

INFORMATION REPORT

| | |
|--|--|
| TO: Chair and Members Audit, Finance and Administration Committee | WARD(S) AFFECTED: CITY WIDE |
| COMMITTEE DATE: February 2, 2011 | |
| SUBJECT/REPORT NO: Restructured Master Asset Vehicle (MAV) Notes and Asset Backed Commercial Paper (ABCP) (FCS11006) (City Wide) | |
| SUBMITTED BY: Roberto Rossini General Manager Finance & Corporate Services Department | PREPARED BY: Gerald T. Boychuk, 905-546-4321 |
| SIGNATURE: | |

Council Direction:

On September 22, 2010, a member of the Audit and Administration Committee directed staff to provide an update respecting the City's Asset Backed Commercial Paper (ABCP) holdings.

Information:

The restructured Notes, held by the City of Hamilton, had a total restructured attributed cost of \$86.9 million and were named Master Asset Vehicle (MAV) Notes and set up on the Canadian Depository System (CDS). The original ABCP Notes paid arrears interest to January 2009. The City's restructured "A", "B" and "C" Notes pay contract interest whereas the City's restructured tracking Notes have no contract interest but payout whatever is earned. In 2007 and 2008, the City took a reserve loss position of \$12.9 million against all restructured Notes. The MAVIII Note (\$5,461,280) was redeemed at 99% after restructuring, leaving an attributed cost of \$71,156. The MAVII CI-15 Note was sold at 85% leading to a realized loss of approximately \$0.23 million. The MAVII CI-2 Note defaulted in 2009, realizing a loss of approximately \$1.6 million. The MAVII CI-25 Note defaulted September 13, 2010, realizing a loss of approximately \$2.1 million. All realized losses totalling approximately \$3.9 million have been written off against capital gains and investment income realized in 2010. As such, there is no budgetary or

financial impact on the City's operation. The remaining restructured MAV Notes have an attributed cost of approximately \$76.3 million.

The remaining restructured MAV Notes, detailed below, in total have a loss reserve of \$12.9 million and have realized losses of \$3.9 million to date.

Restructured Notes (MAV) and ABCP (Devonshire)

| Description | Credit Rating | Attributed Cost | Expected Value Per Dollar 2017 | Market Value Nov. 22, 2010 |
|----------------------------------|---------------|---------------------|--------------------------------|----------------------------|
| Restructured: | | | | |
| MAVII CI-A-1 | A High | \$41,158,379 | \$1.00 | \$0.7375 |
| MAVII CI-A-2 | BBB | 27,091,702 | .85 | .6400 |
| MAVII CI-B | n/a | 4,917,899 | .50 | .4275 |
| MAVII CI-C | n/a | 2,267,017 | .00 | .1200 |
| | | \$75,434,997 | | |
| Tracking Restructured : | | | | |
| MAVII CI-13 | n/a | \$ 850,887 | n/a | n/a |
| MAVII CI-15 | n/a | 1,509,796 | Sold 85% | n/a |
| MAVII CI-25 | n/a | 2,070,113 | Defaulted (2010) | n/a |
| MAVII CI-2 | n/a | 1,656,090 | Defaulted (2009) | n/a |
| | | \$ 6,086,886 | | |
| MAVIII | AAA | \$ 5,461,280 | Redeemed 99% | n/a |
| Total Restructured | | \$86,983,163 | | |
| ABCP: | | | | |
| Devonshire | n/a | \$ 9,919,000 | n/a | n/a |
| Total MAV & ABCP | | \$96,902,163 | | |
| Remaining Restructured MAV Notes | | \$76,357,041 | | |

The Devonshire ABCP is the subject of litigation, and has an allowance for loss of \$5.5 million. This case is being heard by the Investment Industry Regulatory Organization of Canada (IIROC) and the Ontario Securities Commission (OSC) in a separate action. The IIROC hearings have been delayed and to be held, as soon as possible, after April 4, 2011. The City is pursuing independent litigation for recovery from Deutsche Bank, Barclays Bank, Dominion Bond Rating Service, etc. through the law firm of Juroviesky and Ricci LLP. The outcome of the legal proceedings against Deutsche Bank and others is uncertain and the result could range from full recovery to full loss. The Courts are currently dealing with various motions from both parties.