



# THE SCHOOL OF PUBLIC POLICY

## MASTER OF PUBLIC POLICY CAPSTONE PROJECT

Time to act after 26 years, on the Flynn report's most fundamental recommendation for change:  
Privatize ATB

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A handwritten signature in cursive script that reads "Beverly Dahlby".

signed form here

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## I Executive Summary

*“The structure of the Canadian banking system was therefore strikingly different [from the U.S.]: from its beginnings, it was characterized by a small number of very large banks with extensive national networks of branches. The owners of those banks were never drawn into coalitions with populists to create and share rents at the expense of everyone else. The result has been not just lower costs of credit in Canada but also a much more stable banking system.”*

*Fragile by Design - by Charles W. Calomiris and Stephen H. Haber*

It is not unusual for governments to become involved in nation building, early on in a country's or region's development. Alberta was established as a province in 1905 and already in 1906, its first government established a telephone company under the name of Alberta Government Telephones (AGT), as it considered telecommunications infrastructure critical for the economic development and prosperity of Alberta (Alberta Government Telephones, n.d.). Perhaps it should be no surprise when a Social Credit (Socreds) government established a bank in 1938 called the Alberta Treasury Branches (ATB) as a division of the Alberta Treasury under the *Treasury Branches Act*. At the same time, it also created the *Credit Union Act*, to allow credit unions to assist Albertans with their banking needs. These dual track public policy initiatives to provide a government solution on the one hand, and a private membership-based initiative on the other hand, around the critical need of a well-functioning banking system, is an interesting one for this study to follow, and to review the outcomes of both initiatives.

In the early days of its establishment, Alberta's mainly agricultural economy was financed by UK lenders who observed declining grain harvest in Europe and considered financing the grain farms-based expansion in the prairies as a great lending opportunity (Feldberg and Elofson 1998). A ten-year drought closely followed by the Great Depression era had left Alberta farmers with heavy debt loads by the early 1930s. The United Farmers of Alberta government brought in legislation in 1934 to restrict foreclosures on mortgages, which provided temporary relieve, but severely limited the farmers' access to traditional domestic finance sources to continue their operations. Hence the ATB and credit union public policy initiatives by the Socreds, to provide new sources of banking for Albertans.

After some 56 years of operation under the original government ownership and oversight structure and following significant losses during the 1980s and some political scandals, the Klein government commissioned a report in 1994 headed by Gordon Flynn, an Alberta tax lawyer and co-founder of the tax firm Felesky Flynn (Flynn 1994). The report's recommendations were studied by a Working Group appointed by the Alberta government, which in 1995 resulted in ten guiding principles as a basis for ATB going forward (Alberta 1995). Some changes were made including establishing ATB as a crown corporation with its own board, introducing capital adequacy rules, payments in lieu of tax and establishing a deposit guarantee fee for having the province guarantee ATB's deposits. The most fundamental recommendation of the Flynn report to privatize ATB, once it had sufficiently rebuilt its capital base, has gone unanswered for 26 years after its findings.

In the meantime, Alberta has become a strong economic contributor with the third largest GDP of the Canadian economy, and with the 4th largest population of all provinces and territories. This report's research and findings point to a very dynamic and diverse banking

profile with many choices for Albertans and their businesses. Most credit needs in the province are largely (89 percent) looked after by all these other banking choices. The national banks provide almost 80 percent of the credit needs and they also redistribute a substantial amount of that funding from the rest of the country through their national networks. In addition to the national banks it also includes the Alberta credit unions (16 in total) and Canadian Western Bank (CWB), both home-grown success stories with a sound financial basis and providing attractive returns for their owners/members.

Unfortunately, despite the government ownership and regulatory advantages, ATB continues to struggle financially with higher loan losses, less efficient operations, and a continued financial dependency on the government for capital. At the same time, ATB continues to expand and potentially crowd out competitors with its government owned and regulatory advantages in rural and urban areas of the province. The public policy outcome of the ATB initiative after some 82 years is that, as ATB expands the liability exposure to the Alberta taxpayer grows for little or no return, while many alternative banking options are available. In their latest respective annual financial statements ATB reported \$47 billion in loans and net income of \$102 million versus the 16 credit unions with a combined loan portfolio of \$24.4 billion reported net income of \$179 million (ATB 2020, Alberta Central 2020). ATB incurred \$31 million in lieu of taxes but this was converted into issuing subordinated debt to the province, which is an ongoing practice to date. These subordinated debt instruments are eligible for inclusion in ATB's capital adequacy calculations. The credit unions on the other hand, distributed \$90 million to their members in patronage and share dividends, and at the same time must adhere to higher minimum regulatory, made in Alberta, capital requirements of 11.5 percent versus ATB 10 percent, funded through their retained earnings.

Innovation and technology combined with mobile bankers, has made rural locations more accessible to the multitude of banking services offered by many of the diverse banking actors in the Alberta market. It does require ongoing and significant investments, and without a sound financial basis and financial independence, ATB will struggle to compete and serve Albertans well in the future.

With a mature, diverse and well-functioning banking industry in Alberta, it is time to act on the Flynn report's most profound recommendation for change – privatize ATB. Alberta has an excellent track record with privatizations including those of AGT and Alberta Energy Company (Alberta Energy Company Ltd. n.d.). Privatizing ATB has a number of positive public policy outcomes with 1) redeploying capital towards new government initiatives like the Alberta Recovery Plan (Alberta's Recovery Plan 2020), 2) to remove ATB's liability for the Alberta province and its taxpayers, and 3) provide ATB with an opportunity to adopt industry financial and portfolio discipline, expand its geographical horizons and seek new alliances to better serve Albertans on a more sustainable and independent financial basis.

## **II ATB History and Mandate(s)**

ATB Financial (ATB) is a unique financial institution in Canadian banking, in that it is owned and regulated by the province of Alberta, which also guarantees its deposits. It was established in 1938 under the *Treasury Branches Act* as a division of the Ministry Alberta Treasury, hence the name Alberta Treasury Branches. Originally, the leadership was conducted through a Superintendent who reported directly to the Provincial Treasurer, and its first branch was established in Rocky Mountain House.

This new province experienced extremely tough times in the 1930s as it was primarily an agricultural-based economy before the oil boom took off in the 1950s. Alberta was then the smallest of the three prairie provinces, whereas today it is approximately four times the population size of each of Saskatchewan and Manitoba. Due to reduced grain production in Europe and a lack of investment opportunities, British firms lent vast sums to Canadian farmers between 1908 and 1913 to plant their wheat crops. Only when the drought began in 1916, which lasted for a decade, did it become clear that far too much credit had been extended (Feldberg, John, and Elofson 1998, 18(3): 257–268). Then the Great Depression took hold in 1929 which lasted for a decade, with prices and demand falling for agricultural products, devastating Alberta's economy and its farmers. The province had a ruling party based on agricultural populism, the United Farmers of Alberta (UFA). That party had concerned itself with financial markets by passing a law restricting mortgage foreclosures. However, the UFA lost the election of 1935 to the Social Credit party and its leader William "Bible Bill" Aberhart.

Social Credit took its name from the monetary doctrine of a British theorist, Major C.H. Douglas. Early in his administration, Aberhart, with a government in desperate financial condition, undertook a classic monetary policy solution: expand the money supply. The government paid a "dividend" to citizens in the form of "prosperity certificates," essentially chits against an insolvent Treasury. This "funny money" proved unpopular with merchants. Aberhart's 1937 attempt to take over local banks was likewise unsuccessful, rejected by the province's Lieutenant-Governor and declared unconstitutional by the Supreme Court of Canada (History of Alberta n.d.). Hence, the Social Credit party established its own provincial financial institution, ATB, in 1938 and they also passed the *Credit Union Act* legislation that permitted the establishment of credit unions in Alberta. The goal was to ensure financial services were

available to Albertans during the Great Depression, when financing was hard to come by from traditional banking sources.

After 80 plus years, ATB has shown resiliency under provincial governments of different stripes, including Social Credit, Progress Conservatives, NDP and now the UCP. It has expanded through the economic cycles and diversified into full-service banking, covering personal, business, corporate and wealth management clients, and more recently a wholly owned M&A corporate finance business. ATB operates primarily in Alberta and provides financial services to over 17 percent of Alberta's population with over 770,000 personal and business clients. It is headquartered in Edmonton, it has more than 170 branches and over 140 agencies which combined, serve in excess of 240 communities in Alberta. Today ATB has more than 5,000 employees and over \$55 billion in assets (About ATB).

From its 1938 origins, ATB has experienced changes to its corporate governance structure, its mandate and various name changes. ATB was the subject of scandal in the late 1980s after clients such as Peter Pocklington's Gainers Foods and the Ghermezian Brothers' West Edmonton Mall defaulted on loans (CBC 2020). ATB also incurred losses due to the energy industry downturn in the 1980s and this led the Klein government to set up an independent review of ATB by Gordon Flynn, a tax lawyer in Edmonton (Flynn 1994). The Flynn report "Alberta Treasury Branches. General Review and Recommendations for Changes" recommended phased-in changes to achieve "greater autonomy and financial accountability through the appointment of an Advisory Board and an Audit Committee; an appointment of a Board of Directors and making ATB a Crown corporation." More about the Flynn report and the follow up through the Working Group recommendations is found in section IV.

Following the Flynn report, the government reformed Alberta Treasury Branches with the intention of transforming it into a more accountable, a more independent and better governed financial institution. An independent board of directors, made up of government appointees, was established in 1996 and ATB formally became a provincial Crown corporation on October 8, 1997. It adopted the brand name ATB Financial in January 2002, and the Crown corporation's name was officially changed to ATB Financial in 2017 (About ATB).

As per the *ATB Financial Act* and the current mandate (ATB Financial Mandate and Roles Document 2020) “ATB Business purpose is to provide Albertan’s access to financial services, foster competition in the financial services marketplace, and to promote economic growth and investment in Alberta.” Added to this historic mandate are three objectives to bring ATB in line with financial industry market practise which were introduced through *Bill 22: Reform of Agencies, Boards and Commissions and Government Enterprises Act, 2019*:

- a) “Manage its business in a commercial and cost-effective manner;
- b) Seek to earn risk-adjusted rates of return that are similar to, or better, than the return of comparable financial institutions in the short term and the long term; and
- c) Avoid undue risk of loss by prudently managing its business, which includes establishing and implementing relevant plans, policies, standards and procedures.”

### **III Banking Access and the Competitive Landscape in the Alberta market**

Alberta's fortune and stature has changed dramatically for the better since 1938 when ATB was established. Table 1 illustrates that Alberta's economy is now the 3<sup>rd</sup> largest in Canada, 4<sup>th</sup> in population and with \$80,175, Alberta has the highest per capita GDP of all the provinces.

**Table I: listing total GDP (expenditure-based), share of Canadian GDP, population, and per capita GDP in 2018.**

Province or territory	GDP (million CAD, 2018)	Share of national GDP (% , 2018)	Population (July 1, 2018)	GDP per capita (CAD, 2018)
Canada	2,223,856	100	37,057,765	60,011
British Columbia	295,401	13.28	5,001,170	59,066
Alberta	344,812	15.51	4,300,721	80,175
Saskatchewan	80,679	3.63	1,162,978	69,373
Manitoba	72,688	3.27	1,353,403	53,708
Ontario	857,384	38.55	14,318,545	59,879
Quebec	439,375	19.76	8,387,632	52,384
New Brunswick	36,966	1.66	770,921	47,950
Prince Edward Island	6,994	0.31	153,584	45,539
Nova Scotia	44,354	1.99	959,500	46,226
Newfoundland and Labrador	33,241	1.49	525,604	63,243
Yukon	3,046	0.14	40,612	75,002
Northwest Territories	4,730	0.21	44,956	105,214
Nunavut	3,421	0.15	38,139	89,698

Source: Statistics Canada

The development of the energy industry since the late 1940s, and its multiplier effect on the economy through large capital investments on employment, population growth, and wealth generation, has made Alberta a very attractive and a “must be” province for Financial Institutions (FIs) of all stripes.

As a result of the impressive economic development since the Great Depression era, Alberta is now blessed with a multitude of FIs from home grown, to national, foreign, and

special purpose banks owned by the Federal government. Below, an overview of the current landscape of FIs operating in Alberta.

## **Homegrown**

***ATB Financial*** established in 1938, provides a full spectrum of financial and capital markets services across Alberta, headquartered in Edmonton and a crown corporation of the Government of Alberta and is regulated through the *ATB Financial Act* and *ATB Regulation* (ATB 2020).

***Credit Unions*** are member-based with the first one established in 1938. Alberta has now 16 credit unions providing a full spectrum of financial services. They are regulated by the Alberta *Credit Union Act* and the *Credit Union (Principal) Regulation* with the Credit Union Deposit Guarantee Corporation (CUDGC) serving as the regulator and providing deposit insurance. With oversight by the Provincial Treasurer, the government ensures that CUDGC is able to guarantee the credit unions' deposits. Servus Credit Union is the largest of the 16 credit unions with 385,000 members, 100 branches and has its head office in Edmonton (Servus Credit Union 2020).

***Canadian Western Bank*** (CWB) offers full-service business and personal banking across Canada with the majority of its business in BC, Alberta and Ontario. Canadian Western Bank was formed through the 1988 merger of the Bank of Alberta (founded 1984) and Western & Pacific Bank of Canada (founded 1982). CWB operates under a federal banking charter with oversight by OSFI, is listed on the TSE and has its headquarters in Edmonton. It has \$31.4 billion in assets and consistently generates best in class operating and sound financial industry metrics (WCB 2020).

**General Bank of Canada** was established in 2005 and provides auto, aviation and commercial financing throughout Canada through auto-dealerships, brokers and other networks. It is federally chartered and owned by the Wheaton family, with its head office in Edmonton (General Bank of Canada 2020).

**Bridgewater Bank** is a Canadian Schedule I chartered bank established in 2006, with a portfolio of over \$2.4 billion representing over 34,000 accounts across Canada. It specializes in competitive residential mortgages and deposit products, offered through a select network of trusted brokers. It has its head office in Calgary and is owned by the Alberta Motor Association (Bridgewater Bank 2020).

**Agriculture Financial Services Corporations (AFSC)** was also established in 1938 by the Alberta Socred government. It provides loans, crop insurance and farm income disaster assistance to agricultural producers, agribusinesses and other small businesses. It is a crown corporation of the Alberta province and has its head office in Lacombe (AFSC n.d.)

### **National Chartered Banks**

The following national banks have extensive and full spectrum financial and capital market service operations in Alberta: **BMO, BNS, CIBC, National Bank, RBC, TD** and **HSBC Canada**, the latter being foreign owned but offering full retail and commercial/corporate banking services across Canada through a number of acquisitions and expansions (BMO 2020, BNS 2020, CIBC 2020, NBC 2020, RBC 2020, TD 2020 and HSBC 2020).

## **Foreign owned Chartered Banks**

The foreign owned banks with offices in Alberta include *Bank of America, Bank of China, Citibank, Industrial Commercial Bank of China, JP Morgan Bank, Society Generale* and *Wells Fargo*. They are mostly engaged in corporate banking and capital market activities in Alberta with a focus on the energy business.

## **Federal Government Special Purpose Banks**

*Business Development Corporation (BDC)* established in 1944 as a crown corporation of the Government of Canada to compliment the role played by private-sector FIs. BDC provides financing, advisory services and capital with a focus on small and medium sized businesses. It has 13 business centres in Alberta and a loan portfolio of \$4.3 billion which represent 15.3 percent of their total loan portfolio. It is also a vehicle for Federal government financial support programs for small and medium size energy and energy services companies (BDC 2020).

*Farm Credit Corporation* was established in 1959 as a crown corporation of the Government of Canada. It is the largest lender to the agriculture and agri-food business in Canada with 96 (18 in Alberta) offices across Canada, mostly in rural areas and with 1900 employees. It has a loan portfolio in Alberta of \$7 billion, which represents 19 percent of their total \$36 billion portfolio (FCC 2020).

*Export Development Corporation* with offices in Calgary and Edmonton, supports Alberta companies with their exports through working capital loans, export guarantees and financing of their foreign clients. There is no breakdown provided for Alberta client loan or guarantee exposure (EDC 2020).

## **Competitive Landscape for Loans and Deposits.**

Another measure of the competitive landscape is to examine the diversity of banks involved in lending and deposit taking in the province of Alberta. Tables II and III provide the loan and deposit volumes by ATB and the credit unions (CUs in the table) obtained through the annual reports of respectively ATB and Alberta Central. The latter is the central bank for the 16 credit unions in Alberta (ATB 2020, Alberta Central 2019). The chartered bank consolidated loan and deposit numbers are obtained from Bank of Canada's (BoC) "chartered banks - regional distribution of assets and liabilities – Alberta" (BoC 2020). The BoC numbers include all federally chartered banks with loans and/or deposits in the Alberta market, including the national banks, the home grown mentioned above and the foreign banks. The table illustrates that the vast majority of loans at 80 percent are provided through the chartered banks. Although relatively small, FCC, BDC and AFSC are included due to their specialty business lending niches which enhance the access to capital for the agricultural industry, and small and medium sized businesses in Alberta. The homegrown ATB and the credit unions make up almost 17 percent and are a "pure play" as they only operate in the province of Alberta.

With respect to the deposit numbers, FCC, BDC and AFSC are not involved in deposit gathering, and ATB and CU have a larger share with deposits than with loans. Their deposits are guaranteed for the full amount, versus up to a \$100,000 limit per account for the chartered banks.

These two tables also illustrate that the Alberta market, given the Loans total of \$416 billion versus the Deposit total of \$261 billion, is a net user of loan capital amounting to \$155 billion, of which \$118 billion comes from the federally chartered banks. ATB's funding gap of approximately \$12 billion is funded through the issuance of collateralised borrowings of their

mortgages and credit card receivables of \$8.6 billion in 2020, and through wholesale borrowings by the Government of Alberta on behalf of ATB of \$4.4 billion in 2020. The latter funding instrument is also eligible for inclusion in ATB’s capital adequacy calculation.

<b>Table II: Loans in Alberta \$ millions</b>		
Chartered FIs	332,263	79.8%
ATB	46,982	11.3%
CUs	23,412	5.6%
FCC	6,998	1.7%
BDC	4,269	1.0%
AFSC	2,305	0.6%
<b>Total Loans</b>	<b>416,229</b>	<b>100.0%</b>

Source: Bank of Canada Q1 2020, and most recent Annual Reports of ATB, Alberta Central (CUs), FCC, BDC & AFSC.

<b>Table III: Deposits in Alberta \$ millions</b>		
Chartered FIs	203,766	78.0%
ATB	35,373	13.5%
CUs	22,174	8.5%
<b>Total Deposits</b>	<b>261,313</b>	<b>100.0%</b>

Source: Bank of Canada Q1 2020, and most recent Annual Reports ATB and Alberta Central (CUs)

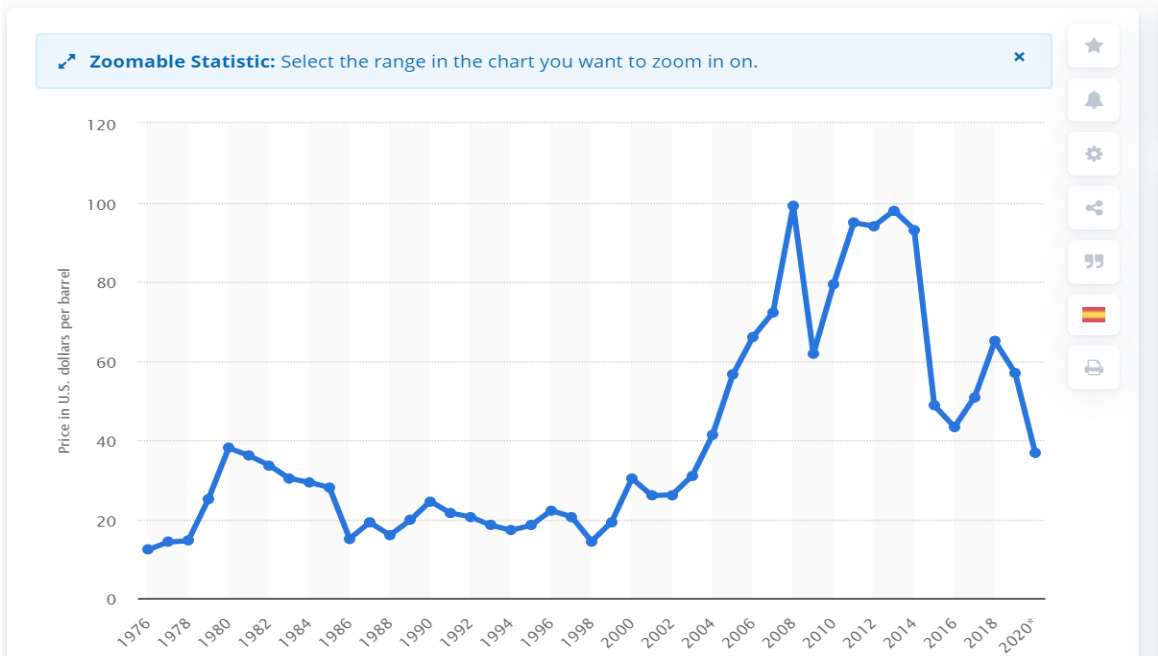
### **Loan Growth Profile through the most recent Alberta Downturn**

To determine the access to banking capital during a recent Alberta economic downturn, I am providing loan data for the period 2014 to 2019. Graph I illustrates how the crude oil price for West Texas Intermediate (WTI) collapsed from an average of US\$93 in 2014, to US\$48 and

US\$43 in respectively 2015 and 2016, and even fell below the US\$ 30 mark for a short time in 2016. Some recovery took place in the ensuing 2017, 2018 and 2019 years with WTI averaging in the US\$ 50 to US\$65 range (Sonnichsen 2020). The collapse of WTI took its toll on the Alberta economy which went into a recession in 2015 and 2016, illustrated in Graph II (Alberta Government n.d.). Although there was a recovery in the ensuing years, Alberta’s GDP at \$334 billion by 2019, was still below the \$338 billion registered for 2014.

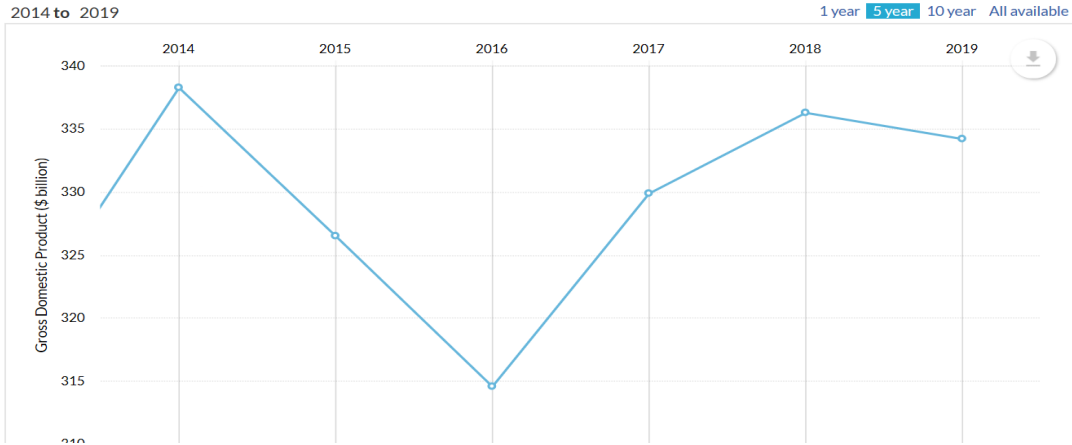
**Graph I:**

**Average annual West Texas Intermediate (WTI) crude oil price**  
*(in U.S. dollars per barrel)*



Source: Statista

### Graph II: Alberta GDP 2014-2019



Source: Alberta Economic Dashboard by Gross Domestic Product

Table IV shows the loan profile growth for ATB, the 16 Credit Unions CUs) and the 5 largest national banks. All FIs recorded higher loan portfolios in 2019 compared to the 2014 jump-off year and ensuing recession. However, some banks, CIBC and BMO, only marginally increased and were somewhat up and down during this. All others continually increased their annual loan exposure led by RBC with a total increase over this period of some \$10 billion and ATB with \$9.3 billion. The latter overtaking CIBC as the fourth largest lender in the province during 2018. ATB’s delayed loan increase activity w very likely helped by the government’s late 2015 announcement to provide up to \$1.5 billion in new capital to allow ATB to support Albertans during this difficult period (Mah 2015).

**Table IV: Alberta Loans \$ millions 2014 -2019**

	2014	2015	2016	2017	2018	2019	Increase	Incr %
RBC	61,197	64,902	66,277	68,051	69,497	71,165	9,968	16.3%
TD	52,017	55,167	56,335	57,843	59,072	60,490	8,473	16.3%
BNS	46,300	49,600	50,800	51,900	52,800	53,500	7,200	15.6%
ATB	37,700	40,400	40,800	44,100	47,000	47,000	9,300	24.7%
CIBC	44,012	41,197	43,308	44,354	44,896	45,103	1,091	2.5%
BMO	37,410	35,017	36,812	37,701	38,162	38,338	927	2.5%
CUs	NA	20,339	21,181	21,908	22,964	23,412	3,073	15.1%

Source: Annual Reports of all banks and Alberta Central which represents the 16 credit unions - CUs for ATB 2014 is really year end March 31, 2015 etc.

Another perspective would be to look at the national banks and what percentage the Alberta loan exposure is in relation to their entire Canadian loan portfolio. Table V shows an interesting trend, starting mostly in the 15 to 16 percent range in 2014 to the 13 to 14 percent range by 2019. The starting point of 2014 bears a close relation to Alberta’s GDP as a percentage of Canada’s of approximately 15.5 percent. The downward trending towards 13.5 percent by 2019 reflects the faster growth in loan portfolios in the rest of the country as Canada’s GDP growth was positive during the 2014=2019 period (Plecher 2020). The benefit the national banks bring to Alberta is their ability to grow (and diversify) their overall Canadian portfolio at a faster pace than their Alberta loan portfolios, and still allowing them to provide continued increased loan support for Alberta during its economic downturn.

<b>Table V: Alberta loans as a % of Domestic Portfolio</b>						
	2014	2015	2016	2017	2018	2019
RBC	15.7%	15.7%	15.4%	14.8%	14.2%	13.3%
TD	15.3%	14.7%	14.3%	14.0%	13.2%	13.8%
BNS	15.3%	15.7%	15.5%	14.8%	14.4%	13.6%
CIBC	18.0%	15.7%	15.0%	14.0%	13.7%	13.5%
BMO	16.8%	16.7%	16.5%	16.1%	15.9%	15.6%

Source: Annual Reports of Banks

## The Changing Landscape in Delivery of Financial Services

Traditional banking networks were centred around physical networks comprised of the number of employees (FTE), branches and automated banking machines (ABMs) involved.

Table VI below illustrates the traditional banking networks consisting of FTE, branches and Automated Banking Machines (ABMs). RBC and TD are included in the Chartered FIs, but also shown separately given their sizeable presence in the Alberta market.

<b>Table VI: Alberta Banking Distribution Channel Statistics</b>				
	Clients	FTE	Branches	ABMs
ATB*	776,985	5,383	175	292
CUs	616,137	3,320	195	284
Chartered FIs**	NA	18,120	682	2296
RBC***	1,500,000	3,876	148	564
TD***	NA	4,276	135	427

Source: annual reports ATB and Alberta Central for 16 credit unions

\*In addition, ATB has over 140 agencies

\*\*2018 branches data, 2017 data for FTE and ABM data for

BMO, CIBC, CWB, HSBC, Laurentian Bank of Canada, NBC, RBC, BNS and TD.

\*\*\* info from their Public Accountability Statements and by request

Based on Table 1, Alberta's population is 11.6 percent of the total Canadian population.

The 682 branches and the 2292 ABMs of the national banks (Chartered FIs) in Alberta represent

respectively 11.6 percent and 12.3% of the total branches (5,890) and ABMs (18,640) in Canada (CBA 2018). In addition, ATB and the Credit Unions (CUs) add another 370 branches and 576 ABMs and it appears Albertans are well served in this respect. With respect to FTE for Chartered FIs, Alberta is fourth after BC as its population is about 5 million versus Alberta 4.3 million. When including the FTE of ATB, the total of 23,503 is close to BC's equivalent at 24,480 on a population that is 16 percent larger. It is worth mentioning that ATB, the CUs and CWB have their head offices and back offices in Alberta which does increase the FTE, and same for BC with HSBC and Ontario where the 5 national banks have their main and back office operations.

The financial services industry modern day delivery channel includes branches, ABMs, telephone, and internet -and mobile banking. The Canadian Bankers Association (CBA) conducts surveys and the most recent results are discussed in "How Canadians Bank" as per Table VII below (CBA 2019). The development of the internet, mobile devices and software applications is driving the consumer desire for choice and convenience in the adoption of new banking technology. The survey indicates that 91 percent of Canadians believe that banking has become a lot more convenient because of new technologies.

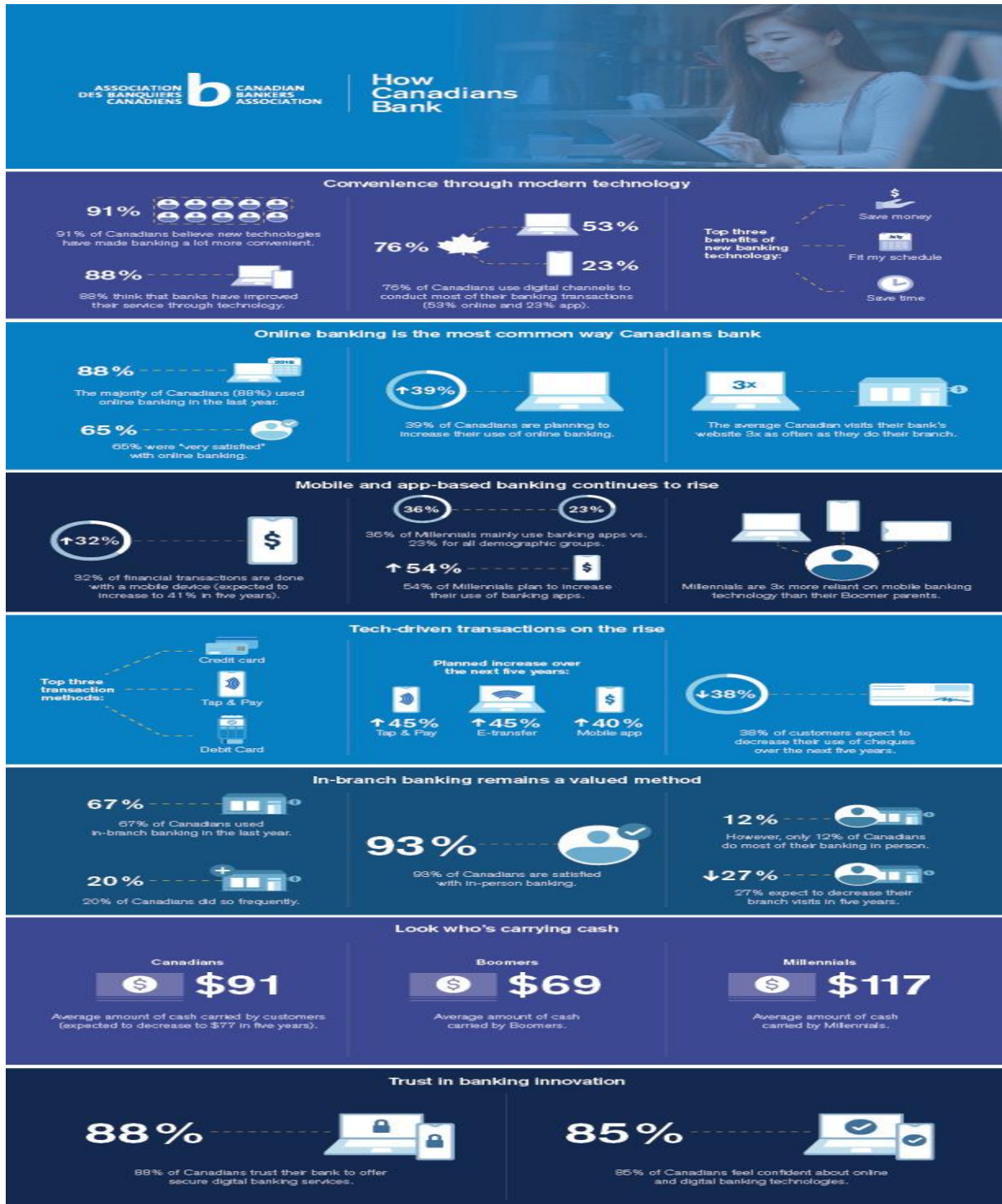
Some 76 percent of Canadians are using digital channels, both online and mobile, to conduct most of their banking transactions. About 88 percent reported using online banking in the last year, and 53 percent are saying it is their most common banking method, making online banking the most common digital banking channel. Mobile and app-based banking continues its ascent, led by Millennial uptake. More than one-third (36 per cent) of Millennials are mainly using banking apps, as opposed to 23 per cent for all demographic's groups. 88 percent of Canadians trust their bank to offer secure digital banking services, and 85 per cent feel confident

about modern banking technologies. In-branch banking, while declining in popularity and with only 12 percent of Canadians doing most of their banking in person, remains a valued method of conducting a wide variety of banking transactions.

In addition to in person meetings on bank premises, personal, mortgage and business mobile bankers visit customers at their homes or offices. A more recent development in the industry is video conferencing, allowing product/service specific bankers to be brought into the conversation, providing enhanced and time efficient customer experiences. Given the Covid-19 physical distancing restrictions, this “in-person” communication alternative will surely find increased uptake.

One unique aspect of ATB’s physical network is that it has over 140 agencies, which are usually co-located in smaller towns or remote locations. They perform mostly transactional services and have an ABM on location. Given ease of use with credit and debit cards, card tap and the rise of e-transfers, the need for carrying cash is reduced. Combined with the ability to image and deposit cheques by smart phone or fax, the need for agencies will likely decline.

**Table VII: How Canadians Bank**



Learn more at: [cba.ca](http://cba.ca)

#HowCanadiansBank

#### **IV ATB's evolution of Achievements, Financial Dependence, and Governance -and Moral Hazard issues.**

Alberta's Treasurer at the time, Jim Dinning, commissioned Gordon Flynn to write a report on ATB (Flynn 1994). It describes how ATB went from its humble beginnings in 1938 with a start-up capital of \$200,000 from the Alberta government, and expanded into the largest Canadian-owned financial institution with its headquarters west of Toronto. The report indicated that ATB had in excess of eight billion dollars in assets and 272 branches and agencies across Alberta, serving approximately one million Albertans, representing 37 percent of the 2.7 million population in 1994. The growth had been self-financed through revenue generated, and between 1964 and 1982 ATB contributed \$68.6 million in dividends to the government of Alberta. This time period coincides with a booming energy industry, resulting in strong real GDP growth of 6.1 percent during 1962-1970 and 7.9 percent during 1971-1985 for Alberta's economy. It was accompanied by increasing oil prices and oil supply shocks caused by Middle East political events like the Yom Kippur war in 1973 and the Iranian revolution in 1979 (Emery and Kneebone 2008, 431).

The ensuing years from 1982 to 1989 provided a very different picture due to reduced demand for oil caused by high prices, and increased oil production resulting in a glut on the world market. Graph I illustrates the collapse of the WTI oil price from the US\$ 40 annual average high of almost US\$40 by 1980, to less than US\$ 20 by 1986. This boom to bust scenario was accompanied by extremely high interest rates with bank prime peaking at 22 percent in 1981, high personal and business debt levels, and finally the National Energy Program (1980 – 1985) introduced by the P.E. Trudeau federal government and forced the energy industry to sell

the oil domestically at approximately half the world market price. Accordingly ATB ran up substantial losses during this time, leading to an accumulated negative equity position of \$92 million by March 31, 1994 (Flynn 1994). Given the severity of the economic downturn and the personal and business debt leverage profiles, other financial institutions were also facing losses. The Northland Bank of Canada (NBC) and the Canadian Commercial Bank (CCB) were two privately owned Alberta based banks that failed during 1985 (Dingle 2003). The national banks also suffered significant losses in the province and their loan loss allowances peaked at an all time high of 4 percent of total loans in 1987 (RBC Capital Markets 2020, C7), but given their Canada-wide franchises and diversified loan portfolios, they were able to manage through these difficult times. However, in addition to running up losses, ATB was also the subject of scandal in the 1980s and 1990s with such clients as Peter Pocklington's Gainers Foods and the Ghermezian Brothers' West Edmonton Mall, as they defaulted on their loans. The latter involved several lawsuits regarding claims about bribery by the company and political interference by the Ralph Klein government (CBC 2002).

The Flynn report made it clear that there were governance and accountability issues. Under the archaic *Treasury Branches Act*, unchanged for 56 years, ATB operated as a division of the Alberta Treasury. At the same time, the report noted rapid changes in technology and the breakdown of the Four Pillar system in Canada, which had separated banking, trust, securities/brokerage and the insurance businesses. The Flynn report recommended a phasing in of changes in 3 stages. These changes included a revision of the mission statement, improvement of governance and independence through a crown corporation status, introduction of new products and services, establishing deposit insurance, and consideration for partial or full privatization once the capital base had been sufficiently restored. Its recommendations led to the

establishment of the Alberta Treasury Branches Working Group (Working Group) of ten members, chaired by Don Mazankowski, an Alberta federal conservative politician who had been a deputy prime minister during the Mulroney federal government (Alberta 1995).

The Provincial Treasurer, Jim Dinning, asked the Working Group to evaluate the recommended changes in the Flynn report and to make recommendations with particular attention to the mission statement, governance, and changes needed to achieve the desired objectives, e.g. new products, automation and technology. The Working Group recognized that ATB's key public policy goals should continue to focus on providing Albertans with access to financial services where they may not otherwise be available, taking into account local factors and circumstances which may not be fully considered by national financial institutions when making credit decisions, and ATB should contribute to the building of a strong, sustainable and prosperous province. It recommended the following principles as a basis for the future direction for ATB:

1. Government should identify the public policy goals expected of ATB, and its performance in achieving the goals should be measured and benchmarked;
2. The operations and management of ATB should be at arm's length from the government;
3. A governance framework involving a board of directors should be implemented as soon as practicable;
4. There should be a step-by-step plan over a specified time period to move the ATB to a level playing field with other financial institutions, particularly with respect to capital, deposit insurance and capital taxes;
5. ATB should provide modern, innovative products and services that customers are entitled to expect from a progressive financial institution in a very competitive marketplace;

6. To the greatest extent possible and particularly with respect to entering new financial businesses, ATB should form alliances with private sector institutions;
7. Emphasis and attention should be placed on operating on a cost conscious, profit motivated basis. There is additional scope for earning profits and ATB should operate on a completely self-sustaining financial basis. It is recognized that there may be additional cost associated with public policy goals and that there may need to be compensating factors in performance standards for ATB. Any such additional costs should be quantified to the extent possible and any compensating factors should not outweigh those costs;
8. ATB should be subject to an accountability regime equivalent to that for private sector financial institutions;
9. The operations of ATB should be separate and apart from government operations including areas of human resources, physical plant, systems, telecommunications, etc. Services provided or used by ATB should reflect the full cost of doing business;
10. Government should consider whether government programs, and particularly financial services programs, could be delivered via ATB, on a profit basis by the ATB, at reduced costs for the government.

The Working Group agreed with the Flynn report that the existing advantages of not paying taxes, lack of capital adequacy discipline in light of the government guarantee, and the absence of deposit guarantee premiums paid, should be kept in place until ATB rebuild its capital base as appropriate for its size, and in line with industry benchmarks. The Working Group highlighted three deposit insurance alternatives including: 1) coverage by the Canada Deposit Insurance Corporation (CDIC); or 2) coverage by the Alberta Credit Union Deposit Guarantee Corporation; or 3) guarantee by the Crown to provide insurance to depositors similar to that provided by

CDIC – which means a limit on the insured deposit size versus the current full coverage government guarantee for ATB and under alternative 2 for credit union deposits. The Working Group’s preference was alternative 3 as it avoids giving up regulatory control to federal authorities and it recognizes that ATB is more than double the size of the entire credit unions’ system (alternative 2).

As a result of the Flynn report and the Working Group recommendations, an independent board of directors - made up of government appointees - was established in 1996, and ATB formally became a provincial Crown corporation on October 8, 1997. It adopted the brand name ATB Financial in January 2002, and the Crown corporation's name was officially changed to ATB Financial in 2017.

ATB gradually recovered from the severe downturn of the 1980s, and it was strengthened by a strong oil price recovery trajectory, commencing around 2002 as demonstrated in Graph I. By 1999 ATB had eliminated its capital deficit and by 2008 it had accumulated a capital base of \$1.7 billion. Unfortunately, ATB was then affected by the collapse of the \$32 billion Asset Backed Commercial Paper (ABCP) market in Canada. It had invested \$1.14 billion in this investment vehicle, a significant amount and two thirds of its equity base of \$1.7 billion. The balance sheet position of ATB deteriorated considerably as it had to provision for losses on its ABCP holdings with \$253 million in 2008 and \$224 million in 2009. This resulted in ATB being unable to meet its capital requirements in 2009, which prompted the government to grant ATB \$600 million in notional capital in 2009 and authorize ATB to include \$568 million in “capital investment deposits” as Tier 2 capital. ATB’s holdings in ABCP were restructured on January 21, 2009 and its \$1.14-billion principal investment in ABCP was converted to longer-term notes that reached maturity in six to nine years (ATB 2008).

Towards the end of 2009 the government acted on the Working Group's recommendations regarding taxes, deposit insurance and capital adequacy through amendments of the *Alberta Treasury Branches Regulation*, and the *ATB Act*. The payment in lieu of tax (referred to as a financial charge in the regulation) is levied at 23 per cent on ATB's consolidated net income and must be paid by July 1<sup>st</sup> following its March 31<sup>st</sup> year end. Furthermore, the payment is to take place through 1) the issuance of subordinated debt until ATB's Tier 2 notional capital is eliminated, after that event is reached, 2) in the form of cash or subordinated debt as the Minister directs. The practise seems to be to issue subordinated debt, as is the case with the March 31, 2020 payment in lieu of tax of \$31 million (ATB 2020).

The deposit guarantee fee was introduced to compensate the Alberta government for guaranteeing ATB's deposit liabilities. The formula to calculate the fee is divided into deposits not exceeding \$100,000, for which the fee is the lesser of 1) the relevant deposits multiplied by Canadian Deposit Insurance Corporation's (CDIC) rate for a deposit-taking institution with a similar risk profile, as determined by the Alberta Minister of the Treasury, or 2) 1/6 of 1 percent of the relevant deposits. For deposits exceeding \$100,000 the fee is 1/6 of 1 per cent. This approach seems to mirror the chartered banks insurance premium payments but there is discretion by the Minister in 1) deciding on a similar risk profile, as well 2) the lesser of calculation provides a choice not available to the chartered banks. Furthermore, CDIC only insures up to a \$100,000 limit, whereas ATB's deposits will continue to be insured for the full amount including those over \$100,000. ATB paid \$47.7 million on \$35.4 billion in deposits which amounts to approximately 0.135 percent insurance premium for the fiscal year ending March 31, 2020. This compares with CDIC premium categories, depending on financial profile, as follows: premium category 1 = 0.075 percent, premium category 2 = 0.15 percent, premium

category 3 = 0.30 percent and premium category 4 = 0.333 percent (CDIC 2020). It seems that ATB’s premium was determined just below the premium category 2 of 0.15 percent, which would be the discretion of the Alberta Treasurer.

With respect to the capital adequacy issue I will compare the ATB capital adequacy requirements with the credit unions, WCB and the 5 national banks. ATB’s requirements are set out in the *Alberta Treasury Branches Regulation*, and a *Ministerial Order*, both dating back to 2009. The credit unions are also locally regulated through the *Credit Union Act* and the *Credit Union (Principal) Regulation*, and CWB and the 5 national banks are regulated federally through the Office of Superintendent of Financial Institutions (OSFI 2018). However, the 5 national banks are designated as Domestic Systemically Important Banks (D-SIBs) and their capital requirements are accordingly somewhat higher, with a 1 percent surcharge currently. Table VIII provides an overview of the Tier1 -and Total Capital to Risk Weighted Assets (RWA) for each bank.

<b>Table VIII: Capital Adequacy Requirements</b>				
	<b>ATB</b>	<b>Servus*</b>	<b>CWB</b>	<b>D-SIB**</b>
	minimum	minimum	minimum	minimum
Tier 1 Capital/RWA	7.0%	NA	8.5%	9.5%
Total Capital Ratio/RWA	10.0%	11.5%	10.5%	11.5%

Sources: OSFI, ATB Financial Regulation & Ministerial Order and Servus Credit Union annual report

\*minimum supervisory requirement is 11.5% but management set internal minimum at 13.5%

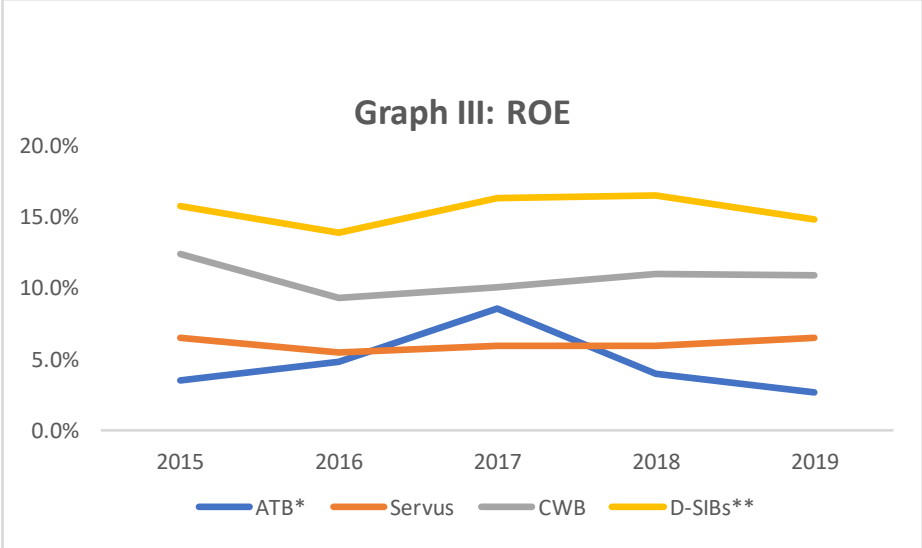
\*\* Domestic Systemically Important Banks (D-SIBs) have 1% capital surcharge

In all cases the minimum supervisory capital adequacy requirements for ATB are lower, and the Total Capital Ratio/RWA is significantly higher for the credit unions who compete with ATB in the same rural and urban markets in Alberta. Furthermore, the capital adequacy

calculations provide for inclusion of eligible portions of subordinated debt issued by ATB to satisfy their annual income tax obligation, and to include eligible portions of wholesale borrowings issued by the Government of Alberta on behalf of ATB. These types of capital instruments and their inclusions for regulatory capital requirements are not available to the other financial institutions and provide a significant advantage. Furthermore, the government continues to inject additional capital when ATB incurs losses, as has happened in the ABCP situation. The most recent capital commitment by the government occurred in 2015 to the tune of \$1.5 billion, as ATB was significantly affected by another oil price collapse to make up for increased loan losses (constraining its capital base and lending capacity) and to provide fresh capital to support Alberta businesses through the downturn (Mah 2015).

The above provides improvements to ATB's governance structure and levels the playing field somewhat regarding its competitive advantages in taxation, deposit insurance and capital adequacy. I will now review ATB's track record to operate on a cost conscious and profitable basis, and to become self-sustaining in financing its growth – the 7<sup>th</sup> guiding principle from the Working Group. A comparison will be made with local competitors like CWB and the Servus Credit Union (the largest in Alberta with some 385,000 members, \$14 billion in loans and over 100 branches) and the average numbers of the 6 largest national banks (RBC, TD, BNS, BMO, CIBC and National Bank). The time period reviewed includes the last 5 full fiscal years and the ratios used for comparison are Return on Equity (ROE), Return on Assets (ROA), Net Interest Margin (NIM is the ratio, expressed as a percentage, of net interest earning income for the year to the value of average interest-earning assets for the year), Efficiency Ratio (or productivity ratio which indicates how many non-interest expense cents one needs to spend, to earn a dollar of revenue) and Provision for Credit Losses (PCL as a percentage of average loans outstanding).

The graphs for the various ratio outcomes below portray a clear picture of ATB underperforming their local and national peers in every measurement:

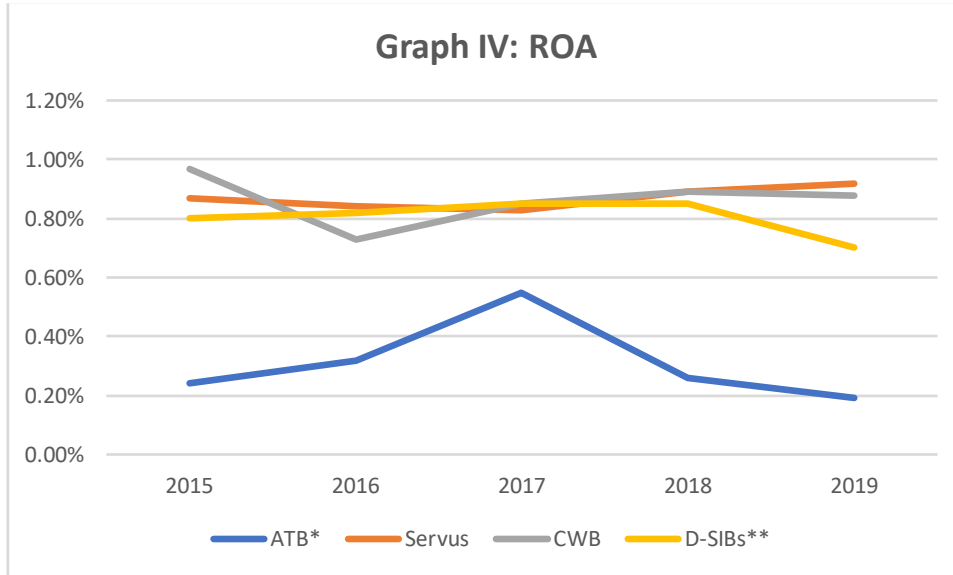


Source Annual Reports and RBC Capital Markets Canadian Banks Chartbook

\* ATB's 2019 is March 31 2020 etc.

\*\* RBC, TD, BNS, BMO, CIBC & NBC

ROE – with an average of 4.7 percent over the time period, ATB is below Servus with 6.1 percent and even more distanced from CWB at 10.7 percent and only 1/3 of the national banks average of 15.5 percent;

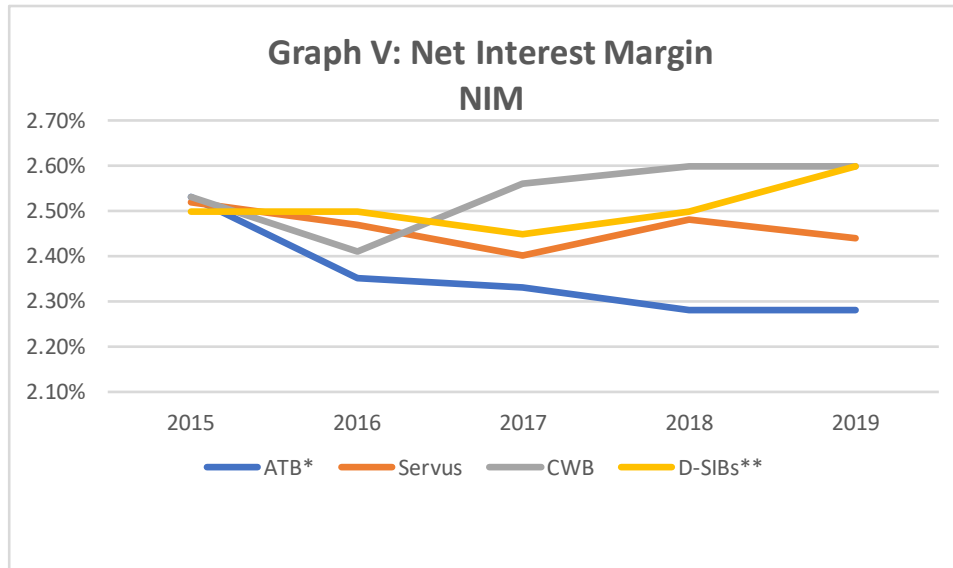


Source Annual Reports and RBC Capital Markets Canadian Banks Chartbook

\* ATB's 2019 is March 31 2020 etc.

\*\* RBC, TD, BNS, BMO, CIBC & NBC

ROA – only in the 2014/2015 fiscal year (not shown here) was ATB at peer level with 0.82 percent, followed by a serious decline to mostly the 0.20 to 0.30 percent range, whereas the other banks continue to be mostly in the 0.80 to 0.90 percent range.

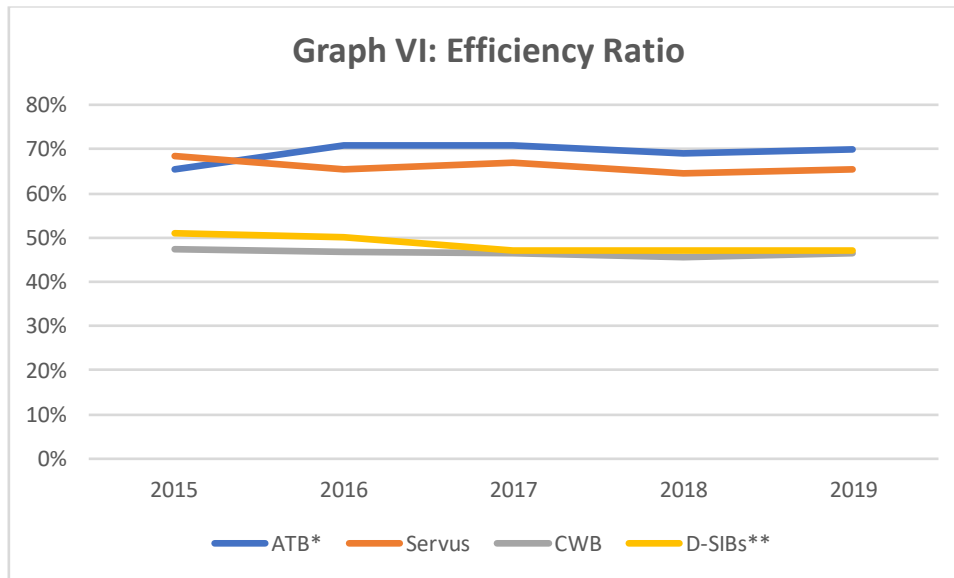


Source Annual Reports and RBC Capital Markets Canadian Banks Chartbook

\* ATB's 2019 is March 31 2020 etc.

\*\* RBC, TD, BNS, BMO, CIBC & NBC and NIM for Canadian Retail & Commercial

NIM – initially ATB is at peer levels but in the last four years the other banks are in the 2.4 to 2.6 percent range versus ATB steadily declining to the 2.28 percent level. This would lead to the conclusion that ATB is offering higher deposit rates (despite the Alberta government guarantee for the full amount) and/or requiring lower loan premiums than is industry compatible.

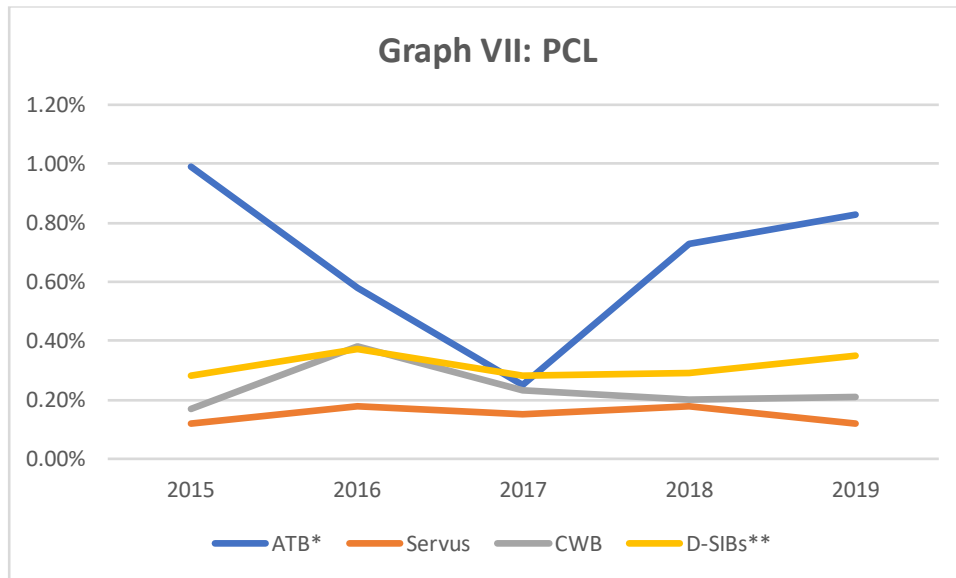


Source Annual Reports and RBC Capital Markets Canadian Banks Chartbook

\* ATB's 2019 is March 31 2020 etc.

\*\* RBC, TD, BNS, BMO, CIBC & NBC and Efficiency Ratio for Canadian Retail & Commercial

Efficiency Ratio – initially ATB’s productivity exceeded that of Servus Credit Union which competes in the same rural and urban areas in Alberta, but since 2016 it has been steadily in the 70% range, whereas Servus moved towards the 65 percent range. CWB, a regional competitor, also with its HQ in Alberta, has managed to keep its productivity in the 46 to 47 percent range which is even better than the national banks. With respect to the latter, I have used their domestic retail and commercial banking numbers for comparison reasons.



Source Annual Reports and RBC Capital Markets Canadian Banks Chartbook

\* ATB's 2019 is March 31 2020 etc.

\*\* RBC, TD, BNS, BMO, CIBC & NBC

PCL – the loan loss ratio is very volatile for ATB compared with the other banks, with most years well above its peers, demonstrating a lack of consistency and discipline in its lending practises. The average for the last 5 years is 0.68 percent which is more than double that of the other banks.

Overall, these comparisons point to a worrisome trend. As ATB continues to expand, it becomes more inefficient, more susceptible to significant loan losses, and with already low and continued downward trending profitability, it will become even more dependent on government support. This is a far cry from what the Flynn report and the Working Group’s guiding principles were anticipating, some 26 years after their profound findings and recommendations for fundamental change were made. The lack of ownership change and maintaining of the status quo led to moral hazards, a term that economists refer to when the incurred behaviour carries more risks, and results in the negative consequences of that changed behaviour being borne by others.

The moral hazards - caused by continuing ATB's unique ownership, advantageous regulatory structure, and never-ending appetite for more government funding - are manifold:

-Taxpayers foot the bill and as ATB grows, the moral hazard of excessive risk taking by ATB management leads to increased loan losses with no compensating return in sight. The lack of discipline enforced on managing its finances and capital, encourages further risk taking for the sake of growth and hence the moral hazard increases;

-ATB may crowd out other banks and/or credit unions in rural areas with its capital cost advantages and as evidenced by accepting a lower NIM ratio than industry norm, it unfairly competes with higher deposit rates and/or lower loan rates;

-A more liberal lending attitude as evidenced by ATB's persistent higher PCL can hurt its clients if they are encouraged to take on more debt than is manageable through the Alberta economic cycles, or unexpected severe downturns like the current pandemic;

The fundamental question is why the Alberta government continues to be in the banking business with growing financial downside to the taxpayer, when there is ample and diverse banking competition from local, regional, national, federal and foreign banks? To the current government's credit, and in line with the Working Group's guiding principles, they have introduced new requirements through *Bill 22* (Bill 22 2019, s10(1)) and have added the following language to the *ATB Financial Act*:

"In carrying on its business, ATB Financial shall

(a) manage its business in a commercial and cost-effective manner,

- (b) seek to earn risk-adjusted rates of return that are similar to or better than the returns of comparable financial institutions in both the short term and the long term, and
- (c) avoid an undue risk of loss by prudently managing its business, which includes establishing and implementing relevant plans, policies, standards and procedures.”


These amendments are much needed, but will they suffice to turn the corner on what ails ATB’s long-standing performance issues, or is change of ownership the ultimate cure when ATB’s original purpose for existence has significantly diminished?

## V Ownership Change Perspectives

*P* People needed credit, companies needed credit to grow and where those standards of credit were established elsewhere in the country . . . where one size didn't fit all, ATB provided that 'made in Alberta,' home-grown sensitivity, understanding, responsiveness to Alberta business needs.

"There was a shift in the early to mid-1990s, to a different province building mode. We had the good fortune of a more robust economy. Banks were not withdrawing as they did earlier so ATB didn't play the same province building role as it did in the 1970s, 1960s, 1950s, 1940s and 1930s."

*Jim Dinning, Provincial Treasurer 1992 to 1997*



*Source: Aberhart Foundation. n.d. "Albertans investing in Alberta 1938-1998."*

Alberta is known as an entrepreneurial province and over the last century, its various governments have not shied away from investing in strategic industries like energy and telecommunications to benefit Albertans and the economy. Alberta Energy Company (AEC) was established by the Alberta government in 1973 during the OPEC oil embargo, as a for-profit company with professional management attracted from the energy industry. Over time it became the largest Canadian oil and gas company. The government initiated a partial privatization in 1975 through a public listing, and by 1994 completed a full divestiture of its remaining share holdings (Alberta Energy Company, n.d.). AGT was formed by the Liberal government of Alexander Cameron Rutherford in 1906 following the acquisitions by the government of several independent telephone companies. In 1908, AGT acquired the Bell Telephone Company's Alberta operations for \$ 675,000. Alberta Government Telephones was directly managed by the province's Department of Public Works as a public utility until 1958, when it was transformed

into the Alberta Government Telephones Commission, a crown corporation. In 1990, the Alberta government began the process of privatizing AGT, and formed Telus Communications as a holding company to facilitate the transfer. In 1991, the province of Alberta sold its remaining ownership interest in AGT to Telus for \$870 million (Alberta Government Telephones, n.d.).

With regards to the banking industry, the Aberhart government established its own provincial financial institution ATB in 1938 during the Great Depression. That year they also passed legislation that permitted the establishment of credit unions in Alberta. This created two divergent public policy paths for improving access to financial services in the province, one through a government ownership entity and the other through membership-based credit unions. Both have grown and are important locally based banks, competing for the same rural and urban Alberta markets. ATB's history has some similarities with AGT's. Both were initially a division of a ministry and were subsequently converted into crown corporations. Eventually, AGT was privatized, as recommended in the Flynn report in its phase-3 recommendation for ATB.

Following are the arguments for why it is time to action the Flynn report's most fundamental recommendation for change – Privatize ATB:

- Alberta has an excellent track record in the privatization process with companies in the energy industry (AEC) and telecommunications (AGT) which can provide a road map;
- Other Alberta based banks like CWB and the 16 credit unions are successful in serving Albertans in a client centric and market driven approach, on a self-sustaining financial basis and at the same time providing a return for their shareholders/members;
- As demonstrated through the last 5-year numbers (Tables II and III), the chartered banks provide the vast majority of loans to Albertans and their businesses, and they also

redistribute funding through their national banking franchise and consolidated financial strength to fund and grow their loan portfolios in Alberta;

- Albertans have a multitude of banking options. During the last major downturn commencing in 2015, all other financial institutions making up 89 percent versus ATB 11 percent, stepped up and continued to increase their lending activities in the Alberta market. It was only after another capital commitment of \$1.5 billion by the province in 2015 that ATB was able to do the same;
- The banking landscape is changing and access to banking is being redefined by changes in delivery channels. Digital channels, internet and mobile banking, video and tele-conferencing, increased credit, debit card usage, rising e-transfer activity, and mobile bankers visiting personal and business clients, have changed the delivery of banking services. Considering the increased reliance on the internet, public policy should focus on reliable, robust and competitive internet connectivity in rural Alberta to ensure rural Albertans can benefit from the new banking delivery channels;
- Privatization provides an opportunity for new ATB ownership to expand its services and geographical horizons, bring best-in-class industry practises to bear, and seek out value-add partnerships to improve its financial profile and achieve a self-sustaining sound financial operating basis;
- If there is still a need for rural banking support, the Working Group recognized that there may be additional cost associated with public policy goals and that there may need to be compensating factors in performance standards for ATB. Any such additional costs

should be quantified to the extent possible and any compensating factors should not outweigh those costs;

- As ATB continues to grow, the need for ownership change becomes more urgent considering the increased moral hazards and liability issues for the Alberta taxpayer, and the crowding out of competitors, in especially rural areas, through current government ownership and regulatory advantages. Its main business operations and infrastructure has become urban focused versus rural, and it has strayed from its original mission while still “under the government umbrella”;
- Recommendations by the Flynn report and the Working Group point in the direction of independence and not competing unfairly with the private sector. Why provide advantages and deliver public policy financial programs through ATB, with a small share of the market, to the disadvantage of the private sector and most Albertans who do not bank with ATB?
- Privatization provides an opportunity to redeploy capital tied up in ATB with a current equity base of \$4.1 billion, towards economic growth prospects and initiatives recently announced in the government’s Alberta Recovery Plan (Alberta’s Recovery Plan 2020). Changing the ownership status of ATB as a government owned entity, would support the government’s efforts to convince the financial industry to use Alberta as an attractive home base with competitive neutrality. The financial and insurance industry made up 4.8 percent of Alberta’s 2016 GDP and its employment grew by 24 percent from 2006 to 2016 (Alberta 2017).

- Privatization would also improve Alberta's financial credit rating profile by removing the contingent liability aspect of the ATB guarantee and the potential to improve its provincial debt profile.

## **VI Conclusion**

It has been 84 years since ATB was established to ensure access to financing during the Great Depression era, after a decade of severe drought had already devastated its early agricultural economic foundation. It has been some 26 years since the Flynn report and the Working Group undertook a fundamental review and provided guiding principles for change, to put ATB on a solid financial and independent foundation, serving Albertans by competing fairly and in a cost-conscious and self-financing sustainable basis.

Much has changed since 1936. Alberta has become a strong contributor to the Canadian economy with its GDP being the third largest, and it ranks fourth in population among all the provinces and territories. Much has changed in the banking world driven by technology and innovation, and a strong federal regulatory banking regime which has safeguarded and guided our national banking system to be referred to as “the envy of the world.” The national banking system is also a major funding source of credit in Alberta, and a significant portion of the funding is sourced from the rest of Canada through large national banking networks.

What has not fundamentally changed with the times is the ownership and oversight of ATB. This is despite the existence of both a thriving local credit union system serving almost as many clients as ATB, and a very successful regional bank, CWB, with its head office in Edmonton. In addition, around 89 percent of loans in Alberta are provided by ATB’s competitors, including home grown institutions, national banks, federal institutions and foreign banks. These competitors are committed to Alberta and continue to fund Albertans and their businesses through the downturns.

What has also not changed is ATB's inability to serve Albertans in a cost-conscious and self-financing basis, and that it continues to struggle with above average loan losses and inefficiencies, while at the same time enjoying the ownership and discretionary regulatory advantages. What does change, as ATB continues to expand under this government ownership and support, is that its moral hazard liability exposure for Alberta taxpayers becomes ever larger and its potential to crowd out its competitors in rural and urban areas continues.

The time to act on the Flynn report's most profound recommendation for change – Privatize ATB – has arrived and to put its phase three plan into action. After all, Alberta has a track record of successfully privatizing companies, which should be invoked to ensure that ATB operates on a sound and sustainable basis for the future and to serve Albertans on a financially independent foundation.

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