SUMMARY OF EVIDENCE TO THE INDEPENDENT COMMISSION ON BANKING
By
JOHN TOMLINSON

In its Issues Paper the Commission mention The Glass-Steagall Act in the United States . It had been a step in the right direction by separating some of the investment functions of banking from the deposit taking sector but it did not go far enough. The banks found these restrictions inhibited their opportunities to make money and lobbied very hard and successfully to have it repealed. Nevertheless, the Act did not remove all of the investment functions from the deposit taking sector and too much risk and moral hazard remained. That contributed to so much inflation in the years between 1933 and 1999. My proposals separate the banks into sectors according to their functions: the storage and distribution function and the investment function. Therefore it removes all threat of risk and moral hazard from depositors' funds and as a result promotes financial stability. To have had such a system in place before the recent collapse of the banking sector would have meant there would have been no threat to current account deposits or to the government and thus the taxpayer. Lending would have been restricted to the capital of products established specifically for the purpose of lending and funded by those who wish to remove their funds from current accounts and purchase these products. Only lending products and their investors would have been at risk. It could not have been systemic. Most of the banks that failed had well diversified portfolios. Diversity is not a replacement for something more important - sound foundations.

My proposals in the attached paper would ensure:

The capital requirements for banks will be a function of the necessary personnel and facilities required to store and distribute funds for depositors and to provide space and personnel for the investment function.

Banks would be taxed as any other storage and distribution system and fund manager is taxed.

The Bank of England would regulate the current account sector and the investment management authorities should regulate the investment sector.

The accounts of banks will change. Deposits will no longer be liabilities. They will not belong to the bank and will not appear on its' balance sheet. Nor will its balance sheet include investments in the investment sector as assets.

Financial products will be products or investment vehicles offered by the investment sector.

Bank earnings will become immediately less excessive and as a result, they are no longer expected to pay excessive bonuses. Pay structures will themselves moderate.

Deposit insurance will be covered by the Bank of England ensuring its' own audit.

Corporate governance should be no different than in any other responsible business.