CHAPTER EIGHT

HIGH FINANCES

Manulife and CIBC

WATCHING NOVA GROW AND MERGE with TransCanada, which continued to prosper mightily, had helped to make up for my sad ness about the loss of HBOG and Home Oil through external forces. During the rockiest years, I also took comfort in my involvement with another company that did nothing but flourish. If any one Canadian corporation can be counted among our great Northern Tigers, it's the financial services powerhouse Manulife, where I was a director. If any executive officer can be credited with training a Tiger to jump through the hoops on a world stage with strength and style, it's Manulife Financial's CEO, Dominic D'Alessandro. In contrast, for many of the same years I was also on the board of another enterprise, the Canadian Imperial Bank of Commerce. Once our second-largest bank in market capitalization, it has since fallen to fifth place, after the Royal Bank, Toronto-Dominion (TD), Scotiabank, and Bank of Montreal. Manulife hasn't made a major misstep in its expeditions into the financial jungle of the United States. CIBC, meanwhile, has stumbled in its American forays, most seriously in having to pay out hundreds of millions of dollars because of its exposure to Enron. It's not surprising that a few years ago the media were reporting on a possible merger of the insurance company and the bank.

The grand old banking institution had roots dating back to the birth of Canada in 1867. That's when it opened on Toronto's Yonge Street under its founding president, the businessman

and philanthropist William McMaster. Manulife was slightly younger: The Manufacturers Life Insurance Company opened in the Ontario capital in 1887 under founding president Sir John A. Macdonald, Canada's first prime minister. And its record in the U.S., where it began operating sixteen years later, has continued to be exemplary after all this time. In Manufacturers' first, successful year, the press was already calling it "the Young Canadian Giant," and within five years, it had begun growing overseas, starting in Bermuda and then moving into the rest of the Caribbean, South America, China, and India. It weathered the Depression, prospered during the Second World War, and by 1961, had assets of $1 billion.

Nearly a century after Manufacturers' birth, a couple of its directors who knew me, one of them from Hiram Walker, put up my name for the board while I was Home's president. I came on in 1983, flattered to be asked to join my first big national board—a small, influential group of advisors for one of the country's oldest companies, which was then owned by its policyholders and hadn't yet gone public. The headquarters were still in the same neo-Georgian limestone building on Bloor Street that it occupied since 1925, on grounds groomed like a putting green. Sir John A.'s portrait still hung in the handsome boardroom, along with one of his successor, George Gooderham, once Ontario's wealthiest man. (Yep, he was a member of the original Gooderham & Worts distilling family, which sold out to Harry Hatch, whose company later became part of Hiram Walker Resources.) By the time I arrived, Sydney Jackson, a veteran with Manufacturers', had been running things for the past decade. Under his risk-taking, bottom-up style of leadership—letting employees play a major part in decision making so that they buy into any changes—it had become the nation's second-largest insurance company; over a dozen years, its assets grew eight-fold to $16.4 billion. In 1985, Syd became chairman, and his president and CEO was Tom Di Giacomo, the first of two Italian-Canadians to lead the corporation.

Tom and I were soon friends—I really liked the man—though that didn't stop me from seeing his limitations. His strengths were

many. Bespectacled and balding, looking like the caricature of an insurance executive, he'd been one of the more astute investment managers in the industry, doing a good job of getting the company into real estate and equities. He didn't much care about actuarial and administrative details, yet as president, he had to deal with any challenges to corporate morale and organizational structure.

Because he was weak on human resources, our board welcomed the arrival of Rose Patten in 1987 as head of HR. For a few years, she did a hell of a good job in beginning to streamline the organizational structure and dealing with the people problems. One of those she won over was Tom himself, who married her—after which she went to the Bank of Montreal as senior executive VP of human resources (and was named one of Canada's one hundred most powerful women by the Women's Executive Network). Meanwhile, he was moving the company deeper into Asia, from South Korea to Indonesia, buying a British bank, and taking over several Canadian trust companies to create Manulife Bank.

In 1990, the year Manufacturers' became known as Manulife Financial, he was named chairman as well as CEO after pressing the board for the title. That was the biggest mistake we ever made because, other than us directors, he didn't have any mentor to keep watch over him. He was a dealmaker, not a natural-born leader for a corporation Manulife's size who could inspire by his own example. In 1993, knowing he was in trouble, Tom flew from Toronto to see me as I stayed put in Calgary during Lee's last months.

"Look, I'm over twenty-one and I understand the situation. There's a train coming down the track—initiated by a small group of directors—and it isn't likely to stop," he said. "But we're good buddies, and that will continue."

I was one of those upset directors, on the audit committee that was chaired by Gail Cook-Bennett, the clever economist who'd taught at the University of Toronto as well as helping run the C.D. Howe Institute. She had sterling credentials: chair of the Crown's Canada Pension Plan Investment Board; a director of the Bank of Canada, Manulife, and Petro-Canada; and a member of the Canadian Group of the Trilateral Commission. She and I had

bluntly told Tom he had a problem with organization—and he had no answer when I asked how many people reported to him.

I was concerned about the timeliness and accuracy of Tom's financial reporting to the board. For example, in 1987, during one of the biggest market crashes, we didn't know the company's position for several weeks. On the CIBC board, I was used to getting thorough and regular reporting from senior management. In one meeting, I'd become so angry about Tom's operating style that another director, my friend Don McGiverin of Hudson's Bay, lectured me later: "Dick, that was inappropriate."

After my session with Tom in Calgary, I wrote notes to myself, as I often did regarding important conversations, and summarized what had to be done: "Loss of confidence is THE ISSUE.… MUST ACT NOW." We had a very strong board, which included former GE Canada chair Bill Blundell, Canadian National CEO Paul Tellier, and C.D. Howe Institute head Tom Kierans. They did act, launching a search for his successor. Coincidentally, the headhunters pinpointed Dominic D'Alessandro. I had the chance to interview him, and I found a compact and candid forty-seven-year-old with a great financial mind and a worldly view. And an occasionally surprising, left-field opinion that probably springs from his working-class boyhood—as when *Maclean's* magazine quoted him telling his grown-up sons why he doesn't mind paying taxes: "If it's not people like myself who are going to pay the tax, then who is?"

His was the classic Canadian immigrant's success story. Dominic had come to Montreal as a three-year-old with his family during the big postwar wave of emigration from Italy. His child hood was a tough one after his father, a construction worker, died in an accident on the job and his mother had to run an inner-city rooming house to support her four children. Skipping two grades, he finished high school at fourteen, winning scholarships to study mathematics and physics at Loyola College. Early on, he displayed his love of travel, which would stand him in good stead when it came to running a global company: He gave himself a year off in Europe before returning to study chartered accountancy at McGill University. Taking evening courses and working days at Coopers &

Lybrand, he won the Canadian Institute of Chartered Accountants' bronze medal for his final-exam marks. After spending a year in Paris for Coopers, he resettled in Montreal, joining Genstar Ltd., Imperial Tobacco's far-ranging subsidiary that operates in such diversified fields as development and building materials.

Dominic went abroad again as general manager of a Genstar subsidiary, a transportation and materials-handling company in a technology-poor Saudi Arabia. Two years later, he was in San Francisco as VP of Genstar's materials and construction group. In 1981, missing home, he took a job as a deputy controller in the Royal Bank's head office in Montreal and was soon controller, the youngest-ever vice-president, and eventually, executive VP of finance. Before the decade ended, his management skills and imaginative and entrepreneurial approach made him an ideal president and CEO of the Laurentian Bank of Canada, a small Royal subsidiary. During his five-year reign when Laurentian bought Standard Trust, its assets nearly doubled to just shy of $10 billion, its growth topped the industry, and it ranked among the country's most profitable financial institutions. While Dominic was the bestpaid banker in the country—at $3.5 million a year—as a strong federalist, he began looking around when Laurentian was taken over by Quebec's sovereignist Desjardins credit-union group.

When our Manulife board considered the candidates for a new CEO, he was the ripest plum for the picking. This time, the directors wanted to avoid the problem we'd had with Tom Di Giacomo and decided to name a non-executive chairman. I believe that Tom might have survived if he'd had a strong, independent chair above him—someone like Bill Blundell, whom we voted in as Dominic D'Alessandro came aboard. Bill described Dominic at the time: "We were looking for someone who could lead by vision and strategic skills, someone with business instinct who also had a good track record in the financial institutions sector." What Dominic said then was sweet music to all our ears: "My goal is to make Manulife one of the world's leading insurance companies."

He hit the ground galloping in 1994, selling off more than $150 million of the company's real estate investments and its minor

American group life and health insurance portfolio while developing the profitable individual insurance and estate-planning business in the U.S. Significantly, he deked out both Great-West Life Assurance and CIBC to pick up the group-insurance assets of Canada's failed Confederation Life Insurance. Confed was the fifth-largest company in a field of about 150 competitors in a mature domestic market. A year later, Manulife acquired a shaky North American Life Assurance (its first president had been our second prime minister, Alexander Mackenzie) and nosed out Sun Life Financial to become Canada's largest insurance provider, with $47 billion in assets.

By that time, I had decided to cut my ties with Manulife. In 1988, five years after becoming a director, I'd also joined the board of CIBC. In those days, there was no potential conflict of interest in being on both an insurance board and a bank board. But only four years later, Ottawa finally agreed to let Canada's banks sell insurance through their subsidiaries, though they couldn't use their own branches as sales offices for most types of policies, including life insurance, nor could they mine their banking-client databases for insurance marketing purposes. The rules prevented tellers from even mentioning insurance to bank customers. Yet it was only a matter of time, we all thought, before the government would remove those restraints and the banks would be more head-on rivals with Manulife. (In fact, while still banned from peddling policies through their branches today, some banks are selling through the Internet as well as by mailand in 2006, the federal Bank Act was scheduled for review under a new Conservative government.) Facing the same problem as me Gail Cook-Bennett, who was a director of the TD Bank as well as Manulife, later decided to resign from the bank's board.

Beyond the possible conflict in my two board positions, there was also my relative lack of interest in the insurance business. I enjoyed the financial side of things but not necessarily the products themselves. And my contributions to CIBC, especially with my experience in the oil business, seemed somehow greater than to Manulife. Syd Jackson, no longer a director, urged me to stay on:

"Dick, the insurance company has a much better balance sheet than the bank's, and it's a smaller board." Despite such encouragement and the pleasure I had in working with Dominic, I stepped off the board in 1995.

We've remained fast friends ever since, both of us with analytical accounting backgrounds and a penchant for plain speaking and getting down to the no-BS brass tacks of a situation. And I was often left to wonder if I'd chosen the wrong board as I watched Dominic help extend Manulife's reach so widely around the planet. I had such tremendous respect for him that we invited him on to the board of TransCanada, where he was a tower of strength during that company's most difficult period.

Although the company had a stronghold in Canada, he was looking well beyond this limited market for more growth. Manulife got its first licence to sell life insurance in mainland China in 1996, and a decade later, it was operating with a state partner in a dozen cities (and by 2010, it's expected to be in forty). In a joint venture with a minority Taiwanese partner, Manulife became the first foreign-owned insurer in Vietnam and, within three years, had 150,000 policyholders. And it has made major inroads in Japan (where it sells a billion dollars' worth of variable annuity products).

In 1999, the company went public—demutualized—in Canada's largest initial public offering, with the $2.48 billion raised from shareholders devoted exclusively to paying out its former owners, Manulife's policyholders. As Dominic noted, "The fact that we're not raising any equity capital with our IPO means we don't need any capital." A year later, the company was the first Canadian insurer to post a profit of more than $1 billion. And at this writing, it was sitting on a cash pile of more than $3 billion.

Bill Blundell has acknowledged that Dominic's drive and interventionist style can put off his executives, and the man himself concedes that he's an exacting, detail-oriented boss—without apologizing for it. Yet in dealing with the outside world, he's won laurels as the Canadian CEO most respected by his peers in 2005 (and second only to EnCana's Gwyn Morgan in '06) and, in an

industry-wide survey, the one offering the best relations with the investment community.

Most important for the board when I was a director, he quickly put firm controls in place. It was never the "Mystery Hour" when we read his financial statements. We felt comfortable that he was running the company well, despite being a highly opinionated and sometimes contrarian thinker. "Why the hell don't we let Citibank come up here to buy the Commerce?" he once asked a reporter. And then answered his own question, "Of course, if that happened, we wouldn't have a country."

Like me, he's a strong believer in Northern Tigers (and even suggested I write this book). As he told one annual meeting of Manulife shareholders, "There are no fundamental reasons why Canada shouldn't be home to more world-class companies.... Those of us who are supposed to lead some of Canada's most significant enterprises haven't been doing our jobs. As a group, we have been far too timid and cautious."

He really shouldn't have included himself in that group. In 2003, Manulife failed to take over Canada Life in a hostile bid (but saw its 9 percent stake in that company rocket to $300 million when Great-West Life won the war). So Dominic went south and did a $14-billion stock deal to acquire John Hancock Financial of Boston and its Canadian subsidiary, the Maritime Life Assurance Company. It was the biggest Canadian buy of any American corporation ever made. The merger created North America's second-biggest life insurer, and the world's fifth-biggest, by market capitalization, not to mention being Canada's biggest public company. John Hancock, also public and named for the first man to sign the U.S. Declaration of Independence, was (according to the *New York Times*) one of the twentieth century's most powerful brands. The timing of the purchase was swell: Manulife's shares were near record levels while Hancock's were suffering, even though its net income that year would be $806 million, an increase of 61 percent from 2002. It was just a pleasant coincidence that the president of the American company was also a D' Alessandro, though David and ex-journalist,

was no relation to Dominic, an ex-accountant. The flamboyant American jumped from the company with a golden parachute worth more than $20 million (U.S.), leaving the hard-nosed, disciplined Canadian in charge of the combined operation. By 2005, Manulife was registering its best annual results ever—good news for Dominic's fellow Canadians, who make up 60 percent of the shareholders.

That was also the year the company faced its most public embarrassment. Manulife Securities International, a subsidiary, and its independent advisors had referred thousands of clients to Portus Alternative Asset Management, a Toronto hedge fund that was forced into receivership. Manulife Securities' clients had invested $235 million in Portus. What impressed me in the wake of the collapse was how Dominic reacted so strongly and swiftly. His immediate response was to reassure all the investors that the parent company would absolutely guarantee their funds; it would "stand in your shoes," as he put it. And then he went after the executives in the subsidiary who had not done their due diligence—they were either incompetent or unethical—and fired them, including the CEO, chief compliance officer, and chief legal counsel. Dominic and his directors, particularly my pal Mike Wilson, the former federal finance minister, triggered an extensive internal review. Given the public-relations disaster it could have been, Manulife Financial emerged from the scandal remarkably undamaged, thanks to his precipitate actions—he even got a round of applause from shareholders at the next annual meeting.

Dominic and I share the same sense of ethics. We both have zero tolerance for the merest hint of corruption in the marketplace. I remember what he'd said at an earlier annual meeting when discussing the Enron scandal. Calling for "vigorous enforcement of existing laws"—heavy prison sentences and the forfeiting of embezzled funds—he told his shareholders, "I'm convinced that will do more for chilling the occurrence of future Enrons than writing a thousand laws."

SEVERAL YEARS AFTER I'D LEFT the board, it was reported that Dominic entertained the possibility of a merger between Manulife and the Canadian Imperial Bank of Commerce. Blending their strengths and different market niches, I thought, was a better idea than having Canada's major banks merge. He'd gone so far as to hold a series of talks with John Hunkin, the bank's CEO. They pursued the prospect over a few months until the federal Liberal government indicated its utter disapproval of any such marriage in late 2002.

By then, I was also off the CIBC board. But I knew, because of my knowledge of both companies, the union of the two financial institutions would have made good sense.

Joining the bank's board in the late 1980s, I'd brought some useful information with me from my dealings with CIBC over the years. At HBOG, treasurer Ken Burgis had come from the bank, which had always been the company's major financial institution. Back then of course, when Dome was taking us over, Jack Gallagher had been a director of CIBC, though the bank underestimated the conflict of interest and lent him a pile of money in order to attempt a hostile takeover—which Gerry Maier and I reacted to by raging against all levels of the bank's management.

In 1987, stock markets around the world had collapsed in the second-largest one-day percentage decline in history for a variety of reasons still debated by financial experts. When I became a CIBC director a year later, all the Canadian banks still considered that Black Monday to be a sobering lesson. The Commerce, our second-largest bank, was operating in twenty-three countries with assets of about $88 billion and nearly thirty-four thousand employees. It had recently acquired Wood Gundy, the Toronto wealth-management company and our major international securities dealer, after the federal government agreed to allow banks to own investment dealers. That acquisition would have profound repercussions later on.

Don Fullerton was CIBC's hard-driving yet personally warm chairman and CEO, and he became a great friend to me (on his visits to Calgary, we'd been known to get slightly into the sauce

and close the Petroleum Club). Nearing sixty, he was a Vancouverite who'd joined the bank after getting his BA from the University of Toronto. Our ties went back to the HBOG days, when he was the bank's president and chief operating officer. And even with our anger at the bank for supporting the Dome takeover, he was instrumental in sorting out the mess. Before my arrival, Don had restructured the company into distinct strategic operations—"the four pillars"—each with its own president to decentralize decision-making.

Now, amid the toughest recession since the Depression, he went on the attack again to get rid of what he called "the middle management mush" who were mired in mediocrity and acted like a "sponge or insulator." And he added, "The challenge for senior management is to ensure, in an industry where the numbers can seem to be all that matters, that ethical standards are nurtured, as well." Meanwhile, Don was also improving the bank's credit policies and computer systems and expanding CIBC's overseas presence. One of his closest foreign alliances was with Hong Kong's Li Ka-Shing, who'd had a fifty-fifty real estate partnership with the bank that grew into a $100-million joint venture in merchant banking involving parties from several nations, Japan among them.

One of Don's most troublesome decisions was hanging in with the Reichmanns as their empire collapsed. Of course, Paul Reichmann was on the board then, along with other high-profile directors such as former politicians Ron Basford and Bill Davis, the food magnate Galen Weston, Noranda's Alf Powis, MacMillan Bloedel's Ray Smith, and Hollinger Inc.'s Conrad Black)—and then there was me. As the head of Interhome, a company the Reichmann brothers controlled, I was in a delicate situation. Paul Reichmann was on the CIBC board, so I spoke to Don in private. Without revealing any confidential information, I explained my concerns about the number of businesses they were involved in—information freely available to any close observer—and, based on my personal observations, how stretched they were from a management point of view. At the time, CIBC had made massive loans

to Olympia & York. But when the bank had to put aside $1 billion to cover the resulting losses, I had to give him full credit for publicly taking the bullet for the debacle.

In 1992, Al Flood was named his president. More of a backroom guy, Al had come to the bank fresh out of high school and had worked everywhere, from domestic branches to the U.S. and Latin American operations. His international ventures spelled trouble in '90 when the bank had to write off $1.2 billion in bad loans to debt-ridden Brazil, Argentina, and particularly Mexico. Yet he was Don's heir apparent and took over as chair and CEO four years later. Al put his stamp on the company, and one of his first sweeping actions was to create a new management structure.

Al was also keen to effect a merger of CIBC with the TD Bank. In 1998, the Competition Bureau of Canada recommended against the proposal, arguing that it was "likely to lead to a substantial lessening or prevention of competition that would cause higher prices and lower levels of service and choice for several key banking services in Canada"—primarily branch banking for individuals and businesses, credit cards, and securities. The fact is, as a director I voted in favour of the merger, rationalizing that if the government was going to approve such consolidation, the Toronto-Dominion was the most complementary bank for the Commerce.

Some of my well-informed friends agree with the merging of Canada's major banks with one another in a bid to compete internationally. But Dominic D'Alessandro had once argued against the idea: "If [the banks] start off by saying 'The only way we can compete is if you give me total dominance over the Canadian consumer,' the implications of that are awesome." Now he recommends bank/bank, bank/insurer, or insurer/insurer mergers if domestic competition is somehow preserved—*and* if banks aren't allowed to sell insurance through their branches. Brian MacNeill, the Petro-Canada chairman, says, "The banks need to merge to become *real* Northern Tigers." Yet I was, and remain, hesitant about the ultimate worth of melding financial powerhouses operating in the same business. Canada has had a strong banking

system, as opposed to the U.S.'s, with its thousands of bank and savings-and-loan institutions that underperform for shareholders and are much more prone to bankruptcy. And clearly, the more banks we have, the more competitive they'll have to be in attracting customers. Yet I express my hesitation rather than saying I'm dead-set against all such mergers, because the arguments for and against them are extraordinarily complex and I honestly can't come down strongly on one side or the other.

CIBC proved to be my most challenging board. Part of the problem was its approach to the vital strategy of effective succession planning, which has been called the "ultimate act of leadership." Most boards I've served on worked hard at succession, even though their corporations might have fewer opportunities to develop people for top positions. Oil and gas companies, for instance, should have senior most people with overall knowledge of such distinct divisions as exploration and production—which is hard to accomplish in that industry. Even as a member of CIBC's management-resources committee, I was unable to influence improvements in that area of the business. Many of the problems that later surfaced could have been avoided by better succession planning.

The man who followed Al was John Hunkin, a thirty-year veteran with the bank, mostly on the commercial side. More recently, he'd got into investment banking as Don's handpicked choice to run the Wood Gundy brokerage house when it became CIBC World Markets. In a high-profile competition, John's rival for the post was the more conservative Holger Kluge, who was president of the retail banking operation. I have to admit preferring John. (And unfortunately, as he became both chairman and CEO, I lost my old argument to split the roles and name a non-executive chair.)

John's father had spent more than four decades with the bank, ending up a regional manager, and his son took his first job there after getting his MBA. A risk-taking senior VP in the U.S. when Wood Gundy was acquired, he went on to oversee two American companies that the bank acquired: the Argosy Group, an investment house involved in high-yield securities such as junk bonds,

and Oppenheimer & Co., a private-client and asset-management venture that added equity products to CIBC's U.S. mix of offerings.

NOT LONG AFTER HE BECAME head honcho, I began thinking about retiring as a bank director. I'd had the heart bypass that Easter and, recovering nicely, wasn't treating the event as a not too-distant early-warning signal to slow down a little. At least not till my friend Don Taylor, a former executive vice-president with Shell Canada, suffered a stroke. I'd got him on the board of Interprovincial Pipe Line, and he'd been hopping between Toronto and a new house in Florida. The pressures on him had been just too heavy. A few weeks after his attack, I stopped off to see him on the way to the airport in Toronto. Don was in a wheelchair, his whole left side was paralyzed, and he was having trouble speaking. I thought, *What a dumb bastard you are, Haskayne. Here you are doing the same things that Don did, running like crazy.* (Eventually he did recover courageously and well enough to stay on as a director and, later, chair of what became Enbridge.)

As well as Don's situation, I observed that three outstanding but elderly directors were anxious to stay on the CIBC board past the official retirement age of seventy. I believe that none of us, good as we may be, is that crucial to the ongoing operation of a twenty-nine-member board. And if you don't know by then what you'll do at that age, what in the hell is another year or so going to do for you? As I told my second wife, Lois, I don't ever want to be in the position where I'm pushing to be kept on as a director.

The day before my sixty-fifth birthday on December 18, I was at the point of looking everywhere for signs to support my decision to leave CIBC, even in my horoscope in the Globe, which I sometimes read for fun. This one seemed strangely appropriate: "Don't waste time crying to convince partners and colleagues that what you are doing is right. As long as you believe in it, nothing else matters." A few days later, I told Don Fullerton my reasons for taking leave, and he assured me that my rationale was "sound and defensible" and urged me to call John Hunkin.

John said he understood my health was still "an issue" and that I had my "plate full" even without CIBC. During our conversation, he sought my advice on inviting Bill Etherington, who'd been a senior VP and group executive with IBM Corp.'s global operations, to become the bank's lead director. Knowing Bill as an exceptional leader and realizing the relevance of his background as technology continued to drive the banking universe, I gave John an enthusiastic yes.

Bill would be the first lead director. During my stint at the bank, I was a member of the executive committee and the management resources and compensation committees. Just recently, I'd been working with Sir Neil Shaw, the retired chair of the British sugar company Tate & Lyle, on a much-needed review of CIBC's corporate governance. Among our recommendations that were adopted was eliminating the executive committee (to avoid having two classes of directors), replacing the pension trustees with a corporate trustee, reducing the board to twenty-one or fewer directors, and appointing a lead director who would also chair the corporate-governance committee. This director would essentially co-manage the board along with the chief executive officer. We polled all the directors to see who'd be interested in that position for themselves and who they thought would be the best choice. Two of my fondest wishes for the board eventually came true: In future, a CEO could no longer remain as a director after completing his or her term, and lead director Bill Etherington became CIBC's first non-executive chairman.

Even before my own chairmanship of NOVA, I had a bee buzzing in my bonnet about non-exec chairs. Recently, I wrote the foreword to a highly readable book by my old friend and fellow director, Bill Dimma of Toronto, who's served on fifty-five corporate boards and on another forty not-for-profit boards. In *Tougher Boards for Tougher Times: Corporate Governance in the Post-Enron Era*, Bill gives a damn good justification for keeping a firewall between chairperson and chief executive while describing the demands of each position. It's the same stance that I've taken in my stints as a permanent board chair separate from the CEO:

> [A non-executive chairman] needs to be as versed on the important issues and decisions as the chief executive officer. He needs to know enough that he cannot be "snowed" by a strong-willed CEO who may have his priorities wrong.
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> Unfortunately, there's an endemic problem. Every practising director knows that it exists and that it's serious. This problem is that it is almost impossible for directors to obtain and maintain sufficient and full knowledge on a real-time basis. Knowledge at this level is held almost exclusively by management. But this dilemma is usually glossed over on the grounds that, since not much can be done about it, "let's do the best we can and live with it."...
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> Which brings me back to the independent board chairman who can play a pivotal role in helping to bridge this knowledge gap. If boards are to be more effective, both in general and in helping to avert the occasional disaster, one answer, at least for larger, widely held companies, is not merely a fully independent chairman but one who devotes much more time to his critical role than has been or is customary.

As I was formally resigning at the annual meeting in early 2000, John was quarterbacking another of CIBC's leaps into the American marketplace—in this case, supermarkets. Though skeptical, I had voted for the decision to introduce a network of electronic financial-service kiosks at Winn-Dixies in Florida and Safeway supermarkets on the West Coast, similar to the bank's successful private-label President's Choice outlets at Loblaws in Canada. I was reluctant because we were marching into somebody else's market, thinking we knew more than our American competitors, and because many Canadian companies—especially in the retail field and in the petroleum business, in particular—had suffered a high failure rate in such forays. Yet it was an intriguing idea, backed by consultants' favourable reports. The rationale was that we had already developed the technology domestically, which would allow us to compete against the big American banks in

manageable way. They had nothing like this, ostensibly because they didn't want to cannibalize their existing branches with a low-fee service.

But I should have gone with my gut and voted against the scheme. While I wasn't familiar with the reasons, apparently what we hadn't realized is that Americans had a different style of banking and not enough of them used the services that the bank had hoped would offset the expenses to operate the 364 kiosks. Shutting them down in 2002, after only three years, cost CIBC a hefty $366 million.

That was the same year the bank unloaded its Oppenheimer division, selling it to a New York brokerage house for $334 million less than the 1997 purchase price. All this retrenchment indicated the bank was retreating to Canada and getting back to its basics. I remember one of CIBC's investment bankers on our human resources committee sidling up to me at a cocktail party one evening and saying, "Haskayne, old buddy, we need to take some action. Our costs are higher than most other banks', and what John Cleghorn's doing at the Royal are the right actions. For example, getting rid of the corporate jet."

"Well, my view, for what it's worth," I replied, "is that our costs are higher, but the jet is just such a small part of it."

"It's embarrassing to have a corporate jet," he said.

"If anybody needs a jet," I replied, "it's a bank—you're spread all over the damn place. And the only thing that's embarrassing to me, sitting on the bank's board, is how much you investment bankers get paid versus the CEO. Your numbers outweigh the corporate jet by a factor of ten to one."

That was the last I heard about the jet. But it wasn't the last time I bristled at the compensation the senior people in our investment banking divisions were taking home. CIBC was just one of the major Canadian banks to acquire such operations, which had been basically partnerships—in which the partners took significant risks and received generous compensation if the businesses succeeded. When the banks took over the partnerships, those same compensation mechanisms remained. But in my view, the firms

were now part of large financial institutions that could shelter them from the worst of the downside risks. Meanwhile, the upside potential was just as huge and unreasonable—many investment bankers continue to make more than the CEOs of those banks, and there's little incentive for them to aspire to being chief executives. It's possible that John Hunkin would have earned more if he'd stayed as an investment banker.

And then came the collapse of Enron Corp. CIBC and the energy trader had links dating back to 1991, when the bank's London-based brokerage arm partly financed a huge British power project built by a company controlled by Enron. I can recall only one commercial loan we made to Enron during my time as a bank director. I was skeptical about the company's apparent profitability, based on my experience with the energy-trading operations of TransCanada Corp, but I had no reason to question the standard loan.

Enron was founded in Houston in 1985 to trade natural-gas commodities, but eventually focused on a wide range of commodities trading in deregulated markets. It wasn't until the fall of 2001 that the U.S. Securities and Exchange Commission enquired into Enron's finances. By year's end the corporation went bankrupt, triggering one of the most complex criminal investigations ever conducted into financial failure. The major charges were disguising corporate debt, inflating profits, and selling stock before any fraud was uncovered. Various traders and senior executives have since pleaded guilty. Chairman Kenneth Lay was convicted in 2006 of defrauding a bank, investors, and his own employees, while former CEO Jeffrey Skilling was convicted of fraud and insider trading. Lay died of a heart attack before he had to serve any prison term, but recently Skilling was given twenty-four years for his part in the scandal and ordered to pay $45 million in restitution.

(Richard Kinder left Enron in 1996 after he didn't get the top job, bought the company's liquids pipeline, and co-founded Kinder Morgan Inc., which became an $11.3-billion success. His career is a fine example of the importance of following sound strategy with clever execution. Among other things, he immediately slashed $5 million in pipeline costs, financed operations

without a heavy load of debt, and capitalized on a tax advantage in his partnership structure that avoided corporate income tax if it distributed virtually all ofits earnings as dividends.)

Early on, the American court-appointed examiner charged that CIBC was one of many banks—the Royal and Toronto-Dominion among them—that helped Enron commit accounting fraud to conceal billions of dollars in debt and overstate profits as it swindled investors. CIBC supported the company with securities offerings and commercial lending, including loans that Enron misrepresented as cash flow rather than debt. While the bank recognized it had a potential liability, it underestimated the amount. In 2005, while not admitting guilt, the bank settled a $2.4-billion class action lawsuit with Enron investors, the largest to date of any financial institution implicated in the scandal (including J.P. Morgan and Citibank). That settlement, and others, forced CIBC to take the charge in its next quarter, the biggest in Canadian banking history—which amounted to one-quarter of its book value.

While John Hunkin as CEO accepted CIBC's role in the Enron disaster, I was not familiar with who actually structured the loans, but some observers identified the man in charge of investment banking as primarily responsible. That was David Kassie, who was running CIBC World Markets at the time. Between 1999 and 2003, Kassie got a reported $17 million in salary and bonuses, not including the more than $50 million in deferred compensation he walked away with. As the *Globe and Mail*'s Derek DeCloet pointed out to him in a column I clipped and saved because it buttressed my point of view about many investment bankers,

> It was your job to make sure your underlings took only smart risks. That's why you got paid the big bucks—and did you ever.… When anyone complained about your pay, the bank always had a ready response: David Kassie gets paid for performance, and CIBC World Markets is making a lot of money. And so it seemed. But Enron sure changes the record, doesn't it? By our math, World

> Markets earned about $3.4 billion from fiscal 1999 to 2004. Subtract $2.5 Billion from $3.4 billion, and World Markets would go from being one of the most profitable big investment dealers to one of the least.

In fairness, others have explained that because CIBC gave Enron commercial loans (with unusual conditions), they weren't even in the investment banking area of responsibility. And with the appointment of Gerald T. McCaughey as president and CEO, replacing John Hunkin, and the settlement of the outstanding Enron claims, the bank's stock has since recovered dramatically, which demonstrates that the balance sheet of a Canadian bank can withstand such a substantial financial hit. After all this, CIBC announced it would spend $50 million on various ethical and corporate-governance initiatives. Among them was advanced training for the 1,200 staff who handle complex financial transactions; an online course for all thirty-seven thousand employees, designed to teach them how to deal with risks to the bank's reputation and legal vulnerability; and a hotline to let employees report anonymously any irregularities in day-to-day business. (As to whether such hotlines work, the Association of Certified Fraud Examiners in the U.S . says, "The most common method for detecting occupational fraud is by a tip from an employee, customer, vendor or anonymous source.… [O]rganizations with hotlines can cut their fraud losses by approximately 50 percent per scheme.")

Should the board members in place during these years have been more thorough in their oversight of the bank? Maybe—but as corporate-governance guru Bill Dimma says, it's virtually impossible for a company—especially one as large and complex as a bank—to have the same handle on its operations as its managers have:

> Especially when the chairman and CEO roles are combined (with or without a lead director) but even when the roles are separated, there is almost always a profound gap between the depth and breadth of business knowledge held by management and that held by independent

> directors, including non-executive chairmen. These latter are almost invariably busy people with many other commitments and too little time to overcome the knowledge gap.

But Bill and I agree that a non-executive chairperson should have much more awareness of operations. When CIBC appointed its first non-exec chair, Bill Etherington, in 2003, most of the Enron investments had already been made.

It's easy to second-guess, yet I still wonder what I would have done as a director during the height of the Enron involvement. My suspicions of the energy company were high because, as I've explained, TransCanada Pipelines had been patterning itself after Enron in commodities trading. Then as a TransCanada chairman in 1999, I was involved in the decision to end our $400-million exposure to Enron. But of course, a year later, I was no longer a CIBC director.

Departing, though, I had given the bank a gift. I'd been asked to recommend a successor, someone who could serve the board with deep-seated integrity as well as financial smarts. My nominee, who was accepted, was Steve Snyder. He was the remarkable young president and CEO of Calgary-based TransAlta Corporation—where I'd been a director as it emerged from a troubled past and started to become the immensely successful enterprise it is today.