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September 29, 2014

Financial Sector Division
Financial Sector Policy Branch
Department of Finance
140 O'Connor Street
Ottawa, Ontario
K1A 0G5
Via email: ConsultationsFSS-SSF@fin.gc.ca

Dear Sirs/Mesdames,

Re: Non Viable Contingent Capital (NVCC) and Bail-in Debt

We are writing you in response to the recent release of The Taxpayer Protection and Bank Recapitalization Regime: Consultation Paper.

The CBIA was established in 2011 and represents 34 of the largest fixed income institutional investor organizations in Canada, including those from the insurance, asset manager (including bank-owned), pension and investment counsel sectors. Those institutions represent more than $650 billion of fixed income assets under management. As such, the CBIA is the voice of Canadian institutional bond investors, and hence of millions of pensioners, policyholders and retail investors who depend on CBIA members and other similar industry participants for the sound management of these investments.

We appreciate the opportunity to comment on this proposal. We have reviewed this paper and have discussed it with our membership. Understandably, our membership has diverse views and on an important subject such as this it is difficult to present a unanimous view to most of the questions posed in this paper. Accordingly, we have encouraged our members to present individual responses to you so that the range of views among our members can be better understood.

However, our membership has expressed widespread concern about how the creditor hierarchy will be respected in this proposal. We advocate the principle that subordinated capital providers (common and preferred equity and subordinated debt holders) would have their positions substantially diluted prior to the bail-in of any portion of senior debt.

To ensure that this principal is followed in practice we expect that all NVCC preferred shares and subordinated debt would be converted into common equity and the multiplier applied to senior debt would be *much higher* than the proposed 1.1-2x range referenced in the consultation paper.

We defend this approach on the following basis:

1) It is more consistent with the Financial Stability Board's: Key Attributes of Effective Resolution Regimes for Financial Institutions. This document states that subordinated debt should be "written-off entirely" prior to a loss being imposed on senior debt holders.
2) It is a simple and transparent approach that will assist investors in pricing both NVCC and senior unsecured debt. The proposal outlined in the consultation paper would involve multiple scenario analysis to determine expected recoveries on default. Our proposal would allow for much greater certainty as to expected recoveries for both senior and subordinated debt holders.
3) Investors in subordinated bank debt are increasingly conditioned to expect little or no recovery in the event of insolvency. Recent resolutions of banks in the Netherlands and South Africa imposed near total losses on subordinated debt holders.
4) It would help provide a clearer distinction between senior debt and subordinated debt.

Thank you for considering our comments. Please contact us if you wish to further discuss our views.

Sincerely,

Joe Morin
Chair