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Chair

Mr. James Rajotte

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● (0900)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call the 14th meeting of the Standing Committee on Finance to order. The order today, pursuant to Standing Order 108(2), is to continue our study on measures to enhance credit availability and the stability of the Canadian financial system.

We have four organizations here with us this morning. First of all, we have the Canadian Bankers Association; second, the Financial Consumer Agency of Canada; third, the Canada Deposit Insurance Corporation; and fourth, the Canadian Vehicle Manufacturers' Association.

We'll give each organization about five minutes to make an opening statement to the committee, and then we'll proceed to questions from members. We'll go in that order.

We'll start with the Canadian Bankers Association, please.

Mrs. Nancy Hughes Anthony (President and Chief Executive Officer, Canadian Bankers Association): Thank you very much, Mr. Chair, and good morning.

[*Translation*]

I am joined by my colleagues from the Canadian Bankers Association—Terry Campbell, Vice-President of Policy and Darren Hannah, Director, Banking Operations. We also have for you an information package on the issues that we will be discussing this morning, and which I hope has been handed out to you.

[*English*]

I hope you have our information package there. I won't read the opening remarks; instead, I will just briefly give the highlights of the issues we will be discussing this morning.

[*Translation*]

To begin, I would like to highlight a few statistics about the contribution of banks to the Canadian economy. In terms of employment, banks and their subsidiaries employ a quarter of a million Canadians—this is an increase of 16% over the past 10 years.

As well, most Canadians are shareholders in Canadian banks, either directly or through the Canada Pension Plan (CPP), other pension and mutual funds. Speaking of taxes, of course, banks paid close to $9 billion to governments in Canada last year.

[*English*]

Banks make an important contribution to the economy, and I'm sure the members around this table realize that. The real message today is that Canadians need to continue to have confidence in their banking sector.

Reflecting on the turmoil in the global financial system, we need to remember that this turmoil did not originate in Canada. Banks in Canada have largely avoided the difficulties that banks around the world are now facing, although they are not immune, and they've had no need for direct government intervention, as we have seen in so many countries around the world. Why is that? I think most observers point to four principal reasons.

First of all, we have a national system with very well-diversified banks.

Second, our banks in Canada are among the best-capitalized in the world, and they are strengthening their capital levels with new capital being raised from investors in the marketplace. Also, they are prudent and well-managed.

I think the third reason is that our regulatory system is very strong, very robust. I know that this committee has heard from the Superintendent of Financial Institutions, Ms. Dickson. We are also regulated by the Financial Consumer Agency of Canada, and you have Ms. Menke here with you today.

I think the final reason our banks are so strong in comparison to others right now is that Canada's mortgage market is very different from that of the United States. In Canada, by far the majority of mortgage loans are prime loans. We have avoided that subprime problem. Mortgage arrears remain very low in Canada. They are close to historic lows, in fact.

Clearly, each of these attributes has served us well through very difficult times. I stress, however, that a strong and stable banking system is essential to helping Canada get through these tough economic times.

I'd like to turn briefly to the issue of credit, something we're certainly hearing a lot about from members of Parliament. Let me assure you that our banks are continuing to lend to creditworthy customers. The facts prove it, and I'm sure we will speak about that matter today.

On the consumer side, Bank of Canada figures for January show that consumer credit continues to grow. It grew 14% from January to last January. In terms of business credit, bank financing of business is up almost 11%, well in excess of the growth in financing in the marketplace, which is about 4%.

It is extremely important to note that banks represent about half of the business credit marketplace and only about a quarter of the total financing marketplace. In your information kit you have a little backgrounder called “Business Credit Availability”. A pie chart on the second page shows you that banks represent about 56% of that business financing marketplace.

There has been a serious slowdown of business credit from other sources, from sources other than banks. Some of them are non-banks. Some of them may be lenders, and we have a representative here today. Some Icelandic banks, for example, as you know, have completely left the marketplace.

Banks are trying to fill the gap left by these non-bank providers, but they can't do it all, so we were pleased to see that there are some steps to address this issue in the budget, specifically by funding increases for the Business Development Bank of Canada and for Export Development Canada as well. Those complement banks, and we're working very closely with those two agencies to make sure that credit flows to creditworthy businesses.

There is a new reality in the international credit marketplace. Certain types of credit, such as commercial paper and the securitization market, are just no longer functioning properly around the world. Those that are functioning are available at relatively higher costs, so that does affect the banks' overall cost of borrowing and certainly has an impact on the consumer.

Risk is also another factor affecting the rate of interest on loans. Unfortunately, we are in a recession, which does have an impact on both retail and business customers. As prudent lenders, banks need to adjust their pricing to reflect this new risk reality, but I stress that it is really important to remember that banks are open for business and that credit does remain available for creditworthy customers.

● (0905)

To conclude, Mr. Chair, Canada's banks are strong. Canadians remain confident in their banking system. This is an advantage for Canada that other countries do not have, and certainly keeping that advantage will be crucial to the recovery of Canada's economy.

Thank you very much. We'll be pleased to answer your questions.

The Chair: Thank you very much, Ms. Hughes Anthony.

We'll go now to Ms. Menke, for your opening presentation.

[*Translation*]

Ms. Ursula Menke (Commissioner, Financial Consumer Agency of Canada): Good day, Mr. Chair.

Thank you for having invited the Financial Consumer Agency of Canada to appear before the Finance Committee today.

I am accompanied by my colleague Lucie M. Tedesco.

[*English*]

While the role of my agency is limited with respect to the specific nature of the present study, it's my belief that the overall effect of our work produces very real and widespread benefits for individuals and the Canadian financial sector in general.

The agency has two principal roles. First, we promote and ensure compliance by federally regulated financial institutions with the consumer provisions in their legislation.

The agency is also charged with a consumer education role. Through its consumer education mandate, FCAC provides objective and timely information to help Canadians understand and shop around for day-to-day financial products and services.

● (0910)

[*Translation*]

It is worth nothing that the compliance and consumer education roles of FCAC's mandate are inextricably linked. They support and complement each other. In essence, the consumer provisions provide consumers with detailed disclosure about the product or service they wish to procure. Our education role is aimed at ensuring that they have the knowledge and confidence to make informed use of that disclosure.

[*English*]

We do not, however, have a role to play in the setting of interest rates or service fees, so we try to help consumers by providing them with objective financial information and education. Financial products such as credit cards and bank accounts are an indispensable part of everyday life.

From our surveys we have learned that many Canadians are not using their financial products to their best advantage. To take the example of credit cards, many consumers are not using them as a method of payment as they should be used, but instead are relying on them to borrow money. That is an extremely costly way of borrowing. Through our consumer education publications we inform consumers about the advantages and disadvantages of different financial products and services, explain the costs and other features, and provide them with alternatives to consider.

[*Translation*]

Through our website, we offer interactive tools that allow consumers to quickly and easily compare the different options available to them for credit cards, banking packages, savings accounts and mortgages. We regularly update these tools to ensure that consumers have access to accurate and timely information. Our credit card selector tool, for instance, allows users to compare more than 200 credit cards to find the best product for their needs.

[*English*]

But beyond information on financial products and services, we promote broader financial education. We have directed our initial efforts at young Canadians. We believe that early exposure to financial skills will serve people well throughout their lives. With the British Columbia Securities Commission we launched a new course last fall called “The City: A Financial Life Skills Resource”, aimed specifically at the learning needs of 15- to 18-year-olds. We're excited about the program because it is designed to give all young Canadians a solid foundation of basic financial acumen. There are no shortcuts or magic solutions to elevating money smarts. It is a long road, but I believe we can make headway through initiatives such as “The City”.

All interested parties and governments at various levels, working together with private and voluntary sectors will achieve the greatest impact and make a lasting, meaningful improvement in financial knowledge and the financial future of the greatest number of Canadians.

[*Translation*]

I would like to speak to an important compliance initiative that we have undertaken recently to benefit consumers. Over the past year, we have initiated a process to review and modernize our Compliance Framework, which sets the guiding principles for our supervisory work. We intend to implement a compliance approach that builds upon and broadens our current complaints-focused compliance framework, which has been in place since 2002. Our modernized framework will seek to actively promote compliance in the marketplace through a risk-based oversight approach. This approach will permit us to better identify compliance risk areas in the marketplace and address potential market conduct compliance issues more effectively and in a more timely manner. While such an approach to compliance will be new for FCAC, similar approaches have been implemented effectively by other regulators in Canada and abroad. Our discussions with these regulators have highlighted the benefits of such an approach which we believe will lead to a more responsive framework to the benefit of all stakeholders.

● (0915)

[*English*]

I would like to thank you for the opportunity to appear before the committee. I look forward to answering any questions you may have.

The Chair: Thank you very much, Ms. Menke.

We'll now go to Mr. Davies, please.

Mr. Bryan Davies (Chair of the Board, Canada Deposit Insurance Corporation): Thank you, Mr. Chairman.

As chair of the board of CDIC I appreciate this opportunity to meet with you and members of the committee to discuss the role our crown corporation plays in enhancing credit availability and the stability of the Canadian financial system.

With me is Michèle Bourque, executive vice-president, insurance and risk assessment. Unfortunately, Guy Saint-Pierre, our president and CEO, is ill today, but I can assure you that Michèle is a very able substitute for him.

I appreciate that you have other witnesses today with whom you wish to have a dialogue, so I will keep my remarks brief.

As the members of the committee will know, in framing CDIC's statute, Parliament specifically mandated the corporation “to promote and otherwise contribute to the stability of the financial system in Canada”. I would suggest through another one of our objects, namely to provide insurance against the loss of part or all of deposits, we also contribute to enhancing credit availability.

As of April 30, 2008, we insured some $512 billion in deposits in 80 member institutions. Canadians are comforted by the existence of the insurance provided. Deposit insurance supports their willingness to place deposits with the banks, trust companies, and other entities comprising our membership. Those organizations in turn can mobilize the deposits entrusted to them to make credit available to a broad range of borrowers.

For Canadians to have the type of confidence that an effective deposit insurance scheme provides, they must first be aware of its existence. To help increase that level of awareness we have been pursuing a series of public information campaigns over recent years. Our strategy for this year includes a six-week national advertising campaign, delivered in concert with our partners at the AMF in Quebec, which is just now drawing to a close. I hope some of you have seen the television and print advertisements that form part of that campaign.

We have pursued similar campaigns during the RRSP season in prior years, which is a period when the general population tends to have a higher interest in such matters. But this year we plan to resume our publicity program again in the fall.

Judging by the extent of inquiries we have been receiving at our call centre and via our website, we know that Canadians have a heightened desire to know what is covered by deposit insurance and how it works. Although no CDIC member has failed in over 13 years, Canadians have observed media coverage of failures in other jurisdictions, including some where the existing deposit insurance schemes did not offer the type of comfort that we believe our approach here in Canada provides. This definitely raised anxieties in some, and it is an important part of our mandate to put to rest those types of unwarranted concerns.

Another way we contribute to the stability of the financial system is by being ready to act should the need arise. We have dealt with 43 failures since our creation in 1967. In the process we've protected $26 billion in deposits held by over two million Canadians. Throughout this, not one person lost one penny of insured deposits.

As an organization we focus on readiness. In cooperation with our federal partners—the Office of the Superintendent of Financial Institutions, the Bank of Canada, the Department of Finance, and the Financial Consumer Agency of Canada—we monitor the health of our member institutions so we can be ready to take actions to intervene if we ever need to. I can state that the level of inter-agency coordination and information sharing in Canada is the envy of many other jurisdictions throughout the world.

Another aspect of readiness is ensuring that appropriate tools are available to CDIC to enable it to act effectively and efficiently should the need arise. In that regard Bill C-10, now before the Senate, contains several key measures related to CDIC's powers. These measures provide CDIC with greater flexibility and reflect best international practices, in keeping with Canada's commitment to the G-7 plan of action to stabilize financial markets and restore the flow of credit.

● (0920)

Mr. Chairman, and members of the committee, Michèle and I would be pleased to answer any questions you might have.

Thank you.

The Chair: Thank you very much, Mr. Davies.

We'll go to Mr. Nantais, please.

Mr. Mark Nantais (President, Canadian Vehicle Manufacturers' Association): Thank you very much, Mr. Chairman.

Good morning, ladies and gentlemen.

The CVMA is very pleased to be here to discuss the current state of the auto sector in Canada and the importance of credit to the operation of our industry. With me today is Mr. Peter Andrew, who is the regional director of consumer lending with the General Motors Acceptance Corporation.

The CVMA, for more than 80 years, has represented Canada's leading manufacturers and sellers of light and heavy-duty vehicles, namely Chrysler, Ford, General Motors, and Navistar. By way of background, it is important to note that our member companies touch virtually every province and every territory and every major community. Through their 45 Canadian facilities, our members directly employ about 35,000 Canadians and support roughly 50,000 Canadian retirees.

They have over 1,750 dealers in their networks and literally thousands of suppliers and business partners across the country in a wide variety of industries, including rubber manufacturing in Nova Scotia through to aluminum in Quebec and B.C. and petrochemicals in Alberta.

Their vehicle assembly and parts manufacturing operations are the backbone of their operations in Canada as well as the pivotal link to the broad direct and indirect supplier network across the country. Chrysler, Ford, and General Motors continue to produce 70% of all cars and trucks in this country and to purchase over 80% of all Canadian-produced parts and components.

Recently there has been much attention in the media and in public and political discussions to considering what is the best public policy direction to go in to support Canada's auto industry. This is not a binary question that can be reduced to an either/or response. Let me be absolutely clear. We require a comprehensive support package, which must be implemented immediately, to help stabilize the vehicle manufacturing base and retail network in Canada: first, repayable bridge loans for those manufacturers who require it; second, credit facilities for finance companies and suppliers—we must free up credit market access in a manner that is affordable to those in our industry needing it, and ultimately the consumer; and third, a direct but very simple consumer stimulus in the form of a vehicle scrappage program to help kickstart new vehicle sales and help instill consumer confidence in the market.

If we lose our focus, specifically on the first and second points, Canada risks losing critical elements of its auto manufacturing footprint, which includes the substantial, highly interdependent supply chain that Chrysler, Ford, and General Motors, as well as Toyota and Honda, depend upon. As an export-driven economy, Canada cannot afford to risk losing an industry that exports 85% of its output to the United States.

A consumer stimulus in Canada, however, by and of itself, will not be enough to support this industry. As such, the first priority for government must be to continue to offer short-term bridge loan financing to manufacturers proportional to that being made available in the United States. This financing is essential to stabilize Canada's automotive manufacturing base. Without this support, manufacturing operations, including the supply chain, will without a doubt quickly migrate to other jurisdictions that are fully supporting their manufacturers. This would have substantial negative economic ripple effects across the entire economy, which according to some studies would mean hundreds of thousands of job losses, along with the loss of tens of billions of dollars in tax revenues at all levels of government—not to mention the huge additional burden on municipal, provincial, and federal social assistance programs, a reality that every taxpayer should be concerned about.

The second priority must be the support for automotive finance companies through the creation and implementation of the much-welcomed Canadian secured credit facility, as announced in the budget, as well as the extension of credit to auto parts suppliers through the BDC and EDC.

Auto finance companies are a critical arm in the auto value chain, in that they provide financing loans and leases to consumers to purchase vehicles as well as the majority of wholesale floor plan credit for dealers' vehicle inventories. In essence, they help manufacturers move vehicles from factories to consumers.

Normally, auto finance companies raise the necessary capital in traditional markets. Unfortunately, despite a long and successful history in auto finance, the markets for all asset-backed securities, including automotive, dried up in mid-2007. This drying up of financing markets has as a result led directly to lower consumer sales, lower dealer purchases, and a very stark decline in vehicle leasing as a lower-cost option for consumers, and in the end has significantly reduced auto production.

Given their positive history, investment-grade ABF securities offer Canadian taxpayers a high-quality and low-risk investment that will provide returns on investment, and as such they are an excellent investment for the government.

● (0925)

To be fully effective, however, the facility must be expanded beyond the original amount, given that auto financing and leasing assets in themselves are worth roughly $55 billion, representing virtually half of the asset-backed financing of the vehicle and equipment leasing industry.

While the announced $12 billion facility is an excellent start, it will need to be expanded to meet the goals established by the government itself to get credit flowing to Main Street, given the size of auto financing in Canada. The facility must be set up to provide the flexibility needed to raise necessary funds in the constantly changing credit markets. The facility must improve access to dealer inventory financing; this will allow dealers to order more vehicles from the factory and provide consumers with greater choice in vehicle selection. Finally, it must be established as quickly as possible to fulfill its goal of economic stimulus, as it will help find a bottom in the Canadian sales market by providing more credit for consumers to get back into the vehicle market and will provide the capital needed to support the small and medium-sized business represented by our dealer networks.

In light of this, the government's goal of stimulating the economy can be best accomplished quickly by providing those companies, whose expertise is in providing credit through ABF backed by vehicle loans and leases, with access to sufficient amounts of the CSCF to kickstart the sale or lease of vehicles. These companies can quickly generate the volume of business needed to get credit flowing again on Main Street Canada. Federally regulated institutions must be prepared to support and promote the term ABS, which represents a good low-risk business for them to pass through to the CSCF.

While the facility is most critical for immediate implementation, the industry has also suggested that the government should introduce direct consumer stimulus for auto purchases to strengthen the Canadian auto market, possibly including tax holidays and fleet renewal or scrappage programs. In Germany, for example, a vehicle scrappage program is being credited with increasing sales by 21% in February compared with year-earlier levels. This is compared to a 27% decline in February sales in Canada.

Mr. Chairman, I'll stop there. I would be pleased to answer any questions you may have.

The Chair: Thank you very much, Mr. Nantais.

We'll start with John McKay. You have seven minutes.

Hon. John McKay (Scarborough—Guildwood, Lib.): Thank you, Chair.

I want to start with Ms. Nancy Hughes Anthony.

We have a huge irony here. There isn't an MP at this table who doesn't believe that credit is more difficult to obtain, and yet your stats show that you're up in every category. I think the reason you may be up in every category is that a lot of non-bank actors have effectively exited the field. Because they've exited the field, the government has felt it necessary to push the risk down onto BDC, EDC, and entities of that nature.

Effectively what has happened is that the bank has increased its overall share, and your stats go up, but there's not more credit actually out in the system. In fact, consumers and business people are having, certainly at the lower end of the creditworthiness spectrum, more difficulty gaining credit, the irony being that this is probably not at all stimulative to the economy.

I'd be interested in whether that analysis squares the circle as to the contradiction between what we as MPs are hearing and what you as a representative of the bank industry are saying.

● (0930)

Mrs. Nancy Hughes Anthony: You obviously have put your finger on the key issue. Let me go back to the credit market and what is going on in it. As I said, I tend to think of it as a pie, like the little pie chart we have on our backgrounder. There is absolutely no doubt that there are certain types of credit, such as securitization and commercial paper, that are just gone.

There are also certain types of institutions that are gone, and they may have withdrawn either temporarily or permanently from the marketplaces. There are some foreign banks, and different types of lenders—you've just heard Mr. Nantais talk about difficulties in the car financing business, for example. There's a big gap.

I firmly believe there is more credit flowing out of banks, and I've given you the statistics—they're in our backgrounder here—and we stand by those statistics.

The question is whether they are filling the gap, and I think the answer is no, they are not completely filling the gap. I think the initiative to increase and mobilize the interaction between financial institutions—of all kinds, by the way, credit unions and everybody else—and BDC and EDC is a good thing. I think extending EDC's mandate into certain domestic areas, as proposed in the budget bill, is a good thing right now. I also think that the leasing program, which Mr. Nantais referred to as yet to get off the ground, is going to plug a particular kind of gap.

Hon. John McKay: The irony of the whole thing is that you have less competition, and because you have less competition you're able to pick up a whole subset of customers who are quite creditworthy, and that works rather well for the banking industry.

Mrs. Nancy Hughes Anthony: Mr. McKay, I think there is a lot of competition, so I would disagree with you on that particular point. The point is, banks have to stick by their customers in a time like this and we all have to get through this difficult period together, however long that's going to be, because banks are only going to be as good as their customers. The fact remains, though, that when it comes to issues like the cost of credit in the marketplace, as I pointed out in my opening remarks, there are two factors at play. One is a shortage of certain kinds of funding mechanisms on the world stage, so banks do have a higher cost of credit, and secondly, the risk factors are definitely going up.

Hon. John McKay: Canadian banks, in particular, have much less cost of credit than their international competitors, in part because you're such solid banks. Is that not fair to say?

Mrs. Nancy Hughes Anthony: I'm afraid I don't understand that. They have a lower cost of credit. Is that what you're saying?

Hon. John McKay: Aren't you a more creditworthy recipient of credit than say Citibank or some of the other banks that are in difficulty?

Mrs. Nancy Hughes Anthony: Thank heavens for that.

Hon. John McKay: Yes, I agree.

Mrs. Nancy Hughes Anthony: But, no, I would disagree. When it comes to actually going on to international markets and matching, which is what banks have to do, they have three-year funds they need to match. They have three-year funds, they have five-year funds, they have ten-year funds they need to match. The cost has definitely gone up, and there is a competition for that kind of credit.

Fortunately, Canadian banks have been able to actually go to the marketplace and issue offerings that the Canadian marketplace has received, and I think foreign investors as well. It's received very well, so they do have the advantage of having a—

Hon. John McKay: So the cost has gone up less quickly for Canadian banks than it has for others. Is that fair?

Mrs. Nancy Hughes Anthony: I don't know if I actually have that number to say that our costs have gone up less.

Hon. John McKay: Intuitively, that would make sense. The cost of money to a solid financial institution would be less than the cost of money to a less solid financial institution.

Mrs. Nancy Hughes Anthony: I'm not sure I have the statistics to prove that.

Mr. Campbell, do you have anything on that?

Mr. Terry Campbell (Vice-President, Policy, Canadian Bankers Association): What I'd say there, Mr. McKay, is that I think Canadian banks are very well viewed around the world, and we're seeing all sorts of increasingly good commentary about our system here. The challenge, though, is that the marketplace simply isn't functioning as well as it should. We saw that, particularly starting in October, and it's settled down a bit, but it still is not what you would call back to that “normal” state.

For instance, Nancy was talking about the need to match funds. Five-year subordinated debt is a standard funding mechanism. The usual run rate before the crisis was about a spread of 35 bases points. The spread is now up over 500 bases points, and that's the money that you can get and that has to be taken into account. So yes, we're seen as very creditworthy, but in the context of generally disrupted international markets, everything is out of whack, so our costs are higher.

● (0935)

Hon. John McKay: Thank you. That's very helpful.

The Chair: You have 10 seconds if you want it.

Hon. John McKay: I'm finished. I'll pass my 10 seconds to my Bloc colleague.

Some hon. members: Oh, oh!

[*Translation*]

The Chair: Mr. Laforest, you have seven minutes and 10 seconds.

Mr. Jean-Yves Laforest (Saint-Maurice—Champlain, BQ): I greatly appreciate your generosity. Thank you.

Thank you, Mr. Chair. Greetings to all of you.

I have a question for Ms. Menke. You said that your agency plays an education role for consumers with regard, obviously, to financial products and services that they can purchase. Last spring, the Finance Committee heard from numerous witnesses, not groups, but citizens who came to speak about their dismay because they had bought a great deal of commercial paper. Several of them had invested, I would say, almost all of their savings in that vehicle. They had suffered enormous losses and had depleted their retirement funds.

Does your agency conduct analyses of the precarity or the volatility of these papers? Did you issue warnings to consumers concerning the enormous risk they were taking by investing therein?

Ms. Ursula Menke: Thank you for your question.

Allow me to respond in two specific ways. We do indeed have an education role to play, and we generally play this role in a way... I wouldn't say that we give specific advice. We try to make consumers understand how the financial system works in general, how financial transactions work, more or less, and we tell them to consider the advantages and disadvantages of financial products and services.

It's a somewhat general role. Since I took on this position, I have never sent a warning about any kind of product in particular. In any case, this type of product is not a banking product for which I have a specific mandate, but our education role is not necessarily limited to that. We do not limit ourselves to so-called banking products, when it comes to our education role.

Mr. Jean-Yves Laforest: But doesn't that concern you just the same? If you have an education role to play and people don't understand the system... We often hear that these are very complex products.

Ms. Ursula Menke: Yes. I can't speak about disclosure rules because these are not rules that we are responsible for. So, in general, in this type of case, what we do is try to encourage consumers to be very careful with the contracts they negotiate and to ensure they clearly understand all the aspects of these contracts. Personally, I'm not in a position to give this advice, and I don't have the means to do so. Frankly, it is not our role to say whether a product is good or bad. We simply try to tell people to be careful and to read their documents closely. On the other hand—

Mr. Jean-Yves Laforest: Since my time is limited, I'm going to ask other questions. Thank you very much.

Even with the additional time we've been granted, we don't have very much.

My question goes both to Mr. Davies and Ms. Hughes Anthony. Last week, we heard from the Senior Deputy Governor of the Bank of Canada, who told us that as concerns commercial paper, the bank had issued warnings in a financial magazine.

It may be the case, Mr. Davies and Ms. Hughes Anthony, that it is not your role, but did your organizations assess the risk linked to the purchase of commercial paper? Did you discuss it, did you write anything about this subject?

Ms. Hughes Anthony.

● (0940)

Mrs. Nancy Hughes Anthony: I can answer briefly. Of course this was a market situation that concerned the banks in a certain sense, but the products on the market were non-banking products. Obviously, some banks were involved, and I think the good news is that everything turned out fine in the end. We learned lessons that led us to change our procedures.

[*English*]

The Canadian securities administrators have proposed the elimination of certain kinds of status or asset-backed commercial papers. That increases more disclosure and prevents the sale of ABCP to retail investors. That is a proposal that is out for consultation.

Also, we have seen that the Office of the Superintendent of Financial Institutions did issue an advisory on securitization in October 2008. I gather the general gist of it is enhancing the regulatory requirements for securitization facilities such as ABCP.

[*Translation*]

I'm just pointing that out to say that I have the impression, as Ms. Menke said, that this is more closely related to Ms. Dickson's purview, and also that of the provincial agencies.

The Chair: You have 30 seconds left.

Mr. Jean-Yves Laforest: Mr. Davies, could you tell me whether the pension funds are members of the Canada Deposit Insurance Corporation, please?

[*English*]

Mr. Bryan Davies: Certainly. The answer is no, they're not members. I will let Michèle elaborate on that.

The Chair: You may elaborate very briefly.

[*Translation*]

Ms. Michèle Bourque (Executive Vice-President, Insurance and Risk Assessment, Canada Deposit Insurance Corporation): The pension funds are not members of the Canada Deposit Insurance Corporation. Banks and trust and loan companies are members.

As concerns your other question, regarding ABCP, they are not deposits, so in our case, any statements would have sought to encourage Canadians to contact us to confirm what it was they owned and whether it was eligible for deposit insurance. But ABCP is not a deposit product insured by the CIDC.

The Chair: Thank you.

[*English*]

I'll go to Mr. Wallace, please.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chair.

I'm going to go fairly quickly, because it's a very interesting panel and I only have seven minutes.

We are in a dilemma, as I think my colleague across the way said. Here we have the IMF report this week saying good things about the Canadian banking system. We've had a number of reports about Canadian banking, how solid it is, and that's why we're in better shape than many other countries around the world. We've had quarterly profits announced by your organization, the banking organization, with all making money. Many pension plans, including, I believe, the CPP, have a lot of money invested in banks. So you're making money. A company in this marketplace making money is not a bad thing, in my view.

But we have also reduced the bank rate to near zero. In the same week, I'm hearing...and it happened to me. My bank raised my personal line of credit by 2%. Somebody needs to explain to me, so I can explain to my people, how can the bank rate go down, things be in such good shape for the banks, and I still get a 2% increase?

Mrs. Nancy Hughes Anthony: I'll take a good stab at this, Mr. Chair.

There is a very common misunderstanding about what the Bank of Canada rate is. The Bank of Canada rate is really a short-term overnight rate that affects maybe 1% of the borrowing of Canada's banks. So for the rest of their funding, as we previously mentioned, they have to go to other markets and make sure they have matched their funds. And those funds, as we appreciate, are very expensive. So two factors are at work right now with the Canadian banks. One is the expensive cost of funding outside of the Bank of Canada, and the second is the risk profile.

It's my job to make sure that everybody is extremely confident in Canada's banks, and obviously they are. But you may have noticed in the last first quarter results we had from major banks that there were increases in writeoffs and losses and there were more provisions being taken by banks—going into this recessionary climate—for credit losses. I suspect we're going to see that continue.

With respect to the kinds of products.... Mr. Wallace, you'd probably be very happy if you had a variable mortgage, because you'd be getting a letter stating that the variable mortgage was going down. As you know, the mortgage rates are going down—

● (0945)

Mr. Mike Wallace: [*Inaudible—Editor*]...thank you very much.

Mrs. Nancy Hughes Anthony: I know. Exactly.

Do you have a further comment on that, Terry?

Mr. Terry Campbell: It's exactly as Nancy said. We're in an environment here where you have, right across the board, increased risk. And you have to price risk accordingly. If you didn't price risk accordingly, there'd be less credit available. Re-pricing means you can actually continue to lend.

Now, mortgage rates are going down.

In terms of lines of credit, where you see it based off the bank's prime rate, even with these risk-based adjustments in pricing, the actual cost is down in many cases. You are seeing things coming down. If you go back as recently as, let's say, August of 2007, the prime rate was 6.25%. Now the prime rate for the banks is 2.5%.

Mr. Mike Wallace: I'm going to come back to you.

Ms. Menke, I have the CRA come out to my riding every year to give a seminar on taxes, basically. Service Canada also shows up. Does your organization provide such a service to MPs, such that if I had a town hall, would you be able to have staff come and do a review of the financial system in this country and of the tools that are available?

Ms. Ursula Menke: I'd be thrilled to do that. We do send out a householder periodically to MPs to give them some basic information about what we do. The reality is that we are a very small organization and therefore limited in the actual amount of time we can do. We are about 45 people.

Mr. Mike Wallace: Thank you very much.

I've been on the auto sub-caucus, so I've seen lots of folks from the auto business lately, and I appreciate your coming. Last night there was Mr. DesRosiers, who's an expert in the field. There was a question about why the banks are making so much money from auto loans. The pushback from him was that the financial arms of the automotive manufacturers are providing products that a bank might not necessarily be able to, like 0%. I am looking at a car at 0.9%. Can you comment on that? Is it an accurate statement that the financial arms of the manufacturers are in the business of moving product off the lots?

Mr. Peter Andrews (Regional Director, Consumer Lending, General Motors Acceptance Corporation of Canada, Canadian Vehicle Manufacturers' Association): I think the prime motivation for any captive finance company is to aid the manufacturer in delivering its product. So all the programs we deliver for the manufacturer are around that. It really goes right to the reason for the CSCF that was introduced in the budget.

It's a liquidity issue, and our funding has dried up completely across the markets. So the auto market captives need $40 billion a year to deliver their product for their manufacturers. Today we're probably down 98% on what we can deliver in capital to that market.

Mr. Mike Wallace: Back to the banks, just quickly. We are also talking about a common securities regulator in our budget. Is the banking industry supportive of that move?

Mrs. Nancy Hughes Anthony: Very much so. Certainly at a time like this you realize how important that is. Canada has an extremely compact group of regulators, and I believe Mr. Davies mentioned that. When it comes to a crisis situation, there is great communication between the Department of Finance and the regulators and the Bank of Canada. Then there is a seat at the table that should be somebody talking about the securities industry. At the moment we would have to pull up 13 chairs to that table to get that to happen. Yes, the industry is very supportive of that initiative.

Mr. Mike Wallace: Thank you very much.

The Chair: Thank you, Mr. Wallace.

Mr. Maloway.

Mr. Jim Maloway (Elmwood—Transcona, NDP): Thank you, Mr. Chairman.

I'd like to get a handle on how big a banking failure CDIC could potentially handle. You have $512 billion in insured deposits, but you only have $6 billion in your fund, and the recommendation is that it go to $15 billion. Do you think that is a high enough reserve to have in the fund?

● (0950)

Mr. Bryan Davies: Thank you, Mr. Maloway.

Your ratio is approximately right, but the numbers are a little bit different. The $6 billion you refer to is our line of credit to borrow. We also have a reserve of about $1.6 billion sitting in our own accounts right now. So the grand total would still be low relative to the $512 billion of total deposits covered.

To the question of adequacy, one can just look at the history of the draws on our organization. We feel we have to evaluate that regularly, and we look to our premium levels every year to see if they're adequate to help add to that $1.6 billion we already have. We're in the process of doing that right now for the coming year.

The amount of loss we would incur would depend on how we would handle the transaction should an organization fail. The standard traditional one that everyone thinks of is a straight payout: you just issue money to people. There are other ways of resolving a problem institution. We call them alternate resolution mechanisms, whereby you can arrange for the purchase of an organization by another deposit-taking institution and agree to share any future losses they might have—instruments of that nature. The insurance scheme could never hope to have all the money needed to handle every deposit should it fail.

Just to close, we do examine our amount of reserves and our lines of credit regularly and that's one of the reasons why the government in Bill C-10 has proposed that this go up to $15 billion.

Mr. Jim Maloway: Didn't you say, though, that you had never had an experience of a failure?

Mr. Bryan Davies: No. Over the years we have had that experience. We just have been very fortunate, thanks to the strong economy and the strong regulatory structures in Canada, in not having an institution fail in the last 13 years.

Mr. Jim Maloway: I understand that the deposit insurance corporation in the United States guarantees deposits of $250,000, whereas ours were increased to $100,000. Is there any plan for an increase up to the American levels?

Mr. Bryan Davies: The decision as to the extent of coverage is, of course, made by Parliament. We implement whatever is mandated to us. Parliament last reviewed the coverage in 2005, I believe, and then it was moved from $60,000 to $100,000. The United States did announce, just this past year, a so-called temporary adjustment up to $250,000, but I have to defer to the government as to whether there would be any plans to alter that in Canada.

Mr. Jim Maloway: In your opinion, would that be a good idea?

Mr. Bryan Davies: Well, I would make a couple of observations. First of all, as I said, the adjusted rate was introduced just in 2005. Another observation I'd make is that it applies to an individual deposit account. A Canadian citizen can have more than one deposit account, so if you had, for example, a deposit account with bank A and another deposit account with bank B, you would be eligible for up to $200,000 coverage, and so on. We have 80 member institutions, so conceivably you could have 80 times $100,000.

The last observation I'd make is that we get a lot of calls and inquiries to our phone lines and our website, and I can say with certainty that very few of those relate to the degree of our current coverage limit, although there are some.

Mr. Jim Maloway: I'd like to ask a question about executive compensation. That topic seems to be in the news a lot lately, and a lot of people have been very upset that the banks make excessive profits, according to most people in the country, and that the executives of the corporations seem to be earning excessive amounts of money as well. The issue becomes whether there is a move being made, or recommendations being made, to look at the executive salaries of people running the banks and other financial institutions.

● (0955)

Mr. Bryan Davies: Is that addressed to me or...?

Mr. Jim Maloway: Well, it is to whoever wants to answer the question. It's basically a matter of opinion.

Mr. Bryan Davies: With respect to the Canada Deposit Insurance Corporation, it's not in our mandate to examine those things.

The Chair: Ms. Hughes Anthony, did you want to make a comment?

Mrs. Nancy Hughes Anthony: Yes, I would comment. You will, I'm sure, know that I would object to the word you used, “excessive”, because I think it's so important for banks to remain strong.

Clearly this issue of executive compensation has been discussed extensively by news media, etc., all around the world, particularly in the United States. I think some people potentially mistake the U.S. situation for the Canadian situation. In the Canadian situation, obviously boards of directors of the banks have been very seized with this issue recently and in the past couple of years. Every bank has a board of directors and, usually, a compensation committee. They look at competitive values of compensation and they make recommendations.

Recently you've seen some voluntary activity on the part of our CEOs, who recognize that there are difficulties with Canadians, and they have voluntarily given some of their compensation to charities. That's their choice.

In addition, we've also seen something that I think is important in terms of a worldwide trend. I don't know if Ms. Dickson spoke about it, but supervisors and regulators are saying that although they're not going to regulate the level of compensation, they are going to make sure that undue risk factors are not present in the calculation of that compensation.

The Chair: Thank you.

Thank you, Mr. Maloway.

We'll go to Mr. Pacetti, please.

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): Thank you, Mr. Chairman. Thank you to the witnesses for appearing. A very interesting panel.

I'll start off with Ms. Menke, from the Financial Consumer Agency.

You mentioned that credit cards are supposed to be a method of payment, not necessarily a method of credit. Since we're studying the credit availability and we know that credit has been tightening up, have you seen a change in attitude towards using credit cards more for credit than for payment in the last little while?

Ms. Ursula Menke: I don't actually have access to very useful information in that regard. What I can tell you is the information that we get tends to come directly from consumers' contacts with us. You won't be surprised to hear that the big issue that is raised with us by consumers is the rates, and that's of course an area over which I have no say whatsoever.

I cannot speak directly to the issue of whether consumers are actually using their credit cards differently. I can tell you only that as part of our education material we are encouraging them to use the credit cards as a payment method and not as a credit source.

Mr. Massimo Pacetti: Are you seeing fewer players, fewer credit cards being available out there? Are you hearing rumours that some of the companies, like American Express, are paying potential credit cardholders an amount so that they can close their accounts? Is this something that's happening?

Ms. Ursula Menke: I saw the same newspaper article, I guess, that you saw, about American Express in particular. Based on our information, as I say, when consumers contact us with issues, we have not at this point in time seen an increase in the levels of complaints regarding a withdrawal of credit or credit cards from consumers. So based upon the information that's directly available to us, we're not seeing—

Mr. Massimo Pacetti: But refusals of applications and things like that?

Ms. Ursula Menke: We are not seeing anything different.

Mr. Massimo Pacetti: Okay, thank you.

In terms of education, has that changed during this economic crisis? Have you changed your style or your messaging?

Ms. Ursula Menke: I think what I'm finding is I have more of an audience now than I used to have. It was a little harder to get people to listen; now they're listening a little more closely. For me, I suppose that's the silver lining.

● (1000)

Mr. Massimo Pacetti: Okay, thanks.

Mr. Davies, a quick question. The member organizations pay a fee to do business with Canada Deposit Insurance. Isn't that correct?

Mr. Bryan Davies: That is correct. They pay premiums.

Mr. Massimo Pacetti: Has that increased?

Mr. Bryan Davies: The premium level has not been adjusted in the last few years, but as I mentioned earlier, we do examine it annually and we provide a recommendation to the government as to what premiums should be in the future year.

Mr. Massimo Pacetti: That sounds to me like you're heading for an increase, and that means another increase to the member organizations, which means an increase to consumers.

Mr. Bryan Davies: I won't comment as to whether or not the government would choose to make an increase, but I would point out that our rates of premiums, as compared to other jurisdictions, particularly the one south of the border, are extremely modest in the overall scheme of things. As well they should be, because we have not had a failure in recent years.

Mr. Massimo Pacetti: My time is limited. So you'll make the recommendation and the government decides. Is that correct?

Mr. Bryan Davies: That's correct.

Mr. Massimo Pacetti: You said in your brief that there were some changes contained in Bill C-10 to deal with troubled member institutions. Do you feel you have some troubled member institutions?

Mr. Bryan Davies: I think in this environment there are a lot more challenges than there were even at this time last year. Whether or not there will be any actual member institutions that find themselves so challenged as to fail, I really can't comment.

Mr. Massimo Pacetti: Would you be comfortable naming any?

Mr. Bryan Davies: No, definitely we cannot name member institutions.

Mr. Massimo Pacetti: How about a sector? If you don't want to name an actual institution, would you be comfortable naming a sector, for example, banking, insurance, trust companies? Or is there a sector we should be worried about?

Mr. Bryan Davies: I will clarify. We do not cover insurance companies. We're restricted to deposit-taking institutions, and as I said earlier, we don't name any specific institution.

Mr. Massimo Pacetti: I know you have some duplication between yourselves and the OSFI, the Office of the Superintendent of Financial Institutions. A couple of years ago that was an issue. Has that been clarified?

Mr. Bryan Davies: Yes. I think it's fair to say that the degree of cooperation and information-sharing is very good, not just in OSFI but in the whole structure in Ottawa.

The Chair: Thank you.

Monsieur Carrier.

[*Translation*]

Mr. Robert Carrier (Alfred-Pellan, BQ): Thank you, Mr. Chair.

Greetings, ladies and gentlemen. Obviously, we have many questions to ask you.

I will begin with Ms. Menke, from the Financial Consumer Agency of Canada. Your organization is important for all citizens.

You mentioned your website which refers to different credit cards and the different options available to consumers. Regarding the information you provide to consumers, do you focus solely on the consumption aspect? For example, different credit cards offer different advantages: some of them grant points that allow the cardholder to purchase consumer goods. Is all this information provided on your website?

Ms. Ursula Menke: Yes, we compare about 200 credit cards available in Canada and as part of these comparisons, we mention the assets, the costs, and the advantages of each card. So the price, etc., and what is offered by each card is comprised in our interactive tool.

Mr. Robert Carrier: I recently became aware that the cards called point cards, that is, that allow the holder to accumulate points, cause many problems to merchants who are invoiced higher percentages for purchases, with no discussion or negotiation. This means that they are at the mercy of the financial institutions and obviously, the additional costs entailed are passed on to the consumers without their knowing it. The consumers may think that they are benefiting individually from this system, but all consumers are affected subsequently.

Is this the type of thing that concerns you as well and that you could help rectify by issuing notices to the Department of Finance?

● (1005)

Ms. Ursula Menke: I don't even have access to the type of information you're referring to. My mandate is to ensure that consumers and financial institutions comply with the rules. Small merchants are caught between the two in a way, and I don't have a mandate concerning their activities with financial institutions. I have a mandate for consumers but not for merchants.

Mr. Robert Carrier: All right, fine. I have another question for you.

You referred to a project that you set up with the British Columbia Securities Commission that you would like to subsequently implement in the rest of the country. When you do that with a securities commission—because we know that there are several in Canada—do you use this as a pilot project to ascertain whether such a system functions properly, before implementing it elsewhere in the country?

Ms. Ursula Menke: We have already implemented this project elsewhere in the country. In English, it's called The City, and in French, La Zone. We made this program available to all Canadians last September. In fact, it was the Province of British Columbia that launched a pilot project, if you will. It had been set up before we joined forces to create the partnership that made this tool available throughout the country, to each province and territory.

Mr. Robert Carrier: So, I gather that you find it useful that there are several security commissions. Have I gathered correctly? Thank you.

Some hon. members: Oh, oh!

Mr. Robert Carrier: I'm going to put a quick question to Mr. Davies. In your presentation, you talked about a national campaign, but one that was conducted jointly with the Autorité des marchés financiers, your partner in Quebec. I want to know why you did this. Was it because of the language, because you only speak English in the other provinces? I'd like to hear your comments on this.

Ms. Michèle Bourque: For a number of years now, we have had a partnership with l'Autorité des marchés financiers for advertising campaigns.

Obviously, since our TV ads are produced in French for the Quebec market and since, at the CDIC, we protect deposits with various financial institutions in Quebec, the Autorité des marchés financiers allowed us to reach Quebeckers by using both agencies.

Mr. Robert Carrier: No doubt you hope to continue to be able to work with the Autorité des marchés financiers.

The Chair: Thank you, Mr. Carrier.

[*English*]

I'm sorry, your time is up.

We'll go to Mr. Dechert, please.

Mr. Bob Dechert (Mississauga—Erindale, CPC): Thank you, Mr. Chair.

Thank you to all of you for your presentations this morning.

I'd like to direct a question to Ms. Anthony.

You may have read the International Monetary Fund's report that was released on March 9. It had a number of things to say about the current state of the Canadian economy and the impact the Canadian budget is likely to have on the Canadian economy going forward. I'll just read a couple of statements and ask you for a comment.

The report said:

> Canada has responded proactively to the worsening economic outlook. Fiscal stimulus incorporated in Budget 2009 will ameliorate the downturn.... The financial system is stable, and recent steps taken to expand the toolkit for financial stabilization are appropriate given the uncertain outlook.

Further it said that the mission:

> ...supports the large, timely, and well-targeted fiscal stimulus in Budget 2009. The stimulus package is appropriately sized, well above the fund's benchmark of 2% of GDP, and it is also prudently based on a worse economic out-turn than private sector forecasts. With sizeable infrastructure spending and permanent tax cuts, it is weighted toward items that are most effective in stimulating demand. Its steps to boost the safety net will protect Canada's most vulnerable, and training enhancements will facilitate reallocation of displaced workers.
>
> Consolidating and enhancing securities regulation would further strengthen the already robust financial stability framework.

Can you comment on the IMF's report and how the budget actions of the Canadian government will impact your industry, compared to your international competitors?

● (1010)

Mrs. Nancy Hughes Anthony: Absolutely. I'd be pleased to respond.

On the issue of the size or the impact of the stimulus, Mr. Dechert, I don't think it's appropriate for me to speak about how that's going to work out.

In terms of the financial sector itself, I feel quite confident that there are a number of things that have been put in place by the government over the past very difficult year, and also there are new measures in the budget that I think are very positive.

We've mentioned today the notion of increasing the cooperation and the scope of the crown financial agencies, particularly EDC and BDC—obviously very positive.

There has been one government program in place for actually a while now, the insured mortgage purchase program, which is where financial institutions, banks, and other institutions can offer securitized mortgages to CMHC, which are guaranteed CMHC mortgages, and the government provides liquidity in exchange for a fee, I might say, on commercial terms. But that has been helpful in providing liquidity to banks so that then they can turn around and provide mortgages. I think we've seen the proof of the pudding there in terms of the rates of mortgages. An offering of mortgages has been very solid and very high. All of these are good.

I think there are also programs that Mr. Nantais referred to, the one that relates to leasing—this $12 billion program. It remains to be seen; the details are being worked out on exactly that. Once again, the focus on trying to activate certain markets I think is quite positive.

Also, doing a bit of something for the small business loan program out of the Department of Industry, to rev that up, to cut the paperwork there, we'd love to see more of that happening. I think that also is a positive initiative.

The one initiative that you did refer to, the common securities regulator, I've already commented on. In terms of our regulatory structure, we're praised around the world for our regulatory structure. There is one component part missing. I think we can do better in terms of more focused securities regulation.

Mr. Bob Dechert: Terrific. Thanks very much.

The focus of our study is financial literacy. I have a question for both Ms. Anthony and Ms. Menke.

I'm going to ask Ms. Anthony what the Canadian Bankers Association would like to see the FCAC do to promote financial literacy. What can the CBA do? And vice versa, what would Ms. Menke like to see the CBA do in that regard?

The Chair: Just a very brief response from each of you.

Mrs. Nancy Hughes Anthony: Very quickly, in your kit you'll see we have a program called "YourMoney" or "*VotreArgent*". This is designed specifically for teens, and I wish my two children had it when they were in high school. This is in cooperation with FCAC. We realize that all of our resources need to be marshalled in terms of the resources of FCAC and the network that they have and our bankers' network, in order to try to promote financial literacy at various levels. I'm actually very pleased with the level of cooperation. I certainly hope Ms. Menke is as well.

The Chair: Thank you.

Ms. Menke, briefly.

Ms. Ursula Menke: I echo Ms. Hughes Anthony's comments. We actually have a partnership right now on “YourMoney” and we provide links to each other's websites. The reality is there is more that we probably can do. We will definitely be exploring next steps. We talk about that on a regular basis.

I think it's quite frankly in everybody's interest to increase the financial literacy of Canadians in general. We're looking for partnerships wherever we can find them, and the CBA has been a very good partner.

The Chair: Thank you for that.

We'll go now to Ms. Hall Findlay, please.

Ms. Martha Hall Findlay (Willowdale, Lib.): Thank you, Mr. Chair, and thank you, everybody, for being here this morning.

I have a DBRS question and an ABCP question.

I first want to ask Mr. Nantais a question that isn't specifically related to credit but does relate to government programs and incentives to help the automotive industry. A couple of years ago the government proposed an eco-rebate program. Were you supportive of that program at the time?

● (1015)

Mr. Mark Nantais: Actually we were not consulted on the program. When the program was implemented it was very detrimental to the industry overall. The eco-rebate side of it has now been rescinded, of course. But while that was in place, it certainly favoured certain vehicles, certain manufacturers over others. It was a program that picked winners and losers, and it certainly did not, in our view, accomplish its environmental goals.

Ms. Martha Hall Findlay: All right.

I have a parallel question. Did you support a more substantive scrappage program, for example, at the time last year?

Mr. Mark Nantais: For a long time we've supported a properly structured scrappage program. Of course, now we've got an example of one that has been very successful; it's the one in Germany that I've referenced. It's successful because it does not pick winners and losers. It's successful because it is very simple. You basically trade in a 10-year-old or older vehicle to qualify for the incentive to apply towards a new vehicle. It's very simple and very successful.

Ms. Martha Hall Findlay: Thank you very much.

I guess I do have the time to ask my question. It's maybe not for any one particular institution, so I'll leave it open. Perhaps anybody can answer this.

Throughout all of the discussion of the ABCP issue—and the challenges, of course, faced by large organizations, but also by consumers who lost money or even with the restructuring have now had to wait a significant amount of time to recoup—over and over it seemed to go back to the credit rating that was given to the paper. My question is, what have been the consequences to DBRS in all of this? We continue to hear of challenges with the close relationship between the credit rating agencies and the issuers of the securities. Can you comment first on the consequences to DBRS in this and recommendations or concerns you may continue to have?

Ms. Hughes Anthony.

Mrs. Nancy Hughes Anthony: I don't think I should comment on DBRS itself. Once again, the lesson learned on credit rating agencies is that I think many would say there was an overreliance on the credit rating reports, and that turmoil has definitely highlighted this kind of overreliance.

That has been an issue that has been seized by many in the international regulatory forum. There is an International Organization of Securities Commissions known as IOSCO. They have revised their code of conduct fundamentals for these kinds of agencies. We also believe that the code should be monitored very effectively in Canada. The question is, who should do it? Should it be our securities regulators? It's an open question. Who should it be?

In addition, the whole G-20 exercise, the Financial Stability Forum.... There's a chapter in there on credit rating agencies. I think it is a worldwide situation where the accountability needs to be enhanced, and the whole question of conflict of interest has obviously been raised in that context. I think we'll see some changes there.

Ms. Martha Hall Findlay: Ms. Menke, from a consumer perspective, I'm not sure of your involvement with that particular issue, but do you have any comment?

Ms. Ursula Menke: As a general matter, I would say that the issue, from a consumer's perspective, is not specific to rating agencies. In fact, rating agencies would be of relatively little interest.

There are market conduct rules. Most of those market conduct rules are actually within provincial jurisdiction, under the securities regulators. We have one piece of that ourselves, with respect to certain investment-type products that are distributed by the institutions I regulate.

The key component there is really to focus on the sales. It's the “know your client” kind of rule. That is what would be applicable. I wouldn't see that the rating agencies per se would have a direct impact on consumers, except through the “know your client” rule. That is a very different focus, I would say, from the question you're asking.

Ms. Martha Hall Findlay: For consumers dealing with large organizations, especially financial organizations, in the “know your client” concept you assume a certain level of understanding, and many of them were completely taken in by the credit rating agencies involved.

I'm not sure if that even demands an answer.

● (1020)

Ms. Ursula Menke: I can't comment.

The Chair: Thank you, Ms. Hall Findlay.

We'll go to Monsieur Bernier.

Hon. Maxime Bernier (Beauce, CPC): Thank you, Mr. Chair.

I have a question for the Canadian Vehicle Manufacturers' Association. You recently appeared before the industry committee. Your organization said:

> The Canadian government is definitely playing its key role through the offer of emergency liquidity funding, extension of credit to suppliers through the BDC and EDC and a secured credit facility, all of which are important, supportive, and highly welcomed measures.

You then said:

> Now it's critical that these supportive measures be implemented as soon as possible to be effective and that the government policies continue to be implemented to support the industry in a global competitive manner.

My question is very simple. Do you still think the same thing today?

Mr. Mark Nantais: Thank you, Mr. Bernier.

Indeed we do, and there are steps that this government has taken that have been very helpful.

Certainly the automotive innovation fund has been very helpful in gaining new product mandates. It's a fund that should continue in the long term. That certainly applies to the secured credit facility, as I mentioned. As you've just mentioned, my testimony on Monday evening was that indeed it is a very positive first step.

Let's get it up and running. However, as I also said today, in terms of the size of the credit market in the auto industry alone, as we go forward, let us take steps on an ongoing basis to evaluate its size and the credit that will actually be available. We think it has to be increased in size.

[*Translation*]

Hon. Maxime Bernier: I have another question, this time for Ms. Nancy Hughes Anthony. In your presentation this morning, you said — or rather, you wrote — the following: “Since so much of the trouble internationally has its roots in the U.S. mortgage market ...” in reference to the global financial and economic crisis. I believe you are absolutely correct when you state that the crisis originated in the United States, particularly in connection with the mortgage market. Some American politicians wanted to promote home ownership a few years ago in the United States, and as you know better than I do, they encouraged American banks to give loans to insolvent people, or people who were unable to make a down payment on a residence. They encouraged American banks to do so through Fannie Mae and Freddie Mac, which guaranteed these loans. Then, and you put it very well, these loans were turned into securities on the international market, some banks acquired these toxic securities, and now we find ourselves facing a financial crisis.

Much has been said about Canada's banking system. Here in Canada, the Canada Mortgage and Housing Corporation, the CMHC, has regulations that ensure that Canadians, in order to buy a home, must put down an initial down payment of at least 5% of the value of the dwelling in question. So we are not at all in the same situation as Americans are.

There has been much discussion about our financial and banking system; you said so. Even the World Economic Forum did not hesitate to state that our system is the most solid system in the world. President Obama even said that his country should use our system as a model. All this is very well and good, and very flattering, but I would like to ask you the following question: in practical terms, have Canadian banks and commercial banking institutions done things all that differently than other banks throughout the world?

Mrs. Nancy Hughes Anthony: That really is a key question, and thank you very much for asking it.

I think that the Canadian regulatory system is certainly one advantage that we have over the Americans. In this regard, I think that you did have Ms. Dickson appear before you. However, as I say quite often, our banking system is structured quite differently in comparison to the American system. We have five or six major, Canada-wide institutions that have a number of diversified activities within their business plans. So that can help balance events in their markets to some extent.

You have seen that in the United States, some institutions were focused only on investment. Obviously, the repercussions of that investment focus were very unfortunate.

From a structural point of view, we have a system that puts us at an advantage, as well as a clear, compact regulatory regime. Stakeholders know each other very well, and are very familiar with the rules of the game. I was in Washington about one week ago, and I must say that from a regulatory point of view, their situation is so confusing that it is very difficult to even determine who does what, whereas here in Canada, it is very clear.

Furthermore, as you said yourself, the mortgage market is an advantage for us.

I see that the chairman wants to cut me off because I can talk about the proper management of banks for a long time. So I will stop at this point.

● (1025)

[*English*]

The Chair: *Merci beaucoup.*

We'll go now to Mr. McKay again.

Hon. John McKay: I don't want to join in on the hallelujah chorus here, for goodness' sake. We are talking about banks and we are Canadians.

I don't know whether it's good luck, good management, or good intelligence, but I thought Ed Clark actually said one of the smartest things about the ABCP crisis. He said they tried to explain this product to him and he didn't understand it, so if he didn't understand it, he wasn't going to invest in it. I do wish that other bankers had actually followed that advice.

I want to actually direct my question to Mr. Nantais. I have a lot of sympathy for your situation, Mr. Nantais, and therefore a lot of sympathy for our own situation as a consequence. The growth in your market is elsewhere. It's not in North America. Your costs are here. Your costs are not terribly competitive. You have a huge capacity. You have to rationalize that capacity. And you're sitting on a whack of inventory and the inventory is not moving, notwithstanding all kinds of incentives on your part.

You come here quite legitimately, in my view, asking for somewhere in the order of $4 billion, $8 billion, or $10 billion worth of bailout, which will just cover off your burn rate for the next few months. You're asking for pension relief from the taxpayers, 70% of whom don't have pensions themselves. You say that the $12 billion the government is proposing is probably not adequate enough, and it should be up to $40 billion, because that market has dried up. I put it to you. That market dried up because the non-bank credit market has said effectively, “We're out of here. This is too much risk and we're not going to be in this any more.”

I appreciate I might have summarized that a little harshly. Nevertheless, is that somewhere close to the truth?

Mr. Mark Nantais: I'll agree with you that it is a bit of a harsh assessment.

Some hon. members: Oh, oh!

Hon. John McKay: I only had five minutes.

● (1030)

Mr. Mark Nantais: I'll try to be brief, as I would like my colleague, Peter Andrews, to comment as well on the banking side of things.

I'm not going to comment on specific liability plans, but it is really important for people to understand that, like the banking situation, the financial crisis we all face didn't start here, and the auto industry, like other sectors, is one of the victims of it in many respects. This is something that goes well beyond the three big automakers. It is not just us who are asking for a larger secured credit facility. It is the Toyotas and the Hondas of the world. It's the dealers. It's the suppliers. It is something that is not specific to us alone. It is something that is in the greater interest of the overall economy. When you consider it, this is not a totally self-serving request. In our sector specifically, there is a job multiplier of 7:1. We have roughly 3,500 dealers across the country in virtually every major community. This is something that will have pretty significant impacts across the entire Canadian economy.

Yes, we have companies that started deep restructuring well before the financial crisis hit. These companies have taken major steps now, which are reflected in our viability plans, to restructure. It does include wage reductions. It does include concessions on the part of labour, on the part of all the stakeholders. Government asked to be consulted and be part of the viability plan and restructuring. In an industry in Canada where we are 12% of manufacturing GDP, I would suggest it's really critical. The cost of doing nothing, as I touched upon in my earlier statement, is that you have billions of dollars of lost tax revenues to government at all levels and you would have a huge burden in terms of social assistance programs that would have to absorb many of the dislocations of literally hundreds of thousands of workers. This is from studies conducted by outside parties.

I can understand why you would frame the situation in the way you have, but when you look at the importance of our industry and at its interdependence in terms of our supply chains, and when you look at its impact on local economies right across this country, this is something, we believe, that needs to have serious government attention in terms of making sure we come out of this deep recession as quickly as we possibly can.

Peter, do you want to comment on the banking side?

Mr. Peter Andrews: Yes, if I can.

When you look at the ABCP market—and you commented about Ed Clark specifically; he was talking about the non-bank side and the derivatives and those kinds of things. His bank was an active participant in the ABCP market, supporting and selling automotive paper. That market also was captured in the collapse, so while he didn't understand that piece, and frankly nobody did, his bank and others clearly understand the value of the automotive sector and the paper it generates for retail customers.

Concerning Mrs. Hughes Anthony's comments, what is happening is their volumes are up but they can't possibly support the volume that has disappeared for us, from a liquidity standpoint, to lend money to consumers, to Canadians, to purchase vehicles. Our own book business is just about one million Canadians, and that liquidity is gone in that marketplace.

Hon. John McKay: Doesn't this whole thing just spin in on itself? As a consumer, Mike Wallace being the classic example, looks at buying a car, they are wondering whether that car company will exist in six months. So consumers will hold off on the purchase. The more they hold off on the purchase, the more you folks have to come to ask for money to keep yourselves alive. It's a pretty vicious cycle.

Mr. Peter Andrews: Yes, I think there is a vicious cycle. I'll separate the two pieces of money we're talking about. Consumers are avoiding purchases of any kind right now, not just specific manufacturers. The entire market in the month of February was down 27%. A lot of that is driven by availability of credit, and that is a liquidity issue, and that drives costs, so costs are higher, liquidity is lower. There is only so much a manufacturer can do to generate the market. We can assist by making credit available, but if there is no liquidity to make that credit available, it can't be done.

The Chair: Very briefly—

Hon. John McKay: If the government steps in and picks up the asset-backed commercial paper market, say it's $40 billion, and the market still doesn't pick up, the government is stuck with a $40 billion problem.

Mr. Peter Andrews: I would say to you quickly that the paper has a maturity and customers are making payments. That's how the government gets its money back. The bet is not on the car companies, nor on the individual captive; the bet is on the Canadian consumers and their ability to repay the loans we make to them. In fact, their performance is exemplary around the world. I know, speaking for our buck, that it's fantastic.

The Chair: Thank you, Mr. McKay.

I'm going to take the next Conservative spot. I want to follow up on what Mr. McKay and Mr. Wallace have been talking about in terms of the credit issue.

We had the Bank of Canada in and asked the classic question that we all get asked back in our ridings about the overnight rate going from 4.5% in 2007 to 0.50% in March of 2009, and the prime rate going down, and the variable mortgage rate going down—I think Canadians see that. But in the case of individual Canadians like Mr. Wallace with his line of credit, and especially for my area, with small and medium-sized businesses.... There's an industrial park in my constituency, in Nisku, from which people are coming to me saying they've been creditworthy customers for years. They understand the increase in the cost of credit, based on what's happening in the world financial markets, but they have, they say, a group of assets in place, have never missed a payment in 10 years, and their cost of credit has gone up.

We have also heard from other witnesses saying that credit is available, at least from their institutions, but the cost of credit has gone up. They say their institutions are saying to them: you're in a sector, a market, or an area, so your costs will go up by two points. That's just the reality of the situation.

Even in their response to us, the banks said there are a couple of factors. There is obviously the cost of credit, which has gone up. But they are supposed to value individual cases and individual customers, and this is a real challenge for us to deal with.

I'd like to put the question to the Canadian Bankers Association. Is there a better way to deal with these small and medium-sized business owners?

● (1035)

Mrs. Nancy Hughes Anthony: We have spoken to many members around this table, and we also hear those issues publicly. This is a tough time for particular sectors. We've certainly been hearing about the auto sector.

The banks are analyzing these things on a case-by-case basis and they are obviously taking into account, as we've mentioned, the cost of funds. They are also taking into account the risk profile.

I was cheered, because the Federation of Independent Business appeared before the Senate banking committee yesterday and talked about their membership and how, among their membership—if I can summarize the results of their information—the difficulty was not so much with existing customers. It was new businesses trying to get additional credit or additional types of loans, when there is a new reality whereby they are asked to produce further collateral and so forth.

I certainly think the banks should be able to offer an explanation to the customers about why this is happening. Very often, someone thinks perhaps there is something wrong with them, but these are general credit conditions that are deteriorating.

Terry, do you have any further comment?

Mr. Terry Campbell: The only thing I would say in addition—and this is really enforcing the point that Nancy has made—is that the banks will make their credit decisions on a case-by-case basis. They will look at your balance sheet, who your suppliers are, what the deals are, the level of debt you have, and they make those decisions accordingly.

They try to stand by their customers when they can. We've talked to our bankers about this. They have a lot of tools in their tool kit that they can bring out to support those customers. But again, it comes down to case-by-case circumstances.

The Chair: The concern resulting from this—and Mr. Pacetti raised it in a previous meeting—is that if you have a situation whereby there's a lack of liquidity in the markets.... You mentioned that the Canadian banks are stepping up, but if you have institutions leaving the market entirely, then you have sectors like the auto sector saying that the Canadian secured credit facility is a good thing but that it needs to be much larger. Then people in other sectors say the same thing.

Liquidity is a challenge in all sectors. Certainly in forestry and even in the energy sector it's a challenge. The government has been very proactive, but it's being asked to take on a bigger and bigger role through BDC, EDC, the Canadian secured credit facility. Where does it stop? Is there something else we can do whereby we're not putting the government's and taxpayer's money at so much risk?

Mrs. Nancy Hughes Anthony: I was going to mention that. I do think, and I hope, this is temporary. I don't know what “temporary” means these days, but I certainly hope this is temporary—touch wood.

This notion of working on the BCAP, as it's called in the budget, the business credit availability program, is getting much more dovetailed with BDC and EDC.

I'm very encouraged by what I've seen so far in terms of the way our financial institutions are working with BDC and EDC. So I'm hopeful that rather than saying, well, sorry, that doesn't work for us, go see BDC, the institution will instead go with the customer and try to work something out. At the end of the day, I do think that is going to have an impact, but it obviously is going to take some time, as is this leasing facility.

As for the question, what is enough, Mr. Chair, I really can't answer that question. I don't think any of us can at this particular point.

● (1040)

The Chair: Thank you.

We'll go to Mr. Maloway again.

Mr. Jim Maloway: Thank you, Mr. Chairman.

I'd like to follow up on something Mr. Campbell just said.

Would it not be a fair assumption to say that three or four years ago, when there was a lot of competition in the markets, banks were falling all over themselves to approve mortgages—I think we've seen evidence of that—and that just like the insurance business there's a cycle? When you get into loose underwriting, the companies are cutting their rates and fighting for business and they don't really follow solid underwriting practices, such as with applications and stuff like this. Then all of a sudden the crunch hits, markets tighten up in the business, and then overnight they're not taking new business. Instead, they're making you fill out big applications and stuff like that.

Is that not what's happened here in the banking business as well? As a result of that, people start taking it personally and think the banks are picking on them.

Mr. Terry Campbell: I have a couple of observations, Mr. Maloway.

First of all, again, we have to be really, really careful not to conflate what's happening south of the border with what's happening in Canada. I do think that south of the border we saw a lot of underwriting problems and loose practices, and those have come back to haunt us.

In Canada, by contrast, we've always prided ourselves—and this has been the fact—that we are very prudent, careful lenders. And, quite frankly, Canadians are very, very careful borrowers; they pay back. Our lending standards, our credit adjudication, has not changed. As a result, we see in the Canadian marketplace a very solid, very secure set of mortgage conditions. We haven't had the problems of the United States—not even close. So when the cycle turns—and of course there is a business cycle, as you know—the strength of our system is that we remain prudent lenders. We don't change our credit standards.

Now, we have to take into account the much higher risk out there, and we have to be extra careful. But it's not a case of "slack before" and "careful now". I think the strength of the Canadian system going into this crisis is evidence of that.

Mr. Jim Maloway: Well, I think people, or the public, would disagree with you on that. Perhaps it is a risk factor that you're seeing in terms of the strength of the job market and so on, such that before you were optimistic, so you approved mortgage applications right away, but now things are a little bit shakier, so you might not accept an application that might only have been a little bit questionable before. Just because things are tougher now, the underwriter might look at it a little more strictly and say, "I'm not going to take a chance on that because I don't want to have to foreclose on this loan in six months."

Mr. Terry Campbell: Well, I think it's fair to say that banks certainly don't want to put somebody into a house where they have to foreclose. You don't want to hold those mortgages.

I think what has happened is that the standards haven't changed; what has changed across the board is the level of risk. It's not that we're changing our standards. We're having to assess that risk and take that into account as we make those loans. The bottom line remains, though, that credit is available for creditworthy customers. The issue of creditworthiness, though, is the trick of the game

Mr. Jim Maloway: I'd like to ask Ms. Menke about the types of courses and so on that she would recommend for schools. I've been wondering about this for years, as to why we wouldn't have some sort of financial course in school. I'm not sure at what grade you would start and what the content of the course would be, but do you have some ideas about that?

Ms. Ursula Menke: Oh, I have lots of ideas.

Some hon. members: Oh, oh!

Ms. Ursula Menke: As I said, we have one course right now that we're offering for 15- to 18-year-olds. It's very much targeted at that age group. It's approximately 18 hours. It deals with financial basics. It starts with basic concepts like wants versus needs, budgeting, and so on, covering the gamut at a level appropriate to the age.

We're in the process right now of working on a second course, which we're tentatively calling "Financial Basics". It's geared to a slightly older demographic—those 18 and above, so it's for adults—and it will be more focused, more detailed, but it will still be a financial basics course. That's only because there are a lot of people who really don't know these things. In an ideal world, we would see it all throughout the school system. I truly believe that financial literacy is a life skill that children should be learning from a very young age.

My next step after that is to try to develop another course aimed at younger children. I'm hoping to prepare a program that covers them through the school system—I won't necessarily say from kindergarten at this stage, as I haven't been that far yet—and that can be delivered to different groups or via different age-specific programs, so that eventually the schools will produce more financially literate students coming out of the system.

● (1045)

The Chair: A very brief question only.

Mr. Jim Maloway: As part of the content, I would suggest you include in there the reality that financial advisers get compensated by funds.

Ms. Ursula Menke: Oh, yes.

Mr. Jim Maloway: And I don't know whether they still do this, but in past years funds used to provide free trips to advisers who sold a lot of their product.

Is that still done?

Ms. Ursula Menke: I don't know that side of it, but clearly financial advisers generally are sales people.

The Chair: Thank you.

We'll go to Mr. Pacetti.

Mr. Massimo Pacetti: Thank you, Mr. Chairman.

Ms. Nancy Hughes Anthony, I just want to pick up where Mr. Rajotte left off, that is, on the business credit availability program, whereby the government is going to inject about $4 billion to $5 billion in the market.

My perception of what happens is that the banks usually evaluate the creditworthiness of a customer, or a potential customer, and decide, well, this might be too risky for us. And the history has been for them to say, well, perhaps you should go to see the BDC. I get the feeling that's what's going to happen here, that you're going to be referring business to BDC/EDC, which take on additional risk. There are additional costs that go with that risk. So BDC will take them on. Then, all of a sudden, if these companies do survive, they'll come back to you guys at a lesser cost, because it does cost more money to do business with the BDC. Then the BDC will go out and provide credit to somebody else, who will have more risk attached to them. Eventually, some of these clients or companies will go bankrupt, or will falter on their loan payments, and in the end it's going to be BDC and EDC who are stuck with the bad people, whether it be in good times or bad times.

So in the bad times, you'll probably refer bad clients, or clients you don't feel you can support, and they will come over to BDC and EDC. And even in good times you'll still refer to them the clients you regard as being risky.

So I just want to understand how that's going to work from a bank perspective. Are you going to share in the risk, or is this just going to be money the government is never going to recoup?

Mrs. Nancy Hughes Anthony: It's a good question and, obviously all the participants in this BCAP program are trying to find the balance in here.

I believe you have had BDC and EDC before this committee as well, Mr. Chair?

The Chair: Yes.

Mrs. Nancy Hughes Anthony: The BDC and EDC also have their own lending standards, and the financial institutions have their lending standards. I believe we're all trying to make sure this is not a race to the bottom. This is not a competition.

Mr. Massimo Pacetti: Sorry to interrupt you, but BDC/EDC will be under more pressure because they've specifically been given this additional funding to lend—

Mrs. Nancy Hughes Anthony: Yes.

Mr. Massimo Pacetti: —whereas the Canadian banks are not under the same pressures.

You have a return to your investors. BDC does as well, but—

Mrs. Nancy Hughes Anthony: I was going to say I believe that BDC and EDC, from my conversations with them, feel very strongly that their shareholder is looking at their bottom line as well.

I think there's another helpful element. One is capacity. At a time like this, we have to get everybody trying to maximize what they can do. Both of them, particularly BDC, are being given additional capacity. For EDC, the additional very useful component I think is that they will be allowed to move into the domestic space—and you know that's part of the budget bill—for certain types of products and certain types of assistance, and certain types of insurance, for example, that only the EDC offers.

The variety of products I think will also help in terms of the marketplace. But I don't believe any of us think, apropos of what my colleague said, that loosening up the credit standards and pressing credit on people who are not creditworthy is the aim of this particular program. The aim is to try to marshal all of the resources and to do *pari passu* lending, and side-by-side lending, or lending by consortium, or things that we can do to spread the risk over all of the institutions in question. I think that's what's going to happen.

● (1050)

Mr. Massimo Pacetti: That's what I wanted to make sure of, that the money is going out and it's going to be treated equally, and it's not going to be a case of the banks getting the good-quality security and then passing on all the garbage to the BDC/EDC.

Mrs. Nancy Hughes Anthony: No. I believe the spirit of the whole thing is that we're all in the same boat together, and we're all trying to fill this gap and marshal the same resources in a prudent manner.

The Chair: Thank you, Mr. Pacetti.

We'll finish with Monsieur Laforest.

[*Translation*]

Mr. Jean-Yves Laforest: Thank you, Mr. Chairman.

Ms. Hughes Anthony, a few moments ago you said that one of the reasons why the banking system behaved better in Canada during recessionary times, in comparison with the United States, was that we had a very clear and very compact regulatory system, if we compared that system to the rather confusing rules in the United States. I'm repeating the words that you said, namely, that the rules were very difficult to understand and that there was a great deal of confusion.

You also said that you were in favour of the government's proposal to create a single securities commission. Basically, I don't understand why you are supporting this plan to change a system that has protected us, in a way, from the effects of the crisis, and has allowed Canada to do relatively well, all things considered. This plan will destabilize the regulatory regime, because there will be a period of uncertainty during which the provinces will be able to opt in or opt out. It seems to me that you are supporting an idea that will destroy something that has protected us. I just don't understand why.

Could you explain this contradiction to me?

Mrs. Nancy Hughes Anthony: I agree with you that from a philosophical point of view, creating upheaval or going through a very difficult period of transition may not be necessary. I have the impression that the Hockin Report suggested a period of transition that would be rather logical and doable. The report also suggested a gradual approach so that the provinces can opt into the system as they want to, when they want to. Perhaps I could stress two aspects of the proposal. First of all, our current system is not effective at all. It's interesting to—

Mr. Jean-Yves Laforest: You said that the system was very clear and compact, and that it has served us well. I don't understand how you could suggest that it is not effective.

Mrs. Nancy Hughes Anthony: I think I was actually referring to the federal regulatory system. I stressed the fact that when it comes to the securities market, the system is still not effective, and this means additional costs for those who are part of the system. What's more, the system is not efficient enough in terms of managing market risk. That's a lesson that we have all learned from the current situation: risk management is of the utmost importance. As I said, I think we can be more effective when it comes to the costs of those who are within the system, and also in terms of risk management for society in general.

Mr. Jean-Yves Laforest: I still see a contradiction here. In particular, you said that all in all we did better in terms of the risks. That was in response to a question from Mr. Bernier. He asked what we have done better here than in the United States. In response to that question, you said that our regulatory system was an advantage.

I have to conclude that your opinion is somewhat contradictory, because you're saying that the system is both a success and a barrier. I am having a lot of trouble understanding that.

Mrs. Nancy Hughes Anthony: No. Just to clarify what I said, I meant that the federal system, which regulates banks and also includes things like OSFI and the Financial Consumer Agency of Canada, is very effective, but when it comes to securities, I think we could do much better.

● (1055)

Mr. Jean-Yves Laforest: Thank you.

[*English*]

The Chair: Okay. *Merci, Monsieur Laforest.*

Thank you all for being with us here today, and for your presentations and responses to our questions. It was a very interesting discussion on some very big and challenging topics.

Members, we do have an operational budget request for $16,600 to cover all expenses of witnesses.

Monsieur Laforest.

[*Translation*]

Mr. Jean-Yves Laforest: When we discuss this matter, I may have a question about a motion that we have already passed. The motion requests that the Parliamentary Budget Officer appear before the Standing Committee on Finance after the government's report is tabled. I'd like us to discuss this next.

[*English*]

The Chair: Let's deal with this budget request first.

Do I have somebody to move this?

Mr. Massimo Pacetti: I so move.

The Chair: Mr. Pacetti has so moved.

Mr. Pacetti.

Mr. Massimo Pacetti: Just for the record, I want to thank the clerk for providing us with the back-up of how we got to the amount.

The Chair: Yes, I think we should thank the clerk for that. It was very helpful.

Mr. Menzies, do you have a clarification?

Mr. Ted Menzies (Macleod, CPC): Just very quickly, I don't like to belabour this point, but these are the maximum amounts.

The Chair: That's correct.

Mr. Ted Menzies: Please tell me that we're not flying people in business class as witnesses.

The Chair: No, no, these are the maximum amounts. Witnesses do have to submit expenses, and then they are reimbursed.

Mr. Ted Menzies: Okay, so we trust these won't be the figures we're paying out?

The Chair: I would suspect not, but people fly in. It also depends on whether or not we call them in for a meeting two days from now, when it will be full-fare economy, so it will be more expensive.

Mr. Ted Menzies: But we would encourage them to find the cheapest fare available.

The Chair: Yes, of course.

Mr. Ted Menzies: Sorry to belabour that point, but it sticks in my craw.

The Chair: Monsieur Carrier.

[*Translation*]

Mr. Robert Carrier: Actually, I need some clarification about the budget. The costs for witness travel that we see here are very high, but they do not correspond to the chart that you provided us with at the same time as the budget. In the case of Quebec City, the chart indicates travel costs of $2,400, whereas the amount in the budget is $1,700. The amounts are not the same. What is the link between the chart that you are providing and the budget?

As well, the chart indicates costs of $1,700 for travel from Toronto, whereas the budget shows $1,500. Is this some kind of mistake? I would just like to know why these figures are different.

[*English*]

The Chair: If you're looking at the operational budget request for the witnesses, if you do Toronto at $1,500 each, my understanding is that if you go to the rounded figure for Toronto, at the end, it's $1,700. But that includes airfare, hotel room, taxis, and the per diem.

Does that not answer your question?

[*Translation*]

Mr. Robert Carrier: No. Again, if we look at the case of Toronto, the amount is rounded to $1,700 in the chart, whereas the budget shows $1,500 for each witness. These are not the same figures.

[*English*]

The Chair: Well, this is under part 2, and then under the rounded figure....

Mr. Massimo Pacetti: [*Inaudible—Editor*]...we use $1,500 in the budget request.

Quebec is $2,400—

[*Translation*]

Mr. Robert Carrier: If I didn't have the chart, I wouldn't be asking questions, but since you are providing the chart, I'm telling you that the figures you are using are not the figures from the chart.

[*English*]

The Chair: We'll get back to you as to why those figures are different. It's rounded to $1,700 and we're asking for $1,500.

Can I get approval for this operational budget? We are in the midst of the study.

I will endeavour to find out exactly why the figures here are not exactly the same.

(Motion agreed to [See *Minutes of Proceedings*])

The Chair: With respect to Mr. Laforest, you're talking about the motion that was adopted to bring the Parliamentary Budget Officer before the committee with respect to the release of the reports by the government.

Is that the motion you're referring to?

● (1100)

[*Translation*]

Mr. Jean-Yves Laforest: This is not necessarily about a motion. I wanted to ask you a question. Do you intend to invite Mr. Kevin Page, the Parliamentary Budget Officer, since you passed a motion to have him appear before the committee after the government tables the first of three quarterly reports? I'd like to suggest that we hear from him during the week after the week the House is not sitting so that we don't have to wait too long.

[*English*]

The Chair: That's a very timely question and a very good suggestion, because it was going to be my suggestion that we meet either Tuesday or Wednesday afternoon of the week we sit following the constituency break.

Mr. Mike Wallace: Why can't we just have him here during the regular meeting hour?

The Chair: We've already scheduled witnesses in accordance with the motion this committee adopted with respect to the credit hearings. If we're going to add a meeting, it will be for either Tuesday or Wednesday afternoon.

Mr. Mike Wallace: I'm going to speak to it. I have committee meetings in the morning and afternoon of every Tuesday and Thursday, whatever week we're on. So if you're going to do it, I would prefer the Wednesday.

The Chair: That was my preference as well.

Mr. Massimo Pacetti: Mr. Chairman, to accommodate Mr. Wallace, I recommend Wednesday afternoon.

The Chair: Okay.

So we will attempt to schedule it for Wednesday afternoon at 3:30.

Thank you all. The meeting is adjourned.

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