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## City lowballing ABCP losses, says financial analyst

BY RACHEL DELAZZER

A financial analyst says Hamilton is seriously underestimating its losses in the asset backed commercial paper (ABCP) meltdown.

City finance manager Joe Rinaldo has estimated the loss at \$14.4 million on an investment of \$97 million, but Diane Urquhart, an independent financial analyst, says that number is likely much closer to \$50 million.

In its 2007 financial report, the city has allowed for a loss of \$14.4 million stemming from the ABCP market.

Rinaldo says that is a caution, that the city hasn't actually lost anything as the investment mess sorts itself out.

Last year, Hamilton put \$97 million of its \$691-million investment fund in ABCP.

The ABCP notes were a type of short-term debt security that had been considered relatively safe until demand suddenly evaporated last year due to actions in other areas of the financial market.

Municipalities normally invest in instruments that earn a bit less but offer greater safety.

The city's asset mix is approximately 37 per cent short-term 90 day investments (predominantly major Canadian banks) and 63 per cent long-term bonds.

The investments are primarily government and municipal bonds.

City investments are all regulated by the Ontario government, so Rinaldo's says Hamilton's investments are similar to other municipalities.

But, last August, ABCP investments plummeted in value, mainly due to instability in the U.S. subprime mortgage sector and a softening of the American real estate market.

In the late 1990s, the province gave municipalities permission to invest in ABCP notes because, at that time, Rinaldo said, they were triple A rated.

A group of investors is trying to renegotiate the ABCP notes into nine-year investments.

That would give some hope that they would recover and minimize losses.

A judge must approve that plan and it would see investors, like Hamilton and even Ontario, receive its principal with interest over the course of the nine-year term.

Rinaldo says reporting an allowance amount for the possible loss is simply a requirement of financial reporting standards.

He says there are no implications for the city in having the money tied up for nine years as it has bought long-term bonds before.

The ABCP represents 12 per cent of the city's \$691 million investment portfolio, so Rinaldo says, the city should have no issues in terms of liquidity and it can adjust its investments accordingly.

The city also has between \$400 and \$500 million in cash reserves.

Urquhart, a Mississauga-based independent financial analyst, believes it's unlikely the city will recoup its full principal.

She also says the city's estimated 15 per cent loss is too low and that a more accurate estimate would be between 25 and 50 per cent.

That could mean a loss as high as \$49 million.

Urquhart bases that on a Superior Court valuation from March 4 that pegged the loss at 51 cents on the dollar.

Urquhart says other financial institutions have reported much higher writedowns.

DundeeWealth, for example, reported a writedown of 45 per cent and Desjardins Group had 25 per cent. Urquhart has spent 30 years in the finance industry, including 10 as head of equity research at brokerage firm Burns Fry Ltd. Rinaldo says the city's 15 per cent estimate is in line with those of most other ABCP investors. "The only ones I've seen so far that have used the higher rate are the banks themselves, but I think they have other exposures that are beyond the asset backs that they're incorporating in that."

Urquhart says that while most investors are indeed estimating writedowns of well below 25 per cent, they're off the mark. "There are others doing what Hamilton is doing but we're saying that's not realistic."

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With files from Daniel Nolan, The Spectator

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