

*Government Orders*

In liquidation the institution is broken up and its assets are sold. The sale proceeds go toward paying the institution's liabilities.

On the other hand, if a buyer or merger partner is found, the institution's business can be preserved and liabilities will be paid as they come due.

*[Translation]*

Madam Speaker, a deposit taking institution's branches and the relationships formed between the institution and its customers are among its most important assets.

*[English]*

When a troubled deposit-taking institution is closed and subsequently liquidated, its relationships with customers, both depositors and borrowers, will be cut off and the value of the branch network reduced. If the institution's branches are well established, this may mean not only a disruption of many people's financial affairs but also may considerably reduce the net worth of the institution by destroying its value as a going concern.

Preserving maximum value in a troubled deposit taking institution is in the best interest of the institution's depositors and creditors and the deposit insurer. However, once a deposit taking institution's capital falls below a certain level, shareholders may find themselves in a position in which they have little left to lose by the institution's further decline. At this stage declines in the value of the assets of the institution will be borne more and more by the creditors of the institution, its uninsured depositors and the deposit insurer. This can lead to a situation in which the shareholders' ability to block a sale or merger can be used to extract payment from CDIC or public authorities.

Though the shares of the institution have little or no value at this point, CDIC may find that it has to pay shareholders more than the true value of the shares to get them to agree to a transaction which preserves the value of the failing institution.

Bill C-48 contains measures to deal with this situation and gives federal authorities more control over the cost of resolving serious financial difficulties which may arise. The measures in this bill accomplish this goal while still respecting the rights of shareholders.

The restructuring process vests all ownership rights in the troubled institution in CDIC and makes CDIC responsible for managing the institution's restructuring. As sole shareholder, CDIC can approve any restructuring proposal. This could include the sale of the shares of the institution to one or more buyers, an amalgamation of the institution with another, or the sale of its assets and liabilities. Shareholders and subordinated debt holders will be compensated for the value of their shares and debt claims.

CDIC's use of the new restructuring measures will be guided by the pursuit of the objectives set out for CDIC in its act. These objectives are to provide deposit insurance, to promote high standards of business and financial practices, to promote the stability and competitiveness of the financial system in Canada, and to pursue these objectives for the benefit of depositors and in a manner which minimizes CDIC's exposure to loss.

These objectives provide assurance that the competitiveness and stability of the financial system, as well as the cost to CDIC, will be prime factors in determining how to resolve financial difficulties which may arise at CDIC member institutions.

The new powers granted to CDIC in this bill are appropriate, given the risk that CDIC bears and given the need to take decisive action when serious financial difficulties arise.

• (1610)

Nevertheless, these powers require that they be balanced by measures which ensure that shareholders and holders of subordinated debt are treated fairly.

The restructuring provisions in this bill accomplish this in two ways.

First, there is a set of conditions precedent which must be considered before a financial institution restructuring