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Financial System Inquiry  
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**Submission to the Financial System Inquiry  
Stability – Addressing too-big-to-fail**

The viability and stability of the Australian banking system is essential to Australia's financial system, but it is also essential that the citizens of Australia have a high level of confidence in the integrity and security of the Australian banking system.

At this time most Australians would have little or no knowledge of the "bail-in" system proposed by the Financial Stability Board, and are reasonably confident that Australia's financial system is secure (based on decades of viability and stability). The global financial crisis had only a small impact on the lives of most Australian citizens, because the Australian Government quickly stepped in to assure everyone that Australia's banking system was secure and that bank deposits were safe.

The development and growth of Australia's four big banks, without a legal separation of banking functions, has now led to a belief that these banks are so essential to Australia's financial security (they are now "too big to fail") that legislation needs to be passed to assure international lenders that their loans to Australian banks are secure and safe - thereby implementing measures proposed by the Financial Stability Board to ensure Australia plays its part in developing international financial stability.

If the "bail-in" system is implemented in Australia, without a legal separation of speculative and traditional banking functions, it is likely that most Australian citizens (once they become aware of the financial ramifications of a "bail-in" system) will lose substantial confidence in their belief that bank deposits are safe, which may lead to a belief of insecurity and instability in Australia's banking system.

Accordingly, if Australia's four big banks are now "too big to fail", and if Australia needs to pass laws to implement "bail-in" for international financial stability, it is essential that the legal and financial structures of Australia's banks are examined in detail, so that any new laws will fairly and adequately implement a banking system that promotes Australia's part in international financial stability whilst assuring security of bank deposits for most Australian citizens.

Yours faithfully,

Rob & Lesley McCormick