

Legislative Assembly of Alberta

Title: Tuesday, November 27, 2007 1:00 p.m.

Date: 07/11/27

Treasury Branches Investments

Dr. Taft: Mr. Speaker, the Alberta Treasury Branches is a treasured institution in Alberta and plays an important role in Alberta's prosperity, particularly outside the major urban centres. The government has an important obligation to ensure that it fulfills its mandate to the people of Alberta, yet the ATB recently revealed an \$80 million loss due in part to exposure to the highly speculative U.S. subprime mortgage sector. Ultimately, the exposure could be far higher. This is more than just another bad day at the office for the Department of Finance. My question to the Minister of Finance: can the minister explain what happened? Why was the ATB in a position where it was exposed in this way to such risky ventures?

The Speaker: The hon. minister.

Dr. Oberg: Thank you very much, Mr. Speaker. The ATB's total exposure to asset-backed commercial paper, which, by the way, is not all subprime mortgages, is about \$1.2 billion. They've been reassessing this. They've been looking at this very carefully. They determined through several consultants as well that their exposure, their potential for loss, was around \$79 million. They certainly hope that this won't occur.

To put this in perspective, Mr. Speaker, that's about a 6 and a half per cent writedown which occurred. The National Bank of Canada, which is exposed considerably more, took a 25 per cent writedown. Would we sooner have had no writedown? Absolutely. But 6 and a half per cent is better than the rest.

The Speaker: The hon. leader.

Dr. Taft: Well, thank you. To put that in perspective, \$80 million would help an awful lot of seniors, would hire a lot of nurses, and would feed a lot of hungry schoolchildren.

The Minister of Finance claims that he has no legislative authority to control ATB investment policy, but the Alberta Treasury Branches Act actually provides clear authority for this government to set some rules about the ATB investment strategies. To the Minister of Finance: given that the taxpayer is ultimately on the hook, why does the minister allow the ATB to take on such risky investments, which any responsible financial adviser would recommend against?

Dr. Oberg: Actually, Mr. Speaker, I find that incredibly humorous, what he just said. This whole subprime mortgage issue, the assetbacked commercial paper, is an issue that has hit all financial institutions: the Royal Bank of Canada, Scotiabank, TD Bank, Canadian Imperial Bank of Commerce, and so on. As I stated before, the National Bank of Canada was exposed for 25 per cent. The ATB is conservatively estimating \$80 million, or roughly 6 and a half per cent of their financial exposure is what the writedown is. Ultimately, we hope none of that writedown will occur, and in fairness it may well be that none of that writedown occurs.

The Speaker: The hon. leader.

Dr. Taft: Thank you, Mr. Speaker. As I said, the ATB is a valued institution in this province. It's been there for people when other institutions have not. But under this government the ATB has gone way beyond its original mandate, into high-risk U.S. investments and large Bay Street corporate financing. Alberta taxpayers are on the hook for this added risk. To the Premier. It's one thing for this government to own a financial agency that supports rural Alberta; it's quite another to own what amounts to a quasi-bank that competes with the credit unions and chartered banks. Does this government have any interest in reining in the ATB, or does it plan to

continue operating what amounts to a full-fledged bank?

Mr. Stelmach: Mr. Speaker, just listening to the member, he's made two statements that are totally wrong. First of all, he's talking about \$80 million. This is a writedown. It's not something that comes to the government that the government allocates to different programs. This is a writedown, and those securities that do not fail will go back into the revenue side. That's very clear. The other thing is that this government is a very, very strong supporter of the Alberta Treasury Branches. It has a very good board in place, which has increased the assets of the Alberta Treasury Branches. It will continue to not only serve rural Alberta but every Albertan. I see them in Edmonton and in Calgary and in any other major city in Alberta.

The Speaker: Third Official Opposition main question. The hon. Member for Calgary-Mountain View.

Treasury Branches Investments

(continued)

Mr. R. Miller: Thank you, Mr. Speaker. As was mentioned earlier today, the Alberta Treasury Branch is an institution that represents a pillar of financial strength and independence for both rural and urban Albertans alike. But I am very concerned about the losses reported and the investment strategies undertaken. The minister is concerned, too. I quote: I don't want them coming back and saying we've had to do another writedown. To the Minister of Finance: how can Albertans continue to put their trust in the Alberta Treasury Branches if even you are concerned that the actual loss is higher than what's being reported?

The Speaker: The hon. minister.

Dr. Oberg: Thank you very much, Mr. Speaker. Under the due diligence that I have as Minister of Finance I wanted to be absolutely sure that that was the correct number. I did not want the Alberta Treasury Branch to be coming back two or three or four months down the road and saying: by the way, there needs to be a further writedown. The asset-backed commercial paper has been a large issue in the banking industry, and we had to ensure that these were absolutely accurate numbers. I am confident in the Alberta Treasury Branch, that the numbers that were put forward by them were the correct numbers, that they had the due diligence applied to those numbers. Hopefully, that \$79 million writedown will not be realized as a loss. Hopefully, the asset-backed commercial paper issue will turn around and will survive.

The Speaker: The hon. member.

Mr. R. Miller: Thank you, Mr. Speaker. Investment in risky, assetbacked commercial papers is not normally recommended by financial consultants, so I do have concern that the board of directors for Alberta Treasury Branch would feel that it's an appropriate move. To the Minister of Finance. It is within your legislative powers to ensure prudent loan and investment standards. Can you explain why this \$80 million loss happened? Should it not have been avoidable with these high-risk investments?

Dr. Oberg: Mr. Speaker, obviously, there has been a writedown of \$80 million, and as I stated previously, we would sooner not have had any writedown at all. Two years ago asset-backed commercial paper was looked upon as being a very positive investment with high returns, and indeed at some point in time it did give better returns than other investment modalities. This is something that has caught the whole financial industry in North America in investments that have decreased liquidity, which has caused significant issues with them. Is the Treasury Branch any worse off than any other financial industry? The answer is no. At 6 and a half per cent I am confident that . . .

The Speaker: The hon. member.

Mr. R. Miller: Thank you, Mr. Speaker. In the Yukon Territory the Official Opposition considered this type of risky investment of public money serious enough to call for an audit, and they got it. The Auditor General of Canada has agreed to investigate \$37 million of public money invested in high-risk credit markets, so for us to call for an investigation regarding more than double that amount seems quite reasonable. To the Minister of Finance: will you be asking for a complete audit of the financial decision-making processes and risk management policies within the Alberta Treasury Branches to ensure that public money is not lost due to unnecessary financial gambles?

Dr. Oberg: Mr. Speaker, once again this side of the House is way ahead of that side of the House. The Auditor General has been working very closely with the Treasury Branch and has been involved with the Treasury Branch right from the start on the assetbacked commercial paper issue, and indeed the \$79 million was done in conjunction with the Auditor General.

The Speaker: The hon. Member for Whitecourt-Ste. Anne, followed by the hon. Member for Calgary-Elbow.