The Battle for Glass-Steagall Brought to the European Parliament

by Claudio Celani

Mar. 1—On March 23-24, the European Union's scheme to preserve the bankrupt system of universal banking and financial speculation will go through a crucial test, as the draft bill on bank regulation prepared by the European Commission will be discussed in the Economic and Monetary Affairs Committee of the European Parliament (EP).

The draft bill is a poorly concealed attempt to sell to public opinion a phony banking separation measure which does not separate anything. Two Italian members of the EP, Marco Zanni and Marco Valli, members of the M5S party, have filed a list of 101 amendments to the fake EU bill, in order to judo the move, and turn the EU regulation into a Glass-Steagall-like real banking reform.

After the 2007-08 bailouts, which have virtually bankrupted government finances of most industrial nations, there was a public outcry for a regulation that would protect taxpayers from having to cough up billions of dollars to bail out speculators. The EU appointed a commission of so-called experts, led by former Finnish central banker Erkki Liikanen, with a mandate to come up with a proposal for a feasible bank separation.

The Liikanen Commission produced a paper calling not for complete separation of commercial from investment banking, but for "ring fencing" of traditional banking. Under dictate from the financial industry, it was clear that the intent was to leave a door open so that financial trading could continue in other forms.

As the Commission produced its draft bill based on the Liikanen report, the financial lobby prepared to tear down even the watered-down prescriptions of the bill. Now, their troops in the EU Parliament are ready for the assault. However, Valli and Zanni have moved preemptively to blow the whistle on the fraud; they have announced that they will fight to make the bill, if anything, stronger.

The FDR Model

In a press statement released on Feb. 23, the two MEPs explained their initiative: "Soon after the great 1929 crisis, U.S. President F.D. Roosevelt rushed to stop speculation as a cause for the crisis. In 1933, through the Glass-Steagall Act, traditional banking and investment banking were unconditionally separated. Sixty-six years later, policymaking capitulated in the face of Wall Street sharks. The Republican-led U.S. Congress tears FDR's reform apart. [Bill] Clinton, a Democratic President, enacts the Counter-Reformation.

"History repeats itself with the major economic crisis that started in 2008. Banks used the power of their universal model to carry out speculative activities and concern themselves exclusively with their easy gains, without any longer helping small and medium enterprises [SMEs] and the real economy. The 'public hand' intervenes with citizens' and taxpayers' money when something goes wrong.

"...In order to avoid this being repeated in the future, we need a real reform of the system, that prevents banks from speculating with depositors' and customers' funds.

"[Concerning] the fake reform by the Commission: In the face of the 2008 crisis, European politicians behaved either ignorantly or as accomplices. The former did not understand anything, and the latter functioned as useful idiots in order to erect smokescreens and distract public opinion.... The accomplices bent the law to the will of the strongest....

"How can you reduce systemic risk if one single bank has a mountain of speculative assets equal to a hundred times the deposits of families and companies? The European Parliament is discussing a draft bill on structural measures aiming at boosting resilience of EU credit institutions. The stated target is to separate commercial and investment banks. Beautiful! Unfortunately, it is a fraud. M5S MEPs Marco Valli and Marco Zanni have examined the Commission draft, and have discovered that this Europe is just pretending to do something....

"In order to avoid new crises, the M5S amendments propose to implement a modern Glass-Steagall Act, through:

"Clear and mandatory separation between traditional and speculative-investment banking activities;

"Prohibiting banks from holding equities in non-financial enterprises, thus avoiding harmful conflicts of interest;

"Perpetual interdiction of managers who violate regulations;

"Exemption for small banks which do not reach a threshold value for speculative activities and leverage on balance sheet.

"We must go back to the model of Roosevelt's Glass-Steagall Act: On one side traditional banks, performing only activities in support of the real economy (collecting deposits and loans to SMEs), enjoying government protection; on the other side, investment banks which can carry out their speculative activities without government protection, thus free to fail without being bailed out with taxpayers' money.

"Banking separation is first of all a reform of fiscal policy. Austerity was introduced because governments must collect billions of euros used to bail out banks. . . ."

Zanni and Valli also made a short video to explain their proposal.

The Fraud of the 'Bank Separation' Bill

The way the fake separation pushed by the EU works, is that a narrow definition of "financial trading" is rejected, in favor of a "case-by-case" approach. In each case, the EU supervisor (de facto the European Central Bank/ECB) will judge whether the risk quality of financial trading performed by a bank is high, in which case it will mandate a separation. The relevant section reads:

"In view of the challenges derived from the difficult distinction between proprietary trading and other similar trading activities, market-making in particular, a narrow definition of activities subject to the prohibition underpins the proportionality of this measure. Excluding smaller banks from the scope of the prohibition is justified because of the disproportionate effects such a

Draghi's Lies Exposed

At the European Parliament debate Feb. 26, ECB head Mario Draghi was drawn into a shouting match with Greek MEP Notis Marias, who accused the Bank of a giant conflict of interest, being both the lender *and* the regulator at the same time, and of being "a state within the state." Also, the ECB, as part of the Troika, has plunged countries into poverty, and has blackmailed peoples and governments in the name of saving the euro. Marias said the ECB decision on Feb. 4 to lift the waiver on Greek bonds, and no longer accept them as collateral, was illegal. You have to respect European peoples, Marias said. He demanded that the ECB give back to Greece the €1.9 billion in earnings it made from Greek bonds.

Draghi answered, claiming that the profits the ECB makes from the Securities Market Program "have been distributed to the central banks." At that point, Marias shouted from his bench that this was incorrect, and a shouting match ensued, until the chairman intervened. Draghi then claimed that the reason the ECB had lifted the waiver on Greek bonds, thus shutting out the refinancing operation for Greek banks, was that they had plunged "below the threshold."

In a short interview with *EIR,* Marias refuted Draghi's statements as lies. First, he said, the ECB is withholding restitution of profits to the Central Bank with the claim that Greece must first comply with the Troika austerity program. Secondly, the ECB decision on the waiver was illegal, because it was taken before the program expired. Greece was in the program until Feb. 28, but the ECB took its decision on Feb. 4, to be executed on Feb. 16. Furthermore, the ECB purchased Greek bonds at 40% and now wants them to be paid in full.

Only the French government restituted profits from Greek bonds last year, Marias said.

Draghi might have had one additional reason to be angry with the Greek MEP: he had wanted to cancel or postpone his appearance before the EP, and filed a request to the Rapporteur, who happened to be Notis Marias, who turned him down. Thus, Draghi was forced to go to the EP against his will. He arrogantly decided to stay only for the first round of discussion, provoking protests from several MEPs. However, a motion of order to force him to stay was tabled by the chairman, and Draghi and his praetorians departed, disrespectfully leaving the floor to discuss with itself.

prohibition could entail for those banks if forced to divest parts of their portfolios.

"The proposed Regulation also requires the competent authority to undertake a systematic review of certain other activities—namely, market-making, investment in/sponsoring of securitization and trading of certain derivatives. These have been identified as the activities where there is the greatest risk that proprietary trading could be performed in contravention of the prohibition, and which could give rise to risks for the stability of the core credit institution and the Union financial system. The competent authority is granted the power to require the separation. This power to require separation is not imposed as a blanket measure: instead, the competent authority is allowed to exercise judgment, *using a set of harmonised metrics* [emphasis added]. Only under certain circumstances, when risks exceed levels to be defined using harmonised metrics, is the competent authority required to enforce separation. This approach is considered to be proportionate because separation is imposed only under certain conditions, and following an in-depth review of the impact of those activities on the risk profile and behaviour of the core credit institution."

So, the European Banking Authority (EBA), which is located at the ECB, will use "harmonized metrics," i.e., statistic models, to judge case-by-case whether the volume of risk activities is such, that the bank should be preemptively separated.

The problem is, that we have seen those statistical models being applied in all stress tests so far implemented by the ECB, and they all have proven to be a fraud. Worse, in the last "Asset Quality Review," performed in 2014, the EBA/ECB confessed that they used the banks' own models, largely differing from one another in pricing the same asset.

Counting Junk as Assets

This practice was blasted by Nick Anderson and James Chappell, analysts at Bank Berenberg, the oldest German private bank, who have pointed to the ridiculous fact that banks with a high amount of Level 3 junk have passed the stress test. Level 3 assets are assets for which the market is not able to establish a price, i.e., they are worthless. They represent a loss, and writing any value for them on the books is simply financial fraud. And yet, banks have priced their Level 3 assets, and the ECB has accepted those prices!

In a 2013 report, Anderson and Chappell published a chart with Level 3 figures for major European banks. The chart shows banks with high Level 3 ratio on capital, which eventually passed the stress test!

For instance, DNB (Norway) has a 114% Level 3 ratio; Deutsche Bank 96%; Barclays 49%; BNP Paribas 42%. The highest ratio belongs to Credit Suisse, which, however, was not included in the stress tests: 133%; other non-Eurozone banks are Goldman Sachs (76%), JPMorgan (62%), Morgan Stanley (55%). In the lowest range are banks such as Intesa (8%), Erste Bank (3%), and Raiffeisen (1%).

Applying their own model in case of a "pain" scenario (i.e., a systemic crisis), the Berenberg experts came to the conclusion that the following six banks landed on the bottom of the equity/assets ratio: Commerzbank, Santander, Société Générale, Deutsche Bank, Credit Suisse, and Credit Agricole, with four banks having a ratio below 2%: Santander, Deutsche, Credit Agricole, and Credit Suisse.

Questioned by Zanni at an EP hearing Nov. 3, 2014, Danièle Nouy, chair of the Supervisory Board of the ECB, claimed that her agency accepted risk assessment values supplied by the banks' own models for the stress tests because of . . . lack of time! Nouy said, "It was not possible to address the issue this time because of the short period of time in which we had to do the comprehensive assessment."

What the EU/ECB aim at, is to hide the tremendous losses of the banking system, hoping to keep it afloat with a combination of money-printing (quantitative easing),"bail-in," and "bailout," i.e., stealing depositors' and taxpayers' money to try to save the system. This cannot work, as governments capacity for indebtedness has been exhausted, and all the depositors' money in the world won't be enough to bail-in the system. QE is a guaranteed recipe for hyperinflation.

On Feb. 26, ECB President Mario Draghi was confronted with this reality by Marco Zanni in a debate in the European Parliament. Zanni accused the ECB of seeking "war" against Greece, as reflected in Draghi's letter to Eurogroup President Jeroen Dijsselbloem (see box), and of caring more about "yields for the banks" than welfare of the people. He mentioned former French President Valéry Giscard d'Estaing's comment, that the "Grexit" (Greek exit from the euro) is the only solution for Greece, and argued that Glass-Steagall is the only solution for the system. QE won't work, because we have a systemic problem, Zanni said, "and the only solution is a real banking separation, as opposed to the fake one pushed by the EU Commission."