

**FINANCING THE BANKER'S FUNERAL:
What the ABCP Swindle Means for Working Canadians**
by Ken Georgetti

In recent weeks, as US hedge funds and investment bankers have imploded south of the border, working Canadians have been told our economy isn't "subprimed."

Sure, the experts say, current problems in global credit markets may mean less cash is available for Canadian companies. It will certainly mean fewer buyers for Canadian exports as US workers face house foreclosures, and higher costs for basic necessities.

But be thankful, the experts reassure, you could be someone else.

You could be one of the two million Americans who recently lost their homes after shady mortgage brokers sold them on crooked contracts.

You could be one of the 14,000 workers at Bear Stearns, some of whom taped \$2 to their office windows to symbolize what their employee shares were now worth (down from \$68 only days before).

You could be a citizen of several small towns in Norway who, until recently, were unaware that hucksters had exposed them to the subprime market. After her town lost \$64 million, one mayor remarked: "because of this, we can't focus on things that matter, like schools or care for the elderly."

Dear readers, don't believe the hype. Working Canadians have suffered enormously from greedy Bay Street bigwigs, but most aren't aware of it. Their pension funds will take a huge hit after dodgy credit investments (once billed as secure) blew up last Summer. To make matters worse, officials are letting the perpetrators bury the victims in secrecy, while pension funds, average Canadians, and the public purse finance the funeral costs.

Here's what happened. While many of us enjoyed a deserved break last August, Canada's economy nearly tanked given a defective investment product called Asset Backed Commercial Paper (ABCP).

Until recently, few experts bothered to ask what ABCP was. But that didn't stop financial advisors, credit unions, bankers, and bond raters from giving ABCP top marks as a safe and secure investment.

ABCP are short-term debt notes – normally set for terms of 30 or 60 days – that banks and non-bank finance houses created by bundling packages of consumer debt together to sell on the stock market. Think of thousands of individual car loans and credit card debts rolled into super funds. That's what ABCP represents, and by last Summer, it comprised more than 30% of Canada's \$360 billion short-term debt market.

Until disaster struck, ABCP kingpins were raking it in. Coventree, a non-bank ABCP provider, grew from a small start-up to a firm managing \$16 billion in assets. That all flew apart when large institutional investors, like banks and major pension funds, demanded ABCP sellers disclose their exposure to the US subprime mortgages.

ABCP sellers tried to calm large investors by pointing out their minimal exposure to US subprime mortgages. Coventree, for example, insisted that only 4% of their funds had links to these dodgy debts.

That didn't satisfy the big investors. One by one, they bolted for the exit doors to sell what they once described to pension plan members and investors as a safe, "securitized" product. Banks stood behind their ABCP products, and agreed to make investors whole. Non-bank ABCP sellers like Coventree were a different story. They dug in their heels and refused to yield an inch.

By mid August 2007, the crisis in non-bank ABCP led to a full-blown financial crisis. A small group of bigwigs quickly met in Montreal to establish an industry-brokered deal for non-bank ABCP providers.

On August 16 and 17, the Bank of Canada injected more than \$720 million in loans to help finance the arrangement. The ABCP industry (and investments in it) was frozen by federal regulators as the details of the deal were hammered out.

On its own, this closed-door process was scandalous. The so-called Montreal Accord of former ABCP boosters happened without any disclosure to investors. No bond rater, banker, or non-bank ABCP seller has faced charges for selling an asset once stamped as safe and secure.

The Montreal Accord has since won legal approval in the Ontario Superior Court, but with a catch. The Court required that the deal must win 50% support of small and medium sized investors. Every individual ABCP "note holder" is entitled to one vote each.

That's why finance heavyweight Purdy Crawford has recently travelled to five cities to promote the "Montreal Accord." Here was Crawford's pitch: 1) your ABCP assets will remain frozen for five to eight years; 2) you'll then exchange them for similar investments (after eating an unspecified amount of losses); 3) you must relinquish your right to legal action; and 4) you have no right to know what the big players negotiated for themselves.

Not surprisingly, that line didn't resonate too well. The Royal Bank estimates the notes have already lost 40% of their value. Crawford was roundly jeered, booed, and told to expect legal action unless the bigwigs make good on 100% of their bad advice.

And rightly so. Purdy Crawford's friends shouldn't get court-sanctioned approval to

embalm the corpse they are responsible for. They've come out of the Bay Street crematorium with the ashes of the corpse, and asked all small-time mourners to agree to a bail out in exchange for essentially no autopsy and no legal liability. Our pension funds and retirement plans shouldn't cover these dirty deeds.

What's more, it's high time we acknowledged a double-standard in our criminal justice system. Our federal government vents often about crime in the streets, but never about crime in the suites. Craig Hannaford and Bill Majher, two former RCMP top investigators, recently told Canadian Business magazine that our white collar crime process "is pretty much non-existent."

Canadians must turn over a new leaf, and demand stronger laws for corporate accountability. Main Street shouldn't suffer for the duplicity of Bay Street.

The dodgy debt littered through the world financial system is an ongoing problem that needs closer government regulation. As an earlier generation recognized during the Great Depression, our economy can't be sabotaged by ruthless speculators and pocket-stuffers. Believe it: a more sane economy is possible.

Meanwhile, we need a public inquiry into this mess. We also need government intervention to recover the ill-gotten gains by the invisible billionaires and they should be charged credit card interest rates for all the time they had our money.

Ken Georgetti is president of the Canadian Labour Congress, the largest labour federation in Canada. They represent 3.2 million working women and men who have pension plan investments estimated at over 300 billion dollars.