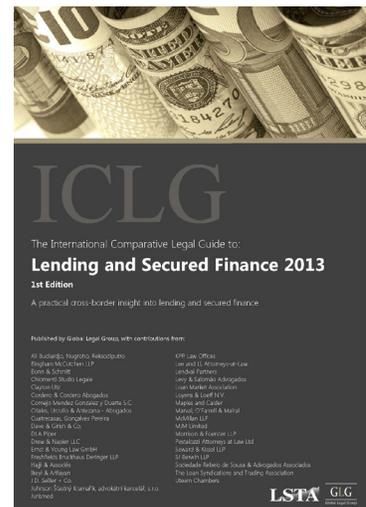


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The International Comparative Legal Guide to: Lending and Secured Finance 2013

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Canada



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1 Overview

1.1 What are the main trends/significant developments in the lending markets in Canada?

Canadian banks have been widely recognised internationally as well-capitalised, well-managed and well-regulated, and a major contributing force in the Canadian economy, remaining healthy and strong despite the international financial crisis. The lending market in Canada is characterised by a wide range of domestic banks, pension funds, credit unions and insurance companies, as well as major foreign banks and finance companies, offering a range of commercial lending services and financial products on par with those offered anywhere else in the world. In recent years, a thriving Canadian high-yield bond market has developed. With recent changes in Canadian tax law, cross-border financing by US and other foreign lenders in Canada has become more favourable generally.

1.2 What are some significant lending transactions that have taken place in Canada in recent years?

While there are numerous examples, some notable transactions include the government-led financial restructurings of GM and Chrysler's Canadian businesses and Air Canada, and the Canadian banks' dip financings of Canwest Media and Canwest LP, the acquisition credit facility for Barrick Gold's acquisition of Equinox Minerals Ltd., the acquisition financing of ING Real Estate's Canadian real estate portfolio by a Canadian bank-led syndicate and the acquisition financing of the Toronto Stock Exchange (TMX) by a syndicate of Canadian banks.

2 Guarantees

2.1 Can a company guarantee borrowings of one or more other members of its corporate group (see below for questions relating to fraudulent transfer/financial assistance)?

Yes, it can.

2.2 Are there enforceability or other concerns (such as director liability) if only a disproportionately small (or no) benefit to the guaranteeing/securing company can be shown?

While there is no bright line test for adequate consideration or

benefit, under such circumstances, the enforceability of a guarantee could be challenged on the basis that it was granted in a manner that was oppressive, unfairly prejudicial or that unfairly disregards the interest of creditors or minority shareholders under the oppression provisions of applicable corporate legislation, or subject to challenge under provisions of applicable insolvency legislation dealing with transactions at under value or preference claims. Directors and officers would only be subject to personal liability in such cases if specific facts were pleaded which could justify such a remedy (e.g. wrongdoing).

2.3 Is lack of corporate power an issue?

If the guarantor is a corporation, it must have the corporate power to give guarantees; however, most corporations have the powers of a natural person and it is unusual to see restrictions on that power in the constating documents.

2.4 Are any governmental or other consents or filings, or other formalities (such as shareholder approval), required?

Other than typical corporate authorising resolutions, no formal approvals are generally required. Where a corporation provides financial assistance by way of guarantee or otherwise, in some provinces the corporation is required to disclose the financial assistance to its shareholders after such assistance is given.

2.5 Are net worth, solvency or similar limitations imposed on the amount of a guarantee?

Not for corporations incorporated federally or under the laws of most provinces. However, the corporate laws in a few maritime provinces and in the territories continue to prohibit financial assistance to members of an intercompany group if there are reasonable grounds to believe that the corporation would be unable to meet prescribed solvency tests after giving the assistance, subject to specific exceptions.

2.6 Are there any exchange control or similar obstacles to enforcement of a guarantee?

No, subject to the provisions of applicable Canadian federal anti-terrorism legislation.

3 Collateral Security

3.1 What types of collateral are available to secure lending obligations?

Most types of personal property and real property are available to secure lending obligations, subject to certain limitations by contract (e.g. contractual restrictions on assignment) or by law (e.g. government receivables, permits, licences and quotas).

3.2 Is it possible to give asset security by means of a general security agreement or is an agreement required in relation to each type of asset? Briefly, what is the procedure?

A general security agreement is generally used to grant security over all of the debtor's existing and after-acquired assets; however, it typically does not extend to real property as separate technical provisions apply to ensure registerability against land.

Provincial legislation generally governs the creation and enforcement of security. (A notable exception is security granted to banks under the federal *Bank Act*.) Most Canadian provinces have adopted comprehensive personal property security legislation (PPSA) resembling Article 9 of the United States *Uniform Commercial Code* (UCC). The PPSA regulates the creation, perfection and enforcement of a security interest in a debtor's personal property, and creates a system for determining the priority of competing interests in collateral. The act applies to any transaction that creates a security interest in personal property, regardless of the form of document used to grant the interest.

Under the PPSA, "security interest" is defined generally as an interest in personal property that secures payment or performance of an obligation. "Personal property" encompasses virtually all types of personal property. In most cases, the creditor perfects the security interest by registering a financing statement under the PPSA filing regime in the applicable province. Conflict of laws rules in the PPSA determine which filing jurisdiction is applicable and in which jurisdiction the registration must be made. Certain types of property are also subject to federal regulation and filing regimes (for example, intellectual property, shipping, aircraft and railways).

Québec, Canada's only civil law jurisdiction, has a European style Civil Code (the *Québec Civil Code*) that codifies the province's general principles of law. The hypothec, Québec's only form of consensual security, may be granted by a debtor to secure any obligation, and may create a charge on existing and after-acquired movable (personal) or immovable (real) property. It may be made with or without delivery, allowing the grantor of the hypothec to retain certain rights to use the property.

3.3 Can collateral security be taken over real property (land), plant, machinery and equipment? Briefly, what is the procedure?

A lender may take collateral security over land or real estate (i.e. real property) by way of a mortgage of the land, a mortgage of lease, a debenture, or, if the real property charged is in Québec, an immovable deed of hypothec. Interests in real property are registered in the land registry system of the relevant province. In Québec, the immovable hypothec is usually registered by filing a hard copy of the deed of hypothec at the registry office for the relevant registration divisions.

The procedure for taking security over plant, machinery and equipment that constitutes personal property under the PPSA or movables under the *Québec Civil Code*, is described in question 3.2 above.

Personal property may include materials that become fixtures but if the security interest has not attached prior to affixation, the creditors registered against the land gain priority, with limited exceptions. What constitutes a fixture affixed to the land is a factual question and the common law has taken a contextual approach. To protect the priority of its interest in a fixture, a secured party must both perfect its security interest under the PPSA and also register its interest in the land registry system. Under the *Québec Civil Code*, the rules for determining what constitutes movable or immovable property are different – but the end results are similar.

3.4 Can collateral security be taken over receivables? Briefly, what is the procedure? Are debtors required to be notified of the security?

Yes. The procedure for taking security over receivables is described in question 3.2 above.

Notice to account debtors is not required to create a perfected security interest in accounts receivable under the PPSA. However, account debtors for the receivables are only obligated to pay the receivable directly to the secured party after receiving notice from the secured party directing them to do so. In addition, an assignment of receivables constitutes a "security interest" regardless of whether it secures any obligations.

Under the *Québec Civil Code*, an assignment of receivables must be registered to be set up against third parties (i.e. perfected) if the assigned receivables constitute a "universality of claims". If the receivables do not constitute a universality of claims, the assignment may be perfected with respect to Québec obligors only by actual notice of the assignment to such obligors.

Under Canadian federal legislation, subject to prescribed exceptions, receivables owed by the federal government can be assigned only absolutely (not as security) and only with appropriate notice to the government, which must be acknowledged. Some provinces have similar legislation covering receivables owed by the provincial government. In Canada, asset-based lenders frequently exclude government receivables from the borrowing base.

3.5 Can collateral security be taken over cash deposited in bank accounts? Briefly, what is the procedure?

The PPSA and *Québec Civil Code* permit a lender to take security over deposit accounts. Deposits in bank accounts are treated as receivables owed by the depository to the debtor owner. Accordingly, security interests (or hypothec) in deposit accounts are perfected by registering a financing statement (or application for registration) in the province where the debtor's chief executive office (or domicile) is situated (see question 3.2 above). Traditionally, a bank lender that operated deposit accounts for a debtor and wished to take cash collateral in such accounts would do so by way of set off and a "flawed asset" approach, however in light of recent Canadian case law, the lender should also register a PPSA financing statement against the debtor. Unlike the UCC, there is no concept of perfecting security in deposit accounts by "control" in Canada.

3.6 Can collateral security be taken over shares in companies incorporated in Canada? Are the shares in certificated form? Can such security validly be granted under a New York or English law governed document? Briefly, what is the procedure?

A pledge of shares may be documented by way of a standalone pledge agreement or included in a general security agreement. While the jurisdiction governing validity, perfection or non-perfection of the pledge will be determined under applicable conflict of laws rules, the pledge may be granted under a document governed by New York or English law, subject to the principles discussed in question 7.1 below.

Under the PPSA and the *Securities Transfer Act, 2006* (STA), versions of which are in force in most Canadian jurisdictions (harmonised legislation is in force in Québec), a secured party can perfect its security interest in shares by registering under the PPSA or by taking control under the STA (or both). An interest perfected by control has priority to one perfected only by registration.

Shares may be either certificated or un-certificated. For certificated shares, taking physical possession of the share certificates (endorsed, if applicable) meets the STA requirement for control. Control in other forms of investment property, such as book-based securities, can be achieved by other means, such as a control agreement with the relevant intermediary. A private company's constating documents must include a restriction on the right to transfer its shares. This restriction usually states that each transfer of the company's shares requires approval by the company's directors or shareholders.

3.7 Can security be taken over inventory? Briefly, what is the procedure?

Yes. The procedure is described in question 3.2.

The PPSA also provides that secured parties that have financed the purchase of inventory (either as sellers or by way of third party financing) may obtain priority in the financed inventory and its proceeds over any other security interest in the same collateral given by the same debtor, even if that other security interest was registered first. A purchase money security interest (PMSI) receives super-priority in inventory if, before the debtor (or a third party) obtains possession of the collateral, the secured party: (i) perfects its security interest by registration; and (ii) gives notice in writing to every other prior registered secured party with an interest in inventory or accounts. The *Québec Civil Code* does not offer a comparable regime. Hence, to ensure that the supplier/vendor of inventory has a first ranking security on such inventory in Québec requires obtaining a subordination or cession of rank from any prior ranking secured creditor.

3.8 Can a company grant a security interest in order to secure its obligations (i) as a borrower under a credit facility, and (ii) as a guarantor of the obligations of other borrowers and/or guarantors of obligations under a credit facility (see below for questions relating to the giving of guarantees and financial assistance)?

Yes, it can.

3.9 What are the notarisation, registration, stamp duty and other fees (whether related to property value or otherwise) in relation to security over different types of assets?

Registration fees are payable in connection with the filing of PPSA financing statements, increasing with the length of the registration period.

A modest tax is payable upon registering real property security in certain Canadian jurisdictions. The tax is based on a fee and where the face amount of the registration exceeds the value of the lands, one is permitted to pay on the basis of a percentage of the property value.

In Québec, if a notarial deed of hypothec is used, the notary will generally charge a fee for execution, keeping it in their notarial records and for issuing copies, however there is no additional material cost.

3.10 Do the filing, notification or registration requirements in relation to security over different types of assets involve a significant amount of time or expense?

The registration requirements in most cases are relatively uncomplicated and inexpensive.

3.11 Are any regulatory or similar consents required with respect to the creation of security?

For certain special types of regulated property, consents or approvals may be required by governmental authorities or quasi-administrative bodies for both the creation and enforcement of security. Governmental licences, permits and quotas are subject to specific regimes requiring notice or consent in many cases. See question 3.4 regarding government receivables.

3.12 If the borrowings to be secured are under a revolving credit facility, are there any special priority or other concerns?

A security interest and hypothec in personal property or moveable property can secure present and future advances.

Generally, advances on a mortgage made without actual notice of a subsequent claim will typically have priority over such subsequent claims and, accordingly, mortgages securing revolving credit normally provide that subsequent liens are prohibited. Certain priority exceptions apply such as in respect of construction liens. Mortgages securing revolving credit should be properly worded to address situations where the borrowing is fully or partially repaid and thereafter readvanced.

3.13 Are there particular documentary or execution requirements (notarisation, execution under power of attorney, counterparts, deeds)?

In Québec, security over immovable property or in favour of a collateral agent on behalf of multiple secured parties requires execution of the deed of hypothec before an authorised Québec notary.

Each province has different requirements with respect to real property including specific registration forms, evidence of corporate authority, affidavits and, in some jurisdictions, originals for registration.

4 Financial Assistance

- 4.1 Are there prohibitions or restrictions on the ability of a company to guarantee and/or give security to support borrowings incurred to finance or refinance the direct or indirect acquisition of: (a) shares of the company; (b) shares of any company which directly or indirectly owns shares in the company; or (c) shares in a sister subsidiary?**

Most Canadian corporations are not subject to such restrictions, except those created under the laws of a few maritime provinces (New Brunswick, Prince Edward Island and Newfoundland) and the territories (the Northwest Territories, the Yukon and Nunavut).

5 Syndicated Lending/Agency/Trustee/Transfers

- 5.1 Will Canada recognise the role of an agent or trustee and allow the agent or trustee (rather than each lender acting separately) to enforce the loan documentation and collateral security and to apply the proceeds from the collateral to the claims of all the lenders?**

Yes. The agency concept is recognised in Canadian common law and agents are commonly used in syndicated lending for both administration of loans and holding collateral security in Canada. Indenture trustees are typically used in public bond transactions.

- 5.2 If an agent or trustee is not recognised in Canada, is an alternative mechanism available to achieve the effect referred to above which would allow one party to enforce claims on behalf of all the lenders so that individual lenders do not need to enforce their security separately?**

For purposes of holding collateral security in the province of Québec, the mechanism commonly used requires the appointment of the collateral agent as a “*fondé de pouvoir*”, together with the issuance of a bond to the agent secured by a notarial deed of hypothec.

- 5.3 Assume a loan is made to a company organised under the laws of Canada and guaranteed by a guarantor organised under the laws of Canada. If such loan is transferred by Lender A to Lender B, are there any special requirements necessary to make the loan and guarantee enforceable by Lender B?**

Assignments of debt, guarantees and security can be effected by contract pursuant to a standard assignment and assumption agreement. Where the assignor is also the secured party of record (whether as collateral agent or otherwise), PPSA financing statements (and the Québec equivalent) are typically amended to recognise the assignment. Mortgage or security assignments are required to be filed under the applicable land registry to give effect to the assignment.

6 Withholding, Stamp and other Taxes; Notarial and other Costs

- 6.1 Are there any requirements to deduct or withhold tax from (a) interest payable on loans made to domestic or foreign lenders, or (b) the proceeds of a claim under a guarantee or the proceeds of enforcing security?**

There are generally no requirements to deduct or withhold tax on payments of interest by a debtor or guarantor (whether by voluntary payment, enforcement or otherwise) made to domestic lenders.

Conventional interest payments made to arm’s length lenders that are non-residents of Canada are generally not subject to Canadian withholding tax, regardless of their country of residence. In addition, conventional interest payments made to certain non-arm’s length US resident lenders may qualify for an exemption from Canadian withholding tax under the Canada-US Tax Treaty. In the absence of these or other applicable exemptions under treaties or under the *Income Tax Act* (Canada), withholding tax on interest payments may apply at rates of up to 25%.

- 6.2 What tax incentives or other incentives are provided preferentially to foreign lenders? What taxes apply to foreign lenders with respect to their loans, mortgages or other security documents, either for the purposes of effectiveness or registration?**

Generally, there are no material tax or other incentives provided preferentially to foreign investors or creditors and no taxes apply to security documents for the purposes of effectiveness or registration.

- 6.3 Will any income of a foreign lender become taxable in Canada solely because of a loan to or guarantee and/or grant of security from a company in Canada?**

While each lender’s tax position must be examined individually, generally the non-resident lender’s income should not be taxable in Canada solely because of a single secured loan transaction in the absence of a fixed presence in Canada or other connecting factors.

- 6.4 Will there be any other significant costs which would be incurred by foreign lenders in the grant of such loan/guarantee/security, such as notarial fees, etc.?**

(See questions 3.9 and 3.10 for the filing and notarial fees.) There are no stamp taxes, registration taxes or documentary taxes that are generally applicable in connection with authorisation, delivery or performance of loans, guarantees or security.

- 6.5 Are there any adverse consequences to a company that is a borrower (such as under thin capitalisation principles) if some or all of the lenders are organised under the laws of a jurisdiction other than your own? Please disregard withholding tax concerns for purposes of this question.**

Thin capitalisation rules under the *Income Tax Act* (Canada) determine whether a Canadian corporation may deduct interest on the amount borrowed from a “specified non-resident shareholder” of the corporation or from a non-resident person who does not deal at arm’s length with a “specified shareholder” (collectively “specified non-residents”). A “specified shareholder” of a corporation is, in general terms, a person who, either alone or together with persons with whom they do not deal at arm’s length,

owns 25% or more of the voting shares, or the fair market value of the issued and outstanding shares of the corporation.

As a result of recent amendments, Canadian corporations are effectively prevented from deducting interest on the portion of loans from specified non-residents that exceeds one and a half times the corporation's specified equity (in highly simplified terms, retained earnings, share capital and contributed surplus attributable to specified non-residents). Previously, the relevant debt-to-equity ratio for the purposes of the thin capitalisation rules was two to one. This change is effective for taxation years after 2012.

In addition, the proposed amendments (i) extend the thin capitalisation rules to partnerships in which a Canadian resident corporation is a member, and (ii) deem any interest expenses that are disallowed under the thin capitalisation rules to be a dividend paid to the lender, for non-resident withholding tax purposes, and potentially subject to withholding tax. Both of these changes generally have effect retroactive to March 29, 2012, subject to special apportionment rules in respect of disallowed interest arising in 2012.

7 Judicial Enforcement

7.1 Will the courts in Canada recognise a governing law in a contract that is the law of another jurisdiction (a "foreign governing law")? Will courts in Canada enforce a contract that has a foreign governing law?

Subject to certain exceptions and conditions, Canadian courts will recognise and apply the parties' choice of governing law.

Canadian courts will not apply the foreign law if it is contrary to public policy. Additionally, Canadian courts will apply Canadian procedural law and certain provincial and federal laws that have overriding effect, such as bankruptcy and insolvency statutes, federal crime legislation, employment legislation and consumer protection legislation.

7.2 Will the courts in Canada recognise and enforce a judgment given against a company in New York courts or English courts (a "foreign judgment") without re-examination of the merits of the case?

A foreign judgment may be enforced in Canada if the judgment is final and the foreign court properly assumed jurisdiction. As long as these requirements are met, a Canadian court will not examine whether the foreign court correctly applied its own substantive and procedural laws.

In considering the issue of jurisdiction, Canadian courts will examine whether there was a "real and substantial connection" between the foreign court and the cause of action or the defendant. While the test is often applied generously and flexibly by the courts, a fleeting or relatively unimportant connection will not substantiate a foreign court's assumption of jurisdiction.

There are certain limited defences which preclude recognition related to circumstances under which the foreign judgment was obtained and whether there is any reason it would be improper to recognise the foreign judgment.

7.3 Assuming a company is in payment default under a loan agreement or a guarantee agreement and has no legal defence to payment, approximately how long would it take for a foreign lender to (a) assuming the answer to question 7.1 is yes, file a suit against the company in a court in Canada, obtain a judgment, and enforce the judgment against the assets of the company, and (b) assuming the answer to question 7.2 is yes, enforce a foreign judgment in a court in Canada against the assets of the company?

(a) In Ontario, if no defence is filed in response to a claim, default judgment may be obtained 20 days following the commencement of an action. After any judgment is obtained, and subject to it being stayed by the filing of a notice of appeal, enforcement proceedings may be commenced immediately.

(b) An application hearing to enforce a foreign judgment in Ontario may generally be obtained within approximately three months.

Procedural and substantive law differs by province, but the timing described above is similar in other provinces.

7.4 With respect to enforcing collateral security, are there any significant restrictions which may impact the timing and value of enforcement, such as (a) a requirement for a public auction or (b) regulatory consents?

A secured creditor must give the debtor reasonable time to pay following demand, before taking action to enforce against its collateral security (even if the debtor purported to waive these rights).

Where a secured creditor intends to enforce security over substantially all of an insolvent debtor's inventory, accounts receivable or other property used in relation to the debtor's business, in addition to delivering a demand, the secured creditor must also deliver a notice of intention to enforce security in the form prescribed under the *Bankruptcy and Insolvency Act* (BIA) at least 10 days before such enforcement, unless the debtor consents to an earlier enforcement.

If a secured creditor intends to deal with the collateral itself or through a privately appointed receiver, it must also give advance notice to the debtor and other interested parties of its intention to dispose of the collateral or accept the collateral as final settlement of the debtor's obligations. This notice period is typically 15-20 days depending on the applicable PPSA and can run concurrently with the BIA enforcement notice.

Although there is no requirement for a public auction, a secured creditor (and any receiver) must act in good faith and in a commercially reasonable manner when selling or otherwise disposing of the collateral. However, if a lender wishes to buy the collateral, it may only do so at a public sale, unless otherwise permitted by a court. Generally speaking, no regulatory consents are required to enforce on collateral security.

7.5 Do restrictions apply to foreign lenders in the event of (a) filing suit against a company in Canada or (b) foreclosure on collateral security?

(a) To maintain an action in certain provinces, foreign lenders may be required to become extra-provincially registered.

(b) There are no specific restrictions on a foreign lender's ability to enforce security in Canada. However, if the lender chooses to exercise those remedies to either foreclose on the collateral security or to credit bid its debt, such that the foreign lender ends up owning the debtor's Canadian assets, the foreign lender may be subject to restrictions imposed by the *Investment Canada Act* or the *Competition Act*.

7.6 Do the bankruptcy, reorganisation or similar laws in Canada provide for any kind of moratorium on enforcement of lender claims? If so, does the moratorium apply to the enforcement of collateral security?

Yes, a stay of proceedings may affect the rights of secured and unsecured creditors in some circumstances to the extent set out in question 8.1.

7.7 Will the courts in Canada recognise and enforce an arbitral award given against the company without re-examination of the merits?

Provincial arbitration acts provide for the enforcement of arbitral awards by application to the court. Canadian courts will not re-examine the merits of an arbitral award, however the award may be set aside on specified grounds including, but not limited to, an invalid arbitration agreement, an award outside of the jurisdiction of the arbitrator, a reasonable apprehension of bias on the part of the arbitrator, or an award outside the jurisdiction of the arbitrator.

The *Convention on the Recognition and Enforcement of Foreign Arbitral Awards* and the *UNCITRAL Model Law on International Commercial Arbitration* have been adopted in all Canadian provinces and provide rules for the enforcement of international arbitral awards. Subject to limited grounds on which enforcement of an international arbitral award may be refused, the awards are generally enforceable in Canada.

8 Bankruptcy Proceedings

8.1 How does a bankruptcy proceeding in respect of a company affect the ability of a lender to enforce its rights as a secured party over the collateral security?

Bankruptcy and insolvency in Canada is primarily governed by two federal statutes: the BIA; and the *Companies' Creditors Arrangement Act* (CCAA). BIA cases will typically be administered by a third party trustee or receiver, whereas CCAA proceedings are controlled by the debtor. Although some aspects of creditors' rights are determined by provincial statutes, bankruptcy and insolvency law is mostly uniform across Canada. Insolvency proceedings under the BIA or CCAA will result in the imposition of a stay of proceedings either by a Canadian court or pursuant to the relevant statute.

If the BIA case becomes a liquidation proceeding, the automatic stay of proceedings imposed upon commencement will not prevent a secured creditor from realising or otherwise dealing with its collateral.

If a debtor files a notice of intention to make a proposal (NOI) or a proposal to creditors under the BIA, a secured creditor's enforcement rights will be automatically stayed during the reorganisation proceeding, unless the secured creditor: (i) took possession of the collateral before the filing; or (ii) delivered its BIA enforcement notice more than 10 days prior to the filing of the NOI.

Reorganisation proceedings under the CCAA are commenced when an initial order is granted by the court. The CCAA explicitly empowers a court to grant a stay of proceedings against the debtor on any terms that it may impose. The stay provision in the CCAA initial order typically prohibits secured creditors from enforcing their security interests against the debtor's property during the proceeding. In a court appointed receivership, receivership orders also routinely contain substantially similar stay language.

8.2 Are there any preference periods, clawback rights or other preferential creditors' rights (e.g., tax debts, employees' claims) with respect to the security?

(a) Preferential transactions

Under the BIA and the CCAA, certain transactions, including the granting of security, the transfer of property and other obligations are not enforceable if incurred during specified pre-bankruptcy time periods. Subject to certain conditions and exemptions, if such transactions are made with a view to giving one creditor a preference over others, they may be set aside if entered into during the period that is: (i) three months before the initial bankruptcy event for transactions at arm's length; and (ii) one year before the initial bankruptcy event for transactions not at arm's length.

Transfers in which the consideration the debtor receives is less than the fair market value, subject to certain other conditions and exemptions, may be set aside under the BIA or CCAA if entered into during the period that is (i) one year before the initial bankruptcy event for transactions at arm's length, and (ii) five years before the initial bankruptcy event for transactions not at arm's length.

There is also provincial legislation providing for setting aside other fraudulent conveyances or preferential transactions.

(b) Statutory priority claims

In Canada, a number of statutory claims may "prime" or take priority over a secured creditor. Priming liens commonly arise from a debtor's obligation to remit amounts collected or withheld on behalf of the government. Such amounts include unremitted employee deductions for income tax, government pension plan contributions and government employment insurance premiums and unremitted federal goods and services taxes, provincial sales taxes, municipal taxes and workers' compensation assessments. In Ontario, statutory deemed trusts may give rise to a priority claim for certain unpaid claims of employees, including a deemed trust arising upon wind-up of a defined benefit pension plan for any deficiency amounts. In addition, there are a number of statutes that create priming liens in specific industries (for example, repair and storage liens, construction liens and brokerage liens). These priming liens may attach to all of the property of the debtor. In some cases, the priority of statutory claimants and secured creditors is sometimes reversed by the commencement of an insolvency proceeding against the debtor.

(c) Priority claims – insolvency

An insolvency proceeding in respect of the debtor may give rise to a number of additional liens that would rank in priority to a secured creditor's claims.

The BIA provides employees of a bankrupt employer or an employer in receivership with a priority charge on the employer's "current assets" for unpaid wages and vacation pay (but not for severance or termination pay) for the six-month period prior to bankruptcy or receivership to a maximum of \$2,000 per employee (plus up to \$1,000 for certain travelling expenses). The priority charge ranks ahead of all other claims, including secured claims, except unpaid supplier rights.

The BIA also grants a priority charge in bankruptcies and receiverships for outstanding current service pension plan contributions, subject only to the wage earners' priority. The pension contribution priority extends to all assets, not just current assets, and is unlimited in amount.

The pension charge secures (i) amounts deducted as pension contributions from employee wages but not contributed to the plan prior to a bankruptcy or receivership, and (ii) amounts required to

be contributed by the employer to a pension plan for “normal costs”. The charge does not extend to unfunded deficits arising upon a wind-up of a defined benefit plan and should not include scheduled catch-up or special payments required to be made by an employer because of the existence of a solvency deficiency.

The CCAA and the reorganisation provisions of the BIA expressly prohibit a court from sanctioning a proposal, compromise or arrangement or a sale of assets, unless it is satisfied that the debtor has arranged to pay an amount equal to the amounts secured by the wage and pension priority charges discussed above.

(d) Priority claims – court charges

In CCAA and BIA reorganisations, debtors may obtain interim financing (often referred to as debtor in possession (DIP) financing). Both the CCAA and the BIA expressly authorise the court to grant fresh security over a debtor’s assets to DIP lenders in priority to existing security interests up to a specified amount approved by the court.

In addition to the priming liens noted above, in a CCAA or BIA reorganisation, the court has the authority to order priming charges to secure payment of directors’ post-filing liabilities and to secure the fees and disbursements of experts, court-appointed officials and certain other “interested parties” in the court’s discretion.

The priority of the DIP charge, directors’ charge and the expense charge in respect of the debtor’s assets is determined by the court.

(e) Unpaid suppliers’ rights

The BIA provides certain unpaid suppliers with a right to repossess goods sold and delivered to a purchaser within 30 days before the date of bankruptcy or receivership of such purchaser. The unpaid supplier’s right to repossess goods effectively ranks ahead of a secured creditor.

An unpaid supplier claim is rarely successful as the supplier has the burden of demonstrating that all requirements have been met, including: (i) that the bankrupt has possession of the goods; (ii) that the goods are identifiable; (iii) that the goods are in the same state; and (iv) that the goods have not yet been sold.

8.3 Are there any entities that are excluded from bankruptcy proceedings and, if so, what is the applicable legislation?

Federally-incorporated banks, insurance companies and trust corporations are excluded from the BIA and CCAA and are governed by the *Winding-up and Restructuring Act* (Canada). The BIA also excludes railways, savings banks, loan companies and building societies.

8.4 Are there any processes other than court proceedings that are available to a creditor to seize the assets of a company in an enforcement?

Upon default, a secured creditor may exercise “self-help” remedies to take possession and control of collateral individually or through the appointment of a private receiver (if provided in its security documents). Secured creditors may also seek court appointment of an interim receiver to preserve and protect collateral on an expedited basis.

9 Jurisdiction and Waiver of Immunity

9.1 Is a party’s submission to a foreign jurisdiction legally binding and enforceable under the laws of Canada?

The submission by a party to the non-exclusive jurisdiction to the laws of a foreign jurisdiction should be recognised as valid, provided that service of process requirements are complied with.

9.2 Is a party’s waiver of sovereign immunity legally binding and enforceable under the laws of Canada?

The *State Immunity Act* (Canada) governs sovereign immunity of foreign states and any separate agency of a foreign state (e.g. state trading corporations). Private corporations that are not “organs” of a foreign state are not entitled to sovereign immunity.

Sovereign immunity may be waived if the state or agency submits to the jurisdiction of the Canadian court by agreement, either before or after commencement of the proceedings. Sovereign immunity is subject to certain exceptions (e.g. commercial activities and property damage actions, terrorist activities and certain maritime claims).

10 Other Matters

10.1 Are there any eligibility requirements in Canada for lenders to a company, e.g. that the lender must be a bank, or for the agent or security agent? Do lenders to a company in Canada need to be licensed or authorised in Canada or in their jurisdiction of incorporation?

There are no specific eligibility requirements for lenders solely as a result of entering into a secured lending transaction as lender or agent.

Under the *Bank Act* (Canada), a “foreign bank” is generally not permitted to engage in or carry on business in Canada except through a foreign bank subsidiary, an authorised foreign branch or other approved entity. A “foreign bank” is broadly defined in the Act and includes any foreign entity that (i) is a bank under the laws of a foreign country in which it carries on business or carries on business in a foreign country which would be considered the business of banking, (ii) provides financial services and uses the word “bank” in its name, (iii) is in the business of lending money and accepting deposit liabilities transferable by cheque or other instrument, (iv) provides financial services and is affiliated with a foreign bank, or (v) controls a foreign bank or a Canadian bank.

However, the *Bank Act* would not prohibit a foreign bank from making a loan to a Canadian borrower as long as the nature and extent of its activities in Canada do not amount to engaging in or carrying on business in Canada. Whether a foreign bank would be considered to be engaging in or carrying on business in Canada by reason of making a particular loan to a Canadian borrower will depend on the relevant facts and circumstances.

10.2 Are there any other material considerations which should be taken into account by lenders when participating in financings in Canada?

Depending on the facts specific to each transaction and each lender there may be other relevant considerations. Readers are cautioned against making decisions based on this material alone. Rather any proposal to do business in Canada should be discussed with qualified professional advisors.

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