

THE CYPRUS TEMPLATE BANK DEPOSITS AT RISK

The “bail-in” regulations which can be enacted in the event of bank insolvencies will have dire consequences for many depositors, as has already happened in Cyprus. In addition, deposit insurance schemes are so underfunded that they could never compensate all unsecured creditors in a bank crash.

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Depositors/Unsecured Creditors: Last on the List

When a customer deposits money in a bank, he or she becomes an unsecured creditor of the bank. The bank is a debtor to this depositor, and these deposits are listed as liabilities on the ledger. As an unsecured creditor, the depositor has few rights in the event of bank insolvency beyond deposit insurance offered in some countries. It is only after secured creditors, such as governments, are paid that unsecured creditors receive any remaining funds.

The legal precedent was established in England in the House of Lords in the case of *Foley v. Hill* in 1848 (transcript at <http://tinyurl.com/myyyn6q>). The Lord Chancellor stated:

"Money, when paid into a bank, ceases altogether to be the money of the principal (see *Parker v. Marchant*, 1 Phillips 360); it is then the money of the banker, who is bound to return an equivalent by paying a similar sum to that deposited with him when he is asked for it. The money paid into the banker's, is money known by the principal to be placed there for the purpose of being under the control of the banker; it is then the banker's money; he is known to deal with it as his own; he makes what profit of it he can, which profit he retains to himself, paying back only the principal, according to the custom of bankers in some places, or the principal and a small rate of interest, according to the custom of bankers in other places. The money placed in the custody of a banker is, to all intents and purposes, the money of the banker, to do with it as he pleases; he is guilty of no breach of trust in employing it; he is not answerable to the principal if he puts it into jeopardy, if he engages in a hazardous speculation; he is not bound to keep it or deal with it as the property of his principal, but he is of course answerable on the amount, because he has contracted, having received that money, to repay to the principal, when demanded, a sum equivalent to that paid into his hands."

According to this legal precedent:

- deposits become the property of the bank, which can profit from them;
- bankers are required to return at least the amount deposited (principal);
- bankers are not liable for losses due to speculation, nor can they be found guilty of breach of trust if the bank becomes insolvent. There is no criminal liability.

Basel III and Bail-ins

The Bank for International Settlements (BIS) has its headquarters in Basel, Switzerland, and is known as the central bank for the world's central banks. The BIS has issued regulations over the past few decades to private and central banks, the latest being the Basel III accords of 2010 which are to be implemented over the next few years. According to the BIS website (<http://www.bis.org/bcbs/basel3.htm>): "'Basel III' is a comprehensive set of reform measures, developed by the Basel Committee on Banking

Supervision, to strengthen the regulation, supervision and risk management of the banking sector. These measures aim to:

- improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source
- improve risk management and governance
- strengthen banks' transparency and disclosures."

Measures such as increasing reserves and reducing leverage are positive steps towards preventing bank insolvency, but the bail-in provision, which makes depositors responsible for insolvency or losses, sets a very dangerous precedent that's been used on several occasions.

On 19 July 2011, the Financial Stability Board (FSB), under the direction of the BIS, published a document, "Effective Resolution of Systemically Important Financial Institutions" (see <http://tinyurl.com/bm5stbl>). The introduction reads: "This Consultative Document contains a comprehensive package of proposed policy measures to improve the capacity of authorities to resolve systemically important financial institutions (SIFIs) without systemic disruption and without exposing the taxpayer to the risk of loss, and a time line for their implementation."

On page 3, the FSB document states that the "Bail-in within Resolution...sets out proposed essential elements of a bail-in regime to enable creditor-financed recapitalisation of financial services".

According to "Bail-in powers" on pages 11–12: "...Bail-in within Resolution sets out...possible contractual provisions to achieve a creditor-financed recapitalisation of systemically vital functions of an ailing financial institution. Such powers enable the resolution authority to write-down or convert into equity unsecured and uninsured claims, with a view to maintaining continuity of systemically vital functions, by either recapitalising the entity providing these functions, or, alternatively, capitalising a newly established entity or bridge institution to which these vital functions have been transferred following closure of the residual firm..."

"The objective of bail-in is to reduce the loss of value and the economic disruption associated with insolvency proceedings for financial institutions, yet ensure that the costs of resolution are borne by the financial institutions' shareholders and unsecured creditors."

Section 3.2 of "Bail-in Powers" in annex 2, page 37, provides for the issue of "new shares on an expedited basis without the need for shareholder consent". This part of the bail-in resolution means that sometimes depositors will be issued with shares in the failed bank

or a new bank created from the failed bank, such as happened with Bankia in Spain and the Bank of Cyprus in 2013.

Section 4.1, page 37, reads: "Bail-in powers within the context of a resolution regime should be available for use by authorities where they determine that the firm has met the conditions to enter the resolution regime." This ominous sentence states that nameless "authorities" will determine when a bail-out is to be applied.

Section 5.2, page 38, states: "Write-off/conversion powers should, as far as possible, be applied in a manner consistent with the hierarchy of the capital structure of the institution, and respect the rights of secured creditors and the statutory ranking of senior creditors that would apply in a liquidation." This means that unsecured creditors, like depositors, would be last on the list to receive compensation during the liquidation of a bank.

This paper was followed in October 2011 by another FSB publication, "Key Attributes of Effective Resolution Regimes for Financial Institutions" (see

<http://tinyurl.com/ojn4xaw>). The preamble states that one of its objectives is "protecting vital economic functions through mechanisms which make it possible for shareholders and unsecured and uninsured creditors to absorb losses in a manner that respects the hierarchy of claims in liquidation". That is, depositors become unsecured creditors who are low on the list to receive compensation if the bank is

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liquidated.

Regarding "Resolution powers", section 3.2 (vi) states that resolution authorities should have the power to "[t]ransfer or sell assets and liabilities, legal rights and obligations, including deposit liabilities and ownership in shares, to a solvent third party, notwithstanding any requirements for consent". That is, deposits and shares can be transferred to a third party in case of insolvency.

Section 3.2 (ix) states that resolution authorities should be empowered to "[c]arry out bail-in within resolution as a means to achieve or help achieve continuity of essential functions". These can also help set up a new party or "bridge institution"; i.e., deposits in a failed bank can be used to set up another bank.

In November 2011, the publication was endorsed by the Cannes G20 summit, and in November 2012 a consultative document, "Recovery and Resolution Planning: Making the Key Attributes Requirements Operational", was published (<http://tinyurl.com/lqtjxls>).

A June 2013 BIS paper, "A template for recapitalising too-big-to-fail banks", by Paul Melaschenko and Noel Reynolds, discusses a weekend bail-in resolution for the

first time (<http://tinyurl.com/koy39kj>). The preamble states: "A proposed creditor-funded recapitalisation mechanism for too-big-to-fail banks that reach the point of failure ensures that shareholders and uninsured private sector creditors of such banks, rather than the taxpayers, bear the cost of resolution. The template is simple, fully respects the existing creditor hierarchy and can be applied to any failing entity within a banking group. The mechanism partially writes off creditors to recapitalise the bank over a weekend, providing them with immediate certainty on their maximum loss. The bank is subsequently sold in a manner that enables the market to determine the ultimate losses to creditors. As such, the mechanism can eliminate moral hazard throughout a banking group in a cost-efficient way that also limits the risk to financial stability. The creditor-funded mechanism is contrasted with other recapitalisation approaches, including bail-in and 'single point of entry' strategies."

In this latest BIS directive, the bail-in template occurs over a weekend when a "bridge bank" is created; but instead of receiving stock in the new bridge bank, the depositors and creditors would receive bonds of the new bank. These bonds would have their value written down immediately over that weekend in order to recapitalise the new bank and not sell off its assets. Unlike the unfortunate Cyprus depositors, future victims of the streamlined bail-in will realise their losses immediately, without even experiencing a "bank holiday".

The following section shows how aspects of the "Bail-in within Resolution" have been used in Cyprus, with devastating impacts on depositors.

The Cyprus Solution

Cyprus is one of the smallest members of the European Union (EU). Until March 2013, it had a huge banking sector bloated by funds from Russians, Britons, money launderers and various other sources. In 2009, the Cypriot economy went into deep recession, and by 2012 a collapsed real estate market and exposure to toxic Greek debt saw the economy downgraded to junk status by international rating agencies. Cyprus's huge offshore banking industry had amassed €22 billion of Greek private-sector debt, with bank deposits of €120 billion including €60 billion from Russian corporations.

In 2012, huge exposure to toxic Greek debts led Cyprus to request a bailout from the EU.

The troika—the European Commission (EC), the International Monetary Fund (IMF) and the European Central Bank (ECB)—imposed austerity measures including cuts in civil service salaries, pensions, social benefits and taxes, and on 16 March agreed on a €10 billion bail-out deal. As part of this deal, a one-off bank levy of 6.7 per cent for investments up to €100,000 and 9.9 per cent for higher deposits was announced for all domestic bank accounts. Capital controls were imposed on the two main banks, the Bank of Cyprus and the Cyprus Popular Bank (Laiki), so that withdrawals over €300 were frozen, although branches remained open in the UK.

The deal had to be ratified by the parliament of Cyprus, but a huge demonstration outside the House of Representatives in Nicosia by people protesting the levy led to its being rejected by parliament on 19 March.

On 22 March, the government, led by the troika, was forced to restructure and amalgamate the Bank of Cyprus and Laiki, turning the latter into a so-called "bad bank" allowed to fail.

On 25 March, President Anastasiades, IMF officials and eurozone finance ministers announced an unprecedented confiscation of bank deposits across the two banks, although Laiki customers were hit harder. All deposits over €100,000 in Laiki faced a "haircut", while deposits over €100,000 in the Bank of Cyprus were to become uninsured deposits subject to a 40 per cent levy. For the time being, deposits under €100,000 in the Bank of Cyprus were protected as insured deposits, but capital controls were then enacted across the banking system, closing it for almost two weeks under a "bank holiday" and restricting the daily

withdrawal amount.

It was soon revealed that in the weeks prior to the 22 March emergency, billions of euros were withdrawn from the troubled banks by wealthy Russians and associates of President Anastasiades. The confiscation of private bank deposits was unprecedented, although such a measure was legal under the Basel III accords.

A few days later, a candid statement by Jeroen Dijsselbloem, President of the Eurogroup, sent the markets into a downfall (<http://tinyurl.com/pd281ya>). Dijsselbloem praised the Cyprus solution: "What we've done last night is what I call pushing back the risks... If there is a risk in a bank, our first question should be: 'Okay, what are you in the bank going to do about that?'"

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What can you do to recapitalize yourself?' If the bank can't do it, then we'll talk to the shareholders and the bondholders, we'll ask them to contribute in recapitalising the bank, and if necessary the uninsured deposit holders."

Dijsselbloem also noted: "If we want to have a healthy, sound financial sector, the only way is to say: 'Look, where you take the risks, you must deal with them, and if you can't deal with them you shouldn't have taken them on...'"

He tried to back-pedal following the resulting uproar, and claimed that Cyprus "could" be the template for insolvent banks, rather than saying the more imperative "would". Reuters and AP also watered down his original response from "would" to "could".

Trader Jim Sinclair gave this update on his blog on 28 April (see <http://tinyurl.com/c8m6p8u>): "Yes, Cyprus depositors have now been flushed. The Bank of Cyprus, the island's largest bank, said it has converted 37.5% of deposits exceeding 100,000 euros into a Class A share, with an additional 22.5% held as a buffer for possible conversion in the future.

"Another 30% will be temporarily frozen and held as a deposit. So the amount of money that has been taken from the Cyprus depositors is in all practicality almost their entire accounts. Major depositors' funds have now been taken in grand style."

Are Other Banks at Risk?

Cyprus will definitely not be a one-off solution. In November 2010, all the major governments of the G20 agreed at the Seoul summit to implement the new bail-in regime under the direction of the Financial Stability Board, a BIS committee.

The passage of the Dodd-Frank Act by the US Senate in June 2010 introduced the strategy of "resolution" of large, insolvent, too-big-to-fail (TBTF) banks without closing them (<http://tinyurl.com/7nhkvgq>). The stated aim of Dodd-Frank is "[t]o promote the financial stability of the United States by improving accountability and transparency in the financial system, to end 'too big to fail', to protect the American taxpayer by ending bailouts, to protect consumers from abusive financial services practices, and for other purposes".

Under Title II, "Orderly Liquidation Authority", the Federal Deposit Insurance Corporation (FDIC) has the power to liquidate banks and insurance companies for the purpose of the financial stability of the USA. Unsecured creditors (depositors) will be forced to bear losses. Under both the Dodd-Frank Act and the 2005 Bankruptcy Act,

derivative claims have priority over all other claims, secured and unsecured, insured and uninsured. These claims have the capability of totally destroying the financial system, leaving depositors at extreme risk.

An IMF Staff Discussion Note, "From Bail-out to Bail-in: Mandatory Debt Restructuring of Systemic Financial Institutions" (<http://tinyurl.com/qzm52w7>), dated 24 April 2012, defines a bail-in in the executive summary: "...a statutory power of a resolution authority...to restructure the liabilities of a distressed financial institution by writing down its unsecured debt and/or converting it to equity. The statutory bail-in power is intended to achieve a prompt recapitalization and restructuring of the distressed institution."

Even more alarming is section 2 of the executive summary:

"However, if the use of a bail-in power is perceived by the market as a sign of the concerned institution's insolvency, it could trigger a run by short-term creditors and aggravate the institution's liquidity problem. Ideally, therefore, bail-in should be activated when a capital infusion is expected to restore a distressed financial institution to viability, with official liquidity support as a backstop until the bank is stabilized."

So not only will deposits be seized, but they will be seized at a time when a capital infusion is announced to save the bank.

A brief overview of the bail-in provisions of various countries follows.

• New Zealand

The Open Bank Resolution (OBR) scheme was created by the New Zealand Minister of Finance, Bill English, in 2011, long before the Cyprus confiscations. The

document, posted on the Reserve Bank of New Zealand's website (<http://tinyurl.com/npx95yy>), states (emphasis added): "The Open Bank Resolution policy is a *tool for responding to a bank failure*. It allows the bank to be open for full-scale or limited business on the next business day after being placed under statutory management (as a result of, for example, an insolvency event). This means that customers will be able to gain full or partial access to their accounts and other bank services, whilst an appropriate long-term solution to the bank's failure is identified..."

"Why should depositors bail-out banks? The OBR policy is designed to ensure that first losses are borne by a bank's existing shareholders. In addition, *a portion of depositors' and other unsecured creditors' funds will be frozen to*

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bear any remaining losses. To the extent that these funds are not required to cover losses as more detailed assessment of the position of the bank is completed, these funds will be released to depositors. At a high level, this outcome replicates the outcome that would apply in the event that a failed bank was liquidated. The primary advantage of the OBR scheme, however, is that depositors would have access to a large proportion of their balances throughout the process. This contrasts with what would happen under a normal liquidation, where depositors might not have access to any of their funds for a significant period.

"Why aren't deposits guaranteed? During the recent global financial crisis the New Zealand government took the decision to put in place a temporary guarantee on retail deposits. On 11 March 2011 the Minister of Finance announced that *further guarantees would not be provided following the expiry of the existing scheme* [the Retail Deposit Guarantee Scheme, which expired on 31 December 2011]. Furthermore, *the Minister ruled out the possibility of introducing a compulsory deposit insurance scheme...*"

• Australia

On 30 March 2012, a document titled "Implementing Basel III capital reforms in Australia" was published by the Australian Prudential Regulation Authority (APRA) (<http://tinyurl.com/qzrren9>). According to APRA, five draft "prudential standards" were issued for further public consultation before the final prudential standards were to be implemented on 1 January 2013 in accordance with the Basel III capital reforms.

Key phrases are included in section 2.2: "The Basel III reforms require that all regulatory capital instruments must be capable of bearing loss. To achieve this objective, the terms and conditions of all Additional Tier 1 and Tier 2 instruments issued by ADIs [authorised deposit-taking institutions] must provide for such instruments to be either converted into common equity or written off upon the occurrence of a trigger event. The Basel III definition of the trigger event is where APRA determines that, without conversion or write-off, or a public sector injection of funds, an ADI would become non-viable (the non-viability requirements)."

This is APRA's response to comments received: "APRA acknowledges the arguments in favour of conversion over write-off, and draft APS 111 [Prudential Standard 111] provides that ADIs can elect to convert instruments into common equity upon the occurrence of the non-viability trigger."

Responding to comments on "hierarchy of loss", APRA states:

Unfortunately, APRA does not define how it would determine that an ADI is non-viable and at which stage a "conversion" would occur.

"APRA's concern, rather, is with the restoration of capital should a trigger event occur. APRA will not object to issue documentation providing for a hierarchy of conversion or write-off, provided it is clear that conversion or write-off will occur where necessary."

While this document does not mention the term "Bail-in within Resolution", Tier 1 and 2 instruments include deposits which can be converted into shares (common equity) after a "trigger event" in an ADI (bank). Unfortunately, APRA does not define how it would determine that an ADI is non-viable and at which stage a "conversion" would occur. Nor does it state that unsecured creditors are the last in the queue to receive compensation in the "hierarchy of loss".

• Switzerland

On 22 October 2012, a document titled "New FINMA Banking Insolvency Ordinance: A key element in the effective restructuring and orderly market exit of banks"

was published (<http://tinyurl.com/96mk4wo>).

This Banking Insolvency Ordinance (BIO-FINMA) grants the Swiss Financial Market Supervisory Authority (FINMA) "comprehensive powers to restructure and resolve banks". The document reads:

"The revised restructuring provisions of the Banking Act (BA) came into force on 1 September 2011. They provide an important basis for

maintaining systemically critical functions in the event of a crisis by obliging owners and creditors to share in losses and by accelerating the procedure."

Other relevant clauses are:

"...Subordinated claims, then all other claims, and finally deposits are to be converted into new share capital... Also excluded from conversion into new equity capital are client deposits up to the limit of the depositor guarantee of 100,000 Swiss francs per depositor."

"...This [bank restructuring] applies in particular to the issuing of compulsory instructions to convert debt capital into equity capital, thereby turning creditors into shareholders. There is also the option to oblige creditors to bear a share of losses. A decree issued by the relevant authority could require them to waive some or—in the extreme case—all of their claims. These two measures are known internationally under the keyword 'bail-in'."

"FINMA has deliberately not excluded deposits from the 'bail-in' and has instead placed the deposits last in the order of ranking. In other words, all other options must be exhausted before depositors are obliged to waive their claims or before a conversion into equity takes place. This is an appropriate solution."

• UK and USA

A document titled "Resolving Globally Active, Systemically Important, Financial Institutions" was published jointly on 10 December 2012 by the Bank of England (BoE) and the US Federal Deposit Insurance Corporation (FDIC) (<http://tinyurl.com/c2rqhqf>). This paper was written to comply with both Title II of Dodd–Frank and the FSB guidelines. Three policy points are of special interest (see <http://tinyurl.com/pmh5j4k>):

- In the event of a meltdown of a globally active, systemically important financial institution (G-SIFI), "shareholders would lose all value and *unsecured creditors should thus expect that their claims would be written down* to reflect any losses that shareholders did not cover". (Emphasis added.)

- On Monday 1 April 2013, the Bank of England took over regulatory authority of all banking in the UK from the Financial Services Authority (FSA). Under the existing British Banking Act, the FSA does not cover "non-deposit-taking financial firms, notably investment banks and financial market infrastructures". However, as of 1 April, the new Prudential Regulation Authority, a subsidiary of the Bank of England, will. This is essential if the proposed policy is to become operational.

- According to the BoE–FDIC report, the December 2012 study is just the first step, and detailed plans will be in place by the end of 2013 for each and every G-SIFI—in other words, all the principal international banks in the world.

• Canada

A document titled "Jobs, Growth and Long-Term Prosperity" (<http://tinyurl.com/c8qvx55>) was submitted to the House of Commons by Canada's Minister of Finance, Jim Flaherty, on 21 March 2013 as part of a pre-budget proposal.

In chapter 3.2 under "Establishing a Risk Management Framework for Domestic Systemically Important Banks" (pages 144–45), the bail-in procedure is proposed for the most important Canadian banks: "The government also recognizes the need to manage the risks associated with systemically important banks—those banks whose distress or failure could cause a disruption to the financial system and, in turn, negative impacts on the economy. This requires strong prudential oversight and a robust set of options for resolving these institutions without the use of taxpayer funds, in the unlikely event that one becomes non-viable..."

"The government proposes to implement a 'bail-in' regime for systemically important banks. This regime will be designed to ensure that, in the unlikely event that a systemically important bank depletes its capital, the bank can be recapitalized and returned to viability through the very rapid conversion of certain bank liabilities into regulatory capital. This will reduce risk for taxpayers. The Government will consult stakeholders on how to best implement a bail-in regime in Canada. Implementation timelines will allow for a smooth transition for affected institutions, investors and other market participants."

So deposits will be converted into bank capital, and depositors will now be investors and liable for losses.

• European Union

A 21 May 2013 press release from the European Parliament states (<http://tinyurl.com/oc37es8>): "Taxpayers and savers must be the last people called upon to bail out banks, says Parliament's negotiating position, approved by the Economic and Monetary Affairs Committee... on draft rules on saving struggling banks."

The text rules out using deposits below €100,000 and says that even deposits above €100,000 should be the last to be called in. The committee voted against using deposit guarantee funds for resolution actions and also set out strict conditions for using taxpayer's money.

"The negotiation position was approved with 39 votes in favour, 6 against and no abstentions..."

"Under the draft rules, a struggling bank's own assets and

liabilities would be the first used to resolve a crisis or wind it down (the 'bailing-in' system). The recent Cyprus case clearly demonstrated the need for clear procedures to ensure that shareholders, bondholders, and only then depositors, foot the bill.

"The approved position broadly retains the Commission's proposed order of bank creditors to take a hit. However, it also inserts clauses stipulating that insured deposits of below €100,000 can never be used, and that uninsured ones, i.e., those above €100,000, may only be used as a last resort.

"The text also deletes the possibility, suggested by the Commission, of diverting funds from deposit guarantee schemes to help pay for bank resolution measures.

"The 'bail-in' scheme should be up and running by

New Zealand bank depositors are in an even more vulnerable position in the case of an "OBR" event, as their deposits lost all insurance protection from the government on 1 January 2012.

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January 2016 at the latest, says the text, i.e., two years earlier than the Commission proposed, but one year later than the directive's other provisions, so as to allow some time for adaptation."

Deposit Insurance Dangers

The Federal Deposit Insurance Corporation was instituted in the USA in 1934 to protect depositors' money from bankruptcy. Other countries instituted similar deposit insurance at various times. Currently the FDIC protects bank deposits to the US\$250,000 insurance limit, and only to the extent that the FDIC has the money to cover deposit claims or can borrow it.

In 2009, the FDIC fund went \$8.2 billion in the red, but the then FDIC Chairperson, Sheila Bair, assured depositors that their money was still protected by a credit line with the Treasury. As FDIC is funded by premiums from its member banks, it had to call on these banks to replenish the fund.

Under the Banking Reform Act of 2005, derivative counterparties are given preference over all creditors and customers of any bankrupt financial institution, including FDIC-insured depositors. Furthermore, while the FDIC has about \$26 billion in its deposit insurance fund (or 1.15 per cent of insured deposits), one large bank like the Bank of America has deposits well in excess of that amount and a huge derivative exposure which dwarfs the deposits.

What this effectively means is that the FDIC does not even have enough insurance to cover the depositors of one "too-big-to-fail" bank, let alone all of them. The chances of average depositors receiving *any* money, let alone *all* of their money, are slim.

Most banks in Europe are also "zombie" banks, but EU member states are supposedly protected for €100,000, although this has not helped the depositors in Cyprus who

held over €100,000.

Australian depositors are currently protected for A\$250,000 by insurance in the Financial Claims Scheme (FCS), but the fine print of this guarantee raises concerns. For example, initial payouts of deposits are limited to \$20 billion per failed bank. Furthermore, according to the Citizens Electoral Council of Australia (CEC), Australian banks are extremely undercapitalised, dangerously exposed to toxic derivatives and the inflated domestic property market, and heavily reliant on foreign loans (see <http://tinyurl.com/kxjdxl7>).

New Zealand bank depositors are in an even more vulnerable position in the case of an "OBR" event, as their deposits lost all insurance protection from the government on 1 January 2012.

Conclusion

These documents from New Zealand, Switzerland, the UK and USA, the EU, Canada and Australia (as well as from other nations not featured here) conclusively prove that the BIS in Basel is directing central banks of these countries to initiate "Bail-in within Resolution" policies in the event of future "too-big-to-fail" bank insolvencies. The bail-in is being sold as a positive alternative to taxpayer bail-outs, particularly in those countries which will issue unsecured creditors (depositors) with shares or bonds in a bridging or "good" bank after stealing their money. The process of "recapitalising" a struggling bank with the bail-in resolution will be so streamlined in Australia that deposits can be seized and transferred to a "good" bank over a weekend, without even instituting a "bank holiday", such as occurred in Cyprus.

While depositors in many countries are supposedly protected by deposit insurance (e.g., via FDIC, FCS) to a certain limit, these deposit insurance schemes are woefully inadequate

and underfunded and will never be able to compensate all depositors in the event of a bank crash.

Short of withdrawing funds from all large banks, there is not much that the average depositor can do to protect him/herself. Obviously, keeping deposits in any single bank below the deposit insurance limit is prudent, but there are still no guarantees that this insurance will ever be paid.

Concerned Australians can find valuable and current information on the website of the CEC, whose petition, headlined "Australia Urgently Needs a Glass-Steagall Separation of Banks", was tabled in Federal Parliament on 3 June 2013 (<http://tinyurl.com/mpp6ufl>). The US Glass-Steagall Act, repealed in 1999, protected depositors by separating depositor banks from those dealing with risky derivatives, unlike the "protections" of the Basel III accords which favour derivative counterparties over average depositors. ∞

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Karen has contributed articles to NEXUS Magazine on T. Lobsang Rampa (13/02-03) and Aura Research Pioneers (14/05), and lectured on Sunken Realms at the 2008 NEXUS Conference. Her books *T. Lobsang Rampa: New Age Trailblazer*, *Pioneers of the Aura* and *Scattered Skeletons in Our Closet* were reviewed in NEXUS 13/02, 14/05 and 15/01 respectively.

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