

Book review: Back from the Brink

“Back from the Brink” explores the ABCP crisis from a uniquely Canadian perspective. In particular, it describes the impact on Canadian FIs and retail investors due to liquidity issues. Market disruptions that originated in the US, due mainly to subprime US mortgages corrupting collateralized commercial paper and creating global contagions.

The book covers many issues in great detail. Some of the highlights include:

- Le big losers were Quebec’s Caisse de Depot and National Bank. Both organizations blindly jumped into the ABCP party early and lingered long after the hosts crawled into bed. More sage banks, such as TD, simply tore up the invitation: obviously not sophisticated enough to understand ABCP.
- DBRS were one of the villains. As the only rating agency willing to rate Canadian ABCP, their ratings became major reference behind decisions by Canadian FIs to buy the paper. Despite this, blame, according to the authors, was attributed to a lack of ‘vigilance’ by the likes of the Caisse. These buyers failed to recognize warnings and were negligent in their fiduciary duties.
- The victims, in particular, Individual investors who were described as the hardest hit, were often given misleading information. Canaccord, in particular, flogged 95% of retail ABCP, according to the authors.
- The Canadian perspective was exemplified through the non-litigious manner the protagonists came to agreement. This approach meant that Deutsche Bank was on the winning side of the ledger. As the largest asset and liquidity provider in the ABCP market, Deutsche benefited from the atmosphere of cooperation. They avoided taking liability back onto their balance sheet, received a liability backstop from the federal government, and reduced the possibility of legal liability significantly. All despite the fact that they made false statements related to Canadian ABCP LSS positions. This resulted in a US\$55 million civil penalty.

Recommendation

Anyone looking for a context of how and why decisions were made and the lessons learned from Canada’s ABCP crisis should read this book.

Book info

Back from the Brink: lessons from the Canadian asset-backed commercial paper crisis

UofT Press 2016

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