

Canada, G7 asked to back U.S. plan

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Henry Paulson, the U.S. Treasury Secretary, turned to Canada and other Group of Seven industrialized countries Sunday to back a sweeping financial relief package to alleviate stresses in the banking system that carries a fast-rising price tag of well over US\$700-billion.

"We have a global financial system and we are talking very aggressively with other countries around the world and encouraging them to do similar things," Mr. Paulson said Sunday on the ABC News TV show This Week.

"And I believe a number of them will."

In a fresh development, the proposed U.S. bailout was expanded Sunday to include Canadian and other foreign institutions with "significant operations" in the country, after the scheme was initially restricted to soaking up bad assets from U.S. lenders.

Canadian financial institutions have billions of dollars of illiquid and hard-to-value assets and were set to qualify for relief under the new terms of the bailout plan, which is expected to give unprecedented "absolute" authority to the Treasury to implement the program.

The diplomatic push to develop an international approach involving G7 countries reflects the Treasury's view that U.S. institutions cannot be neatly segmented from the rest of the banking system.

This will mean Mr. Paulson, the former head of Goldman Sachs, will hire a team of bankers to run a series of reverse auctions and decide what assets to buy at what price and how long to hold them.

"If the financial institution in this country has problems it has the same impact whether it is U.S. or foreign-owned," Mr. Paulson said Sunday.

Securities industry experts said institutions would want toxic assets bought at values above current prices and held for long periods - rather than risk crystalizing losses now, though this might increase the risks to U.S. taxpayers.

A U.S. official said rescuing foreign financial institutions from bad bets with U.S. tax money could be politically contentious, making it imperative other governments be seen "to do their share."

The United States is not asking other countries to contribute to the bailout fund, but advocating a fresh round of aggressive actions to improve conditions in credit markets, the official said.

"I will be pressing my colleagues around the world to design similar programs for their banks," Mr. Paulson said.

Prime Minister Stephen Harper appeared to reject the creation of such a vehicle in Canada last week, along with other world leaders who said they did not see a need for bailouts at home.

But Sunday G7 ministers began to indicate greater flexibility in considering further co-ordinated intervention following the appeals from Washington.

The Bank of Canada last week played its part in a US\$180-billion injection of liquidity into money markets, led by the Federal Reserve. Mark Carney, the central bank governor, used the moment to encourage Canadian banks not to halt short-term lending to other institutions, according to people familiar with the dialogue.

But the fresh diplomatic request comes at a particularly delicate time for the government in Ottawa, which is in the midst of an election campaign that is taking place under an economic cloud.

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