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Desjardins outlines its ABCP activities

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The plan was done to look after its own clients, but this week's decision by Montreal-based Desjardins Group may end up affecting customers of its larger Toronto-based bank competitors. And that would be a good thing, according to some analysts, particularly as it may be a solution to the asset-backed comercial paper mess.

On Thursday, Desjardins provided the market with more information about its ABCP activities, including details about what it referred to as "assumption of assets held in the form of non-bank-sponsored asset-backed commercial paper to protect members and clients from prevailing market uncertainty."

In its latest quarter, Desjardins made two ABCP decisions: It assumed the non-bank-sponsored ABCP held in certain mutual funds, and it also assumed the non-bank-sponsored ABCP acquired in connection with the securities custody and lending activities undertaken by Desjardins Trust on behalf of institutional clients for whom Desjardins had not originally assumed the risk.

Those two decisions affected $1.2-billion of ABCP held by clients. On top of that there was a further $700-million held by Desjardins for its own investment purposes. Desjardins has taken a $160-million writedown on the $1.9-billion of ABCP.

Alban D'Amours, chief executive of Desjardins group, said the decision was made because "it was in the best interest of our members and clients that we assumed these securities held on their behalf. Given the complexity of this issue, we felt that it was more appropriate under the circumstances to manage the overall situation from the perspective of the entire Desjardins Group so that our members and clients would not have to be concerned about the situation."

In August, National Bank said it would acquire all of the ABCP held in mutual funds and pooled funds of subsidiaries of the Bank, all of the ABCP currently held by all its individual retail clients as well as certain other clients, at 100% of the acquisition cost plus accrued interest.

So what are the implications of Desjardins decision? Diane Urquhart, an independent analyst, said the decision to reimburse its institutional clients "sets a benchmark for make-whole offers from the sponsors and the banks/ investment banks that manufactured or distributed the third-party ABCP to both retail and institutional clients, regardless of whether they were accredited investors."

She argues that the banks and/or investment banks that are counter-parties to the credit default swaps and signatories to the limited use liquidity agreements are "co-maufacturers" of the third-party ABCP, along with the sponsors. As such, they are different from some other investment banks that distributed the third-party ABCP, but were not manufacturers of the paper they sold. "These distributors should also expect to contribute to accommodating settlements with all their retail and institutional clients, whether they are accredited or not, since they too were part of the negligence or deceit in the provision of this defective product to Canadian pension funds, governments, corporations and thousands of retail customers," she said.

Desjardins is a member of the Montreal accord, the group trying to set the conditions for the resumption of normal activities on the Canadian non-bank-sponsored ABCP market. That group has a Dec. 14 deadline.