# SEC probe into ABCP welcomed

**National Post**

There is action -- and then there is inaction. The former occurs somewhere else; the latter occurs up here. That reaction follows the announcement by the Securities & Exchange Commision that it is launching a probe of whether Wall Street pressured credit-rating agencies to give top rankings for subprimemortgage bonds.

The SEC is looking for evidence the firms were "unduly influenced" by issuers and investment banks that sold the debt. So said Christopher Cox, SEC chairman, to a U.S. Senate banking committee hearing in Washington on Wednesday. Last month, the SEC said it would examine the rating process in response to turmoil in the subprime market.

While Moody's and S&P have denied the links, both have agreed to co-operate. A senior S&P executive said it doesn't structure debt transactions, and the company's criteria for ratings are "absolutely transparent," and added there isn't any collaboration between S&P and debt issuers on constructing mortgage-backed securities. Moody's said it has "successfully managed related conflicts of interest and provided the market with objective, independent and unbiased credit opinions."

In Canada, the biggest workout in the nation's history -- sorting out the $40-billion market in asset-backed commercial -- is underway. And much of the work is away from the public eye. Jim Flaherty, the Finance Minister, has applauded the so-called Montreal accord even though there is no government representative involved.

Just one agency, DBRS, rated ABCP in Canada. Diane Urquhart, an independent analyst, has just completed a major project in ABCP -- which she calls "another made-in-Canada defective investment product." (She says income trusts were the first.)

In her 15-page report, Urquhart says DBRS "bears significant responsibility for giving false top credit ratings on the ABCP that did not meet the international standard for liquidity agreements" and for not satisfying five investment axioms. The axioms include: liquidity agreements that have loopholes for ABCP market disruption and diminished asset creditworthiness; funding long-term assets with short-term commercial paper; ABCP issuers owning subprime mortgages, which carries default risk; ABCP issuers owning derivatives that are untested in different economic environments and not knowing how vendors share the investment returns and risks.

She says "conduit owners, bank suppliers and distributors took the lion's share of the boosted yield even though they knew the owners were ultimately responsible for all of the liquidity and default losses."

DBRS has learned: A couple of weeks back, it said it would insist on global style for ABCP liquidity agreements. But Urquhart wants to know why the OSC "failed to detect that DBRS was giving top investment grade ratings to third-party ABCP that did not meet the international standard for sound liquidity agreements."

Urquhart reviewed the offering memorandums for 23 problem conduits. They include: Apollo Trust; Aria Trust; Ironstone Trust; Newshore Canadian Trust; Selkirk Funding Trust and Symphony Trust. Coventree Capital, Metcalfe & Mansfield Alternative Investments and Newshore Financial Services Trust were the main agents.

-To find Barry Critchley online throughout the week, visit financial-post. com/fpposted

bcritchley@nationalpost.com