Canada's banking system is and remains one of the most stable in the world. In fact, as I pointed out earlier, the assets of these two institutions represent less than one per cent of the total assets of the Canadian banking system. Both banks had their beginnings in Western Canada, in the mid seventies. Both banks were established in a region that was experiencing rapid economic growth as a result of an energy boom, and developed significantly during that period.

[*English*]

The banks focused upon attracting wholesale deposits from corporations and others like municipalities, hospitals, colleges and pension funds with substantial funds to invest. In their loans and other investments, these two banks had highly concentrated exposure in western real estate and in energy-based businesses.

The banks were particularly vulnerable when the resource based boom in western Canada came to an abrupt end. As we all know, the boom was followed by a very severe recession that dramatically weakened the western economy. In fact, only now is the western economy beginning to shake off the effects of that recession.

In March, the Government was approached by the management of the Canadian Commercial Bank for support. At that time, the Bank required write-downs on its loan portfolio. The net effect of these write-downs would have been to erode the capital and reserves of the Bank to such an extent that it would no longer be viable. A Government decision to support the CCB, or any financial institution for that matter, was not an easy decision to make. The Government, over the course of March 14 to March 25, explored many options, asked many questions and produced alternatives. That was our responsibility.

Let me state, Mr. Speaker, that this Government believes that regional financial institutions can play an important role in the development of strong regional economies. Because of this, we decided that it would be appropriate to make all reasonable efforts to enable the CCB to continue to serve western Canadian businesses.

There were a number of very important considerations behind this decision. The recovery in Alberta and British Columbia was lagging behind that of the rest of Canada. The Government was concerned that a regional bank failure would set back the economic recovery that was occurring in western Canada. Liquidation of the CCB in March, when the economy was less healthy, would have considerably disrupted the affairs of many western businesses, with serious risks to their recovery and, indeed, to their future survival. At the national and international level, there was considerable uncertainty in financial markets. The Canadian dollar had recently reached its lowest point ever. Interest rates were high. Financial institutions' failures in the United States had shaken confidence. The prospect of a bank failure in this unsettled environment carried with it significant but incalculable risks.

Faced with these risks, to jobs in western Canada, to the integrity of our banking system and to international confidence in our economy, the Government decided to pursue efforts to support the Canadian Commercial Bank.

In the light of the best information we had available, and recognizing the limited time for decision, we agreed, together with two provincial Governments and the six largest Canadian chartered banks, to propose the support package approved by Parliament in Bill C-37.

The support package was constructed to restore to CCB's viability by the participants absorbing $255 million of losses on the non-performing portion of the loan portfolio. The non-performing loan portfolio was identified by the management of the CCB and,in the limited time available, reviewed by the Inspector General of Banks and representatives of some of the chartered banks that participated in this support package.

Following the passage of Bill C-37 in March, and in consultation with the Chairman of the Board of the CCB, I took steps to attract new board members to strengthen the management of the Bank. I was looking for individuals of the highest professional calibre. Unfortunately, I was not successful in those recruiting efforts.

As required by the support agreement, two special representatives of the office of the Inspector General of Banks were appointed to supervise the arrangement. Those two experienced credit officers conducted a thorough review of the loans in the support package.

Also, as part of the follow-up to the support package, the Government arranged to have a team of banking experts led by Mr. George Hitchman review the total loan portfolio of the CCB. Mr. Hitchman's report identified the need for substantial write-down of the loans covered by the March support package, as well as other loans the Bank had made which the management of the Bank had excluded from the support package. At the same time, it was apparent that the support package had not restored market confidence in the Bank. The result of this lack of confidence was that Bank of Canada advances to the CCB increased substantially over the summer until they amounted to $1.3 billion by late August.

• (1510)

It became clear through the process that significant additional write-downs would be required. In the view of the IGB, the extent of these write-downs was such that the CCB could no longer be considered viable. Based upon these findings, the Bank of Canada could no longer continue to provide liquidity support.

In the absence of any other option, including potential merger opportunities that were explored, the resonsibility of the Minister of Finance (Mr. Wilson) was to appoint a curator to conserve the financial position of the Bank pending liquidation proceedings. We did not reach this decision on September 1 lightly; we came to it reluctantly and only after the most serious deliberations. We knew that there would be some disruption to the Bank's clients, but we had to weigh that factor against the knowledge that the Bank was no longer a viable financial institution.