

October 11, 2007

By Fax: (613) 992-8320

The Honourable James Flaherty, P.C., M.P.
Minister of Finance
Department of Finance Canada
140 O'Connor St.
Ottawa, Ontario
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Dear Honourable Minister Flaherty:

The Canadian Union of Public Employees represents over 560,000 hard working Canadians, representing a payroll of over \$18 billion a year. One of our main concerns is to attain secure retirement benefits for our members, who make annual pension contributions of over \$600 million. We've fought hard to gain and improve pension plans: every dollar counts.

We have followed with interest your push to establish a single national securities regulator. We could support this goal if we were convinced that it would provide Canadians, and particularly pension funds and working families saving for retirement, with stronger protection for pension assets and security from financial abuse.

Unfortunately, Canada's securities and financial market regulators have a dismal record. I and many other Canadians have been embarrassed and frankly appalled that regulation and enforcement of securities crime in Canada is so weak that, at best, we often have to rely upon American regulators and courts to prosecute our white-collar criminals and provide investor protection and retirement security for working families.

Last year, I commended you for acting decisively on income trusts. However, the income trust debacle was as much the result of inadequate regulation and lack of investor protection as it was the result of irresponsible tax loopholes. Seniors, pension funds and other investors frequently bought into high-yielding income trusts without knowing that the high returns were cannibalizing the assets of the companies.

Now, less than a year later, we have yet another investment failure that highlights the poor standards and inadequacies of our securities regulation. About \$40 billion in Third Party Asset-Backed Commercial Paper (ABCP) was sold in Canada with top (supposedly risk-free) credit ratings, but in reality it was based on risky sub-prime mortgages, credit derivatives and was backed by defective liquidity agreements. This is a uniquely Canadian failure because banks signed liquidity agreements that were below the international standard, while being counterparties to credit derivatives that allowed them to trigger calls for cash, walk away from their back-up liquidity agreements and gain access to the collateral assets held in trust.

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Canadian holders of pension plans, shareholders and the public who hold much of these securities were set up once again to be the losers under this scheme. The Federal Office of the Superintendent of Financial Institutions permitted banks to sign these defective agreements, which provided the illusion of security to investors, but now denies any responsibility for protecting investors and the retirement security of working families.

Our concern is that there is no one who clearly represents the public interest who is part of the group of banks, investment banks, crown corporations, corporations and pension funds that make up the Montreal Accord Group and the Pan Canadian Committee for Investors in Third Party ABCP. These participants, along with the big five banks, have an interest in forging a solution that benefits their own financial interests and covers up their own negligence in this issue.

There are many opportunities for insiders to make further profits from this fiasco. Professional fees alone from financial advisors and lawyers are expected to amount to tens of millions of dollars. Without an open and transparent process, the assets could be sold at a discount and then flipped for quick profits.

This particular problem was caused by inadequate regulatory oversight and protection for investors and pensioners in Canada. It isn't enough to simply rely on these participants to work it out: that type of self-regulatory approach created this mess for which pension plan holders, shareholders and the public will have to pay.

If you are sincere in the aims that you stated in the 2007 Budget to "protect the investments of Canadians...provide the highest standards of corporate governance, enforce our laws vigorously and tackle white-collar crime," then this is your chance to act.

You can send a signal that a national securities regulator could provide better protection for Canadian families and their pensions by:

- Appointing a qualified independent monitor to ensure that the interests of pension beneficiaries, taxpayers and others are met through this work-out process.
- Requiring that full transparency about the supplier agreements, securities, fees and process is provided to an independent monitor and to the public.
- Supporting the holding of Parliamentary hearings into this latest investment fiasco.

Diane Urquhart, a highly respected independent financial analyst, has provided an excellent analysis of this situation and recommendations for how the federal government can take constructive steps in this matter. I urge you to respond directly to these suggestions.

This latest incident illustrates just how much more complicated the financial market has become. Supposedly secure short-term investments were in reality based on a complicated and unreliable set of agreements, derivatives, relationships and weak assets, which it turns out few really understood. This type of financial innovation has provided enormous benefits to a few, but the public has been kept in the dark about the real risks involved and consequently suffered the losses.

I look forward to the federal government advancing proposals to combat white-collar crime and provide real and strengthened protection for the pensions of working families, investors and retirees. Vague principle-based regulations and a shift towards greater self-regulation for the financial industry won't accomplish this.

I would very much like to meet with you to discuss these matters in more detail.

Yours sincerely,



PAUL MOIST
National President
Canadian Union of Public Employees

cc: Honourable Prime Minister Stephen Harper
Leader of the Liberal Party Stéphane Dion
Leader of the New Democrat Party Jack Layton
Leader of Le Bloc Québécois Gilles Duceppe
Honourable Minister of Public Safety Stockwell Day
Honourable Minister of Justice and Attorney General of Canada Robert Nicholson

Ken Georgetti, President, Canadian Labour Congress
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