

# ABCP investors say they were duped by financial community

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The breakdown of the \$32-billion asset backed commercial paper (ABCP) system amounted to criminal fraud that no one in Canada appears prepared to investigate or prosecute, a House of Commons committee was told Thursday.

"It's a free ride in Canada for financial crime," said Larry Elford, a former Alberta financial adviser who now heads an investment advocacy group.

"The law simply does not apply to the financial industry."

In the first public hearing on the financial markets crisis that unfolded from the U.S. subprime meltdown last summer, the House finance committee heard horror stories from three independent investors unwittingly caught up in the secretive, arcane world of high finance.

**'The current financial regulatory system is broken and offers no protection to Canadian investors'**

—*Financial analyst Diane Urquhart*

One Victoria investor, Wynne Miles, 58, who described herself as self-employed and with no pension, had placed her life savings in what she supposed were government treasury bills, only to find out in July they had been transferred into non-bank ABCP without her knowledge.

Retired Alberta farmer Murray Candlish told a similar story about how his \$350,000 in savings was invested in a triple-A rated trust he was assured was as secure as the Canadian banking system.

"Now our dreams are slowly disappearing as the value of our investment erodes," Candlish told the committee.

The first-person testimonials held MPs from all four parties spellbound for most of the two hours and surprised some, who said they were under the assumption investors knew what they were getting into.

"It's been like a red light going on for us," said Bloc Québécois MP Paul Crete, who at the end of the hearing proposed that the asset-backed commercial paper affair become a priority for the committee, after passage of the budget.

"We have to have people from banks, regulators, others who can tell us why this crisis is there and what are the solutions to this problem."

Thursday's witnesses, including investors and investment experts, had no trouble pinpointing the problem.

They said financial institutions they trusted duped investors into putting their money into ABCP with assurances the investments were rock solid, when they were in fact tied up in the U.S. subprime mess. And when the house of cards came tumbling down last summer, Canada's entire structure of oversight agencies was more interested in saving the system from exposure and collapse than in protecting innocent investors.

Even now, the system is protecting itself, they added.

While cautiously welcoming Tuesday's proposed "relief plan" by Canaccord Capital Inc. to repurchase up to \$138 million of the debt held by 1,430 of its individual clients holding less than \$1 million in the investment, Miles points out that acceptance comes with strings.

"The requirement that we waive our rights to sue is unacceptable," she said. "I feel as if I am being offered an ultimatum and that makes me very angry. We have been wronged."

## Regulators criticized

Most witnesses were very critical of provincial and federal regulating bodies like the Ontario Securities Commission and the Office of the Superintendent of Financial Institutions for looking the other way while suspect and likely illegal practices were being carried out, failing to investigate abuses, and for often granting legal exemptions to financial institutions.

"The current financial regulatory system is broken and offers no protection to Canadian investors," said Diane Urquhart, a Toronto-area independent financial analyst.

"They have violated provincial securities acts and the Ontario Securities Commission has done nothing and stood by blindly."

Both Elford and Urquhart said the only solution is the creation of a national securities commissioner with the sole mandate to protect investors and no connections to the financial sector.

Part of the current problem, added Elford, is that the current provincial regulators have a conflict of interest and too close ties with the financial houses.

"They not only fail to protect consumers, but they give Canadians a false sense of security," said Elford. "We are sitting ducks. If one finds a law being broken, there is simply no police agency to call that does not have a conflict of interest."

Some of the witnesses said that the system is so broken that eight months after the commercial paper was frozen, some Canadians still don't know that part of their investments are in ABCP.

Liberal finance critic John McCallum, a former vice-president of the Royal Bank, said the allegations are serious and need to be investigated, but he was not prepared to apportion blame at this time.

"I can't stand here today and say who's to blame, but we have heard disturbing allegations about regulators who may be in the pockets of the regulated," he said. "We need to find out what went wrong in this particular disaster and what we can do to make sure that future crises are less likely to happen."

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