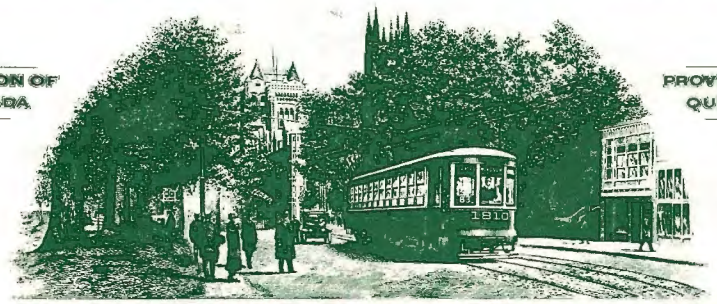
No.

DOMINION OF CANADA




PROVINCE OF QUEBEC

# MONTREAL TRAMWAYS COMPANY

(INCORPORATED BY ACT OF THE LEGISLATURE OF THE PROVINCE OF QUEBEC 1 GEORGE V (2ND SESSION), C.77, AND AMENDMENTS)

## FIRST (CLOSED) MORTGAGE 3% BOND

*Montreal Tramways Company* (hereinafter called "the Company") for value received promises to pay to the bearer hereof or if registered to the registered holder hereof on the first day of January, 1953, or on such earlier date as the principal money becomes payable in accordance with the conditions endorsed hereon and with the provisions of the Trust Deed hereinafter mentioned on presentation and surrender of this Bond, in lawful money of the Dominion of Canada at any branch in Canada of The Royal Bank of Canada at the option of the holder, subject to the conditions endorsed hereon, and to pay interest thereon from the first day of April, 1947 at the said places in like money, subject as aforesaid, at the rate of Three per centum (3%) per annum, half-yearly on the 1st of January and July in each year in accordance with and upon presentation and surrender of the coupons therefor as they become due, the first of such coupons being for the period from April 1, 1947 to January 1, 1948. This Bond is one of a series of First (Closed) Mortgage Bonds of the Company limited to a total principal amount of $48,810,000, of which Three million five hundred thousand dollars ($3,500,000) are represented by 3% Serial Bonds maturing to the extent of Seven hundred thousand dollars ($700,000) on the first day in each of the succeeding four years, and Seven million three hundred and ten thousand dollars ($7,310,000) are represented by 3% First (Closed) Mortgage Bonds maturing on the first day of April, 1977 which Bonds are secured by a Trust Deed of Hypothec, Mortgage and Pledge executed by the Company to The Royal Trust Company, as Trustee, dated the first day of April, 1947 which Trust Deed of Hypothec, Mortgage and Pledge is hereinafter referred to as the Trust Deed. Bonds of which this Bond forms part are issuable as coupon Bonds payable to bearer, or as registered Bonds transferable only on the books of the Company, in denominations of Five hundred dollars ($500) or One thousand dollars ($1,000) each, or in such other denominations as may be authorized by the Trustee with all unmatured coupons attached, or in any combination or denomination equivalent to the aggregate principal amount of any Bond or Bonds surrendered to the Trustee with all unmatured coupons attached. Bonds of any denomination may be exchanged for Bonds of any other denomination or combination of denominations equivalent to the aggregate principal amount of the Bond or Bonds surrendered. Bonds may be registered as to principal only or as to principal and interest. Registered Bonds may be transferred on the books of the Company at the office of the Company in the City of Montreal, or at any other place which may be designated by the Company, upon surrender of the Bond or Bonds registered, duly endorsed for transfer, and upon payment of a reasonable charge. Bonds registered as to principal only may be converted into Bonds registered as to principal and interest, and Bonds registered as to principal and interest may be converted into Bonds registered as to principal only, upon surrender of the Bond or Bonds registered, duly endorsed for transfer, and upon payment of a reasonable charge. Bonds registered as to principal only may be converted into coupon Bonds, and coupon Bonds may be registered as to principal only, upon surrender of the Bond or Bonds registered, duly endorsed for transfer, and upon payment of a reasonable charge. Bonds registered as to principal and interest may be converted into coupon Bonds, and coupon Bonds may be registered as to principal and interest, upon surrender of the Bond or Bonds registered, duly endorsed for transfer, and upon payment of a reasonable charge. Bonds may be redeemable prior to maturity at the option of the Company on such terms and at such time at the following percentages of principal amount in each case, that is to say, at 101.375% if redeemed before January 1, 1949 but on or after January 1, 1948; at 101.25% if redeemed on or after January 1, 1949 but before January 1, 1950; at 101.125% if redeemed on or after January 1, 1950 but before January 1, 1951; at 101.875% if redeemed on or after January 1, 1951 but before January 1, 1952; at 100.75% if redeemed on or after January 1, 1952 but before maturity. This Bond is subject to the conditions endorsed hereon, to all of which reference is hereby made. The Trust Deed contains provisions for the calling of meetings of the holders of Bonds and for making binding upon all Bondholders Extraordinary Resolutions passed at such meetings and for other matters. This Bond, subject to the provisions of the Trust Deed as to its transfer when registered as to principal, referred to in the said conditions, shall be negotiable and all persons may act accordingly. This Bond shall not become obligatory until it shall have been certified by the Trustee for the time being of the Trust Deed.

In Witness Whereof, Montreal Tramways Company has caused its corporate seal to be hereunto affixed and this Bond to be signed by its President or a Vice-President and countersigned by its Secretary or an Assistant Secretary or any Director of the Company and to be dated the first day of April, 1947.

*Montreal Tramways Company*

COUNTERSIGNED BY:

*T. S. Robertson* SECRETARY.

BY *R. N. Watt* PRESIDENT.

**1927-1977**

**L'ASSOCIATION DE MONTREAL DES NEGOCIANTS EN OBLIGATIONS**

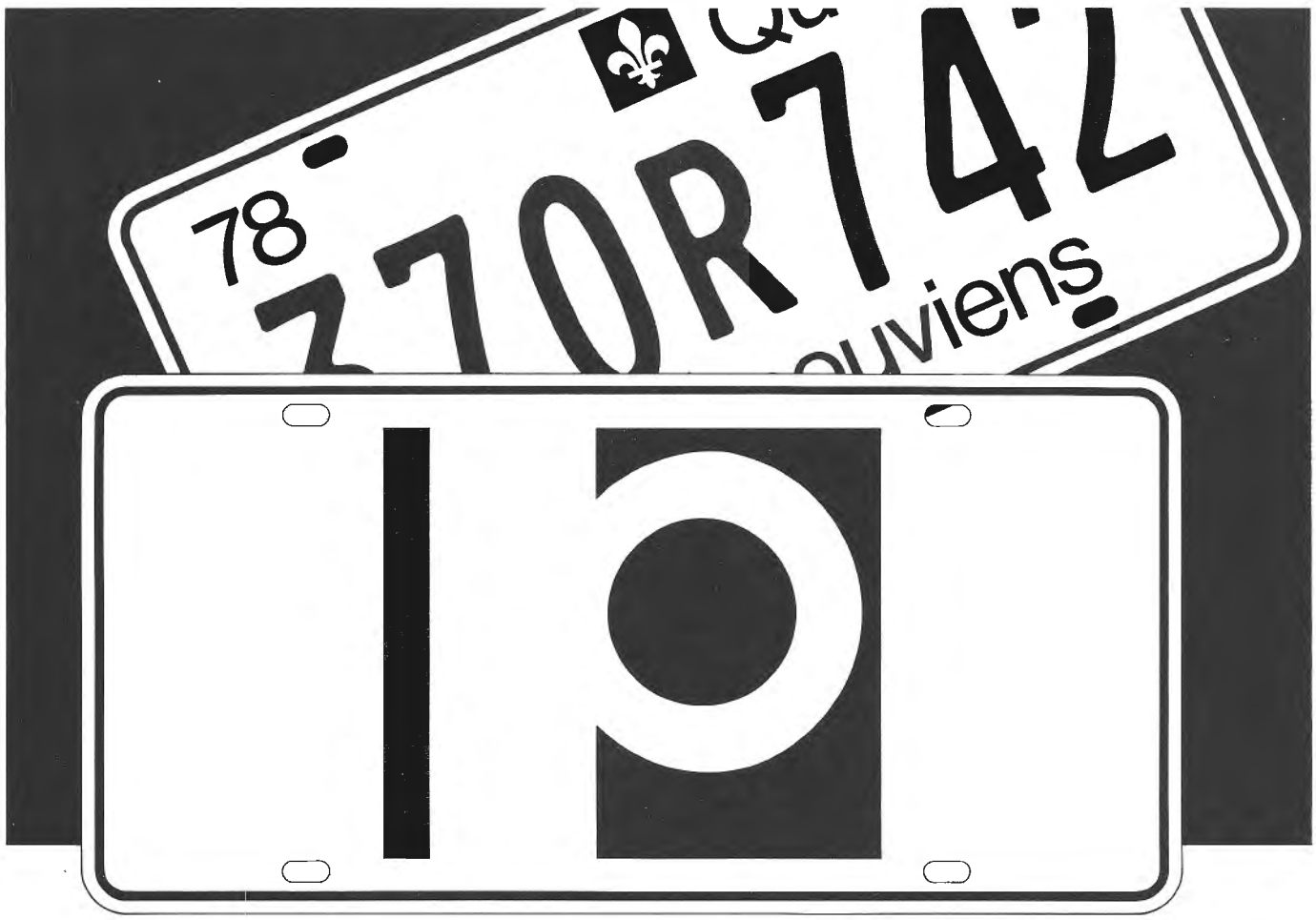
**REVUE DU CINQUANTIÈME ANNIVERSAIRE**

**50**

**FIFTIETH ANNIVERSARY REVIEW**

**MONTREAL BOND TRADERS' ASSOCIATION**

BRITISH AMERICAN BANK NOTE COMPANY LIMITED




# Roulez bien assurés!

L'assurance Automobile est devenue obligatoire et entraîne bien des complications.

La prise en charge de l'indemnisation des dommages corporels par une régie publique n'est qu'un élément de la question. Vous devez aussi détenir une assurance de responsabilité civile pour certains dommages dont vous pourriez être responsables.

Mais vous aurez la certitude de rouler bien assurés si vous vous renseignez pour obtenir une protection appropriée, garantie par une compagnie réputée.

Les Prévoyants du Canada—Assurance Générale vous recommandent de vous adresser à votre courtier d'assurances, qui saura vous protéger dans la mesure de vos besoins.

GROUPE PRENOR

**Les Prévoyants du Canada**
**assurance générale—assurance-vie**

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**Président**
Jean-Louis Tassé
Tassé & Associés, Limitée



**Vice-Président**
Donald Kokiw
McLeod Young Weir Limitée



**Secrétaire**
Jean-Guy Gagnon
Grenier, Ruel & Cie Inc.



**Trésorier**
Ronald Laberge
Richardson Securities of Canada



**Président ex-Officio**
William Whalen
Greenshields Incorporée



**Administrateur**
Jean Turmel
Dominion Securities Limitée



**Administrateur**
Pierre Comtois
Lévesque, Beaubien Inc.



**Administrateur**
Claude Villeneuve
Brault, Guy, O'Brien Inc.

# SALUTATIONS DE VOTRE CONSEIL D'ADMINISTRATION




# GREETINGS FROM YOUR 1977 EXECUTIVE

Cher membre,

Les pages qui suivent constituent un regard rétrospectif sur les cinquante années de vie de notre Association.

Cette revue du 50e anniversaire est le fruit d'efforts incommensurables d'un grand nombre de membres et d'ex-membres, que je tiens à remercier.

Qu'il me soit permis de vous mentionner les auteurs de certains articles, soit Murray Cox, Fred Sheward, Simeon Spidle, Michael Scott, Jean-Claude Quesnel, ainsi que d'autres personnes qui ont contribué à la recherche, soit Andy Armstrong, Bill Dwyer, Tom Boland, Jack Brookes, Peter Betts, Rodolphe Casgrain, Rolf MacKeen et plusieurs autres.

Cette revue n'aurait pu se réaliser sans la contribution de nos annonceurs, que je tiens à remercier publiquement.

Jean-Louis Tassé
Président 1977-78

Dear member:

The following pages constitute a partial record of the fifty years of the Association. There will be errors and omissions, for which I apologize.

This fiftieth anniversary review is the result of considerable effort by a number of people whom I would like to thank, especially those who contributed certain articles, Murray Cox, Fred Sheward, Si Spidle, Michael Scott, Jean-Claude Quesnel, and several others who provided so much information to us, among whom were Andy Armstrong, Bill Dwyer, Tom Boland, Jack Brookes, Peter Betts, Rudy Casgrain, Rolf MacKeen and many more.

This review could not have been produced without the support of our advertisers whom I wish to thank publicly.

Jean-Louis Tassé
Chairman 1977-78

# LA BANQUE ROYALE DU CANADA
## la plus importante banque au Canada



Félicitations à
L'ASSOCIATION DE MONTRÉAL
DES NÉGOCIANTS EN OBLIGATIONS
à l'occasion de son 50e anniversaire.




# NOS EX-PRESIDENTS
# OUR PAST PRESIDENTS

**1927-28**
WILLIAM (BILL) BARR†
Joined Royal Securities Corporation Limited in 1917. Became Manager of the Bond Trading department around 1924 and later a Director of Royal Securities Corporation. Retired late 1940's. (1)

**1928-29**
W.T.K. (CASEY) COLLIER†
Joined Wood Gundy & Company Limited in the early twenties and in 1921 formed Collier Norris & Henderson. Retired in 1966 and died in 1976. (1)

**1929-30**
J.S. (JOE) BOLTON
Joined Bank of Montreal in 1900. Was appointed Chief Bond Trader in the twenties and Assistant General Manager in 1943. Retired in 1958. (1)

**1930-31**
D. (DAVE) CARSTAIRS†
Joined Hannaford Birks & Gordon in the late twenties. (1)

**1931-32**
W.B. (ROBBIE) ROBINSON†
Joined Royal Securities Corporation Limited around 1925 and resigned to join W.C. Pitfield & Co. Ltd. and later worked in their Vancouver and London, England offices. (1)

**1932-33**
J. (JIMMY) HENDERSON†
Joined Dominion Securities Corporation Limited in 1910. During World War II served with the Government of Canada in Ottawa involving Canadian securities. From 1935 to 1962 he was Chief Trader for Dominion Securities in Montreal. Retired on May 31, 1963. Died in May 1970. (1)

**1933-34**
W.J. (JACK) PIPER
Joined Drury & Co. in Montreal in 1927 and A.E. Ames & Co. Limited in 1932. Was appointed Vice President of Ames in 1948 and Executive Vice-President in 1965. Retired in 1971. (1)

**1934-35**
J.S. (JOE) BOLTON (see 1929-30) (1)

**1935-36**
D. (DAVE) CARSTAIRS (see 1930-31) (1) †

**1936-37**
Not available

**1937-38**
G.F. (FRED) STYLES†
Was associated with A.E. Ames & Co. Limited and McLeod Young Weir. Also worked for the Quebec Government Sinking Fund. (1)

**1938-39**
H.A. (HERBIE) PLOW†
Joined Royal Securities Corporation Limited around 1925. Subsequently was associated with Williamson, Plow & Co., H.B. Robinson & Co. and Dominion Securities Corporation Limited. Died in Sherbrooke in mid 1970. (1)

**1939-40**
ANDREW (ANDY) ARMSTRONG
Joined Royal Securities Corporation Limited in 1922. Cashier in 1925 – manager delivery department 1927. Appointed Head of Bond Trading in 1936. Founded Graham Armstrong Securities Ltd. 1958 and was President until 1968. Retired in 1973. (1)

**1940-41**
S.J. (JIM) LANGILL
Joined W.C. Pitfield & Co. Ltd. in Ottawa in 1929. Appointed Chief Bond Trader in Montreal and Director in 1937. Appointed President of Hugh Mackay & Co. in 1947. Chairman Montreal Stock Exchange in 1961. Retired in 1971. (1)

**1941-42**
J.A.D. (DUNC) FALKNER
Joined Wood Gundy & Company Limited in 1928 and later was appointed Vice-President & Director. Retired in 1972. (1)

**1942-43**
D.J. (DUDLEY) BYERS
Joined Greenshields Inc. in 1924 in Retail sales. Was Bond Trader for Jenks Gwynne and for Abbott Proctor & Payne from 1931 to 1941. Returned to Jenks Gwynne in 1943 which became A.M.

Kidder a few years later and was Vice-President. A.M. Kidder sold to Francis I. Dupont in 1963 and he was appointed member of the Executive Committee. Joined Baker Weeks in 1971. (1)

**1943-44**

T.D. (DENT) LEWIS

Joined Bank of Montreal in 1927. Appointed Manager, Securities Department Head Office in 1946. Appointed Assistant General Manager in 1957 and Vice-President in 1967. Retired in 1972. (1)

**1944-45**

G. C. (GUY) MAJOR†

Joined Williams Partridge & Rapley around 1928 and was subsequently associated with H.B. Robinson & Co., Canadian Alliance Co. and Major & Company. He died in December, 1975. (1)

**1945-46**

A.H. (ART) WEBB†

Entered investment business around 1920. Was a partner with Roarke & Webb, Montreal and was also associated with L.G. Beaubien & Co. Limited and later with Crédit Interprovincial Ltée until 1963. (1)

**1946-47**

L.J. (LYLE) KEATING†

Joined Nesbitt Thomson & Company Limited in 1928. Was appointed Manager of trading at the Toronto office in 1934. In 1942 was appointed head of trading at their head office in Montreal and in 1961 became a Director. Retired in 1966. (1)

**1947-48**

J.A.D. (DUNC) FALKNER (see 1941-42) (1)

**1948-49**

W.L. (WALTER)DOWNES

Joined Bond Department Canadian Imperial Bank of Commerce in 1922. Appointed as Director of Kippen & Co. in 1927. Appointed a Director of W.D. Latimer & Co. Limited in 1940. Retired in 1975. (1)

**1949-50**

J.A. (FRED) SENECAL

Entra au service de Beaubien & Cie Limitée en 1931 et y demeura pendant 25 ans. Fut ensuite au service de Marc Carrière Ltée et plus tard Bankers Bond. Prit sa retraite en 1968. (2)

**1950-51**

J.G. (TED) PATTEE

Joined Collier Norris & Quinlan in 1930 and became Chief bond trader. 1954 associated with Dawson Hannaford as institutional bond salesman and in charge of Maritime Government & Municipal Financing and retained the same duties after Dawson Hannaford merged with Greenshields Inc. in 1961. Ted was very active in Curling and is a Past-President of the Dominion Curling Association. Retired in 1974. (2)

**1951-52**

R.B. (RUDY) CASGRAIN

Entra au service de Wood Gundy & Company en 1937. Devint arbitragiste et vendeur. Fonda Casgrain & Compagnie Ltée en 1947. (2)

**1952-53**

ANDREW (ANDY) ARMSTRONG (see 1939-40) (3)

**1953-54**

J.E. (JACK) BROOKES

Joined Barclays Bank (Canada) in 1930. Joined Greenshields & Co. Inc. in 1944 and appointed Head Bond Trading in 1948, Vice President in 1957 – Managing Director in 1965, Senior Vice-President in 1967, Vice-Chairman in 1972. Retired in 1976. (3)

**1954-55**

R.A. (ROGER) KEAST

Joined Dominion Securities Corporation Limited in 1929 and became a highly regarded corporate trader. He remained with Dominion Securities throughout his career and retired in January 1976. (2)

**1955-56**

B.E. (BERNIE) DEBREYNE

Entra à l'emploi de L.G. Beaubien & Cie, Ltée en 1935. Fut dans l'A.M.R.C. outremer. Devint administrateur de Lévesque Beaubien Inc. en 1963. En 1967 fut nommé Vice-Président Souscription à forfait et est maintenant Vice-Président de Lévesque Beaubien Inc. (2)

**1956-57**

W.H. (BILL) DWYER

Joined Hanson Bros. Inc. Montreal in 1934. Royal Canadian Artillery in 1939 to 1945. Trader for Burns Bros. & Denton from 1946 to 1948 and W.C. Pitfield & Co. Ltd. from 1952 to 1974. Retired in 1974. (3)

**1957-58**

E.J. (ERIC) WRIGHT

Joined Mills, Spence & Co. Ltd. in 1936 as bond trader. R.C.A.F. from 1940 to 1949. Bond trader for Crabtree & Co. Ltd from 1949 to 1966 and Resident Director for T.A. Richardson from 1966 to 1973. Now in sales with Pitfield, Mackay, Ross Ltd. since 1974. (3)

**1958-59**

R.W. (ROLF) MACKEEN

Joined Greenshields & Co. Inc. in 1945. Was with Collier Norris & Quinlan in 1967 and 1968. Midland Securities Ltd. from 1970 to 1975. Now with Richardson Securities of Canada. (3)

**1959-60**

J.F. (JIM) MCLAUGHLIN

Joined Wood Gundy & Company Limited in Toronto and transferred to Montreal office in 1951. Has been with Nesbitt Thomson & Company Limited since 1966. (4)

**1960-61**

J.W. (JACK) LOVE †

Joined Dominion Securities Corporation Limited in 1946, and was Head of bond trading, Montreal from 1962 to 1974. Retired in 1977. Died in February 1978. (1)

**1961-62**

W.L. (LLOYD) GARRETT

Joined Nesbitt Thomson & Company Limited in 1942 and in 1960 joined Maison Bienvenue as manager, bond department. Became Vice-President and Director in 1967. In 1975 joined Mills Spence & Co. as institutional bond salesman, Toronto. (1)

**1962-63**

P.W. (PETER) BETTS

Joined Richardson & Sons in 1949. Was a bond trader for various firms from 1954 to 1973. Now with Midland Doherty Ltd. in Toronto. (1)

**1962-63**

J.M. (JACQUES) BRAULT

Représentant aux ventes pour W.C. Pitfield & Company Limited de 1955 à 1959. Entra au service de Brault & Chaput en 1959 et en devint président. En 1977, entra au service de Levesque Beaubien à titre de Vice-Président. (1)

**1963-64**

T.G. (GEORGE) MULLIGAN

Joined Royal Securities Corporation Limited in 1946 and in 1953 joined Nesbitt Thomson & Company Limited. Became Chief Trader in 1959. Became a Director of International Trust, Toronto, in 1969, and now is Vice-President. (1)

**1964-65**

R.H. (RON) LLOYD

Joined Royal Securities Corporation Limited, Toronto, in 1956 and transferred to Montreal in 1958. Joined Greenshields & Co. Inc. in 1959 to become Head of Bond Trading in 1963 and Institutional Sales Manager in 1967. Became Vice-President and Director of firm in 1969. Now with Greenshields in Toronto (1).

**1965-66**

D.A. (ALLAN) BRACHER

Joined Barclays Bank (Canada) in 1950. Was a bond trader for McLeod Young Weir & Company Limited from 1952 to 1969 in Montreal and Toronto, and Vice-President and Director of the firm since 1972. (3)

**1966-67**

M.L. (MOE) TOURIGNY

Joined Equitable Securities Limited and later moved to Molson, Rousseau & Co. Limited. Left the investment business in 1968 (1)

**1967-68**

O.J. (OTTO) KERR

Joined the Royal Bank of Canada, Montreal in 1957. Became Manager Securities for their Calgary office, in 1960. Joined Casgrain & Company in 1962. (1)

**1968-69**

D.J. (DAVE) MOTT

Joined Royal Securities Corporation Limited in 1958 and Graham Armstrong Securities in 1959 as a bond trader. Has been with Burns Fry since 1974. (1)

**1969-70**

J. (JOE) MURRAY

Joined A.E. Ames & Co. Limited in 1959 in Calgary. From 1961 to 1963 he served in the Toronto office and in the Montreal office from 1964 to 1977. Now back in the Toronto office. (1)

**1969-70**

D.G. (DAVE) HACKETT

Joined McLeod Young Weir & Company Limited, Montreal in 1959. Appointed Vice-President in 1973. Currently responsible for money market operations and institutional bond sales in Toronto. (1)

**1970-71**

JAMES H. (JIM) CLAYDON

Joined Osler, Hammond & Nanton Ltd. in Winnipeg, 1955. Moved to Toronto with that firm in 1957. In 1959 he joined Royal Securities Corporation Limited in Toronto, transferring to their Montreal office in 1962 as a government bond trader. Returned to Toronto in 1971 and the following year joined Pitfield, MacKay, Ross & Co. Ltd. as Director of Debt. Securities. (1)

**1971-72**

R.M. (BOB) JAMIESON

Joined Wood Gundy & Company Limited in 1962, Montreal. Now Vice-President high grade trading, in Toronto. (1)

**1972-73**

J.L. (JEAN-LOUIS) TASSE

Entra au service de Royal Securities Corporation en 1951. Subsequemment devint représentant pour W.C. Pitfield & Co. Ltd., Desjardins Couture et autres. Fonda Tassé & Associés, Limitée en 1967. (1)

**1973-74**

J. (JEAN) RHEAULT

Entra à l'emploi de Burns Bros. & Denton Limited à Toronto en 1954 et fut transféré au bureau de Montréal en 1955 comme arbitragiste. Vice-président souscription – Morgan Ostiguy & Hudson en 1957-59. Est maintenant vice-président exécutif René T. Leclerc depuis 1977. (1)

**1974-75**

Y. (YVON) RICHARD

Entra au service de Crédit Québec Inc. en 1959. Nommé vice-président, service des obligations – Brault Guy Chaput en 1965. Représentant institutionel de Burns Fry Ltée depuis 1977. (1)

**1975-76**

J. (JOHN) COMOLLI

Joined trading department of McLeod Young Weir & Company Limited, Montreal in 1961 and has been a Vice-President since 1971. (1)

**1976-77**

W.H. (BILL) WHALEN

Joined Morgan & Co. in 1955. Vice-President Greenshields Inc. in 1977 now with Levesque Beaubien Inc. (1)

**1977-78**

J.L. (JEAN-LOUIS) TASSE (voir 1972-73) (1)

1) Annual Dinner Windsor Hotel
2) Annual Dinner Mount Royal Hotel
3) Annual Dinner Ritz-Carlton Hotel
4) Annual Dinner Queen Elizabeth




# LISTE DU MEMBRES DU COMITE EXECUTIF DE L'ASSOCIATION DE MONTREAL DES NEGOCIANTS EN OBLIGATIONS DEPUIS SA FONDATION EN 1927

# LIST OF EXECUTIVE COMMITTEE MEMBERS OF THE MONTREAL BOND TRADERS ASSOCIATION SINCE ITS FOUNDING IN 1927




**1977-78**

| | |
|---|---|
| Président | : Jean-Louis Tassé |
| Vice-président | : Don Kokiw |
| Secrétaire | : Jean-Guy Gagnon |
| Trésorier | : Ronald Laberge |
| Administrateurs | : Pierre Comtois |
| | Jean Turmel |
| | Claude Villeneuve |

**1976-77**

| | |
|---|---|
| Président | : William Whalen |
| Vice-président | : Daniel Flynn |
| Secrétaire | : Pierre Comtois |
| Trésorier | : Don Kokiw |
| Administrateurs | : Jean Arsenault |
| | Peter Brown |
| | Paul J. O'Rourke |

**1975-76**

| | |
|---|---|
| Président | : Yvon Richard |
| Vice-président | : Paul Hossack |
| Secrétaire | : Jean Arsenault |
| Trésorier | : Daniel Flynn |
| Administrateurs | : Peter Brown |
| | Jacques M. Gagnon |
| | George Wraw |

**1974-75**

| | |
|---|---|
| Président | : J.G. Comolli |
| Vice-président | : Yvon Richard |
| Secrétaire | : Jacques M. Gagnon |
| Trésorier | : George Wraw |
| Administrateurs | : John Dunsford |
| | T. Michael Douglas |
| | Paul Hossack |

**1973-74**

| | |
|---|---|
| Président | : Jean Rhéault |
| Vice-président | : Emery Laporte |
| Secrétaire | : Yvon Richard |
| Trésorier | : Hank Cunningham |
| Administrateurs | : Jean Comolli |
| | Wally D. Droghini |
| | T. Michael Douglas |

**1972-73**

| | |
|---|---|
| Président | : Jean-Louis Tassé |
| Vice-président | : Pierre Boucher |
| Secrétaire | : Emery Laporte |
| Trésorier | : John B. Henderson |
| Administrateurs | : J.G. Comolli |
| | W. Droghini |
| | Don Johnson |

**1971-72**

| | |
|---|---|
| Président | : R. M. Jamieson |
| Vice-président | : D.T. Gleason |
| Secrétaire | : Pierre Boucher |
| Trésorier | : Robert R. Young |
| Administrateurs | : Ernest G. Ayers |
| | John B. Henderson |
| | D. Johnson |

**1970-71**

| | |
|---|---|
| Président | : James Claydon |
| Vice-président | : R.M. Jamieson |
| Secrétaire | : Ernest G. Ayers |
| Trésorier | : Robert R. Young |
| Administrateurs | : H. Dungan |
| | D.T. Gleason |
| | Noel Stanford |

**1969-70**

| | |
|---|---|
| Président | : J.B. Murray * |
| Vice-président | : R.M. Jamieson |
| Secrétaire | : William Whalen |
| Trésorier | : Neil Coutts ** |
| Administrateurs | : H. Dungan |
| | Noel Stanford |
| | Jean-Louis Tassé |

* Replaced David Hackett
** Replaced Ian McCallum

**1968-69**

| | |
|---|---|
| Président | : D. J. Mott |
| Vice-président | : Pierre Cantara |
| Secrétaire | : J.B. Murray |
| Trésorier | : G. Cloutier |
| Administrateurs | : C.W. Cole |
| | James Claydon |
| | A.T. Kyne |

**1967-68**

| | |
|---|---|
| Président | : O.J. Kerr |
| Vice-président | : P.P. Biggs |
| Secrétaire | : C.W. Cole |
| Trésorier | : G. Cloutier |
| Administrateurs | : Pierre Cantara |
| | James Claydon |
| | E.E. Fulcher |

**1966-67**

| | |
|---|---|
| Président | : M. Tourigny |
| Vice-président | : A.D. Thomas |
| Secrétaire | : P.P. Biggs |
| Trésorier | : E.E. Fulcher |
| Administrateurs | : G.J. Barry |
| | J.J. Gill |
| | W.P. Sarachman |

**1965-66**

| | |
|---|---|
| Président | : D. A. Bracher |
| Vice-président | : D.J. Mott |
| Secrétaire | : M.J. Carey |
| Trésorier | : A.D. Thomas |
| Administrateurs | : C. Dieumegarde |
| | B. de Cambra |
| | J.J. Gill |

**1964-65**

| | |
|---|---|
| Président | : R. Lloyd |
| Vice-président | : D.R. Curry |
| Secrétaire | : D.J. Mott |
| Trésorier | : C. Dieumegarde |
| Administrateurs | : W. Droghini |
| | B. de Cambra |
| | M.J. Carey |

**1963-64**

| | |
|---|---|
| Président | : T.G. Mulligan |
| Vice-président | : J.F. Carroll |
| Secrétaire | : D.R. Curry |
| Trésorier | : L. Dusault |
| Administrateurs | : A.P. Beauchamp |
| | W.L. Lund |
| | O.S. Rasmussen |

LATER REPLACED BY:

| | |
|---|---|
| Président | : P.W. Betts |
| Vice-président | : J.F. Carroll |
| Secrétaire | : D.R. Curry |
| Trésorier | : L. Dusault |
| Administrateurs | : A.P. Beauchamp |
| | M. Larose |
| | O.S. Rasmussen |
| | Later replaced by |
| | M. J. Carey |

**1962-63**

| | |
|---|---|
| Président | : P.W. Betts |
| Vice-président | : S.Spidle |
| Secrétaire | : K.G. Copland |
| Trésorier | : W.L. Lund |
| Administrateurs | : J. Brault |
| | J.F. Carroll |
| | M. Tourigny |

LATER REPLACED BY:

| | |
|---|---|
| Président | : J. Brault |
| Vice-président | : M. Tourigny |
| Secrétaire | : R. Lloyd |
| Trésorier | : W.L. Lund |
| Administrateurs | : O.J. Kerr |
| | J.F. Carroll |
| | L. Dusault |

**1961-62**

| | |
|---|---|
| Président | : W.L. Garrett |
| Vice-président | : T.G. Mulligan |
| Secrétaire | : B. Bain |

Trésorier : W.K. Bird
Administrateurs : S. Spidle
M. Tourigny
J. Brault

**1960-61**

Président : J.W. Love
Vice-président : J. Baird
Secrétaire : P.O. Shannon
Trésorier : W.K. Bird
Administrateurs : T.G. Mulligan
C.J. Oates
Y. Pesant

**1959-60**

Président : J.F. McLaughlin
Vice-président : D.A. Bracher
Secrétaire : Y. Pesant
Trésorier : C.J. Roberton
Administrateurs : J. Bélanger
C.J. Oates
F.H. Stevenson

**1958-59**

Président : R. MacKeen
Vice-président : T.R. Donnolly
Secrétaire : F.H. Stevenson
Trésorier : J. Bélanger
Administrateurs : J.W. Love
J. Baird
D.A. Bracher

**1957-58**

Président : E.J. Wright
Vice-président : L. Garrett
Secrétaire : T.R. Donnelly
Trésorier : Y. Leonard
Administrateurs : R.F. Telfer
M.S. Wetmore
J.W. Love

**1956-57**

Président : W.H. Dwyer
Vice-président : J.F. McLaughlin
Secrétaire : R.F. Telfer
Trésorier : L. Pilon
Administrateurs : R. MacKeen
L. Garrett
M.S. Wetmore

**1955-56**

Président : B.E. deBreyne
Vice-président : P.W. Betts
Secrétaire : R.G. Tait
Trésorier : L. Pilon
Administrateurs : J.L. Davis
R. MacKeen
J.F. McLaughlin

**1954-55**

Président : R.A. Keast
Vice-président : S.B. Jeffrey
Secrétaire : R.G. Tait
Trésorier : J.L. Davis
Administrateurs : P.W. Betts
G. Perreault
J.D. Porter

**1953-54**

Président : J.E. Brookes
Vice-président : E.J. Wright
Secrétaire : K.G. Murray
Trésorier : J.V. Emory
Administrateurs : S.B. Jeffrey
J.C. Leclerc
J.D. Porter

**1952-53**

Président : A. Armstrong
Vice-président : T.H. Cummings
Secrétaire : D. Gatehouse
Trésorier : J.V. Emory
Administrateurs : W.G. Pepall
J. C. Leclerc
E.J. Wright

**1951-52**

Président : R. Casgrain
Vice-président : T.H. Cummings
Secrétaire : A. McCormack
Trésorier : P.M. Fisher
Administrateurs : B. de Breyne
D. Gatehouse
W.G. Pepall

**1950-51**

Président : J.G. Pattee
Vice-président : J. Gibson
Secrétaire : J.F. Ledoux
Trésorier : P.M. Fisher
Administrateurs : J.E. Brookes
B. de Breyne
A. McCormack

**1949-50**

Président : J.A. Sénécal
Vice-président : E.W. Turner
Secrétaire : J.F. Ledoux
Trésorier : R.B. Harley
Administrateurs : L.P. Larose
J.E. Brookes
J. Gibson

**1948-49**

Président : W.L. Downes
Vice-président : W.H. Dwyer
Secrétaire : R. Stevenson
Trésorier : R.B. Harley
Administrateurs : L.P. Larose
H.E. Neville
E.W. Turner

**1947-48**

Président : J.A.D. Falkner
Vice-président : E. McNeil
Secrétaire : E.W. Brown
Trésorier : W. Fraser
Administrateurs : W.H. Dwyer
H.E. Neville
J.G. Pattee

**1946-47**

Président : L.J. Keating
Vice-président : W.H. Price
Secrétaire : J.E. Salthouse
Trésorier : W. Fraser
Administrateurs : W.H. Landymore
E. McNeil
J.G. Pattee

**1945-46**

Président : A.H. Webb
Vice-président : R. Giroux
Secrétaire : J.E. Salthouse
Trésorier : P.F. Martin
Administrateurs : W.H. Landymore
W.H. Price
M.R. Walker

**1944-45**

Président : G. C. Major
Vice-président : J.A. Leddy
Secrétaire : R.A. Keast
Trésorier : P.F. Martin
Administrateurs : R. Giroux
L.J. Keating
M.R. Walker

**1943-44**

Président : T.D. Lewis
Vice-président : A.H. Webb
Secrétaire : R.A. Keast
Trésorier : R. Zwibel
Administrateurs : L.J. Keating
J.A. Leddy
J.A. Sénécal

**1942-43**

Président : D.J. Byers
Vice-président : W.L. Downes
Secrétaire : R.A. Keast
Trésorier : R. Zwibel
Administrateurs : Aimé Domingue
J.A. Sénécal
A.H. Webb

**1941-42**

Président : J.A.D. Falkner
Vice-président : R.S. Mills
Secrétaire : D.J. Byers
Trésorier : R. Zwibel
Administrateurs : Aimé Domingue
W. L. Downes
R. Stevenson

**1940-41**

Président : S.J. Langill
Vice-président : J.A.D. Falkner
Secrétaire : D.J. Byers
Trésorier : R.S. Hills
Administrateurs : J.R. Lemire
R. Zwibel
B.A. Mallon

**1939-40**

Président : A. Armstrong
Vice-président : Eric Kippen
Secrétaire : D.J. Byers
Trésorier : F.M. Fitzpatrick
Administrateurs : Jules Couture
: J.A.D. Falkner
B.A. Mallon

**1938-39**

Président : H. Plow
Vide-président : V.B. Smith
Secrétaire : D.J. Byers
Trésorier : G.G. Johnson
Administrateurs : M.B. O'Reilly
G.F. Styles
W.H. Dwyer

*Suite à/continued on page 52*

# CELEBRATION DU CINQUANTENAIRE

## HOTEL REGENCE HYATT, 9 FEVRIER 1978

# CELEBRATION OF THE 50TH ANNIVERSARY

## HYATT REGENCY HOTEL, 9TH FEBRUARY, 1978






Gordie Wilkins



Dennis Sheene and Dent Lewis



Don McLeod, Doug Humphreys, Si Spidle, Jamie Roberton and John McNeil



David Mott, John Baird and Peter Betts



Noel Stanford, Gaby Gendron et Jean Thibaudeau



Jean-Guy Gagnon, René Jarry, Michel Charbonneau et Michel Primeau



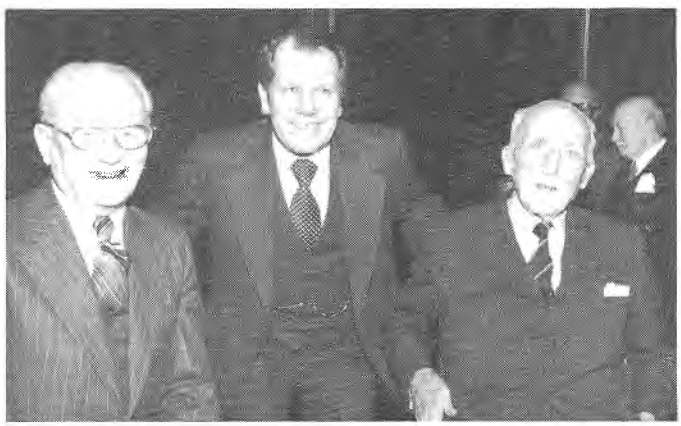
Walter Downes and Bob Tait



Dunc Falkner and Joe Leddy



Remise par le représentant de CP Air, Monsieur Richard Bélec, de deux billets aller/retour destination Portugal, à titre de prix de présence à Monsieur Archibald Simard



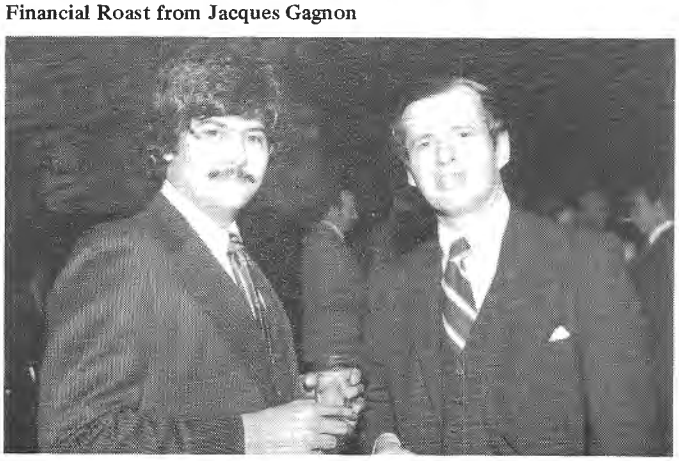
Dudley Byers, Colin Oates and Eric Kippen



Mike Douglas, Gaetan Baudoin, Don Kokiw buying copies of the 1938 Financial Roast from Jacques Gagnon



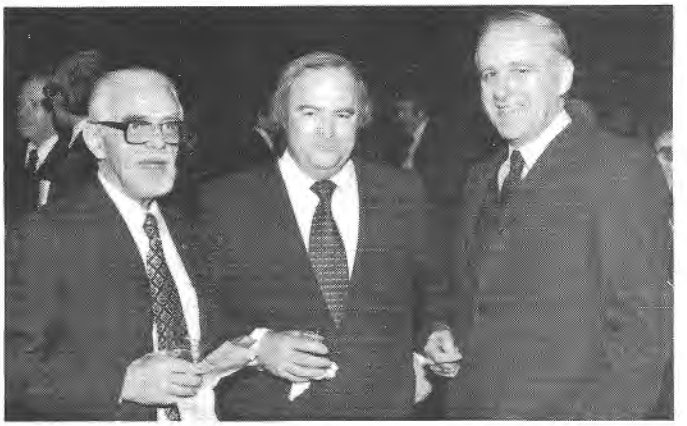
Danny Gleason, Rolf MacKeen, Ray Boivin and Bill Small



Manny Ahmad and David Hackett



Walter Downes, Jean-Louis Tassé and Andy Armstrong



Gérard (Ginger) Gingras, Jacques Clément et Doug Humphreys



Bruce Mowat, Fred Stevenson, Bernie de Breyne et Jean Rheault



Rold MacKeen Ted Shannon and Jim MacLaughlin



Herbie Duncan, Tom Boland and Ron Laberge

Greenshields Incorporée

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"THE INCOME TAX AND THE INDIVIDUAL"


PLACE D'ARMES, 1928


FÉLICITATIONS **Trust Royal** CONGRATULATIONS **Royal Trust**

# THE HISTORY OF THE MONTREAL BOND TRADERS' ASSOCIATION




By Murray Cox, Investment Dealers' Association of Canada and Fred Sheward, Tassé & Associés, Limitée

**The Beginnings**

Prior to the first world war, much of the capital required by Canadian governments and businesses was raised in the United Kingdom. The comparatively small proportion sold in Canada was purchased by institutions as the individual investor was not only unsophisticated but facilities to service him were quite limited.

Two basic changes occurred in the decade prior to 1920. Firstly, interest rates in Britain rose steadily while the rise in Canada and the United States was comparatively quite moderate with the result that the United Kingdom no longer constituted an attractive source of funds while Americans became willing lenders to Canadian borrowers, a situation which still prevails. Secondly, at the same time, Canadian investors became interested in increasing their ownership of new Canadian securities issues. This development was largely brought about by the establishment of a huge selling organization to distribute nationally to the public, the 1917 War Loan issue. Planning of this operation was co-ordinated by the Bond Dealers' Association (predecessor of the Investment Dealers' Association of Canada) at the request of the Minister of Finance. The last three War Loans in 1917-1919 attracted unprecedentedly large demand despite a bond market which had suffered serious deterioration. For example, orders for the 1918 issue exceeded $690 million from over 1,000,000 subscribers. An important and interesting corollary was that no part of these issues was acquired directly by the chartered banks. Canadians had become bond buyers and bond dealers expanded their operations to enable them to underwrite Canadian securities and distribute them to Canadian individual and institutional investors.

From their inceptions, the Montreal and Toronto Exchanges had listed bonds and such trading as occurred was on the exchange boards on an agency basis. Bond and debenture underwriting activity in Canada expanded rapidly as the economy prospered in the 1920's and direct dealing between bond dealers and investors became increasingly important with an "over-the-counter" market replacing bond trading on exchanges the volume on which became insignificant. The bond market developed quickly as dealers recognized individual investors' interest in trading War Loans for other new Canadian securities issued by provinces, municipalities, utilities and corporations. The combination of underwriting and principal trading within investment firms resulted in a solidly based trading community by 1927 and much greater liquidity in debt securities.

Undoubtedly, the basis for the growth of a secondary bond market was the War Loan issues. Andy Armstrong was a young man in his twenties when the War Loans were distributed. "Canadians were not really investment-minded in those days," he recalled. "More than any other vehicle ever before, the selling of War Loan bonds taught the Canadian people how to invest." Later, the 1931 "conversion" of these War Loans brought about a further stimulus to bond trading.

**The Formation**

In 1927, the bond trading community in Montreal consisted of some 35 men who spoke to each other several times a day on the telephone, but who rarely saw each other either socially or in a business capacity. An idea grew that some kind of social organization might be desirable and useful and with this in mind, a meeting was held at the Windsor Hotel in October of 1927.

After William Barr and Casey Collier put forth a proposal for organization, a vote was taken and the Montreal Bond Traders' Association was formed. Officers were elected. William Barr of Royal Securities was the first President and Andy Armstrong, then also with Royal Securities, was secretary. Other officers were Casey Collier of Wood Gundy, Hec Vidricaire of Ames, H.J. Stephenson of Greenshields and Hank Rath of Nesbitt Thomson. As far as can be ascertained, the Montreal Bond Traders' Association was the first such organization on the North American continent. The New York Securities and Trade Association and the Toronto Bond Traders' Association were formed shortly afterwards.

Unfortunately, no minutes were taken at the early meetings of the Association, but old timers recall that it was formed originally as an investment trust, an idea introduced by William Barr. Only bond traders could participate. Each member put up $225 and a committee was formed to look after the investment of the funds, which in 1927 totalled some $3,000. The agreement was that members could withdraw their money if they weren't satisfied with the handling of the funds. In the first few years, the trust prospered, but as markets deteriorated, culminating in the crash of 1929, the inevitable occurred.

Membership was limited to individuals rather than firms. This is perhaps unique and somewhat surprising since most of today's investment dealers (or their predecessors) were operating then. Ames, Beaubien, Bell Gouinlock, Dominion Securities, Greenshields, Leclerc, Mead, McLeod Young Weir, Nesbitt Thomson, Pitfield, Royal Securities and Wood Gundy were among the major firms of the twenties. The list then also included Hanson Brothers, one of the oldest firms which went out of business in the late thirties. The designation "bond trader", an individual, not a company – was the criteria and, thus, bond traders from financial institutions were eligible for membership and many joined over the years.

**The Thirties**

The "Great Depression" had an immense impact on Canadian commercial enterprises and the value of their securities. Most real estate operations – hotels, office buildings, etc. – went into bankruptcy. Times were difficult for most utilities and worse for industrial companies. Especially hard hit were paper companies and railroads. Many of these corporations were unable to meet interest payments on their debt securities – some issued stock in lieu of interest payments – others simply defaulted. Such bonds were traded flat with past due coupons attached. Many had two or three pay features and most had first mortgage security. Some traded as low as two or three cents on the dollar. Among the more active trading issues were "Abbies" (Abitibi 5's of '53), "Connies" (Consolidated Paper 5½'s of '61), "M & O's" (Minnesota and Ontario Paper 5's of '59) and "Banana Boats" (Canadian National West Indies Steamships 5's of '55).

Algoma Central was the most active railway issue, with the supply coming from London.

Government bonds did not escape unscathed either although interest rates tended to decline during the twenties and thirties. Trading levels for many government issues were affected by uncertainties, interest rates in foreign markets, exchange rates and fears of default.

Trading activity, particularly in defaulted corporate bonds was quite active. Investors with the money and foresight to buy these bonds at "bargain" prices and the patience to hold them were handsomely rewarded. One who did was Isaac Walton Killam, a legend in Canadian financial circles, and a millionaire by the time he was 22. William Barr and Andy Armstrong were Mr. Killam's bond traders. Andy recalls that Mr. Killam got out of the market in 1928, and didn't buy again until 1932 – at which time he bought millions of bonds. "His understanding of the market and his timing were excellent". Killam also had a sense of the impact of world events at a time when markets were extremely volatile. " I remember asking him once what he thought of the market," recalled Mr. Armstrong, and he said to me "Well, you tell me what President Roosevelt's going to say, and I'll tell you what the market is going to do."

During the depression, the psychological as well as the actual effect of hard times was felt at every level of the economy, from the corner store to the largest banks. Uncertainty and dismay at and lack of confidence in Canadian economic conditions were prevalent. Nevertheless, the major bond houses, although perhaps periodically technically insolvent, withstood the times. Some Montreal houses thrived on trade in defaulted securities. Hart Smith and his brother Bunk were heavily involved in this type of trading as was the Kippen organization.

Among the more prominent bond traders of the thirties were Casey Collier (later to become president of Collier, Norris and Henderson) and Harry Griffin of Wood Gundy, David Carstairs of Hannaford Birks, Hank Rath of Nesbitt Thomson, Frank Evans of McLeod Young Weir, Hec Vidricaire and Freddy Styles (later controller of sinking funds for the Quebec government) of Ames, Jimmy Henderson of Dominion Securities, Jim Langill of Pitfield, Herb Plow and Andy Armstrong of Royal Securities, Armand Brisebois of Beaubien, Aristide Cousineau of Leclerc, Guy Major of Canadian Alliance, Bert Allman (a former banker who saw the light), Joe Bolton of the Bank of Montreal, Ted Atkinson (later general manager) and Glen Glencross of the Royal Bank, Jack Piper of Ames, Barry Smith of Hart Smith, Albert Ayer of McKenzie & Kingman, Tony Mallon of McLeod, Ted Orde of Fry Mills Spence, Ollie Allman of Collier Norris, Joe Leddy of Wood Gundy, Reg Buzzell of National City Company, Bill Mussell and Tim Brockwell of the Royal Trust. Surviving old timers fondly remember others active in the business including Fred Chapman ("Chappie") of Ames who trained so many bright young men so well, Reg Dean of Nesbitt Thomson, Percy Baker of Johnston and Ward, John McConnell of Nesbitt Thomson, O.B. Hastings of Hanson Brothers, Amie Domingue of Leclerc, Grahame Johnson of Ames, Elzear McNeil and George Sherwood of Beaubien, Rollie Giroux of the Société Général de Finance and Jules Couture of Desjardins Couture. Also Miss Rita Broadhurst, the first lady bond trader on the street who later was a financial analyst with Beaubien.

As the years progressed, the Association established the tradition of holding annual dinner meetings. Another tradition – now discontinued – was to invite a prominent speaker to each dinner. One of the best known was Camillien Houde, who was the guest speaker in 1939, but for some reason was not told that he was to speak until he was at the dais. This didn't phase the Honourable Mr. Houde, who off the cuff, delivered what is agreed to have been the most outstanding speech given at any of the Association's functions. Not quite as fortunate was a local judge, a gifted imbiber, who fancied himself as a speaker. He delivered an oration of fire and wit. Unfortunately, as he sat down at the end of his eloquent speech he missed his chair, and disappeared beneath the head table. Another colourful tale about the annual dinners of the late thirties is told by Bill Dwyer of Hanson Brothers, who was secretary when Fred Styles was president. " We had arranged to have a floor show come in from the old Tip Top that used to be on Stanley Street, including a stripper. My job was to take care of the floodlight for this girl. So when the chorus line had finished their bit and the stripper came on, I was teeing up my floodlight, when every light in the place went out. I still haven't been able to explain this event to anyone's satisfaction, nor to establish my innocence."

Other social activities were started in the decade of the thirties. The Shawinigan Water & Power Company invited the bond traders to Shawinigan Falls where the company entertained with food and drink at its golf course. This marked the beginning of the annual golf tournament, an event which now attracts some of the most incompetent players in Canada. The annual oyster party also had its start in the pre-war years.

Literary efforts of the period include a review called the Gyppers which was first published in 1927 and was later replaced by the Financial Roast. By editorial admission both were "entered as lowest class material in any post office anywhere".

**The Forties**

The second world war brought many changes to the dealer fraternity. Canadian output was directed to the war effort and industrial activity was financed largely by the government. With durable goods, such as automobiles, in short supply, the public was urged to save money. The Canadian government organized the sale of an ideal vehicle which combined saving and patriotism – the Victory Loan Bond. Based upon experience gained with the War Loans of the first war, Victory Loan campaigns became a fine art. The National War Finance Committee arranged for the widest coast to coast coverage ever attained in distributing securities. Corporations, governments, employees, members of the armed forces were all canvassed and a door-to-door campaign was organized. Personnel from investment firms including management, traders, salesmen, secretaries and bookkeepers were "loaned" to operate the campaigns and make them function while the firms got along with skeleton staffs in their own offices. Many Montreal bond traders were involved. Casey Collier, Gordie Wilkins, Jimmy Henderson and Tim Baldwin were in Ottawa while others were organizers or team captains throughout the province including Andy Armstrong, Alf Duffield of Wood Gundy, Phil McKenzie of McKenzie & Kingman, Peter Kilburn of A.E. Ames (later C.E.O. of Greenshields), Aristide Cousineau of Leclerc, Paul Brault of Brault Chaput, and Bob Haldenby of Dominion Securities. Andy Armstrong, team captain for Mount Royal Park Extension, recalls that he recruited and trained a group of salesmen from all kinds of business for a door-to-door coverage of the area on a commission basis. "I told my men they could have the commission and pay income tax on it, and they said they would sell Victory Bonds without commission. In the end, they were allowed to donate their commissions to charity, without income tax. The donations amounted to almost $40,000 in all, just from Mount Royal".

The Montreal Bond Traders' Association contributed to the war effort not only in offering financial expertise, but in more personal ways as well. Many bond traders had enlisted at the outbreak of the war, and served all over the world. The Association made efforts to keep in contact with these members, and many remember the packages that arrived from fellow bond traders at home, filled with cigarettes, candy and dry socks. Communications among the bond traders during the war years were often nothing short of

remarkable. Bill Dwyer tells the story of one official communique. "I was married in England in 1943. Things were not so easy to come by in those days, but we did manage to get a reception put together at the Park Lane Hotel in London. During the reception a cable came in from Dent Lewis, who was then president of the Montreal Bond Traders' Association. I opened it, and without thinking read it aloud. 'Congratulations, and may you always have firm offerings'."

New faces entered the scene during the forties. Among those were Dent Lewis and Walter Fraser of the Bank of Montreal, Phil Larose of the Provincial Bank, Floyd Innis of the Sun Life, Jack Brookes of Greenshields, Eldred Godwin of McLeod Young, Lyle Keating of Nesbitt Thomson (who after his accident was taken to the office for years by Art McCormick), Pete Martin of the Royal Bank, Eddie Turner of Ames, Trevor Thomson of Molson, Eddie Mulqueen of Mills Spence, Dudley Byers of Kidder, Ralph Tyler of Jenks Wynne, Bob Hills of Royal Securities, Bernie de Breyne and Freddie Senecal of Beaubien, Ernie McAteer of the Bank of Nova Scotia, Jean Ostiguy of Morgan Ostiguy and Jules Lemire of the Banque Canadienne Nationale.

After the war, the government and more particularly its fiscal agent, the Bank of Canada were faced with the dilemma that most Canadians held government bonds and wished to sell them to buy all the items they had been deprived of during the war years. It was reasoned that, as in the past, there would probably be a depression in the post-war period as the war effort ground to a halt. To encourage economic stability through increased consumer spending, the Bank of Canada "supported" the market for Victory Loan issues by posting bids every morning. Over a period, these bids rose to substantial premiums over issue prices so all the war time investors had a chance to profitably disinvest. Ultimately, when it became apparent that no depression was going to occur and supplying credit in huge amounts had potential inflationary tendencies, the Bank abruptly stopped calling markets, creating near panic. It was then that bond traders' expertise became truly valuable through being able to restore orderly markets until the Bank came back in. "I think we were in a position to give the Bank some idea of what markets were" noted Andy Armstrong. It was not long before the Bank of Canada decided to encourage bond traders to call their own markets with the central bank only intervening, for the most part, by responding to dealer markets when it was considered to be necessary or desirable.

## The Fifties

The easy money policy and lower interest rates of the later forties were replaced with a decline in the bond market in the early fifties. However, trading activity was sufficiently solidly based to enable continued liquidity in bond markets. Most of the corporations which went bankrupt in the thirties had been re-organized and new interest paying debt had replaced defaulted bonds. Most municipalities which had been in trouble had also re-organized.

The year 1952 will live in infamy as the beginning of that time-honoured bond traders' tradition: The Great Bun Throw. It was the 25th anniversary of the Association, and to mark the occasion, the planning committee had booked for the annual dinner an act called "The Drunkard", which was playing at the Astor Cafe. The site was the Mount Royal Hotel. Unfortunately, the buns at the tables were in the shape of miniature footballs. As the act progressed, it was apparent that the audience – by this time feeling quite mellow – did not like "The Drunkard". Someone threw a bun at the stage. It was an act that will take its place in history with the driving of the last spike of the CPR. In a few seconds, the stage was absolute bedlam, with buns flying fast and furiously. The cast of "The Drunkard" beat a hasty retreat back to the Astor.

Around that time the Association arranged for a special train with dining car for a trip to Quebec City. On arrival Brig. Gen. Grenier of Grenier Ruel had arranged for cars at the station to give us a tour of the City and we were entertained by the government for cocktails and evening dinner at the Inn on Lac Beauport. The special train arrived back in Montreal at 1:00 a.m. completing a wonderful day at a cost of $6 per member. Among those appearing in the photographs taken that day were: Bob Telfer, Grahame Johnson, Eric Wright of Crabtree & Co., Harry Cummings and Truman Donnelly of the Royal Bank, Alf Bridges, Jean Lebeau, Brock Tate, Johnny Loudon, Mac MacAtier, Charley Hay, Paul Fisher of Ames, Yvon Leonard and Guy Brunelle of Beaubien, Tim Brockwell, Bill Pepall of Bell Gouinlock, Jean-Claude Blais and Gilles Lazard. Some others who were prominent in the fifties and may not appear in the picture were Lloyd Garrett of Nesbitt Thomson, Peter Betts of Richardson Securities, Jim McLaughlin of Wood Gundy, Gerry Reilly of Equitable, Howie Neville of Gairdner, Joe Pope of Bank of Montreal (who was very active in the Blocked Sterling market and was also instrumental in having a transfer agent established in Canada for Hudson's Bay stock).

Later in the decade the bond traders took the train to Ottawa to watch the Roughies in action. Arriving in Ottawa they found the bars closed, so they made a side trip to Hull to prepare for the game. Later in the afternoon, Walter Fraser was seen in the bleachers throwing a bottle of scotch to Lloyd Garrett as if it were a football. Big Tex Coulter, about 275 pounds of muscle, was playing for the Alouettes that day. The bond traders can still remember little Walter Fraser running across the field and attempting to tackle Big Tex.

Among the disasters of the late fifties was the oyster party held at the Molson Brewery in the east side of town. About 100 members had waded through the first few rounds of beer supplied by Molsons when it was discovered that no one had remembered to buy the oysters. Nobody seemed to be too upset at the lack of oysters with the possible exception of Basil Howard who complained quite noisily.

October 1953 saw the beginning of the money market and the advent of high-volume low-profit trading of various types of short term securities. A great deal of mystery surrounded these activities in the early developing years. Rolf MacKeen of Richardson Securities remarked recently, "I remember that the Bank of Canada would not deal with branch offices in those days," he said. "They changed that ruling about a year later, however". Tom Boland, who was for many years chief of the securities department at the Bank of Canada in Montreal (Uncle Tom's cabin) recalls: "People would telephone us and ask who the money market dealers were, and we weren't allowed to tell them". Originally, there were about a dozen money market dealers, who gradually became less anonymous.

Also in the early fifties, mining companies required financing. Uranium companies were springing up like mushrooms, and with them the issuance of bonds to finance their development. Big names in that period were: Denison, Gunner, Rio Tinto, Farraday, Stanleigh and Milliken Lake. Most of the issues were fairly short term, ten years or less. Since few were established companies, many issues had bonuses of stock or warrants attached to make them attractive to investors. Peter Betts recalls: "Some of them were pretty doggy. We wondered if all of them were going to be paid off, until we found out that a lot of bonds were being bought by the Vatican".

As the mining market wound down, it was replaced by pipelines financing, most of it very large. Interprovincial Pipelines was one of the first and a junior convertible debenture issue created a furor by trading up to 400 not too long after issuance. Perhaps the nature of pipeline companies was not fully understood at the beginning but trading activity was extremely brisk. After Interprovincial came Westcoast Transmission and Trans-Canada Pipelines followed by issues of distributing companies.

It was not until 1954 that the association took out letters patent under the Quebec Companies Act and the incorporation was actually dated the fourth of November, 1954. The people mentioned in the incorporation were associated with the following companies at that particular time – Roger Keast of Dominion Securities, Stan Jeffrey of Gairdner, Gerry Perreault of the Banque Canadienne Nationale, Peter Betts of Royal Securities, John Porter of Ames, Bob Tait of R.A. Daly, and Jim Davis of McLeod.

No bond trader will forget July 14, 1958 the date on which the Bank of Canada, on behalf of the government, announced a conversion offer to all the holders of unmatured Victory Loan bonds. Rudy Casgrain recalls that he was enjoying the summer sun at his cottage when the call came for him to be in Ottawa the next morning, "on a matter of grave national importance. I remember thinking it was some friends playing a joke on me," he said, "but soon I was on my way to Ottawa. It was the Friday before the big announcement. We were sworn to secrecy and the whole plan was unveiled to us. We weren't allowed to return home or to talk to anyone." The following Monday, the announcement was made and in the ensuing weeks, over $6 billions of Vic issues were converted. So many people were required for this huge undertaking that most firms cancelled vacations and brought personnel home from their holidays. Rudy Casgrain was on loan to the government for the conversion period and acted jointly with Jack Brookes of Greenshields as liaison with the trading community in the Province of Quebec. Grahame Johnson of Crédit Interprovincial and Dent Lewis of the Bank of Montreal were on loan to the National Committee in Ottawa along with such Montreal expatriates as Bill Robson of Ames, Howard Hunter of Equitable and Murray Cox of Anderson.

The operation led to a period of great trading activity, particularly in the new "Conversion Loan" issues, viz 3's of 61, 3 3/4's of 65, 4 1/4's of 72, and 4 1/2's of 83. The surge of activity lasted until late in the year when rising interest rates in the United States depressed enthusiasm in Canada. The 4 1/2's of 83, of which almost $2 billion are outstanding, has been a bell-wether issue for twenty years.

**The More Recent Years**

Many will clearly remember their own experiences of recent years so a brief highlighting of a few major happenings will suffice.

In the sixties a great deal of activity occurred in finance company securities which generally were considered to be of high quality. The street was shocked when Atlantic Acceptance issued a cheque in payment of maturing paper which bounced. A sober re-appraisal followed which perhaps in the long run has had beneficial side effects. In 1964 most of the remaining private electric utilities in the province were taken over by the Quebec government and became part of Quebec Hydro. The accompanying controversy was less acrimonious than the earlier nationalization of B.C. Power. Bank Act revision in 1967 among other things removed the 6% ceiling on bank loans facilitating rate flexibility. The new Act also enabled the banks to issue term debt, giving rise to many new underwritings and trading activity in bank debentures. Also at the turn of the decade, tax reform was debated at length.

In the seventies, huge increases in government spending led to a much larger volume of government financing and trading activity in this area rose sharply. Many new types of short term vehicles were introduced and bond trading became international and more complex and diversified, requiring specialists in some areas. As interest rates rose, the old yield books became obsolete. Computers came into general use, changing the basic modus operandi for many bond traders.

*Suite à/continued on page 52*

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# GREAT TURNING POINTS IN THE CANADIAN BOND MARKET

by Simeon A. Spidle, Greenshields Incorporated.

The subject, if dealt with in its entirety, is beyond the scope of this article. The main focus, therefore, will be on Government of Canada bonds with occasional references to other sectors of the market.

Source material has largely been derived from the Annual Reports of the Governors of the Bank of Canada and the Bank of Canada Review. In addition, a valuable background to the early development of the Government market was supplied by D.H. Fullerton's "The Bond Market in Canada". This books continues as the primary text for those who wish to acquire a working knowledge of the debt market in Canada.

To avoid constant references to Canada 4 1/2%/83 or other bonds in the text, the high, low and last has been supplied in box-form for the years 1964 onward. This has been done in an attempt to make the reader aware of price movements, as well as yield changes in the years described.

If the "Turning Points" which have appeared to impress me the most have been those which involve rising rates and weakening markets, it is because I believe that they best portray the shape of the Canadian market and the economy. Rates have risen steadily over the past twenty years and to overdramatize the corrections that have occurred from time to time would be unrealistic.

## THE EARLY YEARS

The Government market had its origin during World War I. Prior to that time most, if not all, Canadian financing was done in England. This pattern was broken during the war, beginning with the sale of about $125 million of War-Bonds in the United States, denominated in U.S. funds. Subsequently, six issues of Victory bonds were floated in Canada, in Canadian funds, raising just under $2.5 billion.

The return on these bonds was consistent with the then prevailing level of rates, namely, 5 1/4% to 5 1/2% (see chart on early Government of Canada Bond Yields; courtesy A.E. Ames & Co.). Through the 1920's market rates remained fairly steady into mid-1930 when easy money policies caused them to drop to about 3%. Virtually no government financing was done during this period and it was not until World War II that substantial increases in federal debt outstanding were noticeable. In fact, Government debt totalled about $3 billion in 1920, $3.1 billion in 1930 and reached $4.5 billion in 1940.

During the World War II years, Government of Canada financing resumed on a large scale. Nine Victory loans were floated, most of which offered a choice of short-term and long-term bonds. Total sales of these issues reached $12.9 billion. Unlike the experience in World War I, the chartered banks were an important source of funds and some $1.34 billion of short-term notes were acquired from the Government. By the end of 1946, Government debt outstanding totalled about $17 billion.

## THE EMERGENCE OF DEBT MANAGEMENT

As will be seen later, one of the "Great Turning Points" had to be the creation of Canada Savings Bonds in late 1946. To quote the 1946 report of the Governor of the Bank of Canada: "The Canada Savings Bond was designed to incorporate those features of both Victory Bonds and War Savings Certificates most desired by individual savers. The Chief purpose of its issue is to facilitate the continuance of regular personal savings habits developed in wartime". The organization for the sale of this new bond through payroll savings plans was still in place just after the war. The decision was sensible and the new bond was well designed for the small investor. The Canada Savings Bond was to become one of the major influences on Canadian debt management policy in later years.

One of the most important "Great Turning Points" was the Conversion Loan of 1958. It has been called, "The Begin-

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**VICTORY LOAN PRICES AND CASH ADJUSTMENTS PAID ON CONVERSION**

| | Victory Loan Issues | Price July 11/58 | CASH ADJUSTMENTS PAID PER $1,000 BOND ON CONVERSION 3/61 | 3¾/65 | 4¼/72 4½/83 |
|---|---|---|---|---|---|
| V | 3% Jan. 1/1956/59 | 100.10 | 15.00 | 25.00 | 25.00 |
| VI | 3% June 1/1959/60 | 99.35 | 12.50 | 22.50 | 22.50 |
| VII | 3% Feb. 1/1959/62 | 98.15 | (1) | 12.50 | 12.50 |
| VIII | 3% Oct. 1/1959/63 | 96.75 | (1) | (1) | 17.50 |
| IX | 3% Sept. 1/1961/66 | 94.75 | (1) | (1) | 15.00 |

(1) The 1962 issue of Victory Bonds was not eligible for exchange into the shortest Conversion issue and 1963 and 1966 Victory Bonds were not eligible for conversion into either of the two shortest conversion issues.

**CONVERSION RESULTS (Million of Dollars)**

| UNCONVERTED VICTORY LOANS | | | TOTAL CONVERSION LOANS | | |
|---|---|---|---|---|---|
| 3% | Jan. 1, 1956/59 | $ 42 | 3% | Dec. 1, 1961 | $1,021 |
| 3% | June 1, 1959/60 | $ 47 | 3¾% | Sept. 1, 1965 | 1,267 |
| 3% | Feb. 1, 1959/62 | $ 53 | 4¼% | Sept. 1, 1972 | 1,367 |
| 3% | Oct. 1, 1959/63 | $223 | 4½% | Sept. 1, 1983 | 2,152 |
| 3% | Sept. 1, 1961/66 | $245 | | | $5,807 |
| | | $610 | | | |

ning of the Modern Bond Market". As background, Government budgets had shown surpluses in the years 1947-1958 which made the job of debt management extremely easy. For the most part, short-term bonds were issued to replace other short bonds as they matured. Only $1.25 billion of bonds with a term of over ten years (including direct and guaranteed debt) were issued. Federal debt outstanding dropped by $2 billion to about $15 billion. Institutional buyers shifted their holdings into other government securities, mortgages and corporate bonds. The chartered banks reduced their holdings of federal government bonds and, at the same time, shortened the average term of their portfolio.

Savings bonds had emerged as a reliable source of funds and by the beginning of 1958 just over $3 billion were outstanding. The government brought an issue of CNR's to market in January and followed in April with a large refunding issue, of which $350 million were over ten years in term. Other borrowers were active. In the first half of the year, non-bank investors reduced their holdings of Government marketable issues by $45 million as Canada Savings Bond redemptions reached a total of $178 million. This indigestion, coupled with a softening in the U.S. market, caused the Canadian market to weaken in June. The Conversion Loan was announced in July of 1958.

The objective of the Conversion Loan was to lengthen the average term of Government debt outstanding, to remove the uncertainty about the refunding of the large amount of near term maturities and to enlarge the possibilities of future new financing.

It cannot be disputed that, from an organizational and technical standpoint, the Conversion Loan was an outstanding success. In spite of the weakness of the market, over 90% of the objective was reached. The timing of the Conversion was superb for the Government, but, as it developed, the investor did not fare as well. The market decline which had paused through July and August, began again in September as a sharp sell-off occurred in the United States. The Bank of Canada supported the conversion bond issues until the end of October. When this support was withdrawn, the prices of the issues fell rapidly and closed the year at 95.

In the first nine months of 1959 the market fell rapidly and by September the new 4 1/2%/83 were priced at 83. During this time short-term rates, as measured by treasury bills, increased over 4% and in August bids for the regular tender were judged unrealistic and only part of the tender was sold. The market improved in November with bills back to 5% and longer-term Canadas at 5 1/2%. Many critics have blamed the Conversion Loan for the sharp rise in rates that occurred through late 1958 to late 1959. It would appear unfair to fault the loan itself since Government debt management practices in the decade preceding this loan, had created artificial interest rate levels for long Government bonds: in March 1957 Ontario Hydro bonds were issued at 118 basis points above long Canadas. It is understandable, that long-term Federal issues coming at these theoretical rates would not be successful, thus contributing to the problem of a declining market.

In September 1959, the Government introduced the first of the extendible issues. These offerings which carried 5 1/2% coupons gave the holder the privilege of exchanging the bond held to one of a longer term. The first issue, with an initial maturity of October 1, 1960 yielded 6.55% if held to that date, but if the extendible priviledge was exercised would yield 5.60% to October 1, 1975. The second offering, 5 1/2's of October 1, 1962/75, gave a yield of 6.33% to first maturity and 5.72% to final maturity. The issues were well received and the market improved until December when an issue of CNR bonds proved unpopular. The market sold off as much as 4 1/2 points in the long end. Prices firmed in January 1960 and the market continued its upward trend until September with price gains of as much as 14 points in long bonds. Throughout this period the Government restricted its borrowings to the short-term. When a long-term CNR offering was attempted in September (5% bonds due October 1, 1987) the market rejected the issue. Despite the failure of the CNR issues, there was little doubt that the innovation of the extendible issue was well received by the marketplace and this represented another "Turning Point". This type of bond was to come into common usage in Government and corporate financing. By the end of 1960, Canada 4 1/2%/83 were selling at 89, rose to 94 in June 1961 and traded through the rest of the year between 92 1/2 and 94 1/2.

## A DOLLAR PROBLEM

The "Currency Crisis" was the outstanding feature of the financial scene in Canada in 1962. Following a sharp decline in official exchange reserves, the Canadian dollar was pegged at U.S. $.925. The anticipated inflow of funds from the United States did not occur and the market sold off rapidly. Canada 4 1/2%/83 slid to 88. The Government moved quickly to correct the situation and issued a statement that it was determined to defend the exchange value of the Canadian dollar at the level established in May. Special measures were introduced which included: the temporary imposition of graduated surcharges on certain classes of imports; a temporary reduction in the exemptions from customs duties accorded to Canadian tourists; reductions in Government expenditure amounting to $250 million in the full fiscal year; the earmarking of a portion of the Government's cash balances for the purpose of financing increases in the foreign exchange reserves and; the mobilization of international financial support in cash and standby credits amounting in total to U.S. $1.05 billion.

Concurrently, with the approval of the Prime Minister and the Minister of Finance, the Bank also announced that it was prepared to enter into purchase and resale agreements with money market

dealers at a rate of 1/4 of 1% above the average rate of the preceding week's 91 day treasury bill tender.

The monetary policy which followed had as its main objective the prevention of further withdrawals of funds from Canada. Since a renewed inflow on a substantial scale had to be encouraged, central bank operations were directed toward maintaining a level of interest rates that would prompt that inflow.

The general upward movement in yields, which began in May accelerated sharply in late June, and by mid-July yields on Government securities through the whole maturity range were close to 5 1/2%. The spread between rates in Canada versus the United States widened significantly. To supply securities to the market without increasing the total amount outstanding, the central bank sharply contracted chartered bank liquidity and the total money supply. This contraction came to an end in early September.

Since it appeared that confidence and exchange reserves had been sufficiently restored to permit some easing, the Bank Rate was lowered to 5 1/2% on September 7. Initially, an inflow of short-term capital was responsible for the restoration of reserves, but by early Autumn it was evident that there was a resumption of long-term capital inflows. The Government sold a $250 million bond issue in New York and there were reports of arrangements for other Canadian borrowers in the U.S. market.

The Bank rate was reduced again to 5% in mid-October and to 4% a month later. Bond yields which began to fall slowly in August, fell more rapidly through September and October, but flattened out in November. Long-term rates fell to about 4.75% and Canada 4 1/2/83 were trading at 93 1/2. The international short-term credits obtained in June were progressively retired so that by the end of February all that remained outstanding was $300 million of IMF drawings.

**THE LONG RISE IN RATES 1965-1969**

4 1/2%/83 – 1964
High 93 5/8
Low 90 3/4
Last 90 5/8

Through 1963-1964 and the first half of 1965, interest rates fluctuated in a very narrow range. However, the Canadian economy again moved strongly ahead in 1965, its fifth year of continuous expansion. It became increasingly clear that virtually all of the slack existing at the beginning of the expansion had been taken-up. Costs and prices were rising at a relatively higher rate and the current account deficit was rising. Following heavy Canadian borrowing in the United States in late 1964, some easing of credit conditions appeared in Canada. The United States, however, embarked upon a programme designed to improve its balance of payments. The fear that the new guidelines might interfere with ready access to the U.S. market caused some weakness in the Canadian market. The Bank of Canada resisted this trend and the increase in rates was minimal.

4 1/2%/83 – 1965
High 94 3/8
Low 89 1/4
Last 89 3/8

By April 1965, however, short-term rates began to rise and by June had increased by about 40 basis points. Long-term rates rose more slowly, but were up by 20 basis points during the same period. The default of Atlantic Acceptance on June 14 accelerated the decline in the market. Immediately after the default, the Bank of Canada increased the liquidity of the banks and financial markets generally. This unusual step was taken to prevent wider repercussions that might have arisen because of the default.

In negotiations undertaken in July to ensure that Canada would have access to the U.S. Market, it was stated that it was not Canada's desire to add to her official reserves through the use of borrowings in




the United States. Indeed, when the United States adopted a new set of guidelines in an effort to eliminate the deficit in her overall international payments, Canada agreed to reduce its target figure for reserves by $1 billion. This was the price which Canada paid to ensure free access to U.S. market for provincial, municipal and corporate borrowers. This access was necessary to cover our growing current account deficit. In mid-summer, the market again declined and by the end of November long-term rates had risen by about 25 basis points, 3-month treasury bill rates rose by about the same amount but other short-term rates increased substantially more. Finance company short-term paper rates increased by 1 1/4% during this period. The Bank of Canada resisted this upward trend in rates, but on December 6 it raised the Bank Rate to 4 3/4%. An accompanying statement pointed out that the increase was merely following a similar rise in the U.S. discount rate and that the Bank would still be accommodative to the needs of sound economic growth. This position tended to stabilize the market and long-term yields were no higher at year-end than the levels of early November. Short-term rates, however, continued to climb.

4 1/2%/83 – 1966
High 89 3/8
Low 84 1/2
Last 86 1/8

The Canadian economy continued to prosper in 1966. The unemployment rate moved down to 3.6%, the lowest since 1956. Total output was some 40% higher than in 1960. There was, however, some worrisome upward pressure on costs and prices. The Canadian Bank Rate was again moved 1/2 of 1% higher in March as short-term rates continued to rise sharply (about 60 basis points from the beginning of the year until the first of April). Long-term rates moved much more reluctantly. U.S. rates moved sharply higher in the summer months as the American economy was strongly stimulated by military expenditures.

Long term Canada rates reflected this increase and rose by almost 1/2 of 1% and then flattened out until December. Meanwhile, short-term rates remained relatively stable throughout the summer.

4 1/2%/83 – 1967
High 89 1/4
Low 78 7/8
Last 79 1/2

The year 1967 was characterized by a slowing of economic expansion, but also by continued upward pressure on costs and prices. This environment would normally indicate an easing of interest rates. The Bank of Canada did, in fact, lower the Bank Rate by 1/4 of 1% in late January to 5% and again in early April to 4 1/2%. Long-term rates moved down from their peak of almost 6% in December 1966 to 5 1/2% at the end of January, but varied around that level until mid-April. Short-term rates, as measured by three-month treasury bills, fell by almost 1 1/4%. By April, it was apparent that another round of economic expansion was ahead which would be accompanied by a substantial increase in Federal Government new issue demands. Both short and long rates began to rise in April and, after some levelling off in mid-summer, rose sharply in the Autumn. The Canadian Bank Rate was increased from 4 1/2% to 5% on September 27 and to 6% on November 20, immediately following the devaluation of Sterling.

## ANOTHER DOLLAR PROBLEM

4 1/2%/83 – 1968
High 81 3/8
Low 73 7/8
Last 74 5/8

In the year 1968, the dominant influence on monetary policy was the effort to combat the sharp run on Canada's foreign exchange reserves. The devaluation of sterling in November 1967, resulted in speculative activity against several other currencies and the value of Canadian dollar declined from its upper limit to about its official par value of U.S. $.925 by late November 1967.

The announcement of the "Interest Equalization Regulations" by the United States on January 1, 1968, greatly intensified the pressure on the Canadian dollar. Canada was granted an exemption from these regulations on March 7. On the same day, standby credits were arranged to supplement Canada's foreign exchange reserves.

Following the March 7 announcement, the drain on Canada's foreign exchange reserves slowed down. It stopped completely after March 17, when confidence in the stability of the whole international monetary system was bolstered by the development of the two-tier system for the price of gold.

The Canadian Bank Rate was raised to 7% in late January and to 7 1/2% in mid-March and was maintained at that level until early July. Interest rates rose steadily in the first quarter of the year. Yields on treasury bills and longer Government bonds reached the 7% range and mortgage rates rose above 9%. When the U.S. discount rate was raised in mid-April, however, the situation in Canada had improved to the point where it was not felt necessary to raise the Canadian Bank Rate. To hasten the rebuilding of reserves, Government loans were negotiated in Italy, Germany and the United States.

By mid-year the exchange crisis was clearly over. Moreover, it appeared that economic expansion would become less buoyant in North America. The cash reserve position of the chartered banks was eased in June and with the market anticipating a sharp reduction in interest rates, the banks became aggressive buyers of Government securities.

The Bank Rate was reduced to 7% on July 2, to 6 1/2% on July 29 and to 6% on September 3. By this time treasury bill rates had declined by 1 1/2 % and long-term bond yields were down by 1/2%. On September 13 the Government announced that it had discharged in full its repayment of all standby credit arrangements. Exchange reserves and IMF credits had been rebuilt to the levels which existed before the devaluation of Sterling in November 1967.

Towards the end of the summer a marked shift occurred in the outlook for economic activity and credit conditions in North America. In these changing circumstances the central bank deemed it desirable to bring an end to the increase in chartered bank liquidity. Interest rates moved sharply higher during this period, as they did in the United States. The Bank Rate was raised to 6 1/2% effective December 18. By the end of the year long-term bond yields had risen appreciably above the peaks reached during the exchange crisis.

Effective January 1, 1969, the chartered banks were required to maintain their statutory cash requirements on a half-monthly rather than a monthly basis. The object of this was to speed the response of the banking system to changes in the supply of cash reserves brought about by the central bank. Several technical refinements accompanied this change which included increases in lines of credit and the terms under which access to central bank credit was available. To help money market dealers meet the increased demands which might be placed on them as a result of the twice-monthly cash reserve averaging, revisions were made to their access to purchase and resale facilities at the central bank. The total of their lines of credit was increased, and to modify the potentially de-stabilizing effect of access to a greater amount of central bank credit, the rate of interest applicable to usage beyond two-thirds of a dealer's line was made subject to negotiation. Extensions to dealer lines which had been permitted previously, were discontinued.

4 1/2%/83 – 1969
High 76
Low 68 7/8
Last 69

Economic activity in 1969 was badly distorted by strikes. The vigorous expansion from late 1967 through the first quarter of 1969 slowed appreciably. Monetary policy became increasingly restrictive and as a result the central bank's

cash management policy forced the chartered banks to meet a considerable part of the strong demand for credit by running down their more liquid assets. The improved fiscal position of the Government led to a decline in offerings of marketable Government bonds which made it possible for the supply, arising from the reduction in chartered bank holdings, to be absorbed without putting pressure on financial markets. Debt management operations in marketable securities were generally confined to the refunding of maturing issues.

There was a net decline in total Government marketable securities of $116 million during the year. Government issues offered were short or medium to meet investor preference with extendible options being offered in March and September.

The Canada Savings Bonds Campaign was the major debt operation of the year. The average annual yield of 8% was attractive and many holders of outstanding series converted their holdings into the new bonds. Gross sales amounted to $4,978 million. Despite heavy redemptions of Canada Savings Bonds prior to October, the success of the issue resulted in an increase of $324 million in Canada Savings Bonds outstanding.

Excluding the Federal Government, the total of borrowings was substantial, particularly in the first half of the year, and was estimated at $9 billion compared to $8 billion in the previous year. Inflationary expectations caused Canadian lenders to be reluctant to commit their funds on a long-term basis. Borrowers were forced to shorten the average term of new issues and in many cases needed to provide the lender with an option between early or late redemption. There was also an increase in convertible bonds, short-term paper and equities.

The trend of interest rates in Canada in 1969 was greatly influenced by movements of rates abroad and particularly by the extraordinary increases in the Eurodollar market. In May and early June these rates rose to more than 12%, putting strong upward pressure on short-term rates in Canada. As interest rates rose in the first half of the year, the Bank rate was increased three times – to 7% at the end of February, to 7 1/2% in June and to 8% in July where it remained for the balance of the year. Commercial paper rates reached a peak of about 9 1/2% near the end of the year, and long-term Government average rose to a level of 8 3/8%, treasury bill yields increased to about 7.80% and mortgage rates were about 10 1/2%.

The period from early 1965 to late 1969 has to be viewed as another "Great Turning Point" because of the magnitude of rate changes. The transition from interest rate lows at the beginning of the cycle to the highs which occurred at the end of 1969 were erratic yet slow to develop. Nevertheless, a 4% increase in three month treasury bills occurred and short Canada bond rates increased by 3 3/4%, as did the long-term average. This change in yields reflected the inflation rate trends of the prosperous '60's and formed a base that was to influence the next decade.

4 1/2%/83 – 1970
High 82 1/2
Low 69
Last 82 1/2

## A CHANCE FOR THE BULLS

During 1970-71, a period of economic recession, the trend of interest rates reversed dramatically from that of the late 1960's. Short rates moved down from 7 3/4% to 3% from early January 1970 to late March 1971. The Canadian Bank Rate was reduced four times between May and November 1970 to bring the rate to 6% from 8%. Two further reductions put the rate at 5 1/4% by February 1971. The long-term end of the market was more hesitant and did not follow the pattern of the short end until a strong downward surge in the United States developed in November of 1970. Long rates fell sharply from just under 8% at the end of October to about 6.65% in January of 1971.

4 1/2%/83 – 1971
High 87 3/4
Low 77 7/8
Last 87

A speculative tone developed and it became apparent that the market had gone too far. By the beginning of August, the long-term average had risen to 7 1/2%. Short-term rates moved lower briefly, then through the second and third quarters of the year rose by nearly 3/4 of 1%. A Bank Rate reduction in October caused short rates to decline almost to the levels reached earlier in the year at which time the long-term market began to improve. This period represents one of the great bull markets. Canada 4 1/2/83 which were 69 at the end of 1969 rose to a high of 87 3/4 in early December 1971.

4 1/2%/83 – 1972
High 94
Low 78
Last 83 3/8

## THE "WINNIPEG AGREEMENT"

An unusually wide spread developed between long and short rates in 1971 and persisted through 1972. Rates rose sharply in early 1972 until mid-May. Chartered banks were bidding aggressively for funds until rates on Certificates of Deposit rose above the 6% prime, causing distortions in the flow of short-term funds. On June 12, the banks, with the approval of the Minister of Finance, reached an agreement that no more than 5 1/2% would be paid on a deposit of $100,000 or more for terms of less than one year (Winnipeg Agreement). Because of the agreement and the cash management policy of the Bank of Canada short rates dropped sharply, although they did not reach the lows established at the beginning of the year.

4 1/2%/83 – 1973
High 84 1/8
Low 78
Last 80

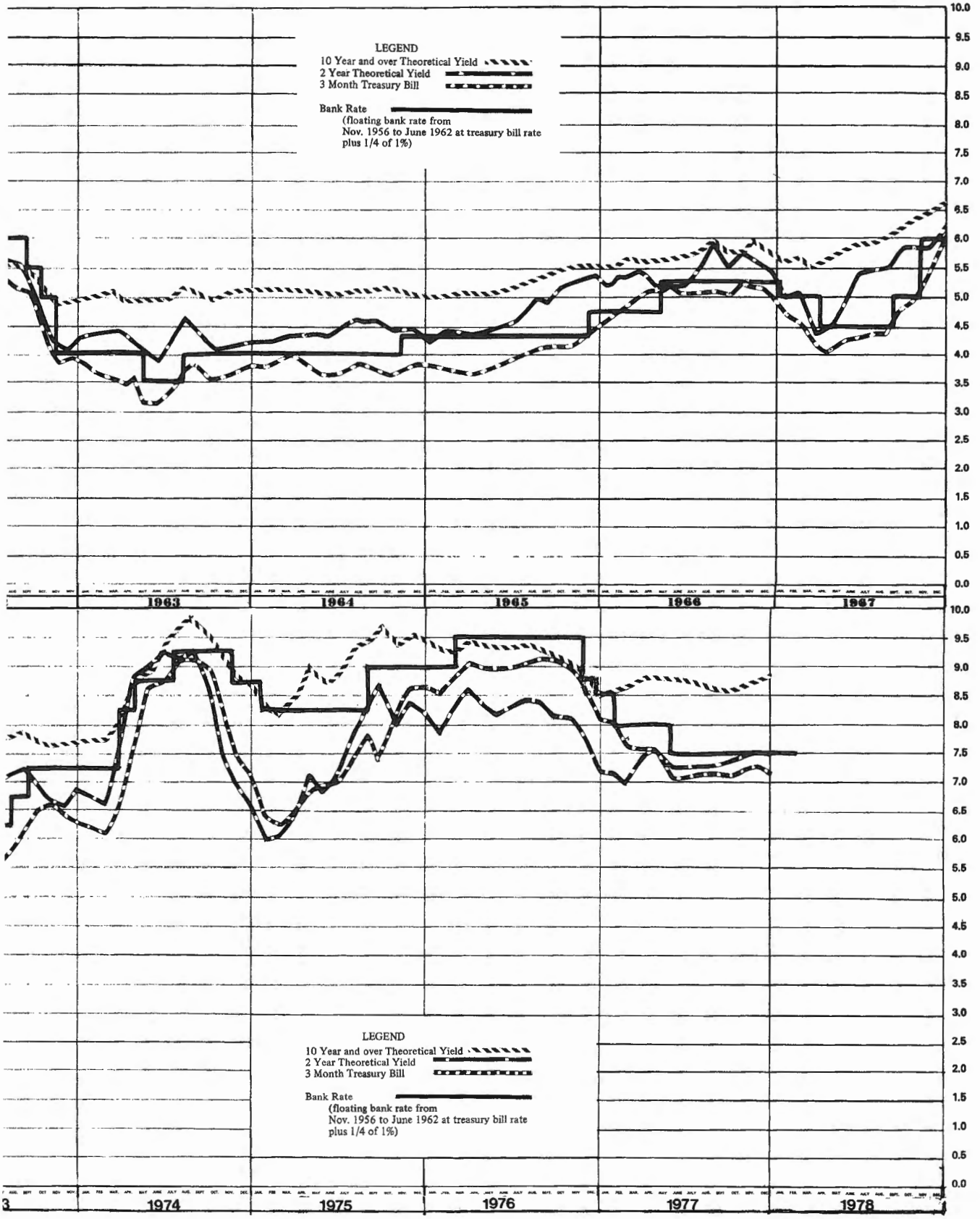
An unusually rapid rate of expansion in the Canadian economy occurred through late 1972 and the Winter of 1973. Chartered bank lending increased rapidly despite the Bank of Canada's policy which had been aimed at containing bank liquidity since mid-1971. The expansion was accompanied by strong price pressures on food and raw materials. The U.S. discount rate was raised in seven steps from 4 1/2% at the beginning of 1973 to 7 1/2% by mid-August. Extremely high rates were evident in Europe (13% – 15% in Britain and Germany). Rates began to move upward in Canada by the end of the first quarter. The Canadian Bank Rate was increased in successive steps from 4 3/4% in early April to 7 1/4% by mid-September. Relative to those in the United States and Europe, the increase in short rates in Canada was considerably smaller. The change in long-term rates was modest; the long-term average rising by 50 basis points compared to an increase of 4.45% for three months treasury bills and 5.10% for 90 day finance paper.

## THE RECKONING AND THE RECOVERY

The period 1968-73 proved to be another "Turning Point". Debt management policies began to place an increased reliance on Canada Savings Bonds as the medium through which Government's cash requirements would be met. A greatly reduced dependence on long-term market financing was evident and the average term of outstanding debt fell from 6.11 years, at the end of 1967, to 4.3 years at the end of 1973. A further decrease occurred in 1974 and 1975. Total marketable bond outstandings rose by about $2 billion, but the long-term bond component (10 years and over) fell by $2.8 billion. Treasury bill outstandings rose a modest $1.8 billion, meanwhile Canada Savings Bond outstandings increased by nearly $4.4 billion. This shift in emphasis was accomplished by increasing the amount offered to eligible buyers and for a time including amongst those buyers estates and certain non-profit


Greenshields Incorporated
Business founded 1910 in Montreal
Montreal Toronto
Brockville Burlington Calgary Cornwall Edmonton
Halifax Hamilton Kingston Kitchener London
Newmarket Niagara Falls Oakville Oshawa Ottawa
Pembroke Quebec Saint John Sarnia St-Hyacinthe
St. John's St. Thomas Sorel Sudbury Trois-Rivieres
Vancouver Welland Winnipeg Woodstock
New York London Zurich
10.0
9.5
9.0
8.5
8.0
7.5
7.0
6.5
6.0
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
1957
1958
1959
1960
1961
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1966
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1968
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1970
1971
1972

# ɾate Fluctuations



organizations. If viewed as a demand-money instrument (a fact amply demonstrated in 1974), the Canada Savings Bonds financing was expensive when compared to treasury bills which might have provided an alternative source of funds.

| 4 1/2%/83 – 1974 |
|---|
| High 82 |
| Low 71 1/4 |
| Last 82 |

Over a short period, the year 1974 provided the most extensive swing in rates yet experienced by the Canadian bond market. We will, therefore, deal with it in some detail.

The central bank's restrictive policy appeared to ease somewhat in the early months of 1974, perhaps due to the mail strike. The market may have misunderstood this action, particularly as there was some further easing of rates in the United States. For whatever reasons, a strongly speculative attitude was developed. This feeling was encouraged by the success of the April 1 Government refunding issue, 7% bonds due April 1, 1979 but extendible into 8% bonds due April 1, 1984. However, renewed demand pressures prompted the bank to increase the Bank Rate to 8 1/2% on April 15, up by 1%. The Rate was raised again to 8 3/4% on May 13 and to 9 1/4% on July 24.

The market was in a chaotic state which can best be illustrated by another reference to Canada 4 1/2%/83. These bonds which were selling at 81 7/8 in mid-February, declined to 71 1/4 by June. The Bank of Canada lent considerable support through open-market operations, but in spite of this short-term paper rates were in the vicinity of 11 3/4% by late July. Three-month treasury bills yielded 9 1/8% in July and the long-term Canada bond average reached 9.84% in August.

During the summer, the central bank began to adopt a more accommodative approach to cash management as demand pressures abated. Short-term interest rates in Canada and the United States began to fall in August. Except for an interruption in November due to a very large sale of Savings Bonds, this trend continued in Canada until the end of the year. Three-month treasury bill rates declined to about 7% and other short-term rates were close to 10 1/4%.

The long-term market was slower to respond, but by September rates were moving down sharply. By the end of the year the long-term average was down about 1% from its high to 8.75%. Canada 4 1/2/83 prices rose to about 82; a 20 point swing if taken from the top in February to the low in June and back again.

The management of Canada Savings Bonds presented particular difficulties in 1974. Very heavy redemptions occurred as the rates of competing investment vehicles rose in the middle two quarters. The rate to maturity on outstanding Savings Bonds was raised to 9% as of May 1. An increase to 10 1/2% was made effective concurrent with the announcement of the offering of the new series in September. The new bonds had a term of nine years with interest payable at 9 3/4% in each year. This unusually generous rate, coupled with an improving bond market, prompted total sales of $6.155 million for a net increase in Canada Savings Bonds outstandings of $4.021 million over the year.

| 4 1/2%/83 – 1975 | 9 1/2%/94 – 1975 |
|---|---|
| High 84 1/2 | High 107 1/2 |
| Low 76 1/4 | Low 93 3/8 |
| Last 77 7/8 | Last 96 3/8 |

In the early part of 1975, interest rates continued to decline rapidly. The Bank Rate was cut again to 8 1/2% on January 13. By the end of February, the long-term bond average had fallen 60 basis points from the end of December to 8.17%. Money supply began to expand rapidly and the central bank moved to a more restrictive policy of cash management. Rates began to rise despite a continuing decline in the United States, but a turnaround in that market in mid-summer created new upward pressures on rates in Canada. The Bank Rate was raised to 9%, an unusually large increase of 3/4 of 1%. Despite a renewed decline in the United States, rates in Canada remained high throughout the balance of 1975.

There was a large increase in the Government's cash requirements in 1975 ($5.759 million, excluding foreign exchange transactions). Canada Savings Bonds again played a major role in debt management. The new issue with an average yield to maturity of 9.38% reached total sales of $2,723 million for a net increase of $2,667 million in outstandings. Five marketable bond issues were offered, of which 33% were brought at the short end, 45% in the medium-term and 22% in long-term bonds. The long-term offerings were indicative of a change in debt management policy from that of preceding years.

The year 1975 saw a preoccupation, by Government and the central bank, with inflation and the large increase in the rate of growth of money supply. The Government introduced controls over prices, wages and profits and formed the Anti-inflation Board to ensure that the new rules would be observed. The Bank of Canada formally defined the acceptable rate of growth for currency and demanded deposits (M1), namely above 10% but lower than 15% as measured from a base which would consist of the average of the three-months centred on May 1975.

| 4 1/2%/83 – 1976 | 9 1/2%/94 – 1976 |
|---|---|
| High 84 1/2 | High 106 3/4 |
| Low 76 | Low 96 5/8 |
| Last 84 1/2 | Last 106 3/4 |

Interest rates remained rather stable through the first three-quarters of 1976 despite another increase in the Bank Rate of 1/2 of 1% to 9 1/2% on March 8. Vigourous open-market operations prevented excessive interest rate reactions. Meanwhile, in the United States, rates which had risen in May and June began a decline which was to continue for the remainder of the year. The Bank of Canada resisted a similar downturn in yields here.

The attraction of lower rates abroad resulted in a greatly increased reliance on foreign markets as a source of financing by Canadian borrowers. This inflow of funds contributed to the upward pressure on the exchange rate. By June, the Canadian dollar reached a level of U.S. $1.0389.

## ANOTHER DOLLAR PROBLEM

In the final months of 1976, the sluggish growth rates of the economy and the money supply (M1) caused the Bank to moderate its restrictive policies. Canada Savings Bonds sales were terminated on November 22 and effective the same date the Bank Rate was lowered to 9% and reduced again on December 22 to 8 1/2%. Through November and December, three-month treasury bill rates dropped by nearly .90 of 1%, short-term Canadas by 1.07% and the long-term Canadas average by .625 of 1%. Finance paper yields were down just over 1%.

As a result of the narrowing of the interest rate differentials between Canada and those available abroad coupled with an uncertain political climate and the expectation that Canada's foreign borrowing would be curtailed, the exchange rate of the Canadian dollar fell to U.S. $.9888 in November and closed the year at U.S. $.9913.

In light of slightly lower Government cash requirements (compared to the previous year), there was a reduced reliance on Savings Bonds, but some increased emphasis on treasury bills. Marketable bond outstandings increased by $1.828 million and long-term bonds accounted for 40% of this financing.

As a result the average term of outstanding debt increased for the first time in over ten years.

In late August, the Bank of Canada announced an updating of its target range for the growth of M1. The new range was set at above 8% but below 12%, from the three month average centred on March 1976.

| 4 1/2%/83 – 1977 | 9 1/2%/83 – 1977 |
|---|---|
| High 84 1/2 | High 106 3/4 |
| Low 76 | Low 101 1/4 |
| Last 84 1/2 | Last 103 |

The Bank Rate was reduced to 8% on February 1, 1977 and again to 7 1/2% on May 9 as the rate of growth of money supply continued to be sluggish.

Short-term rates in general decreased by 1-1 1/4% in the first half of the year, but rose between 10 and 25 basis points over the balance of the year. Long-term yields moved slightly higher through January and February and moved in a narrow range throughout the year. The performance of the U.S. market was vastly different and, no doubt, was the influencing factor on the long-term market in Canada. The U.S. discount rate was increased from 5 1/4% to 5 3/4% on August 30 and to 6% on October 26. The Fed Funds rate increased by almost 2% over the year, three-month treasury bill yields were up 1 1/2%, 3-5 year Government had a yield increase of about 1 1/4%, while long corporate rates rose by about 25 basis points.

The Bank of Canada again up-dated the target range for Ml at the end of September. The new range was above 7% but lower than 11%, from the average of June 1977.

Debt management for the year 1977 again placed a reduced reliance on Canada Savings Bond financing. Outstandings rose by $1.66 billion or some 10% higher than at the close of 1976. A greater dependence on treasury bills was in evidence once more and $2.47 billion was raised through this medium for an increase of 32% over the previous year. Marketable bond financing consisted of $5.8 billion of which $2.1 billion or 36% was offered as long bonds. Net outstandings or marketable bonds rose by $3.87 billion, about 22% higher than at the close of 1976. Government cash balances grew by $1.6 billion.

The exchange value of the Canadian dollar which had opened the year at $US .9913 dropped to $US .8963 in late October but rallied to $US .9140 by the end of 1977.

**WHAT OF THE FUTURE?**

I have two main concerns.

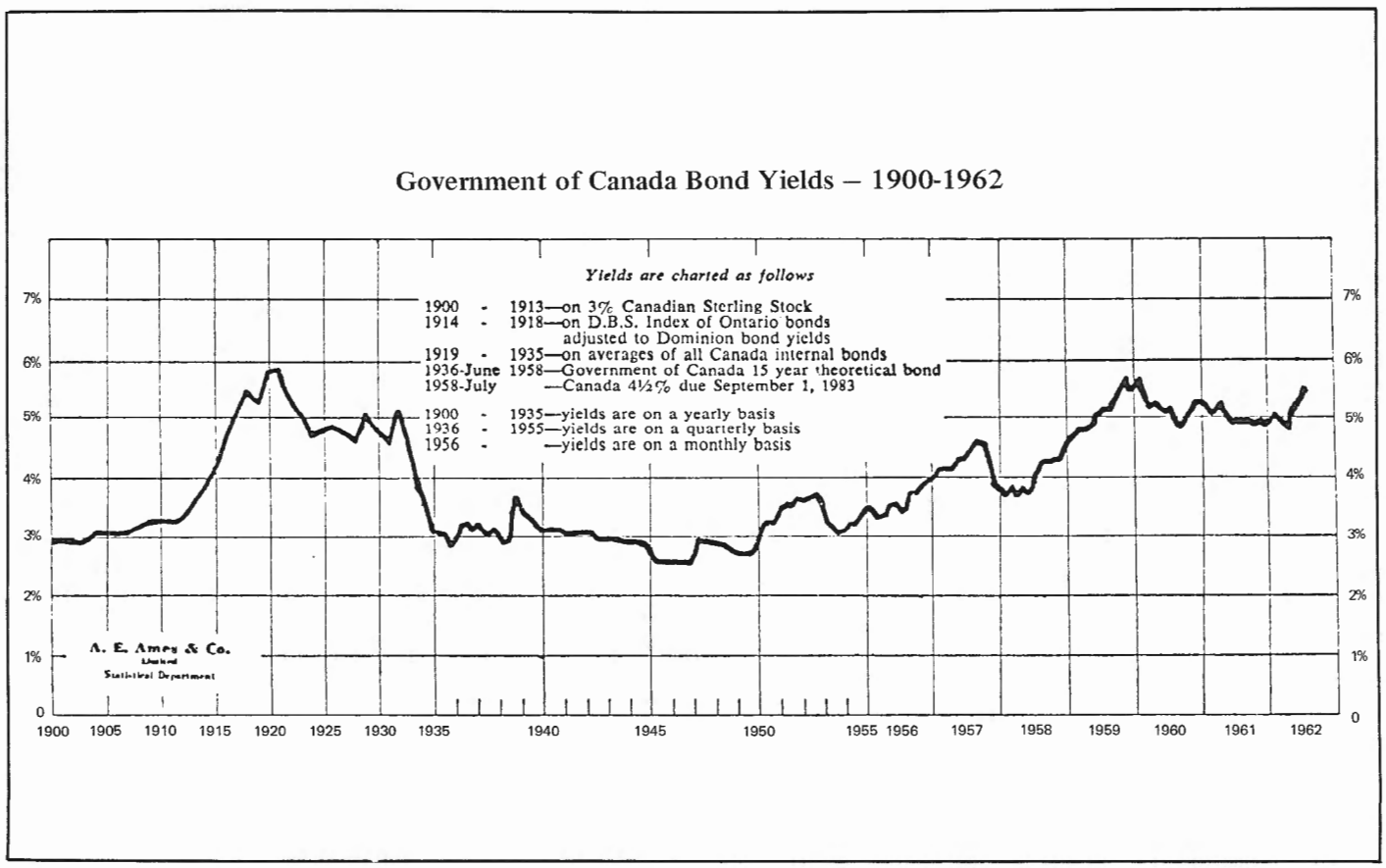
First, the huge increase in Canada Savings Bonds that developed in the late 1960's and early 1970's leaves us vulnerable to a period of strong upward pressures on interest rates. A case in point was 1974. The measures which were necessary to prevent even greater redemptions and the need to be competitive with alternate investment choices, left us with savings bond outstandings that were extremely costly. At the moment we have 37% of our debt which can be considered demand-money. If taken to full maturity this segment of outstanding debt has an average term of about 5.9 years with a cost of 9.65%. The current cost of Government of Canada marketable bonds with a similar term is about 8.50%. My fear is that a repeat of the experience of 1974 might occur.

Whatever interest rate risk exists, it is certain that we are building huge problems for the future. The first sizeable refunding of compound interest bonds will occur later this year. About $2.5 billion of bonds will mature with an estimated $2 billion of interest accruement. There is a distinct possibility that the whole $4.5 billion will be rolled-over, plus perhaps $1.5 billion of new money. Six billion dollars! It can be done. In 1983 very sizeable Savings Bond maturities will commence and continue in each subsequent year. An issue of the size mentioned above will aggravate an already serious situation. If Government cash requirements are anywhere close to present levels, the outlook is bleak.

My second concern is the cost of Government with its continuing impact on debt management and the level of interest rates. Canada has been spending about 43% of its Gross National Product on the public sector. While recognizing the serious effort being made to contain the rate of growth of this spending, unless some absolute reduction occurs, inflation will remain a fact of life.

S.A. SPIDLE

March 1, 1978





**A MEETING OF THE MONTREAL BOND TRADERS' ASSOCIATION HELD IN THE NORTH WEST SALON OF THE WINDSOR HOTEL ABOUT 1932**

*Back row*
Harold Rowe, Sinking Fund Quebec Govt, Quebec City,
Basil Howard, Bank of Nova Scotia
Mr. Côté, Côté Peruse
George Beausoleil, Beausoleil & Co.,
Jimmy Henderson, then Dean of St. James St. – Dom Securities
W.T.K. Collier, Wood Gundy & Co.
Don Patterson, Hanson Bros – Later was President of Dominick & Co.
Mr. Lemesurier, B.C.N.
George Pementhal, Greenshields
Armand Brisebois, Beaubien
Mr. Birchmore
Frank Pearson, Can Bk Commerce –
Hector Vidricaire, A.E. Ames & Co.
John McConnell, Nesbitt Thomson Co.

*Front row*
Major J. Bales, Kingstone & MacKenzie
Col. Eric Kippen, Kippen & Co.,
Parker Hickey, Hickey & Co.
Unidentified
Unidentified
Herb Plow, Williamson Plow Co.
Mr. Richardson, National City Co.
Mr. Ross, Royal Trust Co.
George Hunter, Assoc. Auditor
Mr. McClean, Royal Sec. Corp.
Mr. Wray, Rothschild & Co.
Guy Major of Major & Co.
Henry Rath, Nesbitt Thomson Co.,
Andrew Armstrong, Royal Sec. Corp.
Pete Stephenson, Greenshields & Co.
Pat Maraza, Association Musician


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# EVOLUTION DU FINANCEMENT MUNICIPAL ET SCOLAIRE AU QUEBEC

Par Jean-Claude Quesnel, Ministère des Affaires Municipales de la Province de Québec.

Les municipalités sont des créatures de l'Etat et elles relèvent de la juridiction directe et exclusive de la Législature provinciale. Le paragraphe 8 de l'article 92 de l'Acte de l'Amérique Britannique du Nord décrète que "La Législature provinciale pourra exclusivement faire des lois relatives aux institutions municipales."

Les emprunts des municipalités et commissions scolaires au Québec se font en vertu de nombreuses dispositions de différentes lois dont les principales sont:

1. Le Code municipal, articles 758 à 783 inclusivement;
2. La loi des cités et villes, articles 580 à 604 inclusivement;
3. La loi de la Commission municipale, S.R.Q. 1964, chapitre 170, articles 24 à 36 inclusivement;
4. La loi des dettes et des emprunts municipaux et scolaires, S.R.Q. 1964, ch. 171;
5. La loi de l'instruction publique, S.R. 1964, chapitre 235, articles 224 à 236 inclusivement;
6. Les lois spéciales affectant certaines municipalités comme Montréal, Québec et les communautés urbaines.

En général, ces lois et leurs amendements imposent aux municipalités, communautés urbaines et commissions scolaires: 1° que leurs règlements et résolutions d'emprunt soient approuvés par la Commission municipale du Québec (sauf le Conseil scolaire de l'Ile de Montréal) et le ministre soit des affaires municipales, soit de l'éducation;

2° si elles émettent des obligations (les cités et villes y sont tenues sauf pour les cas prévus à l'article 587 de la Loi des cités et villes) que ces obligations, à moins d'une autorisation spéciale, soient vendues à la suite d'appel d'offres fait dans la Gazette Officielle quinze jours, avant la séance du conseil prévue pour l'ouverture de ces soumissions. Font exception à cette règle les communautés urbaines et les villes de Montréal et Québec.

3° Toutes ces obligations doivent (Montréal depuis la loi 82, 23-12-76) porter le sceau du ministère des affaires municipales et le certificat de validité du ministre qui se lit comme suit:

"Ceci atteste que les règlements autorisant l'émission de cette obligation ont été approuvés par le ministre des affaires municipales et que cette obligation est émise conformément à ces règlements.

Toute obligation émise par une corporation municipale en vertu d'un règlement approuvé par le ministre des affaires municipales, portant le sceau du ministère des affaires municipales et ce certificat est valide, et sa validité ne peut être contestée pour aucune raison quelconque (S.R.Q. 1964, Ch. 171, Art. 12).

Le gouvernement de la Province de Québec, par ce certificat, garantit la validité, mais non pas le paiement de la présente obligation".

Les différentes lois qui régissent les emprunts municipaux et scolaires ont subi d'année en année d'assez nombreux changements de façon à les adapter aux nouvelles formules d'administration et aux nouvelles structures et ces corporations et de façon aussi à les rendre plus conformes aux conditions changeantes des marchés des capitaux.

Ainsi, les lois garantissant les obligations des commissions scolaires ont dû s'adapter aux nombreux changements intervenus dans ce secteur. Nous nous souvenons du temps où les commissions scolaires n'étaient subventionnées que pour une partie de leur émission soit les trois ou cinq premières échéances dont étaient si friandes les caisses populaires. Puis vint le fameux "Bill 64". Aujourd'hui alors que les commissions scolaires se retirent de plus en plus du champ de la taxe foncière, tous les projets d'investissement (acquisitions d'édifices, constructions, etc.) qui requièrent un emprunt à long terme font l'objet d'une émission d'obligations dont le service de dette est entièrement payé par le ministère de l'éducation à même son budget à être voté annuellement.

Tout récemment soit le 15 décembre 1977, l'article 592 de la Loi des cités et villes était amendé dans le but de permettre aux municipalités de mandater le ministre des affaires municipales pour recevoir et prendre connaissance des soumissions pour achat d'obligations; l'adjudication demeure évidemment du pouvoir exclusif de la corporation emprunteuse.

Par la même occasion, on retranchait le troisième alinéa du même article faisant ainsi disparaître l'exigence du chèque de 1% qui devait accompagner les soumissions. Le Code municipal (art. 760) était, en même temps, modifié dans le même sens et nous espérons pouvoir faire amender dans ce sens la loi de l'éducation.

## LE MINISTERE DES AFFAIRES MUNICIPALES

Le ministère des affaires municipales a été créé par une loi qui date de 1918 dans

le but d'assister techniquement et financièrement les municipalités dans les différents champs d'activité qui leur sont propres et aussi dans le but d'administrer les lois qui régissent leurs opérations.

Au début, cette intervention était presque entièrement restreinte aux opérations financières; mais depuis il y eut de nombreux changements de structures et de nombreuses nouvelles lois ont été sanctionnées de sorte qu'aujourd'hui, le ministère des affaires municipales comprend différentes directions dont: l'administration financière, l'évaluation, la prévention des incendies, les structures (fusion, annexion, etc.) et l'urbanisme.

Pour ce qui nous concerne plus immédiatement, soit l'administration financière et le financement, il est intéressant de référer aux rapports annuels du début du ministère et dont je cite ici quelques extraits.

**"Des municipalités qui, il y a quelques années à peine, vendaient leurs obligations, avec intérêt à 6%, à 88,90 ou 92, se voient enlever leur nouvelles emissions à 5½%, et probablement bientôt à 5%, au pair."**

**"Pourquoi le public préfère-t-il placer son argent à 5½% et moins, sur des obligations municipales, plutôt que de le prêter sur 1ère hypothèque à 6½% et 7%? "**

**"Je crois que nous devons chercher l'explication de la grande confiance que le public de notre province accorde à ces valeurs, dans la protection efficace accordée par nos lois aux obligations municipales et aux porteurs de ces obligations."**

**"Il est peut-être intéressant de mentionner quelques-unes de ces lois adoptées par la Législature de Québec, et dont plusieurs n'existent que dans notre province."**

**"La première fut celle créant un ministère chargé exclusivement de la surveillance des affaires municipales."**

**"Une autre non moins importante fut celle concernant les fonds d'amortissement."**

**. . (et un peu plus loin) . . .**

**"Autrefois, le porteur d'une obligation municipale pouvait être exposé à voir l'émission complète attaquée devant les tribunaux pour une informalité quelconque. Il n'avait aucun moyen de s'assurer de la légalité des procédures autorisant cette émission sans consulter un homme de loi, ce qui entraînait des dépenses considérables."**

**"La conséquence de cet état de choses était qu'il n'y avait que les grandes institutions, les compagnies d'assurance, les compagnies de fiducie, les chemins de fer, etc. qui pouvaient acheter ces obligations."**

**"Par la loi 8 George V, chapitre 60, section 16, il fut décrété que toute obligation municipale devait, à l'avenir, avant sa livraison, porter un certificat du ministre des affaires municipales, attestant de sa légalité, et la loi dit que tout bon émis en vertu d'un règlement approuvé par le lieutenant-gouverneur en conseil et portant un tel certificat est valide et sa validité ne peut être contestée pour aucune raison quelconque."**

**"Je crois que cette loi est une des plus importantes qui aient été passées dans le domaine des affaires municipales. Elle est particulière à la Province de Québec et n'existe dans les statuts d'aucune autre province en Canada".**

Le certificat de validité n'a pas changé en substance sauf le dernier paragraphe qui a été rajouté plus tard et que les approbations des règlements sont maintenant données par la Commission municipale du Québec et le ministre des affaires municipales plutôt que par le lieutenant-gouverneur (sauf de très rares exceptions). C'est en 1925 (15 George V, chapitre 40, section 7) que le certificat de validité fut imposé aux obligations des commissions scolaires.

Un autre extrait du même rapport, 1923-1924 se lit comme suit:

**Règlements d'emprunt**

Cent trois (103) règlements municipaux, représentant un total de $18,568,727.28 ont reçu la sanction du lieutenant-gouverneur en conseil.

En voici le détail:

**Emprunts municipaux autorisés durant l'année fiscale 1923-1924**

| Municipalité | Comté | Montant | Total | Objets |
|---|---|---|---|---|
| Acton Vale, ville | Bagot | 65,000. | 65,000. | Cons. usine de filtration |
| Aylmer, ville | Hull | 57,600. | | Travaux d'aqued. et égouts |
| " " | | 69,500. | 127,100. | " " " " |
| Bagotville, ville | Chicoutimi | 80,000. | 80,000. | Sys. éclair. et pou. élec. |
| Beauceville, ville | Beauce | 8,000. | 8,000. | Travaux de voirie |
| Bécancour, vge | Nicolet | 4,300. | 4,300. | Dette Flot. Cons. pont |
| Beauport, vge | Québec | 200,000. | 200,000. | Cons. aqued. et égouts |
| Belle Plage, vge | Vaudreuil | 12,000. | 12,000. | Voirie, cons. de pont |
| Brompton, canton | Richmond | 30,000. | 30,000. | Dette flottante |
| Chicoutimi, ville | Chicoutimi | 150,000 | | Dette flot. protection feu, aqued. |
| Cap-de-la-Mad. | Champlain | 75,000. | 75,000. | Paiement d'intérêt Obligation dette flottante |

De novembre 1976 à octobre 1977 inclusivement, 1,992 règlements d'emprunt furent approuvés pour un montant global de $609,320,000.00.

**LES SUBVENTIONS DU MINISTERE DES AFFAIRES MUNICIPALES**

Le ministère des affaires municipales a assisté financièrement de tout temps les municipalités selon diverses formes de subventions. Certaines municipalités ont même vu leurs dettes assumées entièrement par le gouvernement alors qu'à la suite de circonstances imprévues et catastrophiques elles ne pouvaient plus respecter leurs engagements. Nous connaissons en effet le triste cas du village de St-Jean-Vianney de même que celui de Parent.

Depuis environ un an, des programmes spécifiques de subventions ont été élaborés avec des règles et des critères précis comme nous le voyons ci-dessous à la description de ces différents programmes. Ces règles et ces critères et leur diffusion non seulement réduiront au minimum le facteur arbitraire et discrétionnaire des allocations de subventions mais réduira aussi le volume des demandes d'information et les délais qui en résultent tout en fournissant aux municipalités un outil additionnel de planification de leurs dépenses.

**P.A.I.R.A.**: programme d'aide à l'implantation des réseaux d'aqueduc et d'égouts de secteurs déjà construits et non de nouveaux développements.

**Municipalités admissibles**: celles régies par le Code municipal.

**Montant alloué**: maximum de 75% du coût total du projet admissible déduction faite des autres subventions telles que celles de la S.C.H.L.

Payable en dix (10) ans sauf les montants de $100,000. et moins qui sont payés comptant.

**LIQUIDATION**: même travaux que le programme précédent (P.A.I.R.A.).

**Municipalités admissibles**: celles régies par la Loi des cités et villes dont la population est de moins de 10,000 âmes.

**Montant alloué**: maximum de 50% du coût total du projet admissible déduction faite des autres subventions telles que celles de la S.C.H.L.

Payable comptant dans tous les cas; 80% de la subvention peut être avancé avant la fin des travaux sur présentation d'estimés progressifs.

**P.A.I.R.E.**: programme d'aide à l'implantation des rôles d'évaluation.

**Activités**: la confection du premier rôle d'évaluation foncière réalisée suite à une ordonnace ministérielle et en conformité avec le règlement numéro 1 publié en vertu de la loi sur l'évaluation foncière.

**Municipalités admissibles**: toutes, incluant les communautés urbaines.

**Sommes prévues**: taux fixés par unité d'évaluation variant d'une catégorie à l'autre (ferme, résidence, commerce, etc.). La subvention pourra atteindre 50% du coût reconnu de la confection du rôle, incluant une bonification d'au plus 10% selon la qualité.

**P.A.I.S.I.**: programme d'aide à l'implantation des services d'incendie.

**Activités**: nouveaux services seulement; achat d'autopompes, camions-citernes et de pompes portatives lourdes; réserves d'eau au cas d'incendie, indépendantes du réseau d'aqueduc; les postes de pompiers (maximum 3 baies) et remises pour pompes.

**Municipalités admissibles**: celles non admissibles à "l'aide statutaire" fondée sur la population (en 1977 moins de 10,000 âmes) sauf l'aide apportée par une municipalité de plus de 10,000 âmes ou plus à une autre plus petite.

**Montant alloué**: 75% des frais admissibles encourus par la municipalité si mise en commun des nouveaux équipements; s'il y a impossibilité de mise en commun: 50%; si possibilité de mise en commun et qu'il n'y a pas entente: 25%.

**Versement**: comptant ou de 2 à 5 versements selon l'importance de la subvention.

## LES SUBVENTIONS STATUTAIRES BASEES SUR LA POPULATION.

Municipalités de 10,000 habitants et plus (Loi no 8; 19 juillet 1977). Cette loi est sujette à modification chaque année. Ces subventions sont inconditionnelles.

**Montant**: (voir art. 1 de ladite loi) de "$6.40 par habitant compris dans la tranche de la population n'excédant pas 20,000 habitants" jusqu'à "$23.50 par habitant compris dans la tranche de la population excédant 150,000 habitants."

## P.A.R.E.M. et P.A.C.E.M.

Sont deux (2) programmes "ad hoc" de relance économique et de soutien de l'emploi. Le ministère dispose pour ces deux (2) programmes de $30 millions de dollars. Ces subventions sont payées comptant.

**Municipalités admissibles**: toutes les municipalités sont admissibles mais non les communautés urbaines.

**Montant alloué**: ces subventions sont données pour couvrir les dépenses de main-d'oeuvre seulement à un taux de $0.90 par $1.00 de salaire brut.

**Activités**: amélioration des équipements municipaux sauf les projets admissibles couverts par d'autres programmes de subventions existants (principalement la construction d'équipements de loisirs).

Le programme P.A.C.E.M. peut couvrir des constructions tandis que le programme P.A.R.E.M. s'applique plus spécifiquement aux projets d'entretien, de conservation et d'amélioration des équipements.

Le programme P.A.C.E.M. peut donner lieu à un emprunt additionel par la ville mais pour ce qui est du programme P.A.R.E.M., les surplus payables par celles-ci doivent être couverts par le budget annuel.

Quelques programmes fédéraux viennent s'ajouter à ces programmes tels ceux de la S.C.H.L. qui sont des programmes de prêts avec renonciation de la part de la S.C.H.L. de 25%; un montant plus élevé de subvention peut être alloué si le coût du projet est jugé trop élevé.

Les programmes "Canada au Travail et Jeunesse Canada au Travail" n'exigent qu'occasionnellement des règlements d'emprunt. Le programme "Placement Etudiant" n'occasionne aucun emprunt.

Les programmes de la Société d'Habitation du Québec sont mixtes, soit qu'ils comprennent la participation des gouvernements fédéral, provinciaux et municipaux.

Ils visent la rénovation urbaine et la construction d'habitations à loyers modiques, etc.

## LE COMITE DE FINANCEMENT MUNICIPAL

Le Comité de financement municipal, organisme du ministère des affaires municipales a été créé en 1971 par le ministre d'alors dans le but de faire les recommandations relatives aux ventes de gré à gré et au comptoir de petites émissions ou de cas spéciaux d'emprunts sur les marchés locaux ou étrangers.

Ce comité est aussi responsable de la réglementation des procédures de soumissions (marge de taux nominaux permis, modalités d'échéances des tableaux d'amortissements, etc.).

Il est composé d'un représentant de la Commission municipale, d'un représentant du bureau du sous-ministre, du directeur général de l'administration financière et de deux officiers du service des obligations.

Les tableaux suivants nous font l'historique des émissions d'obligations vendues par les municipalités et commissions scolaires depuis 1938 de même que la variation des coûts de financement pour ces émissions et celles de la Province et de l'Hydro-Québec.

## DISTRIBUTION DES OBLIGATIONS

Extrait du rapport sur le crédit municipal et scolaire 1966.

**"Le marché des obligations qui était servi vers les années '30 en grande partie par de très grosses maisons qui accaparaient à peu près tout le marché municipal et scolaire, s'est vu sensiblement modifié par l'envahissement progressif de petites maisons d'obligations et de nouveaux syndicats qui se sont groupés autour des deux banques Provinciale et Canadienne Nationale jusqu'à un point tel que, de nos jours, les investissements des grosses maisons dans ces domaines ne représentent pas même 25% du marché total."**

Cette situation est demeurée stable jusque vers le début des années 1970. Depuis le phénomène tout à fait inverse s'est produit et nous avons vu disparaître la presque totalité des petites maisons qui se sont jointes aux plus grosses.

Dans la ville de Québec, par exemple, il y a eu, vers la fin des années '60, jusqu'à 9 maisons qui y avaient leur siège social alors qu'aujourd'hui une seule y conserve son bureau principal.

Le nombre de courtiers et banques qui soumissionnent régulièrement pour l'achat d'émissions d'obligations municipales et scolaires est de près de 15, un nombre à peu près égal s'ajoute à ceux-ci à l'occasion, surtout comme membre de syndicats. Il faut ici souligner le rôle important que jouent les banques Provinciale et Canadienne Nationale dans le marché primaire des émissions d'obligations municipales et scolaires de même que dans le marché secondaire.

Depuis le début des années '70 cependant cette situation a aussi changé de sorte que ces banques ont cédé progressivement leur prépondérance dans ce champ d'activité au profit des courtiers.

Les caisses populaires interviennent évidemment à titre d'acheteurs des échéances les plus courtes; mais ce phénomène a perdu de l'importance ces dernières années.

Quant à la distribution même de ces obligations, voyons ce que disaient les auteurs du rapport cité plus haut sur le crédit municipal et scolaire 1966:

**"En 1936, il pouvait y avoir une dizaine de maisons de placement ayant leur siège social en dehors de la province de Québec qui soumissionnaient régulièrement pour l'achat des émissions d'obligations municipales et scolaires de la Province de Québec. A cette date, il y avait également une dizaine de maisons québécoises intéressées à ce marché, dont quelques-unes avaient été formées entre 1925 et 1936."**

**"En 1964, on relève plus de quarante maisons qui ont été établies après 1936, ce qui revient à dire qu'il y a présentement plus de cinquante maisons québécoises qui soumissionnent pour les émissions d'obligations municipales et scolaires."**

**EMPRUNTS PAR OBLIGATIONS**
**MUNICIPAUX ET SCOLAIRES**

| | |
|---|---|
| **1973** | |
| Municipaux | $ 321,262,587.36 |
| dont | |
| Ville de Montréal | 36,000,000.00 |
| Communauté Urbaine de Montréal | 70,000,000.00 |
| Ville de Québec | 15,000,000.00 |
| Scolaires | $ 104,536,400.00 |
| **1974** | |
| Municipaux | $ 337,166,285.75 |
| dont | |
| Ville de Montréal | 16,000,000.00 |
| Ville de Québec | 15,000,000.00 |
| Scolaires | $ 218,733,500.00 |
| dont | |
| Conseil scolaire de l'Ile de Montréal | 20,000,000.00 |
| **1975** | |
| Municipaux | $ 858,682,204.80 |
| dont | |
| Ville de Montréal | 187,578,500.00 |
| Communauté urbaine de Montréal | 126,702,500.00 |
| Ville de Québec | 25,000,000.00 |
| Scolaires | $ 171,955,500.00 |
| dont | |
| Conseil scolaire de l'Ile de Montréal | 60,000,000.00 |
| **1976** | |
| Municipaux | $ 735,938,531.91 |
| dont | |
| Ville de Montréal | 144,555,000.00 |
| Communauté urbaine de Montréal | 100,965,000.00 |
| Ville de Québec | 14,605,500.00 |
| Scolaires | $ 159,113,500.00 |
| dont | |
| Conseil scolaire de l'Ile de Montréal | 30,000,000.00 |
| **1977** | |
| Municipaux | $1,176,570,755.11 |
| dont | |
| Ville de Montréal | |
| (incluant le déficit olympique $214. millions) | 312,430,000.00 |
| Communauté urbaine de Montréal | 273,700,000.00 |
| Ville de Québec | 12,000,000.00 |
| Scolaires | $ 208,043,000.00 |
| dont | |
| Conseil scolaire de l'Ile de Montréal | 60,000,000.00 |

Par la suite la situation a évolué de façon telle qu'aujourd'hui ces obligations, sauf celles de Montréal et des communautés urbaines de Québec et Montréal (voir tableau à la fin de la présente section), sont presque entièrement distribuées par des maisons locales soit de Montréal et Québec, à des portefeuilles de la province.

Traditionnellement, les investisseurs privés québécois ont acheté des obligations de leur municipalité et commission scolaire. Ceci crée pour la province une situation particulière en Amérique du Nord, situation où environ 30% des obligations des villes et commissions scolaires (exclusion faite de Montréal et C.U.M.) sont vendues au détail par environ 250 agents licenciés. L'importance de cette particularité est telle qu'une maison qui n'a pas son potentiel de détail peut difficilement se lancer seule dans des achats en volume de ces obligations et c'est pourquoi les maisons de l'extérieur, de l'Ontario particulièrement, doivent se grouper avec des maisons québécoises pour participer à la distribution de ces titres.

Cette situation crée aussi des conditions d'émissions particulières où, par exemple, les échéances des obligations ne dépassent pas, règle générale, 10 ans alors que les règlements décrétant ces emprunts prévoient habituellement des amortissements sur une période de 20 ans d'où le phénomène des "ballons" à refinancer avec l'impact relativement important sur les marchés et les finances municipales.

La distribution au détail de ces obligations ne semble pas tendre à perdre de l'importance mais fluctue plutôt en fonction de la demande plus ou moins forte de ces titres par les portefeuilles institutionnels.

## COMPARAISON AVEC LES AUTRES PROVINCES

La Province de Québec est la seule au Canada à maintenir à son ministère des affaires municipales un "service des obligations" qui administre les lois régissant les procédures d'émissions d'obligations ou de billets à long terme par les municipalités et commissions scolaires. Le travail de ce service consiste principalement en la vérification complète des dossiers en vue de la signature du certificat de validité et en la mise en marché de ces obligations par le système de soumissions publiques tel que requis par la loi.

Dans les autres provinces, il y va tout autrement pour le financement des municipalités; en Alberta et en Colombie Britannique par exemple, des organismes gouvernementaux financent directement la majorité des municipalités et émettent en leur propre nom, les obligations. En Ontario, le système est différent de chez nous à un point tel que nous ne pouvons établir des comparaisons valables des résultats obtenus. Voici quelques-unes de ces différentiations:

Un organisme central "Ontario Municipal Improvement Fund" finance directement un certain nombre (réduit) de municipalités qui éprouveraient quelques difficultés à vendre leurs obligations sur le marché public. Un tel organisme n'existe pas chez nous.

Une très grande partie (près de 90%) du financement des services aux propriétés (aqueduc, égouts, rues, etc.) est effectuée par l'entrepreneur et chargée à l'acheteur de la propriété. Ceci réduit sensiblement les sommes à financer par les municipalités ontariennes en comparaison avec nos municipalités qui financent la totalité des services.

The "Ministry of the Environment" ontarien finance directement les installations de traitement des eaux; au Québec ce sont les villes et les communautés urbaines qui font ces financements.

Les commissions scolaires ontariennes et autres corps publics se financent à même les fonds recueillis par la section ontarien-

ne du "Canada Pension Plan"; nos commissions scolaires empruntent sur les marchés publics.

Le regroupement d'un grand nombre de municipalités ontariennes sous l'autorité des "Regional Municipalities" ou autres organismes métropolitains (12 de ces organismes regroupent près de 70% de la population) et le pouvoir exclusif de celles-ci d'effectuer les emprunts de toutes les municipalités membres occasionnent un tout autre contexte de financement que celui que nous connaissons au Québec. C'est d'ailleurs ce phénomène qui explique en grande partie l'existence des "agences financières" "Fiscal Agencies" et leurs activités beaucoup plus intenses qu'au Québec dans le financement municipal.

La concentration plus forte qu'au Québec des institutions financières et des industries dans la région de Toronto et dans le sud de l'Ontario favorise aussi le financement des corps publics ontariens en comparaison avec ceux du Québec.

Tout ceci fait que les obligations municipales du Québec (échéance 10 ans) se vendent en moyenne à des taux d'environ .75% à 1.25% (1977) plus élevés qu'en Ontario. Faut-il conclure qu'il en coûte plus cher au citoyen québécois qu'à l'ontarien? La grande différence du prix des maisons unifamiliales depuis de nombreuses années, entre les deux provinces, différence causée en partie par les modes de financement des services aux propriétés, nous porte à croire qu'il en coûte plus cher en Ontario qu'au Québec tout au moins dans les régions des grandes villes.

## COMMISSION MUNICIPALE DU QUEBEC

### Considérations générales sur le rôle de la Commission municipale du Québec.

La crise économique qui a éclaté à la fin de 1929 pour s'aggraver durant les années qui suivirent amena un grand nombre de corporations municipales, dans la province de Québec, au bord du marasme financier. Les contribuables n'étant plus en mesure de payer leurs taxes foncières, les corporations qui avaient des emprunts obligataires, ne pouvaient plus rencontrer leurs échéances.

La législature a cru devoir créer en 1932 un organisme de contrôle et de surveillance nommé "La Commission municipale du Québec". Celle-ci fut munie de pouvoirs définis, qui devaient contribuer à redonner et maintenir la confiance des prêteurs dans les obligations municipales, scolaires et même de syndics de paroisse (fabrique).

Parmi les pouvoirs qui lui ont été dévolus, le principal fut certainement l'obligation pour toutes les municipalités et commissions scolaires d'obtenir l'approbation de tous les emprunts qu'elles désirent contracter; ce pouvoir existe toujours.

D'autre part, le premier but visé par la loi créant la Commission municipale a été la réorganisation financière des emprunts par obligations des corporations municipales et scolaires affectées par la crise économique du temps. Voici un exemple de mise en défaut: Ville de Greenfield Park mise en défaut le 7 décembre 1938, réorganisation financière le 20 avril 1939 pour un montant de $490,500., autonomie remise le 1er décembre 1954.

En tout, une centaine de corporations se sont prévalues de la Loi de la Commission municipale 1932 pour réorganiser leurs finances.

En 1946, le gouvernement provincial confiait à la Commission municipale la tâche importante de voir à l'application de la nouvelle Loi pour assurer le progrès de l'éducation. Par suite de leur situation financière et de l'insuffisance de leurs ressources, la plupart des corporations scolaires étaient devenues incapables de répondre, comme il convient, aux besoins de l'éducation. En vertu de la Loi 10 George VI, chapitre 21, la province de Québec a assumé toutes les dettes par billets ou obligations encourues antérieurement au 17 avril 1946 par les commissions scolaires désirant se prévaloir de la Loi pour assurer le progrès de l'éducation. Le montant approximatif des dettes assumées par la province en vertu de cette Loi a dépassé 110. millions de dollars, en capital et intérêts.

En vertu de l'article 91 de la Loi de la Commission municipale du Québec, celle-ci disposa d'un montant de $115,344,000. fourni par "L'Office du Développement municipal et des prêts aux municipalités" (gouvernement fédéral). Cet argent devait être prêtés aux municipalités pour leur projet d'investissement comportant des nouvelles constructions seulement. Deux cent quatre-vingt-trois (283) municipalités se sont prévalues de l'article 91 et ont emprunté le montant total ci-haut entre les années 1965 et 1968. Ces emprunts sont remboursables sur des périodes allant de 3 à 40 ans. Ainsi les échéances furent donc établies de 1966 à l'an 2008. Les taux d'intérêt varient de 5 1/4%, 5 3/8% et 5 5/8%. Le solde au 31 mars 1978 à rembourser est de $68,190.000.

Au cours des années qui suivirent, la Commission municipale du Québec a bien joué son rôle de surveillance des finances municipales et s'est vu confier des mandats additionnels tels que les enquêtes sur les cas de renvoi ou suspension d'officiers municipaux, de même que pour les cas d'annexions ou fusions de municipalités, etc. La Commission conserve en outre les pouvoirs suivants: "elle autorise les aliénations de gré à gré de biens meubles ou immeubles; elle peut adopter toute mesure d'urgence aux lieu et place d'un conseil municipal qui ne peut siéger valablement; elle établit des critères pour la délivrance des permis d'évaluateurs et délivre ces permis; elle entend les demandes de reconnaissance de tout organisme sans but lucratif pour fins d'exemption de taxe foncière et les appels d'ordonnance ou de refus d'autorisation du directeur du Service de la protection de l'environnement fondés sur la loi de la qualité de l'environnement.

Ces dernières années, la Commission municipale du Québec s'est mise en évidence dans des enquêtes à Ville d'Anjou, Saint-Léonard, Longueuil, et quelques autres municipalités bien que la situation financière de celles-ci ne fût pas en cause.

A une époque comme la nôtre où les structures sociales et la conjoncture économique et politique évoluent avec une telle rapidité, il est bien souhaitable que des organismes de contrôle et d'assistance soient en place et assurent une permanence dans les différents champs d'activité des instances publiques décentralisées tout en imposant au progrès un rythme qui convienne à chacune d'elles en regard de leur ensemble pour un territoire donné.

Si le passé est le plus sûr garant de l'avenir nous pouvons conserver notre confiance dans les finances de nos municipalités puisque, chez nous au Québec, aucune d'elles n'a jamais fait perdre un sou de capital à ses détenteurs d'obligations.

## CONCLUSION

### Extrait du rapport sur le crédit municipal et scolaire 1966.

**"La municipalité qui vient et emprunte sur le marché obtient des avantages égaux à sa réputation financière et à la compétence de ses administrateurs. Celle qui jouit d'un excellent crédit doublé d'une administration hautement qualifiée se voit offrir des conditions aussi avantageuses sinon plus que celles offertes à la province. Le marché, avec raison, favorise une gestion impeccable et incite au meilleur contrôle possible des dépenses. Un fonds général de crédit aurait peut-être pour conséquence d'avantager les corporations publiques médiocres mais alors probablement au détriment de celles qui se sont bâties une réputation financière enviable grâce à leur travail, leur prudence et leur habileté."**

Depuis le début des années '60 deux rapports d'étude sur le projet d'une banque de crédit municipal ont été produits. Ces deux rapports, datés l'un de 1966 et l'autre de 1977, sont venus à la même conclusion soit qu'il n'est pas recommandable qu'une banque universelle de financement municipal soit établie.

On y préconise plutôt la formation d'un fonds limité constitué par le trésor provincial et devant servir à financer les émissions de petites ou moyennes munici-

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## STATISTIQUES GENERALES

TABLEAU # 1

### SOMMAIRE DES EMISSIONS D'OBLIGATIONS VENDUES PAR LES MUNICIPALITES ET LES COMMISSIONS SCOLAIRES DU QUEBEC

| | MUNICIPALITES | | COMMISSIONS SCOLAIRES | | TOTAL | |
|---|---|---|---|---|---|---|
| | Nombre d'émissions | Montant | Nombre d'émissions | Montant | Nombre d'émissions | Montant |
| 1938 | 93 | $ 15,431,100 | 33 | $ , 1,574,854 | 126 | $ 17,005,954 |
| 1940 | 48 | 7,708,770 | 40 | 1,724,500 | 88 | 9,433,270 |
| 1945 | 78 | 9,877,350 | 29 | 2,992,764 | 107 | 12,870,114 |
| 1950 | 161 | 23,428,600 | 116 | 19,044,000 | 277 | 42,472,600 |
| 1955 | 155 | 90,216,800 | 228 | 59,868,700 | 383 | 150,085,500 |
| 1960 | 297 | 183,383,800 | 203 | 72,565,800 | 500 | 255,949,600 |
| 1965 | 311 | 187,338,277 | 74 | 22,941,800 | 385 | 210,280,077 |
| 1970 | 426 | 275,267,954 | 168 | 87,711,852 | 594 | 362,979,806 |
| 1973 | 384 | 321,262,587 | 88 | 104,536,400 | 472 | 425,798,987 |
| 1974 | 368 | 337,166,286 | 135 | 218,733,500 | 503 | 555,899,786 |
| 1975 | 595 | 858,682,205 | 120 | 171,955,500 | 715 | 1,030,637,705 |
| 1976 | 528 | 735,938,532 | 108 | 159,113,500 | 636 | 895,052,032 |


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palités qui éprouveraient certaines difficultés à se vendre à des prix compétitifs sur les marchés locaux.

Quant aux autres émissions, soit la grande majorité, on y conclut que le mode de financement en usage leur est profitable compte tenu des possibilités pour les plus grosses corporations de faire appel à l'occasion aux marchés étrangers et, pour les autres, des facilités évidentes à se financer sur le marché local à des taux raisonnables en comparaison d'autres titres de corps publics et principalement ceux de la province.

Une des raisons principales du succès du système actuel de financement est sans doute l'existence d'un important marché de détail de ces titres maintenus traditionnellement par une équipe de courtiers et d'agents qui y trouvent leur profit évidemment, mais à qui les municipalités doivent beaucoup d'ainsi faire l'effort nécessaire pour maintenir en vigueur ces effectifs de détail même dans les temps vraiment difficiles que nous connaissons à intervalles réguliers.

Un autre facteur de succès du système actuel est la disposition de la loi par laquelle les municipalités doivent demander des soumissions publiques pour vendre leurs émissions d'obligations. Nous croyons qu'il est profitable et sain que chaque municipalité voir elle-même au financement de ses projets d'investissement portant ainsi la responsabilité directe des emprunts à effectuer et leur coût de plus en plus élevé.

Cette alternative occasionne évidemment la multiplication des émissions d'obligations (en 1977, 753 au municipal et scolaire) dont les montants sont relativement peu élevés soit de quelque cent mille à quelques millions de dollars, les plus volumineuses atteignant les quinze millions faites par des villes comme Québec et Laval.

N'avons-nous pas là les éléments tout indiqués pour le bon fonctionnement d'un système de soumissions publiques qui représente évidemment le très grand avantage de mettre en concurrence les courtiers entre eux et les banques, produisant non seulement à coup sûr le meilleur prix dans un contexte donné, mais aussi le résultat final que nul ne peut contester puisque tous les intéressés sont invités à proposer leurs conditions.

Les exceptions dont doit cependant souffrir la formule suscitent, à l'occasion, des discussions mais celles-ci ne sont jamais assez graves pour compremettre sérieusement le système.

Telle est ma conclusion et si j'ai employé au cours de cet exposé les "nous" plutôt que les "je" c'est que je savais exprimer l'opinion de mes collègues du ministère et de la Commission dont un a même collaboré à la rédaction de ce texte, M. Raymond Langlois que je remercie bien.

**TABLEAU COMPARATIF DES COUTS DE FINANCEMENT DES MUNICIPALITES ET DE LA PROVINCE DE QUEBEC ET DE L'HYDRO-QUEBEC**

| | | | Municipalités les mieux cotées |
|---|---|---|---|
| 11-5-60<br>1 au 15-5-60 | HYDRO-QUEBEC | 5.785% | 5.638% |
| 11-12-61<br>4 au 19-12-61 | PROV. QUEBEC | 5.475% | 5.563% |
| 12-3-62<br>5 au 20-3-62 | PROV. QUEBEC | 5.395% | 5.336% |
| 17-9-63<br>9 au 21-9-63 | PROV. QUEBEC | 6.135% | 6.178% |

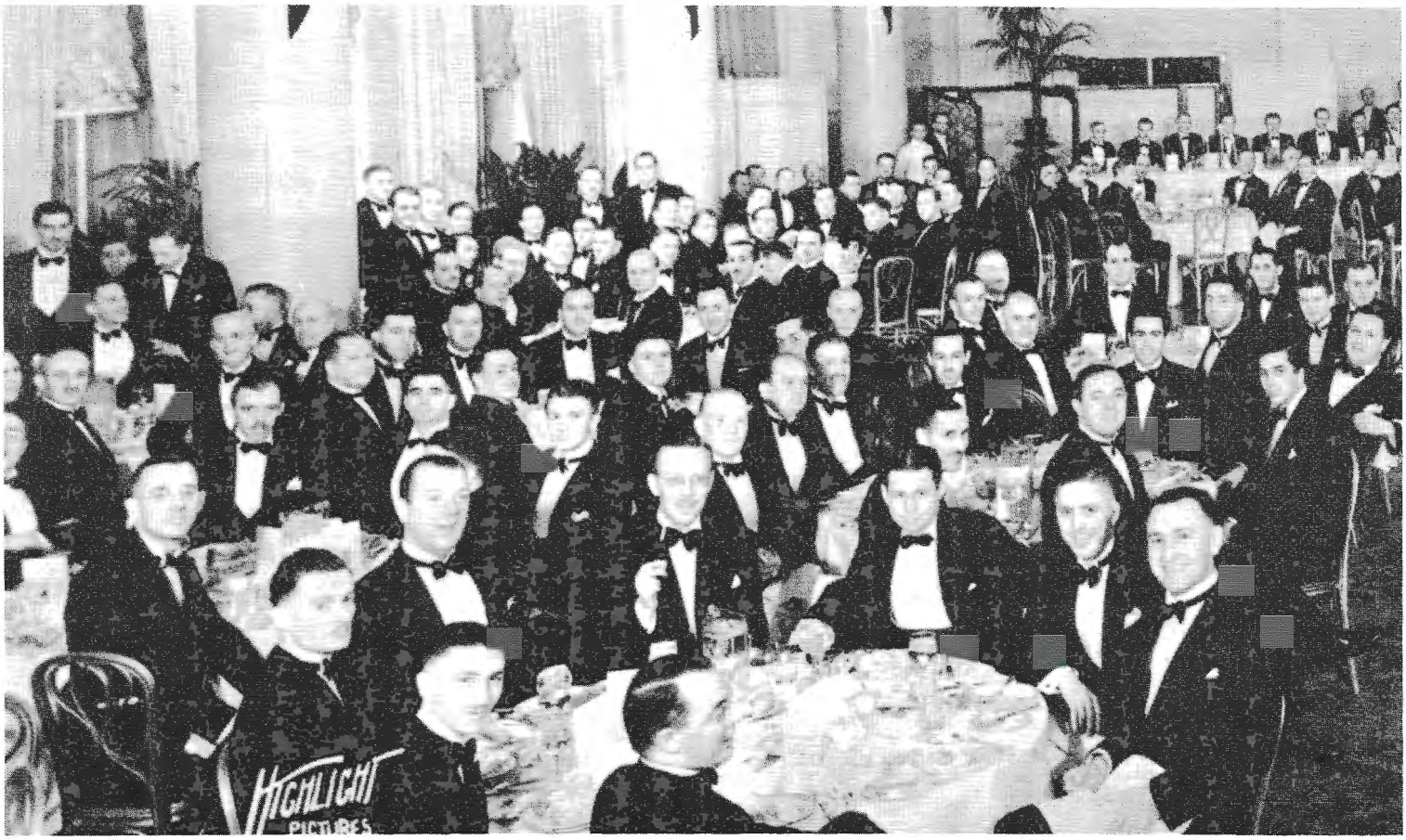
**COUTS MOYENS ANNUELS DE FINANCEMENT**

| MUNICIPALITES COMMISSIONS SCOLAIRES COMBINEES | | PROVINCE DE QUEBEC * | |
|---|---|---|---|
| 1967 | 7.4090% | 1967-68 | 7.07% |
| 1968 | - | 1968-69 | 7.67 |
| 1969 | 9.3108 | 1969-70 | 8.55 |
| 1970 | 9.8795 | 1970-71 | 9.29 |
| 1971 | 8.1528 | 1971-72 | 8.48 |
| 1972 | 8.1414 | 1972-73 | 8.22 |
| 1973 | 8.5508 | 1973-74 | 8.30 |
| 1974 | 10.3959 | 1974-75 | 9.94 |

* Période du 1er avril au 31 mars

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**Sur cette photo, circa 1939, apparaissent, entre autres:**
A.R. Duffield (Wood Gundy), Son Honneur Camillien Houde, Maire de Montreal, Andy Armstrong (RSC), Tim Baldwin (Nesbitt), A.S. Torrey (Pitfield), Herbie Plow (Savard), J.A.D. Falkner (Wood Gundy), Dudley Byers (A.M. Kidder), W.H. Dwyer (Pitfield), William Simpson, Bill Price (SunLife), J.M. Cole (Wood Gundy), William Curry (Ames), H. Murray (Thomson), Robert Hills (RSC), Jack Cameron (Gairdner), Cy Wellaford (Collier, Norris & Quinlan), H.H. Roth (Thomson & Co.), Grahame Johnson (Ames), Jack Gibson (Gairdner), Gordon Taylor (Collier Norris & Quinlan), George Kitchin (Barclays), P. Bertrand (Leclerc), John Kaufman and Pete Stephenson

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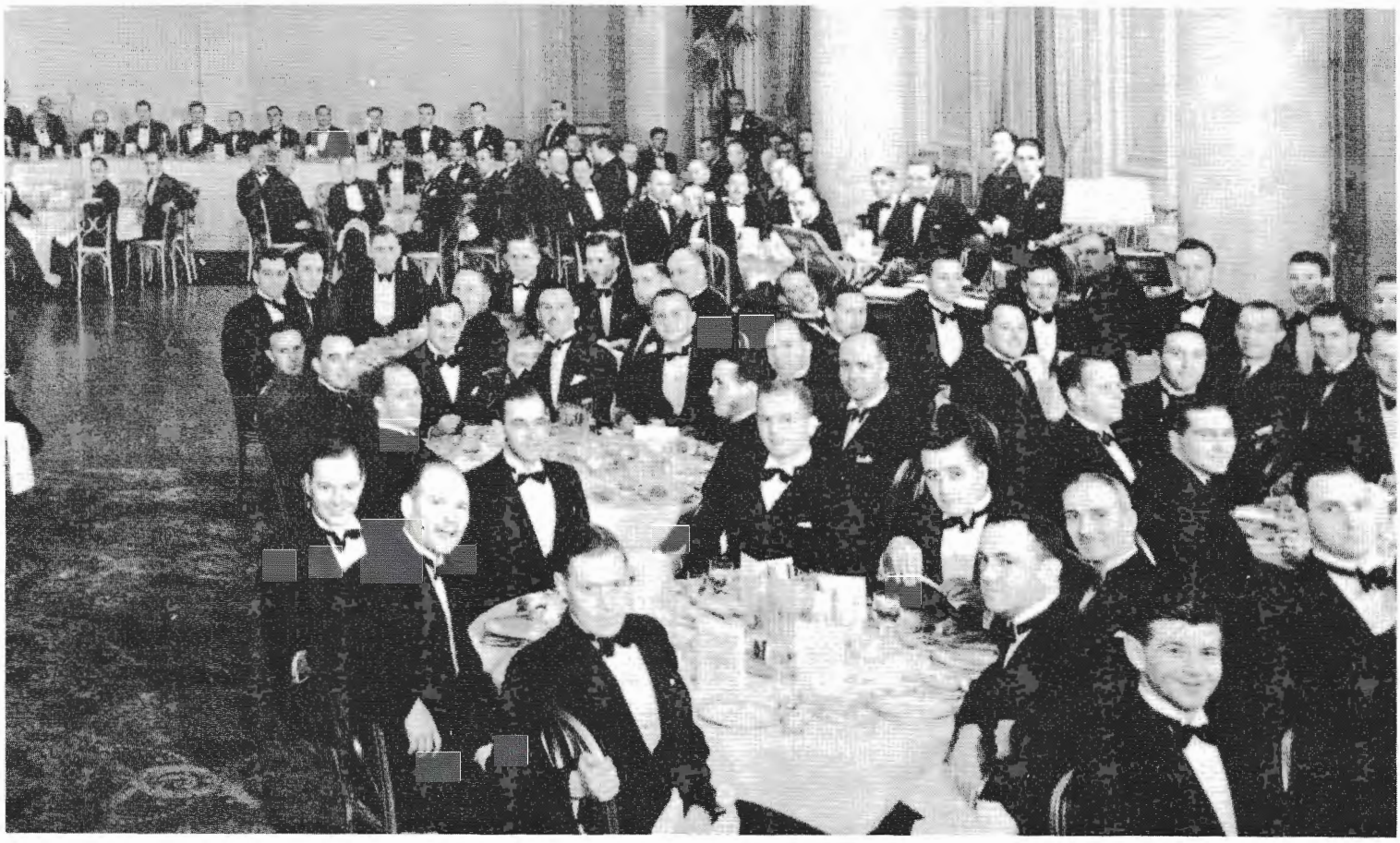
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# 50 YEARS OF CORPORATE FINANCING

By Michael Scott, Wood Gundy Limited

In October 1927 Canada Cement Company, Limited issued $20 million of 5 1/2% bonds due in 20 years. Fifty years later in December 1977 Canada Cement Lafarge Ltd. (the successor company) issued $40 million of 9 3/4% debentures due in 20 years. Is it fair to say that the only change in corporate finance over 50 years is that interest rates have increased from 5 1/2% to 9 3/4% and that the size of issues has increased? While true, that is not the whole story. Consider these differences between the two issues: (See table I below)

How simple corporate finance was 50 years ago! No securities commissions and prospectus requirements to deal with. A simple letter from the company president to the underwriter with a brief description of his company and a summary of its earnings together with the briefest of summaries of the terms of the issue was all that was required. With these two issues at the beginning and end of the fifty year period, this article will try to fill in the gaps of the ensuing years.

**TABLE I**

| | 1927 | 1977 |
|---|---|---|
| Coupon | 5 1/2% | 9 3/4% |
| Security | First mortgage | Unsecured |
| Payment in | US, Cdn. or UK | Cdn. only |
| Prospectus | 4 pages | 27 pages, English<br>28 pages, French |
| Statutory Information | None | Full disclosure |
| Registered with Securities Commissions | No | Yes |
| Sold in | US and Canada | Canada only |
| Restrictive Covenants | Some | Several |

To set out the changing patterns of corporate finance over 50 years we will first look at the pre-1927 period and then at the periods 1927-1938, 1939-1945, 1946-1969 and 1970-1977.

The period 1927-1938 included the boom of the 1920's and the depression of the 1930's. The period 1939-1945 comprised war years. The post war years 1946-1969 were years of increasing prosperity climaxed by a stock market boom in the late 1960's. The bubble burst at the end of 1969 and thus far the 1970's has been a period of high inflation, rising interest rates and falling stock prices.

### Pre-1927

The period prior to 1927 was characterized by the formation of many of the major financial institutions with which we are familiar today. The first of such companies, the fire and casualty insurance companies was founded in 1809,

the first of the chartered banks in 1817, of the savings banks in 1819, of the life insurance companies in 1847, of the mortgage loan companies in 1855, trusteed pension plans in 1874, trust companies in 1882, caisses populaires in 1900 and finance companies in 1916.

During the pre-1927 period, most of Montreal and Canada's important business enterprises were already incorporated including Bell Canada, Canadian Pacific, Aluminum Company, Cominco, Canada Cement, Dominion Textile, DuPont, Imasco and Molson. Many of these companies were formed to incorporate businesses already in existence or to merge the operations of two or more existing enterprises.

It was a period of rapid industrial development, an active period for corporate finance and the innovation of new forms of financing for corporations including preferred shares which appeared at the turn of the century. The Montreal Stock Exchange was formed in 1874 and The Toronto Stock Exchange in 1878.

Thus by 1927 all the pieces were in place: the issuers, being the growing number of major Canadian industrial and commercial companies most of which had head offices in Montreal; the debt, preferred and common shares to be issued to raise funds; and the banks, insurance companies, trust and loan companies which, together with individual savers, would buy the issues.

### 1927-1938

In 1927 no one would have expected that the boom in corporate finance would be over in three years and that for a period of 15 years, 1930-1945, little new corporate financing would be done other than for reorganization of corporate debt for companies who had run into trouble during the depression and for refunding existing issues at lower rates of interest.

During this period the banks and the life insurance companies accounted for over 70% of Canadian assets of financial intermediaries. Life insurance companies were growing much faster than the chartered banks. Other financial institutions then active were general and casualty insurers, trust and loan companies and caisses populaires. Investment trusts, both closed end and open end appeared in the 1930's.

The sharp decline in securities prices which followed when Britain went off the gold standard in 1931 impressed upon the dealer community the importance of speeding up the distribution of new issues to reduce the time during which a new issue liability was carried. As the crisis passed, underwriting houses and investing institutions worked away at problems involving corporate reorganizations and plans for debt readjustment. The decline in volume of new issues in the early 1930's led to greater emphasis upon activity in the secondary or between-dealer market.

Increasingly vigorous competition for what little business was available resulted in dealers becoming more competent in appraising the strong and weak points of securities and more skilful in putting together proposals for the exchange of securities already owned by investors for other securities and which offered the investor some advantage of price, term, yield or other feature. A substantial volume of business developed in the movement of Canadian securities between Canada and foreign countries as exchange rates and interest rates changed. Taxes began their climb and taxation considerations offered dealers a new area where they could serve their clients and develop new business.

Paralleling this growth in dealer "know-how" came increasing discrimination on the part of investors, especially institutional investors, who were coping with securities which had failed to perform as anticipated. This climate of difficult markets, more selective buyers, lower volume of business and strenuous competition between investment dealers was in marked contrast to the buoyant, relatively unsophisticated 1920's when the dealer was principally concerned with underwriting and distributing new issues and, in view of the unbroken debt record of borrowers, had no reason based on experience to build into security issues an extra margin of safety against depressed economic conditions.

During the period the Canadian provinces began to introduce legislation aimed at controlling the distribution of securities. By 1930 most provinces had agreed to a "uniform" Security Frauds Prevention Act which had originally been passed in 1928 in Ontario and dealt with traders in securities. The Companies Information Act of 1928 of Ontario dealt with the issuing of new securities. In 1933 Quebec introduced legislation which required the filing of information before a registered salesman could offer a new issue. By 1938 most provinces had requirements for the filing of information concerning the offering of a new issue.

In 1935 the Bank of Canada began operations. Created by the Bank of Canada Act (1934) after the recommendation of the Massey Commission, the Bank first operated as a private company with public shareholders. On August 15, 1938 all the shares were acquired by the government. From its inception the Bank began to collect statistical information relating to the economy, its financing and the financial intermediaries. For the first time statistics of new issues became readily available.

In retrospect, it can be seen that the 1930's provided investment dealers, issuers and investors with unforgettable lessons in the hard school of experience, lessons which were later reflected in improved financing standards and generally better-designed new issues.

### 1939-1945

During the years 1939-1945 activity in the securities business centred in the work of the National War Finance Committee. The Federal Government called on dealer personnel to serve on national and regional committees to spearhead the sales organizations for two War Loans and nine Victory Loans totalling $12.9 billion. During the period 1939-1945, a total of only $777 million of corporate bonds were issued, primarily for refunding maturing issues and as a result corporate bonds outstanding declined from $2,172 million at the end of 1938 to $1,749 million at the end of 1945.

In spite of the lack of public corporate financing, corporations grew very rapidly during the war to increase the ability of the country's production facilities to meet wartime demands. Whole new industries such as synthetic rubber and aircraft manufacturing were developed and existing industries such as steel, aluminum, automobile and armament manufacturing were substantially expanded. Financing was usually provided by advances on sale contracts, loans from the United Kingdom, United States and/or Canadian governments, and from rapid write-offs permitted under Canadian wartime tax laws. Only small amounts of borrowings were utilized.

A significant change occurred during the war years in the relationship of the size of the financial institutions. As mentioned above during the 1927-1938 period the assets of the life companies increased more rapidly than those of the banks. During the war years as money supply increased rapidly, the assets of the banks doubled, a growth far more rapid than that of the other financial institutions including the life companies.

### 1945-1969

1945 marked a new era of regulation for security issues. The Ontario Securities Act of 1945 was passed to curb the then prevalent fraudulent activity in mining financing. The new Act required far more disclosure in prospectuses including a more complete set of questions the answers of which were known as "Statutory Information". As well as questions dealing with the company's name, place of business and other pertinent data, there were questions dealing with material contracts and shareholders. In some cases the reply to a question taken too literally did not add greatly to the knowledge of the readers. For example, one question dealt with shareholders and the known ability of a shareholder to elect a majority of the Board of Directors. The following is a reply to this question in a 1946 prospectus.

"The Company has no knowledge of any persons who, by reason of beneficial ownership of securities of the Company (as distinguished from the apparent rights of ownership disclosed by the Share Register of the Company, the entries on which speak for themselves) or by reason of an agreement in writing, are in a position to, or are entitled to elect or cause to be elected, a majority of the Directors of the Company".

It was well known at the time that the company was and is controlled by a major American corporation.

In the aftermath of the war the demand for Canada's products increased markedly. Lumber, steel, foodstuffs were desperately needed around the world. Canada's productive capacity was strained and new capacity of almost all products was needed. American investment in Canada's burgeoning oil industry, sparked in 1947 by the discovery of the Leduc field, increased at a dramatic rate. In 1949 a pipeline, Interprovincial Pipe Line, to carry oil from Alberta to Eastern markets was financed and built at a cost of $90 million and in 1952 a further pipeline, Trans Mountain Oil Pipeline, to move Alberta oil westward to the Vancouver and westcoast United States markets was constructed. These lines represented the first two major post-war projects. Financing followed traditional lines. The $90 million required for the Interprovincial Pipe Line was provided from $72 million of 3 1/2% first mortgage bonds sold in Canada and in the United States and $17 million of 4% convertible debentures sold to the public. The first mortgage bonds and the debentures were secured by a throughput agreement and deficiency agreement of Imperial Oil offering the investor little risk in his investment.

The Trans Mountain line was financed in much the same way, $65 million of first mortgage bonds sold in Canada and the United States and the balance from the sale of common shares to the oil company owners and to the Canadian public. The first mortgage bonds were secured by a deficiency agreement of the owners to provide the company with cash to meet payments of interest and principal.

In the middle 1950's three major Canadian projects were financed, the $90 million aluminum smelter at Baie Comeau, the $150 million gas pipeline of Westcoast Transmission and the $250 million TransCanada PipeLines gas pipeline to carry natural gas 2,300 miles to the eastern markets.

Canadian British Aluminium was founded by British Aluminium and Quebec North Shore with an initial investment of $30 million in Class "B" shares. Baie Comeau was chosen for its location on tide water and availability of adequate hydro-electric power. Financing was arranged by the issuance of $23 million first mortgage bonds, $10 million debentures (carrying warrants) and 300,000 Class "A" shares which were sold as a unit. This was followed in turn by a rights issue, $5 million of debentures and $10 million of first mortgage bonds (both issues carrying warrants). The financing was made feasible by a completion agreement entered into by the founders and an undertaking to purchase the total output of 80,000 tons of aluminium by British Aluminium less 20,000 tons delivered to Alcan in payment for alumina. All in all a neat package.

The $150 million for the Westcoast line was provided by $83 million of 4 3/8% first mortgage bonds sold to United States investing institutions, $30 million of debentures and notes sold to United States and Canadian banks, $40 million from the sale to the public of convertible debentures and common shares. The first mortgage bonds, represented less than 60% of the cost of the line, were not guaranteed but firm purchase and sales contracts had been arranged which were satisfactory to the lenders. There was no completion guaranty associated with the financing of the project. Lenders were apparently unconcerned about inflation and felt that a




small overrun could be financed by additional financing if necessary.

TransCanada, after a bitter political battle in early 1956, was financed a few months later than Westcoast. At the request of the government TransCanada agreed to change their proposed route through the well-populated and industrialized middle-west of the United States to the thinly populated underdeveloped area north of the Great Lakes. As this new route would have proved uneconomical the government agreed to own, build and lease to TransCanada a 675 mile section of the total line (the Northern Ontario Section) with TransCanada having the right to purchase this part of the line at a later date. Budgeted to cost $228 million financing consisted of $124 million first mortgage bonds, $109 million of subordinate debentures and common shares, sold as a unit to investors in the United States and Canada.

1951 marked the first recorded new use of an existing financing instrument. Until that time the senior financing of a company had been secured by a first mortgage on the assets of the company. Such mortgages were inconvenient and expensive for the issuer and lenders were encouraged to accept a lesser security. To replace the traditional first mortgage bonds an unsecured debenture was developed but its terms prohibited the company from creating a prior charge ahead of the debenture. This negative pledge debenture, a new instrument of senior financing showed the increasing maturity of Canadian corporations and the confidence of investors in their securities. The trend represented a real breakthrough for the issuer. Instead of having to list and transfer the ownership of all, or most, of its assets to a trustee and to absorb the costs involved, including often a substantial transfer tax, the issuer had only to promise that he would not charge any of his property to any other lender without equally charging the unsecured issue. To further protect the investor, different covenant patterns were developed restricting or even preventing the issuer from taking certain actions which, in the opinion of the investor, might unduly prejudice his rights as an unsecured creditor. A new era of corporate finance was opened.

In 1954, with the encouragement of the Bank of Canada, Canada's money market was introduced. Supported by the chartered banks and utilized by many industrial and commercial companies as well as financial intermediaries, the money market for the first time provided Canadians with a method of investing their surplus funds at interest for as little as a weekend. Corporations needing money found that they could, by issuing commercial paper, reduce their overall cost of borrowing and increase their borrowing flexibility. In a short period of time the market grew as the participating dealers, the issuers and the lenders became more knowledgeable and sophisticated sometimes too sophisticated as holders of United Loan, and Atlantic Acceptance notes will testify.

During the early 1960's as a result of sharply increased demand for pulp, paper and wood products, activity centred around pulp and paper financing. Three large mills were built in British Columbia and one in Ontario.

The Paley Report commissioned by the United States government in the 1950's cautioned the Americans that their natural resources were dwindling. Strong emphasis was placed by United States companies on replacing these dwindling resources with foreign raw materials. Canada, as a friendly but foreign country, was ideally suited for this purpose.

The financing of a $250 million iron ore project in Ungava completed in 1960 and the $270 million iron ore mine and pelletizing plant which came into operation in 1965, both sponsored by major American steel companies, were results of this important policy.

The chief feature of corporate finance during the 1960's was of course the financing of the $1 billion Churchill Falls power station. Financing totalled $690 million not counting equity raised by Brinco, the founding shareholder or the funds raised by Hydro-Quebec to build the transmission line. First mortgage bonds totalling $550 million were sold to institutional investors in the United States and Canada. This was the largest corporate private placement in history and required on the part of the investment banker years of negotiation with Brinco (owner of the project), Hydro-Quebec, the Province of Quebec and the Province of Newfoundland, the Government of Canada and the prospective lenders. In the 1969 financing of Churchill Falls, investors insisted on a firm long term power contract together with deficiency undertakings and completion guarantees of Hydro-Quebec and by undertakings of the provincial governments of Quebec and Newfoundland and of Canada.

1969 marks a turning point in Canadian corporate finance. Hitherto with few exceptions no government had involved itself in the financing of Canadian projects. From 1969 on, almost all major new projects were financed by support of one kind or another from a province or from Canada.

The buoyant stock markets of the late 1960's provided an opportunity for owners of smaller companies to offer a portion of their shares to the public. This fashion of "going public" lasted from about 1965 to 1969. Many smaller companies went public during this period. Today the fashion is to "go private".

Laws and regulations dealing with securities became more definitive in 1967. In 1967 the Securities Act (Ontario) was passed followed quickly by the Acts of Manitoba, Saskatchewan, Alberta and British Columbia. Subsequently, the other provinces agreed to a national policy for filing of new issues. To make prospectuses more readeable, these Acts provide for a narrative form to replace the "unreadable" Statutory Information which set out answers to a specific series of questions. From 1967 a prospectus may not include the exact covenant pattern of a new debenture but only a "succinct summary" is permitted. Considerable detail is required in a prospectus by the Acts and their Regulations. To these requirements are added new ones developed as Policy Statements based on changing attitudes as the years have gone by. In fact, the longer the Act is in force the more complex become the requirements. Consider the following: interest on debt is paid before tax and certainly before dividends on preferred shares. On a certain filing, a deficiency required that the company must evidence its ability to pay interest *after* dividends on preferred shares but, for some obtuse reason not after tax. How complex are the ways of securities commissions! Are we really any farther ahead with our 28 page prospectus than the four page prospectus of the 1920's.

**1970-1977**

The 1970's have witnessed the planning and financing of some of the greatest projects in Canadian history. Sidbec-Normines $500 million iron-ore project and Donohue St-Felicien $300 million pulp mill project both in Quebec; Texaco's $400 million refinery, Petrosar's $700 million petrochemical project and Stelco's expansion project of $1.2 billion all in Ontario; Syncrude's $2.4 billion tar sand project and petrochemical plants of approximately $1.1 billion are examples only of projects under way. To this list must be added the Arctic gas and oil pipelines of at least $10 billion not to forget the huge government energy programs in Quebec and Ontario. What a challenge for the future of corporate finance.

Of significant interest to the investor and the issuer were the formation in 1973 of Canadian Bond Rating Service (CBRS) and in 1975 Dominion Bond Rating Service (DBRS). These two companies were formed to provide Canadian investors with a credit rating of Canadian corporate debt. Such service had been available for many years to investors of United States investments through Moody's and Standard and Poors. Prior to the formation of CBRS and DBRS, each investor had to develop his own "rating" of Canadian corporate bonds. Now how-

ever, he can simply look in a book to determine whether he will buy or not buy an issue and at what price. How simple! No longer need an investor develop his own file of facts, figures and personal judgements of company's management. All this has been done for him. In a way this can be a disadvantage since it becomes difficult for an investment buyer to exercise his investment skills in the face of published and broadly distributed ratings.

The corporate finance requirements of Canadian companies during the 1970's has tested the skill and ingenuity of investment dealers. The period has been characterized by high inflation rates (up to 11%), high interest rates (up to 11%), low stock prices (down to 5 times earnings for many shares) and high taxes. Issuers have searched for financing vehicles to reduce the cost of money without destroying their debt equity ratios and with it their credit rating. Investors for their part have sought out investments offering tax relief and security of principal. Projects of mammoth size, nearly all associated with provincial or federal support have placed extra stress on the ability of the Canadian capital markets to cope. New markets and new instruments had to be developed.

Leasing was a major new financing vehicle of the period. Developed for CN to finance railway equipment and for Air Canada to finance new aircraft, over $250 million of such financing was sold to a variety of financial intermediaries principally trust companies. The investor received a cash return less than he would otherwise receive but, by applying the capital cost allowance available to the owner of aircraft, received a tax saving thus increasing this after-tax return to above normal. Tax amendments in 1976 put an end at least temporarily to this imaginative form of finance.

The 1971 tax law led to the development of another new form of finance. The issue of tax-deferred preferred shares whose dividends were received by shareholders free of current tax satisfied two requirements. Corporations having a special type of capital surplus could make use of this instrument to use up this surplus, improve their debt/equity ratio and at the same time reduce the dividend rate on a regular preferred share by about 20% per annum. Investors received an after-tax return substantially higher than that available from traditional investments. Tax amendments of 1977, designed to make corporate taxation understandable and work for businesses, inadvertently put an end to this type of financing vehicle.

Perhaps the most interesting use of a standard investment instrument was developed in 1977. Canadian corporations can, under Canadian tax law, receive dividends tax free from other tax-paying Canadian corporations. For many years many Canadian financial intermediaries had been buying income debentures. For a technical reason a preferred share had a certain security advantage over an income debenture although from a tax position the income was received in the same way. In 1977, to meet a perceived need of borrowers and a recognized interest of lenders, a retractable floating rate preferred share was developed whose attributes were suitable to both issuer and investor. For the issuer, money could be raised, without the usual borrowing tests associated with a normal issue of debt, at which should be attractive rates unless his tax rate was high. For the institutional investor, the income from the preferred share is received tax-free thus providing him with a better after-tax return than from a comparable interest paying instrument. So successful was the idea that over $1.2 billion of instruments of this type were sold during 1977.

These three forms of new financing vehicles were developed for the Canadian market. Meanwhile, chiefly as a result of the elimination of withholding tax on debt instruments over 5 years in term, and of high domestic interest rates, new markets were being opened to Canadian issuers.

In 1976, many prime Canadian corporate credits entered the Eurobond market with issues denominated either in United States or Canadian dollars. The lower cost of money in the Eurobond market during 1976 together with the rising need for corporate funds made this market attractive to Canadian companies. The dramatic increase in the use of overseas markets is shown by the growth of Eurobond issues by Canadian corporations which were $70 million in 1972 and $3,000 million in 1976. Other markets were opened to good Canadian borrowers including Germany in D marks, Japan in Yen, and Switzerland in Swiss Francs. Borrowers in these "exotic" currencies have found their real cost of money extraordinarily high in view of the persistent weekness in the Canadian dollar.

Tax amendments first announced in early 1977 and passed by Parliament at the end of 1977 may create a whole new range of financing vehicles. Consider the following, all of which are possible under current tax legislation:

1. Preferred shares whose dividends are payable in additional preferred shares;
2. Drilling funds whereby, under certain circumstances the original investment can be written off in the first year;
3. Canadian films where again the original investment can be written off against income;
4. Production loans whereby an investor can receive tax free or at least tax reduced income from a reasonably secure source of income.

What form will be taken by the investments issued to finance corporations in the future?

The investment business is essentially a fashion business. Just as the skirt line goes up and down and, oddly enough, always in counterpoint to the neckline, so the instruments sought by investors have changed over time. The trend away from stocks in the 1920's to bonds in the 1930's and 1940's, the trend back, gradually to stocks in the 1950's and 1960's, the desperate search for security and after-tax income in the 1970's, all offer proof of the principle that the habits of the investor change and that the investment industry is fashion conscious. The Three-Pay Bond of the late 1920's was followed by long term First Mortgage Bonds of the 1930's and Government Bonds of the 1940's. The fashion for buying long term bonds carried through the 1950's and 1960's in spite of steadily rising interest rates, inflation and weakening security provisions. By the 1960's the tide of optimism associated with the beginning fears of inflation caused buyers to lean toward common shares. Shares were expected to increase in price at a rate faster than inflation (as indeed they had done) and were, so it was said, the perfect hedge against inflation. Clients were no longer interested in revenue. After all revenue was taxable and capital gain was not. Buyers were interested only in capital gain believing it to be a sure thing. They were right for at least the 1960's. Indeed a whole new breed of financial wizards evolved whose skill was in "knowing" which shares were "moving". At the same time conservative investors relaxed their discriminating standards of selecting investments in order to increase very marginally their yield. For this was the era of "Performance". If you couldn't perform better than at least the Dow Jones you didn't understand investments. The old-timer stood back and watched in amazement. Stocks kept going up and up. Had the rules really changed?Was there some magic in stocks which the old-timers didn't understand. Yes, at least until 1969! A flood of new stock issues were brought to market in the 1960's. Small saw mills in British Columbia, small retailers in Ontario, a group of students who "understood the market", concept stocks involved in anything from electronics to marketing. Anything went! – until 1969. Since 1969 the investor has retreated into a cautious position with income and especially after-tax income as being the goal as a new form of "performance".

From a corporate finance standpoint we do not know whether the "skirts will go up or down" (I am more interested in "necklines" myself). All we know is that in the next 50 years, corporate finance will be an intense and rewarding occupation and will continue to be needed and used by Canadian corporations.

## Appendix 1

### Certain Statistics Pertaining to Canada 1930-1976

($ millions)

| | 1930 | 1940 | 1950 | 1960 | 1970 | 1976 |
|---|---|---|---|---|---|---|
| **Population (in thousands)** | 10,208 | 11,381 | 13,712 | 17,870 | 21,561 | 22,659 |
| **Gross National Product** | $ 5,728 | $ 6,743 | $18,006 | $36,278 | $84,468 | $165,445 |
| **Canadian Assets** | | | | | | |
| Banks | $ 2,635 | $ 3,303 | $ 8,636 | $14,142 | $33,616 | $ 88,100 |
| Life Insurance | $ 1,491 | $ 2,221 | $ 3,998 | $ 8,007 | $13,133 | $ 21,299 |
| Other Insurance | $ 217 | $ 244 | $ 551 | $ 1,388 | $ 3,088 | N/A |
| Trust & Mortgage Loan | $ 541 | $ 474 | $ 828 | $ 2,251 | $10,348 | $ 24,374 |
| Loan Companies | $ 40 | $ 89 | $ 468 | $ 2,322 | $ 5,502 | $ 11,073 |
| Investment Funds | $ 165 | $ 89 | $ 204 | $ 1,331 | $ 3,615 | $ 3,176 |
| Caisses Populaires | $ 12 | $ 25 | $ 346 | $ 1,486 | $ 4,228 | $ 15,692 |
| Pension Funds | — | $ 233 | $ 875 | $ 3,583 | $11,059 | $ 20,962 |
| **Corporate Bond Issues** Outstanding | N/A | $ 2,114 | $ 2,534 | $ 7,189 | $14,818 | $ 28,574 |
| **Net new corporate issues** | | | | | | |
| Bonds | N/A | $ (76) | $ 350 | $ 311 | $ 1,494 | $ 4,242 |
| Preferred & Common | N/A | $ 19 | $ 116 | $ 213 | $ 352 | $ 1,180 |






**Sur cette photo, circa 1942, apparaissent, entre autres:**
P. Lalonde (Beaubien), G. Magnan (Beaubien), Elzear McNeil (Beaubien), Lionel Boucher (Beaubien), Andy Armstrong (RSC), A. Desy (Nesbitt), M. Tremblay (Wood Gundy), Paul-Emile Ostiguy (Garneau & Ostiguy), Don Gatehouse (RSC), Harold Child (McCuaig Bros.), Horace Carigan (Sté de Placements), Jules Couture (Desjardins Couture), Walter Downes (Kippen), Andrew Beaubien (Beaubien), Abe Culver (RSC), E.A. MacNutt (SunLife), Ross Clarkson (Montreal Trust), Gerald Ryan (Beaubien), Eric Morse (Pitfield), Jim Douglas (RSC), Louis Robert (Geoffrion)


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And notice is also hereby given that all sums of money, held for disbursement on account of any Branch of the Public Service, or for which parties are liable to account to the Government of this Province, are required to be kept in deposit in the Bank of Montreal or the agencies thereof, until required for such service.

WM. P. HOWLAND,
Receiver General.

Receiver General's Department,
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**Sur cette photo, circa 1952, apparaissent, entre autres:**

John Ferguson (Nesbitt), Peter Betts (Richardson Secs.), Bill Ridley (Gundy), Jim Hannaford (Dawson Hannaford), Philippe Larose (Banque Provinciale), Gordon Wilkins (Mead & Co.), A.S. Keator (D.S.), M. O'Hara (Jones Heward), Baz Howard (Banque de Nouvelle Ecosse), Peter Dixon (Ames), Don Lebeau (Montreal Trust), Joe Pope (Banque de Montreal), Stan Jeffrey (Gairdner), Jack Love (D.S.), C.B. Heward (McTier & Co.), Topp Emery (Dawson McLean), Don Gatehouse (RSC), Eric McAteer (Banque de Nouvelle Ecosse), Jack Brookes (Greenshields), Eric Wright (Geoffrion, Robert), Jacques Jarret (Banque Provinciale), Les Wells (Gairdner), Ernie Brown (Gairdner), Elzear McNeil (Geoffrion), Chris Labelle (Grenier), Jimmy Henderson (D.S.), Bill Ritchie (Ames), Tom Price (Mac and Mac), Jules Lemire (BCN), Ted Delahaye (Greenshields) Ben O'Connell (Morgan Ostiguy), Peter Mitchell, Bob Kirkpatrick, Claude Dieumegarde (BCN), Gérald Cloutier (BCN), Lucien Côté (Greenshields), Bill Burke (Banque de Commerce), Jean-Claude Leclerc (René T. Leclerc), Jean-Louis Tassé (RSC), Paul Fisher (Ames), Charlie Hay (Jones Heward), Derek Hannaford (Dawson Hannaford), Lloyd Garrett (Nesbitt), Leo Lagacé (Hodgson), Allan Bracher (McLeod, Young Weir), Ted Pattee (Hannaford), Bob Telfer (Collier Norris), Bill Flookes (Nesbitt), Max Pendleton (Ames), John Louden (Royal Bank), Bill Pepall (Bell Gouinlock), Germain Perreault (BCN), Gerry Laberge (D.S.), Guy Major (Major & Co.), Bill Bird (Banque de Commerce), Alan Lambert (Banque de Toronto), Hugh MacMillan (RSC), Alf Bridges (Royal Trust), Brigadier Grenier (Grenier Ruel), Andy Armstrong (Royal Secs.), Bernie de Breyne (L.G. Beaubien), Paul Ethier (Savard & Hart), Grahame Johnson (Credit Interprovincial), Guy Brunelle (L.G. Beaubien), Tim Brockwell (Royal Trust), Jules Couture (Desjardins Couture), Armand Brisebois (Geoffrion Robert), Yvon Leonard (René T. Leclerc), Gaston Laurent (Laurent Veillet), Truman Donnelly (Royal Bank), Harry Cummings (Royal Bank), Bill Small (Banque de Montreal), Rudy Casgrain (Casgrain).



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Président : W. Barr
Secrétaire : A. Armstrong
Comité : J. Henderson
W.T.K. Collier
H.H. Rath

. . . à/from page 17

One thing remained constant during these years of change and innovation – the MBTA annual dinner continued to be a great bash, despite the ending of the stag tradition in 1972 when ladies were first permitted to attend. Preparations and rehearsals for this big event still take place during the week prior to the dinner and the following weekend continues to be a period of recovery.

**In Retrospect**

Looking back over the past fifty years, it is clear that there has developed in Canada a remarkably sophisticated and comprehensive financial system and one which is sufficiently flexible to meet the challenges of changing circumstances. Bond traders have made major contributions to developing innovations which have improved primary distribution of securities and liquidity in secondary debt markets. Trading in Canadian bond and money markets in 1977 exceeded $173 billions compared with a reported trading peak on the Montreal and Toronto Exchanges in 1919 of $131 millions. Because of their knowledge of and sensitivity to buying preferences of all kinds of investors, bond traders have played their part in devising new types of securities with such provisions as term options, purchase funds, participating interest payment rates, variable coupons and others. But above all, traders continue to be able to trade on the phone just as they always have because of an inherent honesty and trust in one another. Basics have not changed in this respect and perhaps in no other profession is a man's word so much his bond. Many of these basics originated with the members of Montreal Bond Traders' Association.

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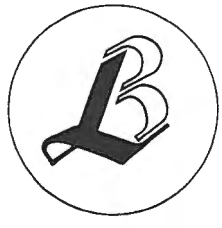
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Nous tenons à votre disposition un certain nombre de copies de la revue du cinquantenaire de l'association, au prix de $3.00 l'unité, ainsi que de l'édition de 1933 du Gyppers Annual ($1.00 l'unité) et de l'édition de 1938 du Financial Roast ($1.00 l'unité).

Ces "tranches de vie" du marché obligataire intéresseront certainement vos amis. Pensez à eux lors de votre commande. Envoyez-nous leurs noms et addresses (accompagnés d'un chèque . . . ) et nous nous ferons un plaisir de leur faire parvenir les copies requises.

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## NOTICE

We have on hand a number of copies of the 50th anniversary review (at $3.00 each), of the 1933 edition of the Gyppers Annual ($1.00) and of the 1938 edition of the Financial Roast ($1.00).

These are part of the bond market in Canada as well as Montreal and will doubtless be of interest not only to you but old friends who would like to have copies. Why not order a few? Send us their names and addresses (and a cheque! ) and we'll be pleased to furnish them.

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