

## **Background Information on ABCP:**

On Monday, December 21, 2009, the Investment Industry Regulatory Organization of Canada (IIROC) approved settlements with Canaccord, Credential, and Scotia Capital, who were Canadian distributors of toxic Non Bank ABCP.

The reason for the Scotia Capital settlement is: "Between July 25 and August 10, 2007, the Respondent failed to adequately respond to emerging issues in the Coventree asset-backed commercial paper (ABCP) market insofar as it continued to sell Coventree ABCP without engaging Compliance and other appropriate processes for the assessment of such emerging issues, contrary to Investment Dealers Association By-law 29.1 (ii) (now IIROC Dealer Member Rule 29.1(ii))."

The reason for the Canaccord and Credential settlements is described by IIROC to be: "In or about 2006 and 2007, the Respondent did not take steps to adequately ensure its sales staff understood the complexities of the third-party asset-backed commercial paper (ABCP) product it offered for sale to retail clients and the consequent risks (including systemic risks and counterparty risks) related to the product and, in not taking these adequate steps, did not ensure that the purchase of third-party ABCP was appropriately understood by its clients, contrary to Investment Dealers Association Regulation 1300.1(a) (now IIROC Dealer Member Rule 1300.1(a))."

Deutsche Bank Securities has refused to settle with IIROC and the IIROC Notice of Hearing on January 6, 2010 and Statement of Allegations pertaining to Deutsche Bank covers allegations that: 1. During the period between July 25 and August 13, 2007, the Respondent failed to observe high standards of ethics and conduct in the transaction of their business, and/or engaged in business conduct or practice which is unbecoming or detrimental to the public interest contrary to IDA By-law 29.1 in that it failed to act fairly, honestly and/or in good faith to its clients by not disclosing the information relating to US subprime and the liquidity risk in third-party asset-backed commercial paper (ABCP) to all of its clients who had invested or were interested in investing in third-party ABCP, while continuing to sell third-party ABCP to its clients. 2. Between March and August 2007, the Respondent failed to ensure proper regulatory compliance oversight of third-party ABCP, contrary to IDA Policy 5."

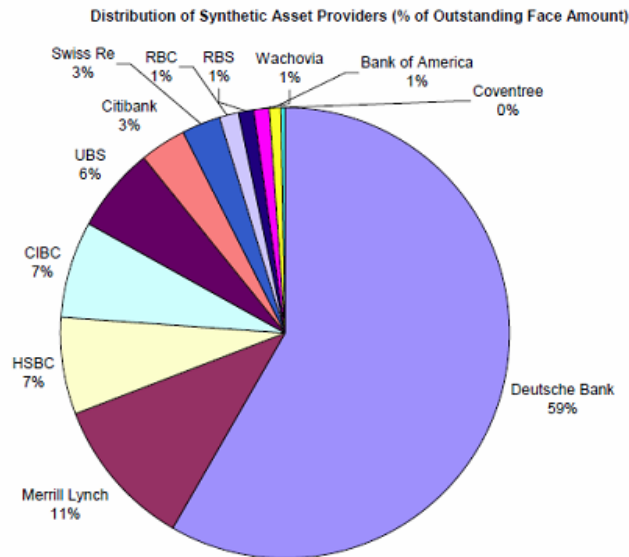
The Ontario Securities Commission has also on Monday, December 21, 2009 approved settlements with HSBC Bank Canada and CIBC, who were also distributors of the toxic Non Bank ABCP. The reasons for settlement by these two investment banks given by the OSC are: "Between July 25 and August 3, 2007, Canadian Imperial Bank of Commerce and CIBC World Markets Inc. engaged in conduct contrary to the public interest by failing to adequately respond to emerging issues in the third-party asset-backed commercial paper ("ABCP") market insofar as they continued to sell third-party ABCP without engaging compliance and other appropriate processes for the assessment of such emerging issues."

There are four primary allegations against Coventree and related allegations against its President, Geoffrey Cornish ("Cornish") and its former Chief Executive Officer ("CEO"), Dean Tai ("Tai"), which will be heard by the OSC on January 14, 2010:

- "(a) Coventree failed to make full, true and plain disclosure in its prospectus by failing to disclose the fact that DBRS had adopted more restrictive credit rating criteria for ABCP in November 2006;
- (b) Coventree failed to meet its continuous disclosure obligations by failing to disclose that DBRS's decision in January 2007 to change its credit rating methodology resulted in a material change to Coventree's business or operations;
- (c) Coventree made misleading statements in April 2007 by telling the market that the total US subprime exposure in its sponsored conduits was 7.4 percent, but failing to provide investors with a breakdown of that exposure by conduit and ABCP note series. The exposure was higher than 15 percent in three conduits, and higher than 40 percent in one note series;
- (d) Coventree failed to

meet its continuous disclosure obligations by failing to disclose liquidity and liquidity-related events and the risk of a market disruption in the days leading up to the market disruption on August 13, 2007."

**Table 1**  
**Distribution of Non Bank ABCP Synthetic Assets By Asset Provider (% Face Amount)**



**Non Bank ABCP Synthetic Assets = Credit Default Swaps**  
**Collateral Assets Face Amount - \$22 Billion**  
**Reference Credit Portfolios Face Amount - \$221 Billion**

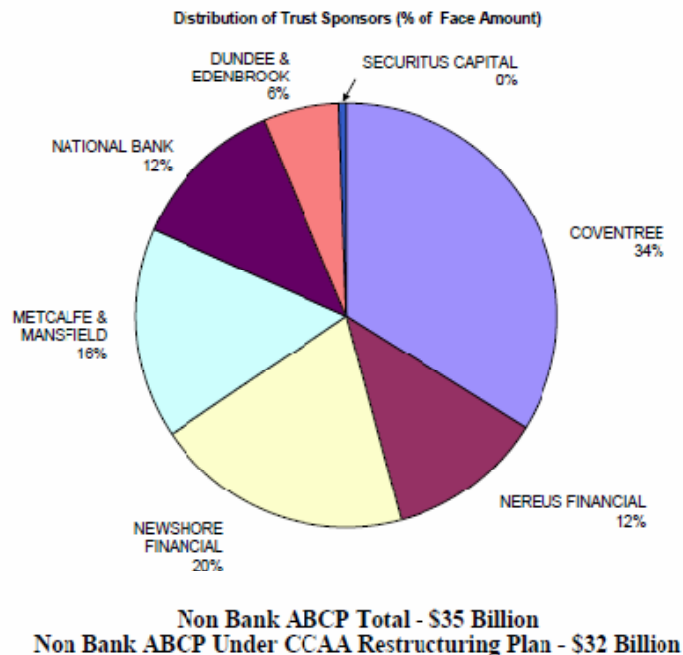
Source: JP Morgan Report on Restructuring March 14, 2008

**Table 2**  
**Distribution of Non Bank ABCP by Type of Owner (\$ Millions)**

Retail Owners Exposed Through Retail Distributors		
National Bank	\$2,000	
Desjardins	\$1,200	
Canaccord	\$138	
Credential	\$39	
Other Cdn Securities Dealers	\$320	
Estimated Over \$1 Million Unsettled	\$400	
<b>Retail Owners Exposed Through Retail Distributors</b>	<b>\$4,097</b>	<b>13%</b>
Government Owners	\$18,066	56%
Corporation Owners	\$9,938	31%
<b>Original Exposure to Canada's Non Bank ABCP</b>	<b>\$32,100</b>	<b>100%</b>

Source: Diane A. Urquhart, IIROC ABCP Compliance Review, Investment Bank Public Disclosures.

**Table 3**  
**Distribution of Non Bank ABCP By Financial Agent Sponsor**



Coventree owns 100% of Nereus Financial, making Coventree's total share of the Non Bank ABCP market 46%

Source: JP Morgan Report on Restructuring March 14, 2008

**Table 4**  
**Distribution of Initial Distribution Agents of Non Bank ABCP**

Initial Distribution Non Bank ABCP		
	\$ Millions	%
<b>BMO Nesbitt Burns</b>	\$1,300	4%
<b>BNP Paribas</b>	\$900	3%
<b>CIBC World Markets</b>	\$6,300	20%
<b>Desjardins Securities</b>	\$800	2%
<b>Deutsche Bank Securities</b>	\$2,500	8%
<b>HSBC Securities</b>	\$5,400	17%
<b>Laurentian Bank Securities</b>	\$3,300	10%
<b>National Bank Financial</b>	\$8,000	25%
<b>RBC Dominion</b>	\$300	1%
<b>Scotia Capital</b>	\$1,700	5%
<b>Societe Generale Securities</b>	\$1,700	5%
<b>Total</b>	\$32,100	100%