Business

ABCP committee to make changes to plan

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Purdy Crawford, chairman of the Pan-Canadian Investors Committee, said while the committee thought it had a plan that could withstand what lay ahead, markets conditions have worsened beyond expectations.

"The transaction enhancements we have proposed will allow participants to meet their ratings objectives, will allow a meaningful window of time for our markets to normalize and will also provide substantial additional flexibility if they worsen further," Crawford said.

The committee said the changes will require formal approval by key participants of the restructuring, which is now expected to close in January.

The changes to the deal include an initial moratorium during which no collateral calls may be made; a widening of certain ``spread-loss'' triggers to make the triggering of collateral calls more remote; and an additional $9.5-billion in margin facilities.

Asset-backed commercial paper was supposed to be a low-risk, short-term investment that would mature within a year.

But worries developed in August 2007 that some of the paper was tied to dodgy U.S. home loans, in addition to bundles of higher-quality mortgages, car loans, credit card receivables and other assets.

An estimated 99 per cent of the notes are held by institutional investors, such as pensions and businesses, but $371 million is held in 2,542 retail accounts.

Financial Department officials met Wednesday with the committee that's been trying for more than a year to salvage the frozen ABCP market, which seized up in August 2007.

Reports suggested that Ottawa might be asked to backstop between $5 billion and $10 billion of the troubled paper if economic conditions don't improve.

However a professor at the Rotman business school says a government bailout for holders of ABCP would open the floodgates to other industries seeking financial assistance.

Laurence Booth, a banking expert, suggested that bailing out the group trying to salvage $32 billion of ABCP would make it hard for federal leaders to deny the auto industry, energy producers and other sectors of the economy looking for either loans or tax breaks.

"These are extremely sophisticated investors, by and large, that purchased this... they should've known what was going on," Booth said.

"If they lost money, it was because they didn't do their due diligence."

The biggest single holder of third-party ABCP is the Quebec-based pension manager Caisse de depot and placement, which held about $13 billion of the notes when the market froze.

Other major holders, represented by the Pan Canadian committee chaired by Purdy Crawford, include the Montreal-based Desjardins Group, Canada Post's pension fund, the federally owned Canada Mortgage and Housing Corp. and Nav Canada.

Diane Urquhart, an adviser to a number of retail investors with ABCP, says she's urging the government to carefully consider the ramifications of financially helping out the ABCP restructuring plan with taxpayer money.

"There are some industries that may deserve public fund bailout, and I'm not convinced that this is one," she said.

Urquhart believes that securities dealers and banks should be forced to make contributions to the restructuring from their own balance sheets, rather than have the government lend a hand.

She says $18 billion of the assets would be seized if the international banks walked away from the plan.

Some of the foreign banks are in the midst of restructuring and new ownership, which might convince them to abandon their agreement.