

ABCP - AMF investigation on the commercial paper

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Autorité des marchés financiers (AMF)

The AMF has launched an investigation into the sale of commercial paper held in Quebec in the week before the crisis occurred in August 2007, said yesterday the CEO of the regulatory body.

"After our investigation, we will see whether any administrative or legal action are needed," said Jean St-Gelais during a speech before the Circle of International Finance at Hotel which focused on financial crises and combating economic crime. He offered no detail.

"These are products that were sold as liquid, completely guaranteed," said St-Gelais in an interview on the sidelines of his speech. "People found themselves in difficult situations. There are groups who still today claim before the Supreme Court that there was malfeasance."

The commercial paper backed by receivables, also known ABCP, was issued by non-bank entities. Presented as a safe, it was an investment that yields reported slightly higher than the government securities. These returns were generated by debts of credit cards, cars leases, mortgages, etc.. It was particularly in the mutual fund market.

Only one rating agency, DBRS, had expressed an opinion about the Non Bank ABCP. This view was favourable.

In August 2007, large institutions began to fear that the ABCP is linked too closely to the sector of U.S. mortgage. The pool of buyers dried up, and the crisis of confidence was so severe that the only solution was to freeze all 35 billion Non Bank ABCP in Canada. The ABCP is being converted into long-term obligations, thanks to a plan approved by a hundred large institutions and small investors around 1800. This plan, however, is the subject of dispute before the Supreme Court by companies including Groupe Jean Coutu. In the meantime, investors and companies are still unable to resume their activities.

"The investigation focuses on the distribution and sale of these products there in Quebec, on events that took place in the weeks before the crisis broke out," said St-Gelais. "We request information from financial institutions in the wake of the crisis." He included consideration of the National Bank, which sold paper to commercial clients and to certain mutual funds. The Bank has bought ABCP for two billion dollars after the crisis. Elsewhere in Canada, Canaccord Capital sold ABCP. ABCP was also in mutual funds managed by other major institutions.

Mr. St-Gelais did not want to specify the institutions concerned. "We investigate all players in Quebec, and if you do the tour it is not very long," he said. A spokesman of the National Bank

refused to comment. "If there is an investigation, it will co-operate," said Denis Dubé.

The National Post wrote in May that instead of it investigating, the Ontario Securities Commission has delegated that task to the Canadian body regulating trade in securities.

"This investigation by the AMF is good news, because it is nice to see that the government is doing it," said financial adviser Diane Urquhart, who advised the 1800 small investors. "We are of the opinion that people have been sold a defective financial product on the basis of misrepresentations."