

Sent: Tuesday, 29 September 2009

"When times are tough households balance their budget by limiting what they spend on food.

Yesterday our local Fruit and Veg Shop had a sign – 15% off fruit and veg. I have never seen this before.

A kilo of - tomatoes was \$1.70 – carrots \$1.70 and cauliflower \$1.86.

The economic message is that

1. Locals are buying less fruit and veg.
2. The business owner is trying to protect his business by encouraging local households to eat more fruit and veg.

The economic issues are

1. Once a household goes without it is not automatic that they will revert back to previous spending levels.
2. The business owner's lower prices reduce the cash flow to sustain the business.
3. The business is operating at a higher risk of failure.
4. These are not signs of a soft recession or of economic recovery.

Yesterday's 7.30 Report of the statement by the RBA Governor before a Senate Hearing on the state of the economy is inconsistent with reality.

Albert Einstein "You cannot solve a problem with the same kind of thinking that created the problem."

From my correspondence with the RBA Governor my understanding is the RBA does not

1. Have a role in accounting standards of the banks
2. Know what the banks accounting standards are.
3. Know what the banks accounting practices are.

From my experience as a bank CFO a 'derivative' arises because the underlying transaction has gone sour. The 'derivative' is entered into to remove the sour transaction from the bank's financial position.

The question is, without knowing the banks' accounting standards and practices, how does the RBA know

1. When a bank has accounted for the loss on the soured transaction in its financial statements
2. When the bank has claimed an income tax deduction for this loss in its ATO tax return.
3. The values of derivative products for which each bank is ultimately accountable for either as the originating party or as counterparty.
4. If (1) and (2) are in different accounting periods, what the impact is on bank directors' and executives' remuneration including bonuses.
5. When the banks will be in a financial position to allow the Government to remove its guarantee.

\$Billions have been lost and are at risk but to my knowledge nobody has been held accountable and is in gaol.

Perhaps the Senate Committee could throw some light on the above for the Australian community."

Yours sincerely

Derek Smith