# Insecurity in Canadian securities

by Joyce Fredman

The December collapse of the small Canadian investment firm Osler, Inc. is the source of ongoing headaches for members of this country's investment community. The 100-year-old Toronto-based company's insolvency came suddenly to light last December. There had been no previous indication given, either to the public or to regulatory authorities, that the company was experiencing any sort of financial difficulty.

Subsequent investigations, though, revealed that the company had clearly been bankrupt since April 1987, in which month it had suffered an $8 million (Canadian) loss on trades in U.S. Treasury bonds.

The company's "capital deficiency" of $6 million (Canadian) at that time had not been reported, as required, to Toronto Stock Exchange regulatory officials. Instead, the Osler Inc. principals had initiated a long series of fraudulent trades in Government of Canada Treasury bills and bonds, which supplied the company with the funds to keep doing business, at least for awhile.

These trades, of which there were reportedly thousands between April and December, were made with the money market manager of the Canadian Co-Operative Credit Society (CCCS), described as the "clearing bank and financial intermediary for most of Canada's credit unions and co-operatives" (*Financial Times of Canada*, Feb. 15).

Further bond trading losses were augmented, in October, by losses resulting from the stock market crash, so that by the time Osler's Treasury bill and bond trading scheme fell apart one December morning, the firm's capital shortfall, which the company owed the CCCS on a bond repurchase agreement, was admitted to $25 million (Canadian), an astonishing amount considering the size of the firm's capital (prior to its losses), reported variously as only $2-4 million (Canadian).

At this point, the Canadian investment industry's National Contingency Fund became involved. This Fund, a private entity established by the brokerage industry to cover investors' losses arising from the failure of any brokerage firm, was immediately asked to advance $10 million (Canadian) to keep Osler, Inc. functioning under the direct control of the Toronto Stock Exchange.

This requirement being made of the Fund sharply reinforced the notion which had been frequently put forward in the Canadian financial press during the previous couple of years—namely, that the size of the Fund, at $15 million (Canadian) plus a $30 million line of credit, was decidedly inadequate in light of the number and size of the country's investment dealers.

This recent growth in capital and liabilities was directly related to the federal government's policy of financial deregulation, to which the country's investment firms reacted by increasing their capital in order to compete with foreign investment firms, and also against other types of Canadian financial companies.

The turmoil resulting from the deregulation-related takeovers of four of the largest (and previously independent) Canadian investment dealers by four of the "Big Five" Canadian banks, had just begun to subside when the Osler Inc. fiasco broke into the open.

In early January of this year, the Ontario Securities Commission had the accounting firm of Clarkson Gordon appointed as receiver of Osler, Inc., which was, of course, hopelessly bankrupt. Results of further investigations into the company's financial status were less than comforting to the investment community:

Osler's total capital deficiency after the sale of all assets of value, is likely to be close to $60 million (Canadian), according to a senior Toronto brokerage industry source. The charge to the National Contingency Fund is likely to eventually be anywhere from a minimum of $16 million up to as high as $35 million, according to the same source.

The members of the Investment Dealers Association and of the major Canadian stock exchanges have already been assessed a total of $15 million to replenish the severely depleted Fund, with further assessments likely.

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