

# National funds facing ABCP exposure

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A number of **National Bank of Canada's** money market mutual funds contain a troubled type of commercial paper that could expose them to potential losses.

National, the country's sixth-largest bank, is the only big bank to have holdings of this type in its money market funds, said Christian Charest, associate editor of Morningstar Canada, which rates mutual funds.

**Groupe Desjardins** has two money market funds with minimal amounts of exposure, he added.

National Bank declined to comment yesterday. Desjardins could not be reached for comment.

The \$40-billion third-party asset-backed commercial paper (ABCP) market fell into disarray recently after liquidity dried up.

On Thursday, a group of 10 financial institutions, including National Bank, announced a preliminary bailout plan for the market. It would see the short-term paper converted into longer-term instruments, with maturities of up to 10 years.

Some fund industry players have complained that money market funds can only hold debt that matures within a year, meaning they might be forced to sell and take a loss.

Five of National Bank's funds are loaded with third-party ABCP issued by conduits that are experiencing a problems with liquidity, **Veritas Investment Research** analyst **Ohad Lederer** wrote in a note to clients yesterday. He questioned whether National is the next BNP Paribas.

Paribas, France's biggest bank, sent markets tumbling last week after it said it was freezing three mutual funds, halting withdrawals on billions of dollars of assets.

**Mr. Lederer** said National Bank told him it believes that if the bailout goes through, National's money market funds will be able to hold the notes and not be forced to sell at a potential loss.

**Mr. Lederer** estimates that, as of March 31, the five National Bank funds with exposure held between 16.9 and 46.2 per cent of their net assets in commercial paper issued by conduits having liquidity problems.

Mr. Charest said, as of July 31, the five funds had between 8.44 and 42.34 per cent of their holdings exposed to trusts that were on a list of more than 20 trusts and issuers placed under review by Dominion Bond Rating Services this week.