamentary] inquiry?"[2]

The point by Entsch is sound enough, even if it has been attacked by his colleagues as smacking of "class warfare mentality". Turnbull's line so far (and here, his own background in the banking industry is relevant) has been that those in banking have learned from the errors of their ways. Gifted with sagacious reflection, they are in no need of the prying gaze and muddying fingers of a Royal Commission. "Broadly our banking system is very well regulated; there are obviously issues that arise from time to time and they're being addressed through the proper processes."

The ever pugnacious Deputy Prime Minister, Barnaby Joyce, has little time for the suggestion, finding the market of regulators crowded enough as it is. Let the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) discharge their assigned functions. Besides, the opposition had voted against the idea of a Royal Commission 12 months prior. The stench of an election is in the air.

What are these egregious errors on the part of the banks? In a country that prides itself on the levelling notion of the egalitarian sentiment, banking practices have come across as iniquitous in their bullying nature. These have hardly been addressed by the Government's own response to the Financial System Inquiry in 2015.[3]

While the tame reaction had to acknowledge that "recent history provides a number of examples where commercial interests have overridden consumer interests, to the detriment of consumers", its recommendation was tepid. "We will do more to lift the standards of financial advice, including by introducing minimum professional, ethical and education standards."

In so far regulatory powers were concerned, the Government's only real move on it has been to suggest reconstituting the Financial Sector Advisory Council "to include a role in monitoring the performance of the financial regulators."

Corporate regulators such as ASIC have also taken large banks to task over the fixing of interest rate trading. This month, the regulator launched a Federal Court action against Westpac alleging participation in setting the bank bill swap rate (BBSW) between April 2010 and June 2012.[4] To this can be added a similar action against ANZ.

The BBSW is the benchmark by which interest rates are set in Australia, manipulation of which can yield rather rich dividends. A similar event was also noted in the UK, with manipulations of the London Interbank Offered Rate (LIBOR) by Royal Bank of Scotland, UBS and BNP Paribas. Despite the generous financial carnage unleashed by the actions, only one trader saw prison. That trader, Tom Hayes, is considering an appeal to the Criminal Cases Review Commission.[5]

ASIC has gone so far as to suggest that Westpac created an artificial price for bank bills on no fewer than 16 occasions. In ASIC's own statement briefing, "That trading did not constitute engagement in a genuine process of supply and demand in the Bank Bill Market, as it was conducted to lower the rate at which the BBSW was set on that day."

Records of conversations by such figures as Westpac's managing director of group treasury, Colin Roden, show bankstering in thrivingly feverish form. One such colourful discussion took place in April 2010 with colleague Sophie Johnson, describing the making of a \$12 million profit from using \$14 billion worth of bank bills to drive push the BBSW down. "We had a massive rate set today, like we had a fucking shit \$14 billion of 1 month because I pushed the month down, right. It was to be set at 30, right, then I got it down to 23." [6]

In the scheme of things, it will be interesting to see whether any such commission, royal or otherwise, will achieve much short of the full gamut of prosecution powers. At best, it may well simply expose a known and uncomfortable fact in economically stable Australia: that banks tend to be more willing to shaft customers rather than share the gains of credit.

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Notes

[1] <http://www.abc.net.au/news/2016-04-07/backbencher-joins-calls-for-banking-royal-commission/7308036>

[2] <http://www.theage.com.au/federal-politics/political-news/coalition-splits-on-banking-royal-commission-as-malcolm-turnbull-faces-flak-over-captains-call-20160411-go3qwf.html>

[3] [http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Publications/2015/Government%20response%20to%20the%20Financial%20System%20Inquiry/Downloads/PDF/Summary\\_Government\\_response\\_to\\_FSI\\_2015.ashx](http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Publications/2015/Government%20response%20to%20the%20Financial%20System%20Inquiry/Downloads/PDF/Summary_Government_response_to_FSI_2015.ashx)

[4] <http://www.abc.net.au/news/2016-04-06/asic-hauls-westpac-into-court-on-rate-rigging-regulations/7302340>

[5] <http://www.telegraph.co.uk/finance/libor-scandal/12143477/Libor-rigger-Tom-Hayes-mulls-new-appeal.html>

[6] <http://www.abc.net.au/news/2016-04-06/asic-hauls-westpac-into-court-on-rate-rigging-regulations/7302340>

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