Urquhart

Subject: FW: New Standard and Poors Annual Global Corporate Default Survey 2009 & The Social and Economic Arguments for Bill C-501

Attachments: Standard and Poors - Default transition and recovery - 2009 annual global corporate default study and rating transitions 03172010.pdf; OFL - CLC Pension Summit - Urquhart Presentation 03272010.pdf; oledata.mso; The Bottom Line - Another risky aspect of exotic financing - CDSs MidMay 2010.pdf

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From: Urquhart [mailto:urquhart@rogers.com]
Sent: May-11-10 1:24 PM
To:
Cc: Diane A. Urquhart (urquhart@rogers.com)
Subject: New Standard and Poors Annual Global Corporate Default Survey 2009 & The Social and Economic Arguments for Bill C-501

I have been speaking about the proliferation of induced bankruptcies due to the relatively new credit default swap market (CDS) and the spike in private equity Leveraged Buy Out (LBO) acquisitions of major corporations. The Standard and Poors Annual Global Corporate Default Survey 2009 released on March 17, 2010 shows that a dramatic spike in bankruptcies is occurring throughout the world, especially amongst corporations that are financed by speculative grade junk bonds. **The Mid May 2010 Bottom Line article attached covers several U.S. and Canada experts speaking out about the CDS abuses affecting the incidence of bankruptcies and producing unfair outcomes in the bankruptcy courts.**

How is all this complicated high finance relevant to Canadian pensioners and long term disabled employees? **Canadian pensioners and long term disabled employees are losing large percentages of their pension, disability and severance incomes, while the CDS hedged junk bond owners are making profit from the the losses borne by individual Canadians. The bankruptcy court proceedings are assuming that all creditor groups are making equal compromises, whereas the CDS hedged junk bond owners are making higher profits on the backs of ordinary Canadians, whose savings are being gifted to the junk bond owners by our Federal Government**.

The Federal Government is not requiring that bankruptcy estates:

(a) put assets back into Health and Welfare Trusts for remedy of their wrongdoing or Breach of Trust to the long term disabled who were covered with self-insured wage replacement income and medical benefit plans;

(b) honour their obligations to pay pension income to retirees that are their deferred wages and that are otherwise protected by Provincial Pension Benefit Acts;

(c) honour their obligations to pay for minimum statutory severance that are otherwise protected by Provincial Employment Standards Acts.

I provide below some of the charts from this new 2009 Standard and Poors' corporate default study attached, that tell a compelling story about how the corporate world has changed: it is relying more on junk bond financing and there are more corporate bankruptcies, as a result. I also provide below charts from the attached presentation I made to the OFL- CLC Pension Summit on March 27, 2010 on why unregulated CDSs are destroying the proper functioning of businesses and economies, even governments.

The percentage of all corporations that issue bonds, who issue speculative grade bonds has been steadily rising from a low of 24% in 1991 to 40% by 2009, a span of close to twenty years. In my opinon, the spike in the incidence of junk bond financing of corporations coincides with the emergence of the credit default swap market. **The junk bond related CDSs outstanding are about $5.2 trillion compared to total junk bonds outstanding of $2.4 trillion.** There is now more than two times the amount of insurance on junk bonds than there are junk bonds outstanding.

Needless to say, with this much junk bond insurance out there, the demand to buy junk bonds is high due to buyers being able to buy CDS insurance on the junk bonds and then having less concern about these very high risk junk bonds going into bankruptcy default. The CDS insurance contributes to a higher incidence of corporation bankrutpcies, because credit events, like bankruptcy filings, trigger CDS insurance payments. **Lots of CDS speculators, owning a small amount of the junk bonds or not owning the junk bonds at all, are happy to see the junk bond financed corporations fail, since they can make profits on these bankruptcies.**

The proliferation of bankruptcies induced by CDS's (and also private equity LBO acquisitions) make it essential that there be Canadian bankruptcy law amendments to protect Canada's retirees, severed and long term disabled employees. When bankruptcies occur, disabled people are learning the horrible truth about the fine print of their self-insured long term disability plans and the egregious breach of trust going on within their trust accounts. Canada's disabled workers are being pushed into abject poverty.

We need both the NDP's Bill C-501 covering pension deficits and unpaid severance and Liberal Senator Art Eggleton's Bill S-216 covering Canada's most vulnerable persons - the long term disabled. Canadians must be protected from the abuses of "For Profit" bankruptcies, where the junk bond owners, insolvency lawyers and corporate executives make hundreds of millions of dollars of benefits for themselves without delivering compensatory benefits to our society and economies.

Sincerely

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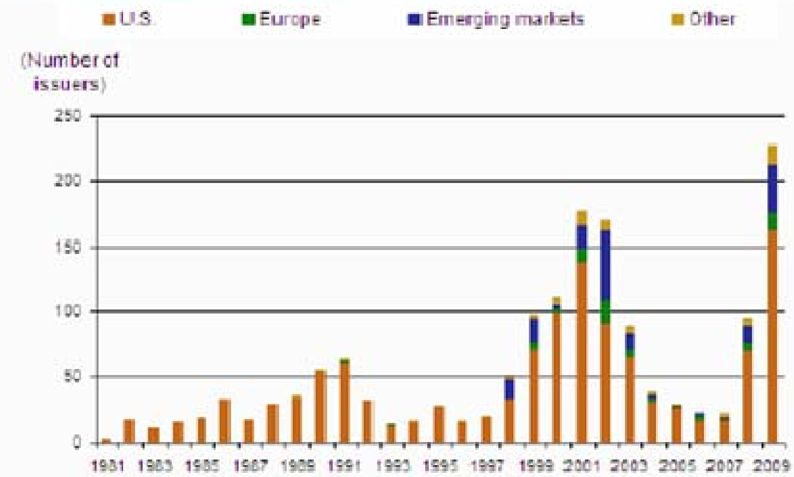
Chart 6

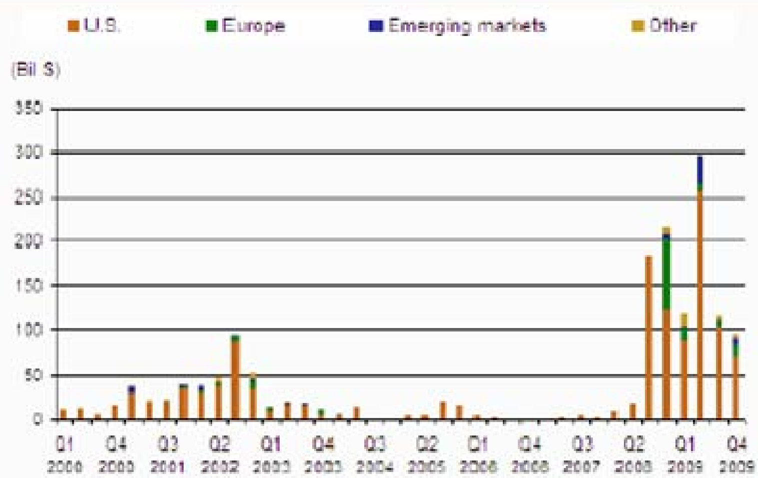
Annual Corporate Defaults By Number Of Issuers*



*Count excludes defaults that were no longer rated at the time of default. Sources: Standard & Poor's Global Fixed Income Research and Standard & Poor's CreditPro®.

Chart 14

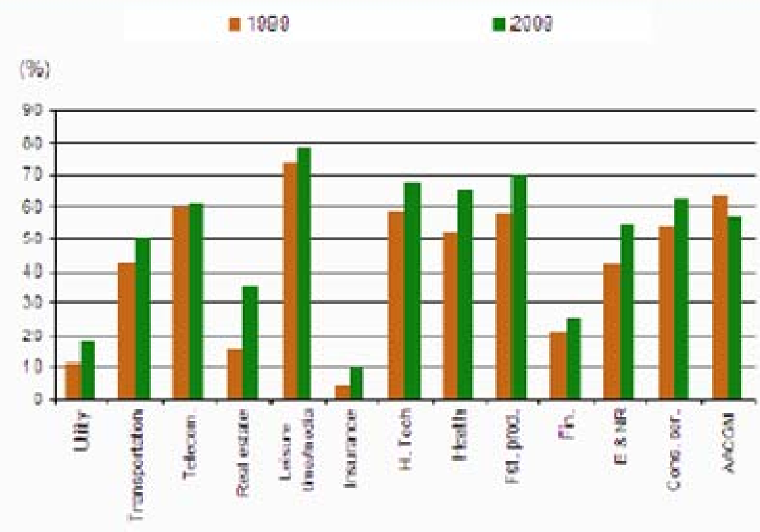
Quarterly Global Corporate Defaulting Debt Amount



*Nearly 28% of the second-quarter 2009 total is attributable to Ford Motor Co.'s distressed exchange offer. Sources: Standard & Poor's Global Fixed Income Research and Standard & Poor's CreditPro®.

Chart 19

Share Of Speculative-Grade Ratings To Total By Industry

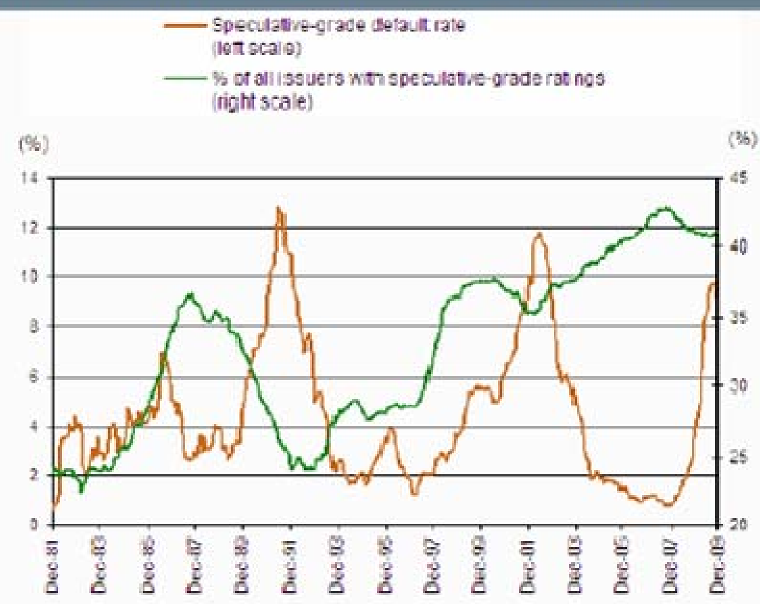


H. Tech—High technology/computers/office equipment. Health—Healthcare/chemicals. Fst. Prod—Forest and building products/homebuilders. Fin.—Financial institutions. E&NR—Energy and natural resources. Cons.—Consumer/service sector. AACGM—Aerospace/automotive/capital goods/metal. Sources: Standard & Poor's Global Fixed Income Research and Standard & Poor's CreditPro®.

Hefty Growth In Speculative-Grade Ratings

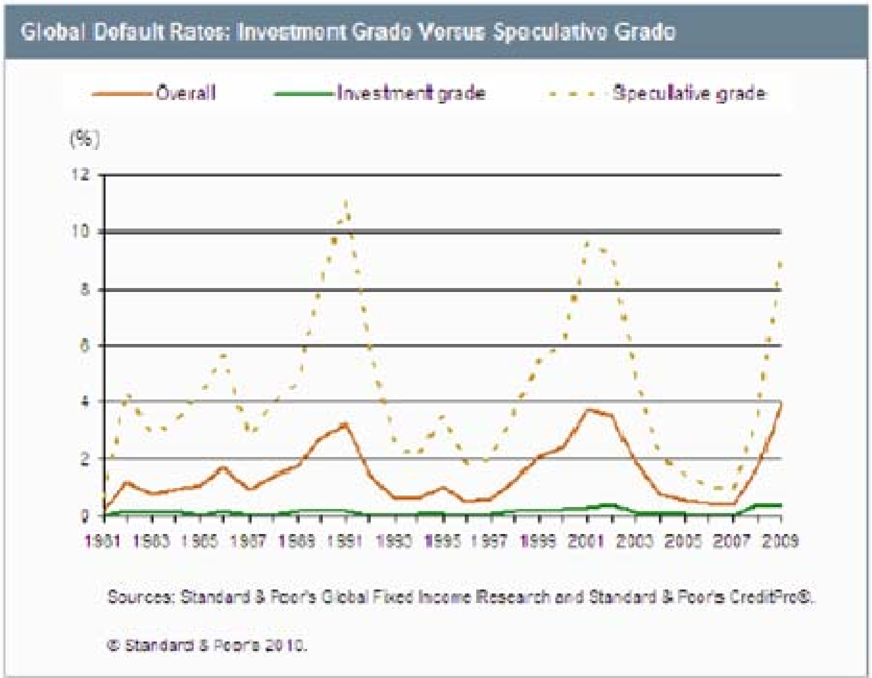
Chart 21

Global Corporate Speculative-Grade Default Rate Versus Credit Quality



Sources: Standard & Poor's Global Fixed Income Research and Standard & Poor's CreditPro®.

Chart 1



You Don't Need to Own the House to Buy Insurance

Everyone in your neighbourhood can buy fire insurance on your house.

Your neighbours all agree it's a good idea for someone to torch your house.

Insurance cheques arrive in the mail with no questions asked.

Get Insurance Money and Keep the Damaged Goods
Opportunity for Double-Dipping

Insurance on crop damages due to hail

$200,000

Some of the crop later harvested and sold

$75,000

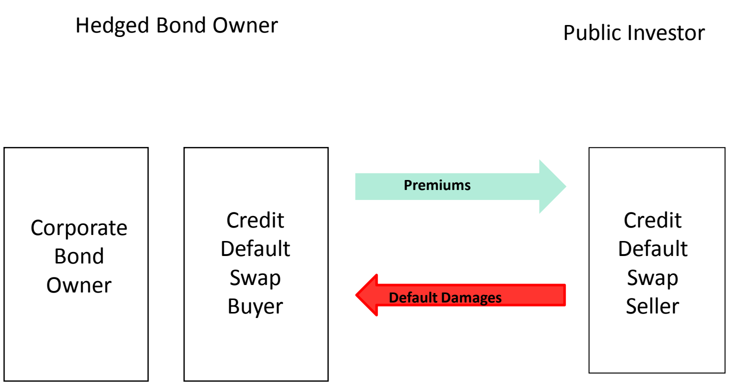
Value of crop without a hail storm

$200,000

Farm receipts in year of hail storm

$275,000

How Do Credit Default Swaps Work?



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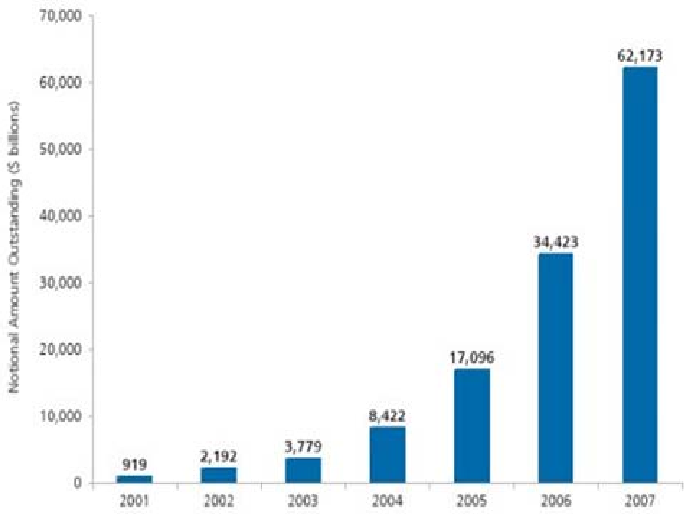
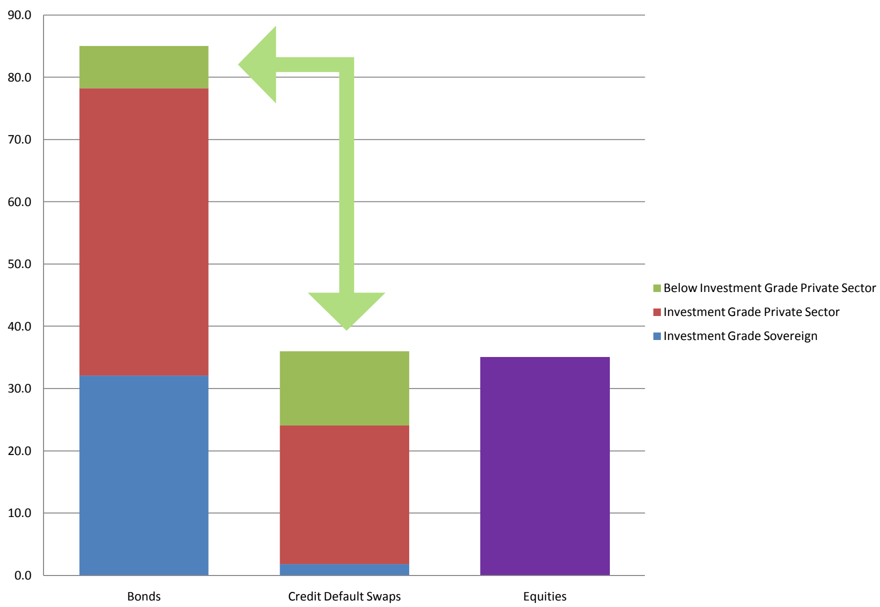
Exponential Growth of the Unregulated Credit Default Swap Market



Size of Global Markets June 2009 ($Trillions)



Performance of Large Private Equity Firms
Summary Data on Sponsored Companies

	Deals Initiated Prior to 1/1/08						
		In Default		Distress (B3 Neg & Lower)		Default & Distress	
PE Firm	Total Deals	Deals	% of Total	Deals	% of Total	Deals	% of Total
KKR	20	1	5%	2	10%	3	15%
Madison Dearborn	12	2	17%	1	8%	3	25%
Blackstone	22	3	14%	3	14%	6	27%
JP Morgan	7	-	0%	2	29%	2	29%
Welsh Carson	13	-	0%	4	31%	4	31%
TPG	19	3	16%	3	16%	6	32%
Providence Equity	12	2	17%	2	17%	4	33%
Warburg Pincus	14	1	7%	4	29%	5	36%
Goldman Sachs	21	6	29%	2	10%	8	38%
Bain	22	5	23%	5	23%	10	45%
Carlyle	31	5	16%	11	35%	16	52%
TH Lee	11	5	45%	1	9%	6	55%
Apollo	20	8	40%	5	25%	13	65%
Cerberus	6	2	33%	2	33%	4	67%
Sub Total	229	43	19%	47	21%	90	39%
Adj. for Club Deals	(44)	(7)		(9)		(16)	
Total	186	36	19%	38	21%	74	40%

Moody's Investors Service, November 6, 2009

40% of leveraged private equity acquisitions in trouble

- Half have filed for bankruptcy proceedings
- Half in distress