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Article Detail

Article

Canadian Lenders Assurance Facility is Now Open for Business

Date

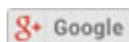
February 26, 2009

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Tweet



The final documents for participation in the Canadian Lenders Assurance Facility (CLAF), originally announced in October 2008, are now available on the federal Department of Finance web site at www.fin.gc.ca/n08/08-090-eng.asp. Under the CLAF, the Government has agreed to provide a guarantee for up to three years on certain debt instruments issued by banks and other eligible deposit-taking institutions in consideration for an annual fee ranging from 110 to 155 basis points. Among the more substantive changes to the final documents are the following:

- The Government has committed to make timely payment under the guarantee when a demand for payment is presented. The originally proposed 30-day period before payment by the Government is required to be made will not form part of the final documents.
- The Government has included an alternative purchase commitment in the guarantee as a mechanism to bridge the time until legislative appropriations authority to pay on the guarantee passes Parliament. The Government may not make any payments on the guarantee out of Canada's Consolidated Revenue Fund without the authority of an act of Parliament. According to the Government, however, it does have appropriations authority to purchase interests in guaranteed instruments under the alternative purchase commitment. On February 6, 2009, the Minister of Finance introduced Bill C-10, *An Act to implement certain provisions of the budget tabled in Parliament on January 27, 2009 and related fiscal measures*, which if passed will contain the necessary authority for the Government to pay on the guarantee. Bill C-10 is currently before the Standing Committee on Finance, having received two readings in the House of Commons. It is currently expected that Bill C-10 will become law within the next one to two months, at which point the alternative purchase commitment will fall away.

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underlying guaranteed instrument has been issued. However, the Government still has no obligation to pay on the guarantee in respect of a guaranteed instrument that has been varied in any respect without notice to and the prior written consent of the Government.

DBRS has confirmed that it will assign a AAA long-term rating with a stable trend to guaranteed instruments to be issued under the CLAF. It is expected that S&P and Moody's will shortly also assign ratings.

The documents for the Canadian Life Insurers Assurance Facility, originally announced in Budget 2009, are currently expected to be released in the next couple of weeks.

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