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Chair

Mr. James Rajotte

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● (0905)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call to order the 18th meeting of the Standing Committee on Finance. We're continuing our study, pursuant to Standing Order 108 (2), on the measures to enhance credit availability and the stability of the Canadian financial system.

We have four organizations with us here today. They are the Small Investor Protection Association, the Canadian Finance and Leasing Association, Financial Executives International Canada, and the Investment Counsel Association of Canada.

Could each of you make an opening presentation of five minutes? We'll proceed in that order.

We'll start with Mr. Buell. I believe we'll start with your presentation and work our way down the table.

Mr. Stan Buell (Founder and President, Small Investor Protection Association): Mr. Chairman, I'm from the Small Investor Protection Association. I'll keep my comments short because I have made a submission to your committee.

In August 2008 the Small Investor Protection Association made a submission entitled “Investor Protection Illusion” to this committee. The asset-backed commercial paper fiasco and the subsequent financial market meltdown are revealing financial fraud and wrongdoing at a scale that is hard to believe. The industry created structured investment vehicles to enhance the industry's take, and executive compensations spiralled ever higher while regulators failed to react.

The regulators claimed to provide preventative investor protection, but failed to prevent financial fiascos or systemic fraud and wrongdoing, the direct cause of small investors losing their savings. The Canadian public is being misled by the financial services industry and the regulators, who would have us believe that the investment industry is well regulated and that investors can place their trust in the industry. Reliance upon the industry to self-regulate and protect investors is an inherent conflict of interest and does not protect investors.

The industry creates innovative structured products to circumvent regulations, which cannot keep up with the fertile minds developing new products. Regulators allow these practices and at times provide exemptive relief from regulations supposedly meant to protect investors.

The Canadian Securities Administrators' 2008 enforcement report states that In 2008 about $200,000 was ordered in Saskatchewan and Manitoba in restitution, about $570,000 was paid out in Quebec and Manitoba in compensation, and about $15,800,000 was ordered in B. C. and Ontario in disgorgement against respondents.

In plain terms, the regulators ordered or paid out a total of about $770,000 to aggrieved investors in 2008, which is slightly more than David Wilson, chair of the OSC, receives in annual salary, but about $15,800,000 was paid to the regulators.

Canadians who lose their savings to investment fraud and wrongdoing need time to realize they have been victimized and then to find their way through the maze of regulators, who do not help. Victims will be condemned to finish their declining years without the fruits of their life's labour. Their lifestyle will be compromised, and in many cases so will their health. Still worse, many lose faith and hope, and contemplate suicide.

We recently received an e-mail, and I'll read the contents. It's quite short: “My parents, ages 81 and 76.... All of the money invested is lost. This was most of my parents' life savings.... My father became depressed from losing all of his money. Coupled with the cancer that he had, this caused him to take his own life.”

Widespread practice of fraud and wrongdoing costs Canadians $20 billion per year. Forged signatures and false documents are not unusual. Selling unsuitable products and use of inappropriate leverage are accepted practices. Creation of structured products to circumvent regulations, lack of disclosure, and use of creative accounting to mislead investors are rampant.

Industry tries to create an illusion that the industry is well regulated. The illusion is supported by regulators levying headline-grabbing fines, but the fines may never be collected. Our submission quotes extensively from the Markarian decision, because it illustrates reality. Judge Jean-Pierre Senecal wrote, “In this case, the defendant's conduct was highly reprehensible”. We've included longer quotes in our submission.

Registered representatives are given titles such as investment adviser, financial consultant, or vice-president. This conveys a message to investors that suggests these salespeople are qualified to act as advisers. However, they may simply be salespeople of mutual or segregated funds who are seeking to generate commissions.

Also, industry creates innovative products with names that tend to deceive investors. A prime example is the principal-protected note, or PPN, for which guarantees apply only at maturity and returns may be cut or suspended.

The Ontario Bar Association says that the justice system is not designed to provide justice, but to resolve disputes. The Laflamme decision shows victims take 10 years to obtain justice, but most seniors cannot survive the ordeal. Laflamme died a few years after gaining a Supreme Court decision.

The recent Longstaff case in British Columbia was dismissed because the judge found that an uneducated labourer who lost his savings did so because his adviser followed an accepted practice of a "leverage plan".

Other issues impacting Canadians' retirement security include excessive executive compensation, and Nortel illustrates this issue by the current Nortel executives' grab for bonuses while the employees have concerns about their pensions; exemption from regulations and the law, whereby many faulty products had exemptive relief and the ABCP solution exempted perpetrators from the law; lack of whistle-blower legislation to protect all Canadians; lack of special courts and judiciary to deal with white collar crime; underfunded workplace pension plans and the possibility of taxpayers without pension plans paying for a bailout.

I believe the majority of Canadians are just and upright, with a sound sense of morality and ethics. However, regulatory failure has allowed fraud and wrongdoing to become rampant. The investment industry has exploited this situation by providing incentives to create fundamentally flawed products and strategies that are sold to unsuspecting investors.

The investment industry is guilty of fostering an ideology that they are capable of self-regulation. Events have proven they are not. There were alerts raised that the investment system was faulty, yet regulators failed to react. There is lack of oversight, and there is no authority with a sole mandate to protect investors. Investors are left in the hands of the perpetrators of the various schemes developed to devour the savings of Canadians. We can only hope that the financial meltdown has sufficiently raised awareness to create public outrage that will precipitate government action to rein in an investment industry by revising legislation and regulation. It is time for government to act.

Thank you.

● (0910)

The Chair: Thank you for your presentation.

We'll go secondly to Mr. Powell, please.

Mr. David Powell (President and Chief Executive Officer, Canadian Finance and Leasing Association): Thank you, Mr. Chairman, and thank you for this opportunity to meet with the committee.

We've titled our submission to the committee "Getting Credit to Main Street Canada for SMEs and Consumers".

The Canadian Finance and Leasing Association strongly supports the government's goal to restore liquidity and stability to the financial system while minimizing any potential long-term negative impact on taxpayers.

We are here today to strongly endorse the creation of the Canadian secured credit facility with an allocation of up to $12 billion to purchase term asset-backed securities, backed by loans and leases on vehicles and equipment.

[*Translation*]

For us, the Canadian Secured Credit Facility represents very positive commitments being made by the federal government, a significant and innovative step towards kick-starting funding for loans and long-term leasing of vehicles and equipment.

This initiative is a win-win situation for both small and medium businesses and the consumer, as well as a short-term, low risk and profitable investment for the government. The spinoff will be significant. We should expect consumers and SMEs to receive credit which will contribute to restoring the confidence of private investors in the commercial sector.

[*English*]

The members of the Canadian Finance and Leasing Association are the largest providers of debt financing in Canada after the traditional lenders, the banks and credit unions. As of December 31, 2007, the industry's portfolio of assets financed was estimated to be worth $112 billion.

[*Translation*]

Most of the financing industry's clients who rely on assets and long-term leasing are small and medium-sized businesses and consumers.

[*English*]

In the five minutes allotted to my opening remarks I want to offer a few key points.

First, all this industry does is finance the acquisition of equipment, machinery, and vehicles by business and consumer customers. All the capital obtained by the industry is deployed to carry out that single mandate. Any liquidity injected into this sector will directly, quickly, efficiently, and effectively reach the general marketplace.

[*Translation*]

The industry does not borrow excessively, and does not accumulate capital. Capital must be used. As such, each dollar of liquidity injected into this sector shall be used in the economy directly, rapidly, efficiently, and effectively.

[*English*]

Second, the assets financed by this industry are straightforward: equipment and vehicle loans and leases. Customer credit generally has not experienced problems associated with poor underwriting standards. Industry receivables continue to perform within the normal levels that can be expected in an economic downturn and well within anticipated tolerances.

[*Translation*]

Assets financed by this industry are straightforward: they are loans and long-term leasing of equipment and vehicles. These assets are generally necessary to meet the basic needs of our clients: essential equipment for business operations or a car needed to travel.

[*English*]

Third, this industry supports a broad network of dealers, manufacturers, distributors, vendors and brokers and their customers in hundreds of communities across Canada. Equipment financing companies have relationships with manufacturers, vendors, and distributors of all sizes to provide financing to their customers to acquire machinery and equipment.

● (0915)

[*Translation*]

The automobile manufacturing sector's financial affiliates finance dealerships, and the clients of dealerships who are seeking to acquire a vehicle. For those clients, longer-term lessors of commercial fleets use the automobile dealership network to acquire, maintain and dispose of vehicles in all the provinces.

[*English*]

Fourth, funding, which is fundamental to the credit cycle provided by our members, has just stopped. Despite having been prudent in credit extension, this industry is suffering from the effects of the freeze in credit and liquidity. Very few private funders remain active in this marketplace.

[*Translation*]

Fifth, the Canadian Secured Credit Facility is an investment being made by government. The taxpayer will draw the same benefits, and receive the same protection that any private investor would have received.

[*English*]

Sixth, we do not expect the government to have any long-term role in funding the industry.

[*Translation*]

The goal is to restore the confidence of private investors so that they restore financing for these transactions.

I would be very pleased to answer your questions.

The Chair: Thank you for your presentation.

[*English*]

We'll now go to Mr. Conway.

Mr. Michael Conway (Chief Executive and National President, Financial Executives International Canada): Good morning, Mr. Chairman and committee members. Thank you for the opportunity to present, on behalf of Financial Executives International Canada, our recommendations for your study.

FEI Canada is a voluntary membership association of more than 2,000 of Canada's most senior financial executives from coast to coast. Our recommendations are the result of consultations with our membership through a task force and a survey conducted to respond to your study, the summary of which is included in pages 6 to 8 of the materials we've left with the committee.

Michael Boychuk, who's with me today, serves as a volunteer director of the Quebec chapter of FEI Canada, and in his day job Mike is treasurer of Bell Canada.

Our recommendations are framed around three goals: increasing the availability of credit to business, the efficiency of capital markets, and rebuilding confidence in the economy. Achieving these goals will foster strong Canadian global competitiveness, support expansion projects, and help companies develop markets—

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): On a point of order, Mr. Chairman, the witness has referred to a document, to certain pages, and we don't seem to have it.

The Chair: I just checked with the clerk. Apparently we did not receive anything from the organization.

Mr. Michael Conway: Excuse me, it was provided this morning. I'm sorry if it wasn't distributed in advance, but it's—

The Chair: Is it in French and English?

Mr. Michael Conway: Absolutely.

The Chair: Okay, we'll distribute that. I'm sorry for the interruption.

Mr. Michael Conway: I'm sorry it wasn't distributed in advance, but there's a copy in each official language for your reading pleasure.

The Chair: Thank you very much. It's appreciated.

Mr. Massimo Pacetti: It's a lot more helpful when we have the information.

The Chair: Order.

Mr. Conway, please continue.

Mr. Michael Conway: Thank you.

Achieving our goals will foster strong Canadian global competitiveness, support expansion projects and help companies develop markets, enhance profits, boost capital productivity, and most importantly, create jobs.

I'd like to begin by addressing the availability of reasonably priced credit to business. Our survey results confirm that businesses are finding that access to credit has significantly tightened, its cost has risen, and the process of securing credit has become much more difficult. Our survey revealed that the situation is particularly difficult for small enterprises, businesses seeking longer-term credit facilities, and companies whose loans need to be syndicated because of their size.

Increased credit availability can be accomplished in four ways.

One is to encourage funding of small and medium-sized businesses, which could be done by adjusting the Canada Small Business Financing Act to allow for larger loans, and by supporting an emerging new economy by both making funds available to early-stage enterprises that focus on innovative new processes and technologies as well as green investments and funding more innovation centres to serve as incubators that nurture the development and sustainability of start-ups in a knowledge economy.

Second is to help increase the availability of long-term credit facilities by providing incentives to financial institutions that grant loans for the longer term, and by enhancing existing government guarantee programs for qualifying business loans, particularly in the most impacted area of equipment lending and leasing.

Third is to help improve working capital credit availability by increasing the rates for and the refundable portion of investment tax credits and scientific research and experimental development tax credits, since banks lend against this collateral.

Fourth is to provide relief to defined benefit pension plans by allowing plan sponsors to fund solvency deficits over the actual liability timeframe. Not only would this be more equitable, it would free up capital to reinvest in the economy.

Finally, we call upon the government to encourage EDC, BDC, and similar lending agencies to increase loan volumes and venture capital availability to companies requiring capital.

Our second set of recommendations deals with improving the efficiency of capital markets.

FEI Canada encourages the government to reduce interprovincial trade barriers. This would include moving to a single national securities regulator and achieving the free flow of capital, goods, services, and labour among Canadian provinces.

There must be a review of the tax system with an eye to easing the burden of economic restructuring on Canadians. How might this be accomplished? First, expand tax credits for flow-through shares to ease the raising of equity for small and medium-sized businesses, particularly early-stage companies not yet in a taxpaying position; provide relief to displaced workers and troubled companies by extending to three years the period over which severance payments and capital gains on debt forgiveness are reported for tax purposes; and provide a three-year tax holiday for start-ups launched by entrepreneurs coming out of employment displacement.

Finally, we call upon the government to help in the restructuring of the securitization market through better transparency, accountability, and reporting practices, as this will instill greater confidence and will improve liquidity and availability of short- and long-term funding.

I'll move to our final category of recommendations: rebuilding confidence in the economy.

To keep our banking system strong we must continue to enforce capital regulations and lead the way in international oversight of financial products. While we support some economic interventions, such as infrastructure spending, it is key to ensure that these moneys are being spent responsibly and that Canada stay fiscally prudent by avoiding structural deficits.

Ladies and gentlemen, the objectives highlighted here not only contribute to the stability of our financial system; they also strengthen Canadian competitiveness and long-term prosperity.

FEI Canada thanks you for your time and the opportunity to present our ideas to you.

● (0920)

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

We'll now go to Ms. Walmsley, please, for your presentation.

Ms. Katie Walmsley (President, Investment Counsel Association of Canada): Thank you very much for the opportunity to present to the committee today and provide input on your deliberations on the Canadian financial sector, protection of investors, and the stability of the Canadian financial system.

[*Translation*]

I will endeavour to be brief in my comments, so as to leave sufficient time for questions. My colleague, Thomas Johnston, will also be making his own remarks. We will be very happy to answer your questions. To begin, allow me to tell you who we are.

[*English*]

The Investment Counsel Association of Canada represents investment management firms across Canada. We invest the assets of private individuals who are saving for retirement, and we invest the assets for pension plans across Canada.

We have 115 companies that are members of the association. They represent every province and every territory in Canada. Our members are managing total assets of $700 billion for their clients.

As you can imagine, the turmoil in the financial sector during recent months has been a grave concern for our members and their clients. The market collapse has been broader and deeper than many downturns in recent years. With millions of baby boomers within 10 to 20 years of retirement, the urgency of an economic recovery that will restore Canadians' capital and confidence as soon as possible is critical.

We want to interject to applaud the federal government for some of the measures you have taken recently in the federal budget, measures that we believe are important first steps toward strengthening the economy: the stimulus package announced in the budget, with $40 billion in stimulus over the next two years; support for the liquidity measures through various measures, which have been commented on in some of the presentations; and support for the OECD in terms of the GDP spending that has been recommended.

We believe government intervention is important, but we also believe it is critical that the federal government look at ways to restore confidence of Canadians in investing in the capital markets and to encourage saving to ensure that they can meet their retirement goals. Confidence in the markets is key, and confidence in the markets is necessary not only for short- and medium-term credit, but also for encouraging savings and investment in the country.

What can the government do? We are going to focus on about six specific initiatives that we believe could restore confidence in the financial system and help Canadians rebuild some of their lost capital. I want to highlight that we truly believe some of these measures would immediately increase the return that Canadians are seeing in their statements, in their investment portfolios, and in their retirement savings. We will end with a key point that our association has been on record for supporting for many years, which is to move forward as soon as possible with a single securities regulator.

The first recommendation we have is that GST be eliminated on investment management fees.

If there is any lesson Canadians have learned during recent months with the economic turmoil, it is the importance of having good investment advice and selecting advisers who clearly understand their retirement goals, understand and are comfortable with their investment philosophy, and communicate with them in a manner that allows them to understand their financial position. Presently, investment management fees are subject to GST. In provinces with harmonized tax, the amount paid by consumers for investment management services is even higher. If Ontario moves forward with the harmonized tax, investors will pay an additional 8% in investment management services. It is important to note that investment managers are able to reclaim the GST or the harmonized tax, but investors are not.

In this time when individual investors are in more need than ever of professional investment advice and pension plans are turning to investment managers to turn around their portfolios to meet their pension plan commitments, it is critical that the federal government consider this as one way to help Canadians rebuild their lost capital. For this reason, we urge the government to consider the elimination of GST on investment management fees. This would restore some capital to individual Canadians and their pension plans and would also encourage some Canadians to seek advice in pursuing their retirement goals.

The second recommendation we wanted to make is with regard to a former Bill C-10. I don't mean the recent budget bill, but Bill C-10 from the last government. It will be reintroduced in the House in the near future, and this committee will be reviewing it. Our association made a presentation to this committee in 2006 and subsequently, in part of our pre-budget submission, in 2007.

The heart of this bill looked at closing off some offshore tax havens through changes to rules on non-resident trusts and foreign investment entity rules. Had the bill passed without amendment, pension plans and retirement savings would have been subject to tax, so over a trillion dollars in pension money would have been subject to tax.

This bill is not before the House right now, but we wanted to comment on this matter because it will likely be introduced in this session of Parliament.

● (0925)

Working with the Senate banking committee, the Department of Finance did issue a comfort letter that provided some exemption for pension plans. It is our hope that when this bill is reintroduced and this committee is reviewing it, you will see those exemptions for pensions such that pension plans will not be subject to any tax, in the event that they invest in anything internationally deemed to be a trust. We are confident that the Department of Finance is working on this initiative but want you to be aware that this is something that will likely be coming in the next legislature. If the amendment is not introduced, Canadians who have already been hit with losses in their retirement savings are going to be subject to tax.

The third point is that our association has always been in support of reduced barriers to trade, both interprovincially and internationally. The former government removed the 30% foreign content limit on RSPs, which we saw as a very positive development. This helps Canadians investing and their investment managers to diversify their portfolios and look at things both within Canada and abroad.

However, there is still a significant barrier that exists for Canadians wanting to invest internationally. Investments on certain foreign stock exchanges are not qualified for investment within RSPs and other tax-deferred savings plans. Even though the government has removed the foreign content limit, there is still a very limited number—about 35 to 40—of foreign exchanges that are allowed for RSP purposes. There are a number of very well respected, established foreign stock exchanges that are not presently available for RSP investment. The list is simply out of date and requires updating to reflect the fact that we are part of a global economy and that a part of diversification of investments is looking internationally and locally. That list needs to be updated.

Our fourth recommendation is this. The federal government and the provincial governments have been looking at modernizing some of the pension rules, which we very much support. The federal government recently released a pension paper entitled “Strengthening the Legislative and Regulatory Framework For Private Pension Plans Subject to the PBSA”. One key recommendation we made as part of our submission is the loosening of the pension rules, again in keeping with encouraging international investment and removing international barriers to investment. Right now there are very restrictive rules limiting the investment pension plans can make in specific companies and portfolios. We are simply asking that these rules be less restrictive and rely on a prudent person to allow investment managers—

● (0930)

The Chair: Ms. Walmsley, I apologize for interceding, but I have given you more than your allotted time. We have a lot of questions from members, and so I ask that you conclude very briefly.

Ms. Katie Walmsley: Our association has been on record as supporting a single regulator. This committee has heard multiple presentations on this, but we want to reiterate that we think it's crucial to move forward on it to encourage investor confidence.

Thank you.

The Chair: Thank you.

We'll start with Mr. McCallum, for seven minutes.

Hon. John McCallum (Markham—Unionville, Lib.): Thank you, Mr. Chair.

Starting with Ms. Walmsley, I agree with all the recommendations you've made, except one. Unless I'm missing something, I see no merit whatsoever in exempting investment management fees from GST, because every other group in the country would want to be exempted from GST. If investment management fees are exempt, why not dentists' fees? Why not this? Why not that? You're in favour of free trade and open markets and all these goods things, and so I don't know why you're indulging in this special pleading.

The question is, why are you making this special plea, when every other conceivable group in the country would want to ask for the same thing if you got it?

Mr. Thomas Johnston (Treasurer, Board of Directors, Investment Counsel Association of Canada): It's a good question, Mr. McCallum.

I think at the heart of the issue is that investment mutual funds are a financial service and that there are other financial services that are very similar, such as GICs and deposit instruments, which are exempt from the tax on the labour portion of the fee, which represents about 60% of the management expense ratio of the fund. If we assume that the average fund has a management expense ratio of about 200 basis points and there's $600 billion in the funds, there's $645 million of tax that right now is being attributed directly to the GST. The money is really Canadians' savings for retirement. It's a financial service, but it's categorized differently.

As my colleague has indicated, if we had harmonization with some of the provinces—Ontario, for example, where the provincial tax is currently 8%—that would take the $645 million in tax up to about $1.6 billion. Of that $1.6 billion, $1 billion would be taxable to the labour, if we assume that 60% rate on a financial service, whereas it wouldn't be if it were in a GIC.

At the heart of your question is that mutual funds are retirement savings. They are a financial service, but they are categorized differently. At the end of the day, if the government wants to encourage people to save and have money for retirement, then taking a potential extra $1 billion out, if there were harmonization in just one province alone, would have an adverse impact.

Hon. John McCallum: Well, I'm not convinced, but thank you.

Mr. Powell, I certainly agree with the $12 billion for auto leasing and with everything you said, except for one question: why is it taking so long? The Prime Minister talked about this around Christmastime. I definitely agree that money needs to flow. Now we hear it won't flow until May at the earliest. Months and months have gone by. I'm all in favour of it for reasons you described, but do you have any idea why it's taking forever to happen?

● (0935)

Mr. David Powell: First of all, I would underline the fact that it's not only auto loans; it's also equipment loans and leases.

Hon. John McCallum: Whatever it is, it's taking months and months.

Mr. David Powell: Certainly time is of the essence. I've been working closely with Finance and now with the BDC on this. Yes, of course we would like to have seen things move as quickly as possible. That said, this is a rather complex area for government. It's a new area that government really has not ventured into before. That's why, in my opening remarks, I referred to it as being innovative.

Clearly, ensuring that the taxpayer interest is properly protected is an important element. I agree with you that we would like to have seen this product offered as soon as possible in this marketplace, because our members are feeling the need for credit and have customers they can't respond to, but it is a somewhat complex structure. We're trying to keep it as simple as possible.

I do feel it's important to say to this committee that the people I've been working with in the Department of Finance have been excellent in their response and in the quality of their thinking. They have been working extremely hard.

Hon. John McCallum: I'm sure they've been working very hard. I'm sure the BDC has been working very hard. The trouble is that the crisis goes on and on, and nothing much happens.

That leads me to Mr. Conway.

You mentioned the BDC. First of all, I thought you had a very good list of proposals to make credit flow, including the Canada Small Business Financing Act, early-stage enterprises, incubators, and longer-term credit facilities. I don't think the government has done any of those, except for some action on pension. It hasn't acted on the other ones you mentioned.

You mentioned BDC and EDC. Since you're in touch with all these financial executives, you might have feedback. I haven't heard any negative commentary about EDC, but I've heard a great deal of negative commentary from business people about the slowness of BDC. When the president was here before our committee, he couldn't give any estimate of how much, if any, of the new credit would flow in this calendar year. I made the point, as I made earlier, that it should flow in 2009, not in 2010, 2012, or 2013.

Through your association, do you have any information as to the speed, or lack thereof, with which BDC is acting?

Mr. Michael Boychuk (Senior Vice-President and Treasurer, Bell Canada, Financial Executives International Canada): Let me respond a little bit to that.

A lot of what the BDC does is loans to smaller businesses. Part of their mandate, obviously, is to put money into start-ups and new organizations, particularly the knowledge-based businesses. It's not uncommon in times like these, in heavy recessionary times, that they retrench a little bit. It's tougher to find the opportunities. However, this is the time when you need to invest—

Hon. John McCallum: Retrench a little bit? They were given $12 billion of extra money in the budget. The purpose is to put that money out, not to retrench.

Mr. Michael Boychuk: That's exactly the point we're making. We believe they have to be doing that, and they have to be doing it on a much more rapid basis. It's not happening.

Hon. John McCallum: You agree that it isn't happening.

Mr. Michael Boychuk: It isn't happening. We're not seeing it.

Hon. John McCallum: Thank you.

The Chair: Thank you, Mr. McCallum.

Monsieur Laforest, s'il vous plaît.

[*Translation*]

Mr. Jean-Yves Laforest (Saint-Maurice—Champlain, BQ): Thank you, Mr. Chair.

Good morning, everyone.

My first question is for Mr. Buell. In your testimony, you made some extremely important statements on behalf of the Small Investor Protection Association. The financial crisis and the ABCP scandal, among others, are greatly affecting Canadians and Quebeckers. This is fundamental, in that all of this comes down to a matter of trust. You quoted emails received from people who put an end to their lives, and I am convinced that there are others in the same situation, who did not send such a message.

You said that the investment sector exploited the situation by offering very deficient products that also seemed attractive, and that warnings were issued with respect to the system's shortfalls. What sort of warnings are you talking about, exactly?

● (0940)

[*English*]

Mr. Stan Buell: Over the years, a number of people have been warning that there are problems with the regulatory system, and I had the great pleasure of accompanying Dr. Al Rosen to Ottawa in June of the year Minister Flaherty issued the income trust decision. That created great flak, but Dr. Rosen presented a report where the Accountability Research Corporation had studied the top 50 business income trusts in Canada, and already many investors had lost most of their investments in some of those trusts. To me, that was a very significant warning to the government that something was wrong, and whether Minister Flaherty made the right decision or not, something had to be done. It might have been done in a different way, but he didn't create the problem. The problem was created by industry.

We've had warnings on our website. There have been various journalists warning about faulty products like principal-protected notes. This misleads people into thinking the principal is protected, but I've heard from one of our members who called me and said, “ I've found the ideal product; my principal is guaranteed; I'm getting return of 8%.” And I said, “Ed, you'd better look into it, because it sounds too good to be true.” Three months later he called me and said, “Stan, I don't believe it. The interest rate has been cut to 4%, and when I tried to get money back, they said I could only get it back at the end of the guarantee period, 10 years out, and if I want my money now I get 70%.”

The problem is that the media in some respects does speak out, but not everybody is able to.

[*Translation*]

Mr. Jean-Yves Laforest: As my time is limited, I will move on to another question, Mr. Buell. Your remarks, however, have clarified many things for me.

I have another question which I would like to ask Ms. Walmsley. You represent those who advise people to buy these products. You represent the Investment Counsel Association of Canada. I assume that those working for brokers will advise people to buy various products with their personal savings.

Was your association aware of any remarks or warnings? Last week, we heard from Mr. Don Drummond, vice-president of the TD Bank. He told us that it was so obvious, and so straightforward and that consequently the institution did not buy asset-backed commercial paper. Correct me if I am wrong, but how is it that an association such as yours recommended to many clients who were members of Mr. Buell's association to buy these products for the future?

[*English*]

Ms. Katie Walmsley: Just to clarify, our association represents investment management firms, not brokers. We're asset managers who purchase on behalf of pension plans and individual clients.

In August a couple of years ago, when the first news of the asset-backed commercial paper crisis was emerging, we very quickly polled our members to determine what our membership exposure was and what we needed to do as an association to help both the management firms through the situation, but also their clients. I was happy to report that we had very little member exposure. Fewer than five of our 115 firms had direct exposure and were involved. In fact, many of our investment management firms, when they were approached with some of these products, declined investments in them and saw some of the warning signs with them.

● (0945)

[*Translation*]

Mr. Jean-Yves Laforest: Did you issue warnings, recommendations, saying that certain products were high-risk? Do you have any publications on this matter? Do you have any documents?

[*English*]

Ms. Katie Walmsley: Our association specifically does not. Mr. Johnston may wish to add.

Mr. Thomas Johnston: If the honourable member is referring to the $32 billion or $40 billion in the asset-backed commercial paper, it really comes down to the diligence of the adviser. I think the problem was exacerbated because there were credit rating agencies that were identifying it as a very good product. A lot of the managers —

[*Translation*]

Mr. Jean-Yves Laforest: Only the DBRS gave the paper good ratings. The DBRS gave ABCP good ratings; the others refused to rate them.

[*English*]

The Chair: Mr. Johnston, respond briefly, if you wish.

Mr. Thomas Johnston: That's a fair comment, but for that particular class, the DBRS was a sort of dominant agency, because it was based in Canada, focusing on it. As my colleague indicated, at the end of the day our membership exposure was limited. Where there was the occasional investment, there were a number of reasons behind it that had a lot to do with the credit rating agencies and the lack of oversight on some of the diligence they did.

The Chair: Thank you.

We'll go to Mr. Menzies, please.

Mr. Ted Menzies (Macleod, CPC): Thank you, Mr. Chair, and thank you to our presenters.

Ms. Walmsley, you're the only one who gave a real recommendation on pensions. I want to clarify and make sure you have actually put in a submission to the finance department on pensions.

Ms. Katie Walmsley: Yes, we did, and to each of the provincial expert panels we gave the same copy of our recommendations.

Mr. Ted Menzies: Good. We've heard about replacing the prudent person rule from many other groups as well. We're certainly hearing lots of concerns out there, so we appreciate the fact that you.... Talking about diversifying, you understand the investment part of it, and that's what has gotten all of these pensions in....

As a quick comment, if you would, are there any other recommendations you would like to add—realizing that we're not speaking of pensions right now?

Mr. Thomas Johnston: Because of the time, we didn't highlight this in our fifth recommendation, but it ties to pension plans as well. The issue is that you have $1 trillion worth of pension plans; you have the top eight or ten who invest themselves, like Teachers, OMERS, and CPP. The vast majority of the remaining pension plans —there are about 6,000 defined benefit plans in Canada and about 46,000 capital accumulation plans, which are group RRSPs and DC pension plans—invest through members like us. We use our pooled funds to manage, where there are synergies.

There is a key issue, in that the tax act creates an arbitrary distinction between a fund that has 150 or more investors and a fund that has 150 or fewer. It really is just arbitrary. The anecdotal evidence we've heard is that Stanley Hartt, when he was in Finance, came up with this 150 threshold on the back of an envelope in an Ottawa restaurant.

The real issue of how this affects Canadians is that you could have your pensions in a fund that might have ten pension plans, which might have one million underlying investors in them, and one large group RRSP that has 200 members, so that you're over the 150. If the group RRSP comes out, you still have one million members, but from the tax act standpoint, the trust comes to be seen as non-commercial. And you have all sorts of tax implications that hit the pension plans: part of it minimum tax; part of it Part XII.2 tax; you can't do non-taxable mergers; it's no longer a registered investment for an RRSP.

What we're recommending is very clear. We believe there is no detrimental tax loss to the capital base for government. You can keep the 150; it's been there since the 1970s. But allow for a look-through for defined benefit and defined contribution plans, just as you do for group RRSPs. Also, consider changing the 150 down to 10 unrelated investors. This one effect would really demonstrate to the markets a recognition of the realities of how money is invested and show some sympathy to the pension industry.

● (0950)

Ms. Katie Walmsley: Let me interject one comment on that. You're seeing in the newspapers all these funds consolidating. This is one of the reasons they're doing it: they're getting too small; they're dropping below it, and investors are paying tax. On their statements, that tax is not transparent. In the spirit of transparency, investors need to realize that they're paying tax on RRSPs just because the fund has dropped below that limit. So it needs to be lowered; it's just too arbitrary.

Mr. Ted Menzies: Good, thank you.

Let me go back to access to credit. Mr. Buell, you made some comments in your opening remarks and publicly about a common securities regulator. We had people here last Parliament reminding us, concerning this asset-backed commercial paper, that they didn't know what they owned, and others appeared before us who said that they didn't know they owned it, which we found very troubling.

Your group has been very good at highlighting those concerns, and I think all of us around the table share the concern that there are no repercussions for that type of adviser or broker, or whatever term you want to use. We'll all admit that a common securities regulator might not have stopped this, but if we can prevent a similar situation by bringing this together....

One of my favourite radio commentators, Anna Maria Tremonti, when you were speaking to her the other day.... I was speaking to her just the other morning, John, if you didn't hear me. I will quote: “One of the things that we're concerned about is that we don't have a national system of protecting investors, and that's to my point. People from different provinces will be treated a little bit differently, and we think it's important that all Canadians should have the same amount of protection, and that can only be done if there's a national organization.”

Do you have any advice for us, when putting this panel together, this group that will be recommending to the minister on how we set it up on a voluntary basis—just some quick advice, if you have some?

Mr. Stan Buell: My opinion is that the main fault with the regulatory system is that it's set up based on prescriptive rules, and this can be quite onerous but still ineffective in protecting investors. To me, there's a fundamental lack of the sense of right and wrong. In our court system, the judges follow the law, and you see some decisions that seem wrong—morally wrong at least, but maybe correct in accordance with the law. The Ontario Bar Association admits that the justice system doesn't mete out justice.

What we feel is needed is a change in the fundamental way we approach regulation. We should be talking about right and wrong. To me, it's fundamentally wrong to destroy a senior's savings, to put them into unsuitable products, when in many cases under the mattress would be all they need. They have enough money, but they end up losing the majority of it because they've been put into principal-protected notes or business income trusts or even some mutual funds that are quite toxic, which seniors should not be invested in.

Somehow I think we have to get the idea across that the financial services industry has a fiduciary responsibility, and if there is a court case...and court cases are not very suitable, because they take too long. We need something that gives a timely resolution, in two to three years. You can't have an 80-year-old spend ten years going through court. Somebody has to step up and say that we need a way to resolve these disputes quickly.

The Chair: Thank you.

Thank you, Mr. Menzies.

Monsieur Mulcair, please.

[*Translation*]

Mr. Thomas Mulcair (Outremont, NDP): Thank you, Mr. Chair.

Firstly, I wish to thank Mr. Buell most sincerely for his statement. His testimony was very moving.

Last night, at the NDP caucus, we met with Ms. Diane Urquhart who, like Mr. Buell, works extensively in this area, namely with the victims of non-bank commercial paper. She was accompanied by a retired police officer who had more than 30 years of service with the Toronto police in the area of economic crimes. They both made a very impassioned plea in favour of a more stringent enforcement of legislation, especially the Criminal Code.

I would like to know if Mr. Buell shares the same point of view as Ms. Urquhart.

● (0955)

[*English*]

Mr. Stan Buell: Yes, I would confess that she is a member of our association. We have a number of people who are members of our association, but we feel that my voice alone is not enough, so these people speak out on specific topics. Ken Kivenko is our expert on mutual funds. We have a professor from York University who looks after disputes or complaints handling, which is another problem.

But I think we need to look at the fundamental cause of all of these problems. That's why I say we need to look at right and wrong and develop a national securities regulator, not—

[*Translation*]

Mr. Thomas Mulcair: Allow me to ask another question. You are right. Your comments are similar to the ones made by Mark Carney, Governor of the Bank of Canada. He said that in all of these issues, we must return to the concept of *value-based* products, to use the term that he used. Thank you very much, Mr. Buell.

I would like to now turn to an old friend and colleague from the Quebec Bar, Mr. David Powell. I can assure you of one thing, Mr. Chair. The fact that he is sitting next to me does not necessarily mean that he has joined the international socialist movement, even though I still remain hopeful.

Now that the budget has been adopted, what is the most important thing that the government must accomplish? I greatly appreciated the nuances and subtlety in his answer to my colleague Mr. McCallum's question, and I understand the circumstances, but in concrete terms, what must the government do to achieve its objectives?

[*English*]

Mr. David Powell: Thank you, Mr. Mulcair.

Yes, indeed, you're right that it may be some time before I consider joining the international socialist movement. That aside, I will say, and it may sound contradictory to my earlier remarks, that I do agree that time is of the essence.

I didn't say that at the outset. Our concern is that there is still demand out there for credit, but with every day that passes and with what people read in the newspapers, there is concern that people are going to start making decisions about whether they want to take credit or not, and I think that moving this forward as quickly as possible has to be a primary objective.

The second is the KISS principle: keep it simple.

Mr. Thomas Mulcair: Isn't there a second S?

Mr. David Powell: No, it's “Keep it simple, customer”, or KISC.

We've seen programs that were put forward for the banks in the fall that were just not taken up by the banks because they didn't work. That was because either the pricing was too high or some other criterion just didn't work and didn't reflect the marketplace. So I think it's extremely important to keep it simple.

The last point is that we cannot wait for the government to create its own internal major infrastructure to deal with this issue, because if we wait for staffing rules and practices, procedures, and forms, it will be 18 months from now and we'll find that the marketplace has changed dramatically.

There are a lot of people out there. This is an industry that was well known, that has been around for 25 or 30 years, with a lot of expertise. Quite frankly, as I've told people at Finance, the people who have the expertise that the government can draw upon are underemployed right now, and my concern is that in a few months' time they may be unemployed and we'll lose a lot of expertise that we will need going forward.

[*Translation*]

Mr. Thomas Mulcair: Thank you very much, Mr. Powell.

I wish to congratulate Mr. Boychuk for his very refreshing and candid comments. He said in a very distinct and straightforward way: “It's not happening.” Such honesty is quite refreshing, and I thank him. That is exactly what we feel. This is part and parcel of the committee's analysis.

As I have only two minutes, I will now turn to Ms. Walmsley, with whom I would like to have a brief exchange. To her mind, the federal government could do a better job of regulating securities. She is certainly aware of the Vincent Lacroix case, in Quebec. Mr. Lacroix is serving a prison sentence of more than 10 years. His case is still before the courts, where it has yet to be determined whether his sentence will last 8, 10 or 12 years. It is the duration of the sentence that is being appealed, not the sentence itself. He was convicted on charges laid by the Autorité des marchés financiers du Québec. Vincent Lacroix is literally facing thousands of criminal charges. Yet, as regards the criminal charges that fall within federal jurisdiction, the first day of the first trial for the first charge has yet to occur.

I would like to know what makes Ms. Walmsley believe that the federal government could be doing a better job in this regard. In the sponsorship scandal, each one of the legal actions that led to a prison sentence and convictions was brought by the Province of Quebec. This was not the outcome in any of the proceedings instituted by the federal government in the sponsorship scandal.

I could draw up a long list of many similar cases where the federal government shows total incompetence in enforcing existing laws, be they provisions of the Criminal Code or the Competition Act, which both fall within federal jurisdiction. At this committee, we have heard from representatives from the famous Office of the Superintendent of Financial Institutions, which does nothing.

I'd simply like to know what makes you believe that the federal government is doing a better job. What is the basis for this bias?

● (1000)

[*English*]

Ms. Katie Walmsley: I believe in my opening remarks I complimented the government on taking some first steps toward stimulus and helping to stabilize the economy, but our comments in our submissions on a single regulator acknowledge that right now there is a hodgepodge of regulations in Canada that needs to be reviewed and simplified. It's the KISS principle again.

We are by no means suggesting that we have utopia right now, but we need to move in a direction that is going to better protect investors and provide more stability.

The Chair: Thank you.

We will go to Mr. McKay.

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

With all this kissing in the room, I am just feeling the love as we speak.

Mr. Wallace and I, speaking of love, were chatting before the committee started—

Mr. Thomas Mulcair: That's more information than we need.

Hon. John McKay: If that makes you uncomfortable, Mr. Mulcair....

We were chatting before the committee. Mr. Wallace had just gone out and bought a car. He had sufficient funds to pay for the car, yet it made absolutely no sense for him to actually pay money for the car. It made far more sense for him to just take the credit, because the credit was going to cost him nothing.

It seems to me to be a significant anomaly in the system. It compels the consumer to make a rational economic choice that to use somebody else's money for nothing is far more sensible than using his own money. It seems to me that if that decision is repeated over and over again throughout the system, you will create your own difficulties in the credit system.

Would you comment on that, Mr. Powell?

Mr. David Powell: In certain segments in the leasing industry, particularly the vehicle leasing industry, car manufacturers have chosen in effect to subsidize the rates. That was a business decision they made in order to attract market share. Canadian consumers benefited enormously from it, and continue to benefit enormously from it, because rates are still subsidized.

In most of the equipment area that is not the case, but it was just a business decision they made—

Hon. John McKay: Hasn't this become a short-term gain for long-term pain?

Mr. David Powell: The way it was explained to me, in part, was that if you have an automobile that could retail for $23,000 and you choose to sell it for $25,000 and give away free financing, you're essentially taking your profit as the manufacturer as opposed to the credit company. The credit company for the automobile manufacturers is essentially part of the production and sales cycle of the manufacturers. The credit company is there to help move vehicles, so instead of taking a profit at the credit company level, you are taking a profit at the manufacturer level. It all comes out in the wash.

● (1005)

Hon. John McKay: Effectively, it increases the prices of vehicles and postpones your profit for the course of the three-year term of the financing, ultimately creating a great difficulty for the manufacturer.

Mr. David Powell: Don't get me wrong. I'm not here to defend the marketing practices of our members. Those are their particular choices.

Hon. John McKay: I appreciate that, but it is an anomaly. When you do financing for something other than financing, you create your own internal set of contradictions, and that is one of them.

Thank you.

My second question is directed to Mr. Conway. It has to do with the pension issue.

There is a lot of pressure on the government to change the ratios or to move them down and be a little more flexible, etc. With certain plans, possibly Air Canada and maybe others—I don't really know—you can move these ratios around until the deck chairs on the *Titanic* are nicely arranged, but the truth of the matter is that the pension plan is going to require government intervention.

Mr. Conway, should the government contemplate changing the date at which the pension is realized? In other words, should it go from age 65 to age 67 or something of that nature? Should that be on the table as a point of discussion for federally regulated pension plans?

Mr. Michael Conway: Our focus has dealt mainly with the period of the funding of the solvency deficits of the defined benefit pension plans. There is currently an anomaly in that the liabilities are a long-term obligation, yet the shortfall that's created by the drop in the asset values is being.... Under current regulations, they're a five-year term, and we presented to Mr. Menzies' group our recommendations in that regard.

Mr. Boychuk also has experience in that area.

Mr. Michael Boychuk: I would comment that our group, as well as many other groups who have been in front of Mr. Menzies in the last little while—and those likely to come—are of the firm belief that the best protection and safety for any pensioner or any member of a pension plan, particularly a defined benefit plan, is the financial viability of its sponsor.

When you look out a little bit further and consider the more common question you've posed about extending the age from 65 to 67, all it is going to do is to increase longevity, which has already been baked into a lot of the plans, because people are living longer today. So that is in fact a cost to the pension plans and a burden. When you look at the period of time that companies have to fund those deficits, it's a fairly short period under the current rules for liabilities that extend decades into the future.

Mr. Michael Conway: If I could just add one brief point—

The Chair: Just very briefly.

Mr. Michael Conway: —there is only so much money to go around.

This particular committee is concerned with credit availability. The plan sponsor is a corporation that has certain moneys to allocate. So what we are recommending is that the funding period for that liability be more equitable and be aligned with the long-term nature of the pensions. That will provide additional moneys, which those corporations can put into the economy and create jobs and grow their companies.

The Chair: Thank you very much.

We'll go to Monsieur Carrier.

[*Translation*]

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

My question is for Ms. Walmsley. I agree with you. You state in your presentation that you want Canadians to have their faith in the financial system restored. That is an important point. Indeed, many people are disillusioned over the entire management of the financial system. Mr. Buell talked about this. I will have a question for him later on.

There are many stakeholders that make up our financial system. We are meeting many of them here. Your organization, in particular, represents people who work on the ground and who reassure others, who provide a certain degree of confidence. Personally, I have dealt with investment advisors, and the experience was totally disastrous. You represent the Investment Counsel Association of Canada. Earlier, in response to a question asked by my colleague, you clarified that you represent investment firms mainly. At what point do you consider a firm to be an investment firm? You say that you do not represent advisors per se, but the firms that they work in. What is the size of a firm, how many employees must it have in order for you to represent it?

Do you understand my question?

● (1010)

[*English*]

Ms. Katie Walmsley: Yes, I do.

The company is the member of our association, not individuals. We're not a professional association like the CSA. We represent the companies. The companies join, and we support them by providing education to their members.

[*Translation*]

Mr. Robert Carrier: I understand, but at what point will you consider the entity to be a firm or a company? Personally, I have done business with an agency that employed perhaps four or five investments advisors. Would you consider that agency to be a full-fledged firm or a group of advisors?

[*English*]

Ms. Katie Walmsley: The firm is our member.

[*Translation*]

Mr. Robert Carrier: You state that you represent investment firms throughout Canada. What is the percentage of firms that you represent? Is it 50%, or only 25%?

[*English*]

Ms. Katie Walmsley: We estimate, in terms of the firms that are registered with the securities commissions as investment counsel portfolio managers. We represent roughly 50% of them.

[*Translation*]

Mr. Robert Carrier (Alfred-Pellan, BQ): All right.

[*English*]

Ms. Katie Walmsley: And many firms are—

[*Translation*]

Mr. Robert Carrier: Therefore, belonging to your association is not compulsory. Firms are not obliged to become members of your association. Is that correct?

[*English*]

Ms. Katie Walmsley: No, they are not. They are volunteers, and we are not a regulatory body.

[*Translation*]

Mr. Robert Carrier: In response to a question asked by my colleague earlier, you confirmed that you did not issue any notices with respect to asset-backed commercial paper, an issue that has been problematical for several years. Many investors did not want to venture into that. You said that you did not issue any notices or warnings to your members on this matter, to suggest that they be cautious vis-à-vis these assets. Is this accurate?

[*English*]

Mr. Thomas Johnston: It's an excellent question. Again, how transparent some of the issues were with the non-big-bank-sponsored ABCPs can be debated for a long time.

Our association is really about ensuring the best practices of our members, ensuring that there are ethics and good compliance processes and that we're following rules and regulations. Just to really get the sense, we're geared as an association toward the practices of members and not at looking at investment processes, which at the end of the day is intrinsic to each member.

Your point is a good one, though. There were a lot of people—

[*Translation*]

Mr. Robert Carrier: Nonetheless, you are in a situation where you are aware of notices issued by other banks that publish opinions on investments, as well as the Bank of Canada. You were informed of all this, and yet you kept all of this information to yourselves. You allow each firm to behave as it wishes. Is this correct?

[*English*]

Mr. Thomas Johnston: Absolutely.

[*Translation*]

Mr. Robert Carrier: To my mind, you do not offer, unfortunately, any major guarantee. If you do not issue warnings to ensure that investors do not become victims of fraud or do not become unwittingly involved in fraudulent financial activity, you are not giving me any guarantee that you could issue warnings to all investment advisors. What you are saying does not reassure me.

Seeing as I do not have a lot of time remaining, I would like to put a brief question to Mr. Buell. Among your recommendations, Mr. Buell, you ask that the government bring forward improvements. Earlier, you answered a question put by Mr. Menzies on this topic. Now, as regards the credit-rating agencies that are at the heart of these bad investments, can you tell us if, in light of all of the information you have, we could adopt a specific rule or otherwise improve the situation?

[*English*]

Mr. Stan Buell: One of the problems we see is that we continue to refer to rules and regulations and mandates, but these are limited. That's why we say we need an authority that would be independent from industry to be responsible for investment protection. We think that's the solution.

● (1015)

The Chair: *Merci.*

We'll go to Mr. Dechert, please.

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

Good morning, ladies and gentlemen. Thank you for your information and advice.

I'd like to pose a question for Mr. Boychuk.

Earlier you mentioned the BDC in response to a question from Mr. McCallum. It's not my intention to defend the BDC, but I think we need to keep in mind that they have a mandate from Parliament to lend to creditworthy enterprises that may reasonably be expected to succeed, and they're required to be self-sustaining. They don't get a subsidy from the government.

I understand that they have a legislated loan loss reserve requirement that in these economic times may be limiting their ability to lend to the kinds of businesses that we would like them to lend to. Could you comment from your perspective on the loan loss reserve requirements in the BDC? Would you agree that this is something the government should contemplate doing?

Mr. Michael Conway: May I describe what we did in preparation for this committee? When we were invited to appear, we went out to all our membership and got a very significant response. The summary of that response is under the survey results tab. The summary is supported by a very large document, which is available if you would care to have it. Clearly the message we got actually just confirmed what we were expecting: that access to credit has significantly tightened, the cost has gone up, and the process is a lot more difficult.

We didn't specifically ask in our questions, which are shown in the appendix, about the members' happiness with BDC, but generally across the board there is a credit tightness, so we were really focused upon trying to put forward recommendations to the committee that would help open up credit availability. We saw the measure in the budget that increased the funding to BDC and EDC as a positive one.

We've long been in favour of government efficiency. Someone mentioned earlier that it takes a long time to set up new programs, which is why we were recommending under several of our recommendations to use some of the existing mechanisms.

Mr. Bob Dechert: Sure, and let me add that given the current economic situation, obviously any business that the BDC may be asked to lend to may not have the same business prospects it had, say, a year ago.

Given that they have a risk tolerance that is in a sense set by government, should we loosen the requirements on BDC so that they can increase their risk tolerance and go a bit further to assist these businesses?

Mr. Michael Conway: It's a difficult question. Overall, we frankly prefer less government intervention in normal times. Unfortunately, these aren't normal times.

Mr. Bob Dechert: So you would let the BDC operate as it currently normally does?

Mr. Michael Conway: All banks assess risk, and in these times, notwithstanding my previous comments, something has to be done to help us through the economic situation. We're looking at such things as increasing some of the guarantee programs, and that could be applicable to some body like BDC.

BDC is one of the only lenders, for example, that is actually providing venture capital financing in the country. When we look at where the hurt is hitting the most, it's in the small businesses. For the larger businesses—and my colleague beside me may be able to comment on this—there is credit availability. It's more expensive, it's more difficult, but there is some. Some of the smaller organizations, particularly those that are going to fuel the knowledge economy—the start-ups, etc.—are really having trouble getting start-up capital and follow-on financing.

● (1020)

Mr. Bob Dechert: We need to encourage BDC, and perhaps we need to loosen their requirements and let them take a little more risk, acknowledging that there may be some failures and that they shouldn't be unduly held to account if there are.

Does anyone have a view?

The Chair: Just very briefly? Are there no other comments to that?

Mr. Bob Dechert: Am I out of time, Mr. Chair?

The Chair: You're out of time. I'm sorry, Mr. Dechert.

We'll go to Mr. Pacetti, please.

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): Thank you, Mr. Chair.

Thank you, witnesses; it's always interesting.

I want to focus a little on the credibility aspect. Mr. Dechert was just talking about BDC, but besides BDC, Mr. Conway, I wonder.... You said smaller businesses are having a hard time; there is a tightening of credit. But depending on the week.... Last week we had the banks here, and they said everything was fine. CMHC put $125 billion up for bid, and it wasn't all taken up. There seems to be enough money flowing.

That was last week, and this week it doesn't seem that the money is flowing. What's happening? Are the Canadian banks actually busier than usual? Are they picking up the slack, but people are exiting? My understanding is that there are some foreign banks exiting and that the Canadian banks are having a hard time keeping up.

I don't feel that it's just small business; I feel that it's credit availability overall.

Mr. Michael Conway: In the appendix, we've segmented our survey into public and private, large and small. We thought that would be helpful input for the committee. We saw across the board that the tightening of availability, the cost increase, and the process difficulty have increased for all sectors, across the board. This is to say that it's not only small business, but when we looked at it closely, small businesses were having the hardest time of it.

Mr. Massimo Pacetti: Yes. They have fewer avenues to go down to get money.

Mr. Michael Conway: Exactly. To your question about availability of credit, certain avenues have shut down. Some of the foreign banks are lending less, certainly on the—

Mr. Massimo Pacetti: Which avenues have shut down, though?

Mr. Michael Conway: On the equipment leasing side—

Mr. Massimo Pacetti: I'm going to that when I speak to Mr.—

Mr. Michael Conway: The foreign groups have shut down; a lot of the U.S. banks are lending less.

Mr. Massimo Pacetti: So they are lending less. Are they just lending less, or are they pulling back?

My understanding is, for example, that BMP is trying to get out of the market.

Mr. Michael Conway: I'll let my colleague, who deals with the syndicates, speak to this.

Mr. Michael Boychuk: I would start by commending the Canadian banking system for what we have. The example we've been able to make on the world scene deserves great accolades.

When we look across the world, there's not a single banking system that, like ours, hasn't had to get aid or become wards of the state. Having said that, there's no question that this is a business. Most of the banks are corporations that are controlled by shareholders, and they're in it to make profit.

To your point, and to what I've seen in the marketplace today, the foreign banks, the schedule II banks, if they're participating, are participating at very minimal levels and are not participating for any extended term. Getting beyond 364-day credit facilities today from a foreign bank doesn't happen.

Mr. Massimo Pacetti: That's my understanding, but is it because they don't have access to credit as the Canadian banks have, or is it just because they don't find that Canada is a place to invest? I guess that's what I'm getting at.

Mr. Michael Boychuk: I would say it's a couple of things. One is that the Canadian banks clearly have the key relationships with the major Canadian companies here, and since banks work from all kinds of ancillary businesses, the foreign banks are in a secondary position. I would also say that they depend on their financing coming from their home countries. As I mentioned earlier, those home countries are in some pretty difficult positions today.

Mr. Massimo Pacetti: Thank you.

Mr. Powell, what happened all of a sudden in your market? Did things dry up? I look at your membership, and there are some pretty legitimate companies, for lack of a better word—some pretty stable companies—and yet the whole industry seems to have dried up. Now we're relying on however many billions of dollars. Is that going to be the problem solver?

● (1025)

Mr. David Powell: I think you've hit the nail on the head.

The crux of the issue is that our members, these non-bank financing companies, relied very heavily on non-bank funding, on insurance companies and pension funds in particular, which would essentially buy the cashflow from a package of leases and loans, and then the leasing company would take the proceeds of the sale of the cashflow and put them forward for new credit. The simple fact is that because of the way the economic downturn has impacted insurance companies and pension plans, they have basically stopped buying.

Mr. Massimo Pacetti: They stopped buying 100%, cold turkey?

Mr. David Powell: It's just gone. Sun Life is still buying, but it has halved its budget. But Canada Life and Manulife Financial are out of the business for the time being, and that's because they've been told they need to allocate their funds for other purposes. It has nothing to do with the quality of the credit or the quality of the products that we're offering. They just need their money somewhere else.

The Chair: Thank you.

We now go to Mr. Kramp.

Mr. Daryl Kramp (Prince Edward—Hastings, CPC): I have a quick question. Your organization, after the traditional lenders, is the largest provider of debt financing. What percentage would you have of the entire market?

Mr. David Powell: The last time I looked at the figures, the banks were up at about $1.3 trillion, or something like that. We're at $112 billion, so that gives you a rough idea. It's a little under 10%, I would think. It's very targeted to consumers and to small business.

Mr. Daryl Kramp: Traditionally, when we go through an economic downturn, I can recall that banks would take a look at particular targeted industries, whether hospitality or tourism or real estate. When times got tough, the lending requirements became much more stringent. Within your organization, do you have any blacklisted or targeted regions geographically, and/or specific industries?

Mr. David Powell: Typically we don't, although they clearly are looking at the credit as a bank in many instances would look at the credit.

The reality is, though, that most of our members are in the business of helping their partners, who are manufacturers, to sell their product. There's a predisposition to want to sell and to finance the product, because that's their job. In the current environment, they will be looking at the ability of the customer to pay, but typically, with a machine, the customer can show that their revenue will be enhanced by the arrival of this new machine; then they'll be likely to get the financing.

Mr. Daryl Kramp: Mr. Powell, you mentioned that there has not been an uptake on some of the options that the banks have had available—and Mr. Boychuk or Mr. Conway might even wish to answer this instead. But as an example, in the last mortgage purchase program options, CMHC has seen the financial institutions.... In February they were willing to buy $7 billion, and yet they only sold $2.3 billion; the banks didn't even take advantage of the full option. In March they had up to $4 billion, and yet they only sold $2.1 billion.

In your opinion, why aren't financial institutions taking full advantage of this mortgage purchase program?

Mr. Michael Boychuk: I think the banks have had quite readily accessible capital in the capital markets themselves. You can see that all of the Canadian banks have been issuing preferred shares. They have been issuing the tier 1 capital through the capital trust notes that have been going out, and they've been issuing it in size, and with very good yield for investors. I think, quite frankly, that today the Canadian banks are well capitalized.

Mr. Daryl Kramp: Great. I'm pleased to see that.

Going to the survey, then, Mr. Conway, maybe you can help us square this circle. You say right in there that access to credit has significantly tightened up, the cost has risen, and the process of securing it is more difficult, in particular for SMEs.

We all recognize, of course, that all of a sudden you're basically telling rural Canada that no credit is available. You don't have your large corporate entities in a lot of your rural areas, yet maybe 70% to 75% of all the SMEs are located there. However, they have no access to capital.

I need to square the circle a little bit. The banks told this committee that their loan portfolios expanded by 12%, 14%, 16%, yet anecdotal evidence we hear—and Mr. McKay raised this issue on a number of occasions—from retail, from wholesale, and from the industrial manufacturing sector says there is no funding available, and of course your survey basically endorses that principle.

I would like to understand who is telling the truth. Is there a contradiction, or is this financing just available totally through other sources?

● (1030)

Mr. Michael Conway: I think it's a question of degree. Our survey differentiated between availability of financing, ranging from very available to available to somewhat available to not at all available, and you had it across the board. In the summary we basically boiled it down to what I refer to as an availability score, and you can see that it dropped.

Our broader survey actually shows that there is a span across and there is availability. For the small businesses, it depends on what they're financing. It depends on the creditworthiness, because banks are businesses. Certain things, such as long-term financing, have tightened more than working capital financing. In particular, the biggest concern relates to the funding of the start-up capital and the follow-on financing for the knowledge economy, something that I think will really drive the creation of jobs and innovation.

Mr. Daryl Kramp: I have a very quick question to Mr. Buell that will totally change things.

On behalf of the seniors organizations in Canada, you made a recommendation to the expert panel on securities regulators. Could you highlight two or three major concerns for this committee's observation?

The Chair: That's not really a quick question, Mr. Kramp. Mr. Wallace has a turn after you. Maybe he can come back to that.

We'll go to Mr. McCallum, please.

Hon. John McCallum: Thank you.

We will return for just a moment to BDC and Mr. Dechert's line of questioning. I will ask Mr. Boychuk the question.

I imagine there are two reasons that BDC may not be doing very much. One is the risk profile issue, and the other is that it's just slow to get its act together, possibly due to a lack of urgency to topple the government. I was really assuming the second aspect, and I'm certainly not asking you to comment on the urgency, or lack thereof, to topple the government, but when you said it was your impression from your members that BDC was not active, did you mean that it was because there weren't enough loans available that were not too risky, or was there some other reason?

Mr. Michael Boychuk: No, I was just expressing what the membership had told us in the survey. I cannot give you a definitive answer as to why. Those are clearly their views, and that's what we were able to obtain through the survey.

Hon. John McCallum: Okay. Thank you.

I'll turn now to the question of pensions. I know Mr. Menzies is doing his tour, and you touched briefly on the subject of this challenge.

I totally agree with you that it's unfortunate that the companies can't pay over ten years, let's say, instead of five years, because that will eat into the current earnings and affect investment and so on, but it's a question of what the pensioners think of this. I think that under current arrangements, they need the agreement of the pensioners if they're to get this extension. Am I correct? My understanding is that more often than not, pensioners would not agree.

If there is such an impasse, what do you think is the appropriate solution?

Mr. Michael Boychuk: I go back to my initial comment, which we've been pretty consistent with. It is that the best security, whether it's a pensioner or a plan participant who is going to retire at some point in time, is a financially strong and viable plan sponsor. At the end of the day, if funds are being diverted from keeping those companies viable and are being put into pension funds, thereby crippling the sponsoring institution, it's not going to be to the benefit of anyone. It's certainly not going to help Canada.

Hon. John McCallum: I don't necessarily disagree with you, but it's a somewhat paternalistic view, because you're saying that you know better than the pensioner what's best for them. The pensioner is aware of that argument; nevertheless, as far as I understand it, they do not accept the extension from five years to ten years because it reduces the security of the pension plans. So they don't agree with that.

Would you still override them and say you know better than they do what's best for them?

Mr. Michael Boychuk: I can't say I can speak on behalf of the pensioners, but I would say to you there is an inherent flaw in the way the calculation of that funding requirement is done today. When you look at trying to assess at a point in time what we call a marked-to-market rate for liabilities going out 10, 20, or 30 years into the future, you're unjustly penalizing the funding of that plan immediately—for the plans that go out for a long period of time.

● (1035)

Hon. John McCallum: So I guess your position is—and correct me if I'm wrong—that irrespective of what the pensioners might say, you are recommending what you are because you think it is the right conclusion to come to.

Mr. Michael Conway: I guess, ultimately, it's a balance. We recognize the difficult decisions you have to make in balancing the logic of aligning the funding of the solvency deficits with what we think is a logical alignment over the lifetime in which they relate, against some of the concerns of the retirees and the participants. But we have also come forward and said that we actually stand for a lot of things they stand for, that is, transparency, or opening up and becoming far more transparent in providing regular valuations and providing those valuations to everyone openly and transparently.

Mike mentioned the importance of the strength of the plan's sponsor; and the other thing that will certainly help everyone is the strength of the economy. So it is a balance between getting the appropriate amount into the pension plans and having the corporations have enough money to put it into the economy get it moving again.

Mr. Michael Boychuk: I would just add to the quid pro quo side of the equation that it's not all a case of just giving to the corporation and giving nothing to the pensioners or beneficiaries of the plans. As my colleague has just commented, we advocate things such as, let's do an annual evaluation every year. Today, if you have a surplus, you can wait three years to file your next annual evaluation. In that intervening period of time, say from 2007, you wouldn't have to file again until 2010. In the meantime, everyone knows what has happened in the market. So is that right for the plan members? We don't think so.

Hon. John McCallum: Thank you.

The Chair: Thank you, Mr. McCallum.

We'll go to Mr. Wallace, please.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chair, and thank you, guests, for coming this morning.

I think I'll focus on Mr. Powell for a minute, just to make sure I understand this. I know you've been working with the finance department on this particular item.

I've heard from the constituents and people in my area who deal with floor plan financing—which we talked about before the meeting began. Floor plan financing is not just by car dealers, but also by others. Well, the one who came to see me was a recreational dealer who needs somebody to finance his boats to sit there until he sells them to customers. And there are other organizations that sell or lease heavy equipment, such as backhoes, for example, and all of those things that construction companies don't necessarily want to keep on their inventory as capital equipment, but to lease when needed, and then to return.

When we've been talking to people about the credit facility we're offering, the $12 billion, we're mostly talking about autos, to be frank with you. Are you comfortable that there are other things on the table being discussed at the time, so these other organizations may have access to government-sponsored capital, as it were, and be able to provide leases for their equipment?

Mr. David Powell: There's no question that most of the discussion in the media about this program and, I think, generally has been around the auto sector, but the budget was quite clear in talking about vehicles and equipment. I think that's important to remember.

Yes, part of that discussion has always been about floor planning, and certainly the BDC, when it carried out its consultation at the end of February, included floor plan loans as eligible assets. So I think there is an expectation that it would be included in the overall package.

Mr. Mike Wallace: My next question might be a little tough.

We've had some difficulty in this country with non-bank asset-backed paper. The courts have to get involved and confirm a deal to make it happen. And to be frank with you, based on the testimony I heard when we were dealing with this in committee, not only did investors not know exactly what they were buying, but I would also say that some of the people selling it didn't know what they were selling.

What comfort level can you give me, since we are now talking about non-bank commercial paper again, that instead of private investors buying it, the government is going to be buying it? What's the difference there, and why should the taxpayer be comfortable that we're doing the right thing in this case?

● (1040)

Mr. David Powell: Thank you very much for the question, because I think it deals with an important clarification that I would want to bring to this committee.

ABCP, as it was called, is asset-backed commercial paper. As I understand it, essentially commercial paper is like a corporate IOU, where a company comes forward and says, we'll pay you a certain amount on a certain day. But we're talking about an asset-backed security, which is different in the sense that we're talking about actual assets being generated by cashflow from car loans and equipment loans and leases. So you have an actual hard asset behind this particular package.

What essentially happens, as I mentioned earlier, is that a leasing company will take a bunch of leases, bundle them together, and sell the cashflow to private investors, principally insurance companies and pension funds in the past, who had longer-term time horizons. Now we're turning to the government and saying, we're selling this to you; but what we're selling are actually hard assets. There's no mystery instrument in there. There are no derivatives; there are no fancy products. These are things you can go and kick if you want to go and kick them.

So these are hard assets, and our members understand what they are. And they are also under a responsibility to take these back if they don't perform as they're supposed to, the way they're traditionally structured.

Mr. Mike Wallace: Very quickly, are the companies you listed at the back of your presentation still in business? I ask because we've talked about the secondary market shrinking, and I'm assuming that some of them are no longer in the leasing business.

Mr. David Powell: A few have exited the business. They're essentially Canadian subsidiaries of American firms who were pulled out of the Canadian marketplace—not because the Canadian marketplace wasn't profitable, but frankly, because Canada in many instances is just a rounding error on their balance sheets. It was a decision made elsewhere.

But if the program doesn't get going, we will probably see some more companies exiting the business.

Mr. Mike Wallace: Thank you very much.

The Chair: Thank you, Mr. Wallace.

We'll go to Monsieur Mulcair.

[*Translation*]

Mr. Thomas Mulcair: Thank you, Mr. Chair.

I'd like to briefly return to a point made by Mr. Boychuk previously. In describing the problem, he talked about the mark-to-market accounting rule. Last week, this committee had the opportunity to meet with a university professor who raised the same problem. I'd like our witness to provide us with more details on this topic. We are here to make suggestions, from time to time. The budget has been adopted, but perhaps there is room to refine certain things.

He must certainly recall that four or five weeks ago in the United States, the possibility of changing the mark-to-market rule was raised. Markets then reacted swiftly. In the one hand, this can be seen as an indication that tweaking this rule could give rise to problems of false market values. On the other hand, if, because of current conditions, we are not able to put a value on things that are inherently of value over the long term, perhaps this rule has to be replaced with something else.

I'd simply like him to share with us the fruit of his experience and even a few observations or suggestions, if he has any.

[*English*]

Mr. Michael Conway: FEI Canada has various technical committees, one of which is the committee on corporate reporting, and so we spend a lot of time talking with the standard setters and accounting regulators. You're right that marked to market is certainly something that's garnered a lot of headlines.

I guess there are a couple of things about it. It's the value at a point in time, and that means a couple of things. The value is the value set if you have a mechanism to accurately measure that value. But the other thing is that it's at a point in time. So if the market swings the way we've seen over the last year, down 17% one week and up 20% the other week, well, you have to be lucky as to when your year-end is.

Ultimately, there was something back when I was in school many years ago called the efficient market hypothesis, which basically said to disclose everything and then it really shouldn't matter, because it will be completely transparent as to what the value of the instrument is. One of the things to ensure is that all of the information is out there so that, whichever model is used, at least the investors have all the information available to them to make the assessments.

● (1045)

[*Translation*]

Mr. Thomas Mulcair: Thank you.

Ms. Walmsley, you ended by saying that "there is a hodgepodge of regulations" which is a very innocuous, but general statement. Now that we're on our second round of questions, I'd like to give you the opportunity to provide a more precise answer. In fact, as legislators, we have to work with very specific things. We're here to draft laws and write rules that will be applied stringently by the competent authorities.

You used the term “hodgepodge of regulations” but I'd like you to be more precise. The passport system was developed over the course of recent years to regulate financial markets in Canada, from one province to the next. I'd like you to give me a specific example of what has not worked and a specific example of a problem that could be resolved if a single centralized securities regulator were established. This has been a matter of provincial jurisdiction since 1867. Civil law, which we are talking about today, has always fallen within the authority of the provinces. This would cause a real constitutional shakeup. I'm not asking you for your opinion on this topic: I simply want you to tell us specifically what your suggestion would change.

[*English*]

Ms. Katie Walmsley: I'll talk specifically about the way the system works right now and then ideally how it would work under a single regulator. Right now the banks in Canada are getting a fair bit of recognition internationally, and our regulatory system—

[*Translation*]

Mr. Thomas Mulcair: One moment, Madam: the banks are under, and have always been under, federal jurisdiction. They have always been regulated by the federal government. Earlier, you said that there was a problem, and that in your opinion, the solution was the creation of an entirely new structure, located in Ottawa, in charge of regulating all financial markets and securities in Canada. Why?

[*English*]

The Chair: Just be very brief, Ms. Walmsley.

Ms. Katie Walmsley: The banks, I believe, have done well in Canada because there has been one regulator. Right now, for securities regulation in Canada, we have 13 regulators.

The passport you referred to provided a somewhat improved registration process, and simplification. However, one of the key benefits of a single regulator is enforcement. My colleague Mr. Buell talked about investor protection. A passport does not do anything for enforcement of investor protection.

[*Translation*]

Mr. Thomas Mulcair: Can you speak to us of one single case, anywhere in Canada, where criminal laws were not enforced because of the current system?

Thank you.

[*English*]

Mr. Thomas Johnston: Can we respond further to that?

The Chair: Just very briefly, Mr. Johnston.

Mr. Thomas Johnston: It's a well-directed question, and I think my colleague did address it.

The problem with the Canadian securities regime and why we stand out as the only country in IOSCO, besides Bosnia and Herzegovina, that doesn't have a single regulator is that there hasn't been enough enforcement. It goes to Mr. Buell's point that it's harder to coordinate when you have 13 different groups and national firms. That's the key advantage. All our industries will benefit from greater scrutiny and better enforcement. It enhances confidence, and it's going to get the credit flowing.

The Chair: *Merci*.

I want to thank all the witnesses for their presentations here and for answering our questions.

Members, we do have a motion to deal with and we also have a subcommittee meeting.

The witnesses are excused, but thank you all for being with us here today.

We'll suspend for a minute and then resume with the motion.

Thank you.

●

(Pause)

●

● (1050)

The Chair: We'll call the meeting back to order.

I have the motion by Monsieur Laforest before me. I'm going to make a ruling on it. The ruling will not surprise Monsieur Laforest. It will not surprise anyone on the committee. It's the same ruling I've given on all of these motions dealing with this issue.

We have checked this procedurally with the clerk. We've checked this procedurally with the clerk of the clerks. This is my formal ruling on the motion.

First, Monsieur Laforest's motion reads as follows: “That the Finance Committee recommend that the government increase the Parliamentary Budget Officer's budget to $2.7 million, as was planned for 2009-2010, and that the Committee report this motion to the House.”

I would refer members to the mandate of the finance committee, as specified in Standing Order 108(2). I will not read that entire standing order; I would just refer members to that.

I'd also refer members to the mandate of the Parliamentary Budget Officer, as defined in section 79.1 of the Parliament of Canada Act. I'm going to read that into the record:

> The Parliamentary Budget Officer
>
> 79.1(1) There is hereby established the position of Parliamentary Budget Officer, the holder of which is an officer of the Library of Parliament.

This comes further on:

> Mandate
>
> 79.2 The mandate of the Parliamentary Budget Officer is to
>
> (a) provide independent analysis to the Senate and to the House of Commons about the state of the nation's finances, the estimates of the government and trends in the national economy;
>
> (b) when requested to do so by any of the following committees, undertake research for that committee into the nation's finances and economy:
>
> (ii) the Standing Committee on Finance of the House of Commons or, in the event that there is not a Standing Committee on Finance, the appropriate committee of the House of Commons, or

The Standing Joint Committee on the Library of Parliament is therefore the appropriate forum for such a study, as this motion suggests.

Furthermore, Standing Order 108(4) states:

> So far as this House is concerned, the mandates of the Standing Joint Committee on
>
> (a) the Library of Parliament shall include the review of the effectiveness, management and operation of the Library of Parliament;

I therefore declare the motion out of order because it exceeds the mandate of the Standing Committee on Finance. It is, instead, within the mandate of the Standing Joint Committee on the Library of Parliament.

That is my ruling. I am ruling this motion out of order. Monsieur Laforest can challenge that ruling.

You have a point of order, Monsieur Laforest.

[*Translation*]

Mr. Jean-Yves Laforest: That's exactly what I'm going to do, Mr. Chair. That is why I am raising a point of order. I dispute your ruling.

[*English*]

The Chair: Okay. My ruling is—

[*Translation*]

Mr. Jean-Yves Laforest: I can understand that you based this ruling on the committee's mandate, but I, for one, believe that the committee's mandate also includes responsibilities with respect to the new position of the Parliamentary Budget Officer. In fact, this is closely related to the responsibilities of the Standing Committee on Finance.

● (1055)

[*English*]

The Chair: You've challenged my ruling. Okay.

It's not debatable. Therefore, the question, I believe, is that the chair's ruling be sustained.

An hon. member: Recorded vote, please.

The Chair: Okay. The recorded vote is on whether the chair's ruling be sustained.

(Ruling of the chair overturned: nays 6; yeas 5)

The Chair: So the chair's ruling has not been sustained.

Mr. Mike Wallace: Procedurally, what happens to this motion? Will this go to the House? Is it possible that the Speaker will rule it out of order? That's if the motion carries.

The Chair: The committee has not sustained my ruling. Therefore, we actually go to debate on the motion.

I don't want to predict what the Speaker would do, but the advice we were given had procedural advice from very high up. So I think you can guess—

Mr. Mike Wallace: As high as you can get, I bet.

The Chair: Monsieur Laforest, you can move your motion.

[*Translation*]

Mr. Jean-Yves Laforest: Mr. Chair, I thank the members who voted in favour of overturning your ruling. I firmly believe that it is incumbent upon the finance committee to make a decision and formulate a recommendation accordingly. As I was saying previously, to date, it is the finance committee and all Canadians and Quebeckers who are benefiting the most from the services provided by the Parliamentary Budget Officer.

In addition to the amendment motion tabled by the Liberal Party and subject to adoption of the budget, the committee asked that the Parliamentary Budget Officer report on the analysis of the reports that the government is obliged to table. These are absolutely essential matters. To date, the work of the Parliamentary Budget Officer has been excellent, and has allowed us to carry out an objective and complete analysis of this country's finances.

I also believe that we absolutely must maintain the budget of the office, as initially promised. By adopting this resolution, the House of Commons will receive a clearly favourable opinion, that will serve the interests of all citizens.

Thank you, Mr. Chair.

The Chair: Thank you, Mr. Laforest.

[*English*]

We'll go to Mr. Menzies, please, and then Mr. Pacetti.

Mr. Ted Menzies: Thank you, Mr. Chair.

When we received notice of this, I did some research into it. I tend to agree completely with our chair. It has been explained on many occasions, but since we've had several motions and indications of motions being proposed at this committee to look into the mandate of the budget officer, I would like to set the record straight on these motions: they are entirely outside the mandate of this committee.

The Standing Joint Committee on the Library of Parliament is currently studying these matters. I would like to inform you of what has been testimony at this library committee.

On March 12, Mr. William Young, the Parliamentary Librarian, stated this before committee:

> A plain reading of the relevant statutory provisions within the Parliament of Canada Act shows that the PBO is an officer of the library and is subject to the control and management of the librarian and not a stand-alone office.

In response to a question from Monsieur Laforest, which was premised on a 30% cut in the PBO budget, Mr. Young went on to say:

> There was no budget cut for the Parliamentary Budget Officer. He received the same increase as the rest of the library received. It was not reduced by 30%. There was what I'd call a notional allocation. There was no authorization for any amount of money.... Quite frankly, the Parliamentary Budget Officer was not treated any differently from any other service head in the Library of Parliament.

At the meeting of the library committee on Thursday, March 26, Mr. Joe Wild from Treasury Board further informed the committee of the following:

> As I just noted, the legislation expressly states that the research and analysis provided to parliamentarians by the PBO is to be independent. The Library of Parliament reports through the Parliamentary Librarian to the speakers of the House and Senate, and its direction and management are completely independent from the executive, meaning the government. This means that the Treasury Board Secretariat and other central agencies play no role in determining how the library and its offices, including the PBO, operate or perform their mandates. The estimates for the library are prepared by the Parliamentary Librarian, approved by the speakers of the House and Senate. They are then transmitted to the president of the Treasury Board, who tables them in Parliament, and nothing more.

Mr. Chair, the motion before us asks the government to do what it expressly is not allowed to do—namely, set the budget of a division of the Library of Parliament. This would be an intrusion of the executive into the business of Parliament and would call into question the independence of the Parliamentary Budget Officer and, by extension, the Library of Parliament.

I respectfully submit to all honourable members that this matter be taken up with the librarian, and the librarian only.

Thank you.

● (1100)

The Chair: Thank you, Mr. Menzies.

I have Mr. Pacetti.

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

[*Translation*]

In principle, I'm in favour of the motion, but I'm torn. The Parliamentary Budget Officer should report to the Committee on Finance. Since we do have a financial responsibility, I do not agree with approving an amount of $2.7 million when we have never received an analysis of how this money would be spent. The Parliamentary Budget Officer has never appeared before us to talk about how he intends to use this money.

Why should we approve the amount of $2.7 million? Perhaps we should be asking for a much higher amount, or a much lower amount. During this time of economic crisis, we should be more responsible, rather than simply adopting a motion that would approve the earmarking of $2.7 million.

[*English*]

The Chair: Thank you.

Monsieur Mulcair.

[*Translation*]

Mr. Thomas Mulcair: Mr. Chair, I wish to let Mr. Menzies know that I do not see how this committee, which Mr. Kevin Page must indeed report to, is in any way whatsoever taking anything away from anyone by expressing its concern over imminent budget cutbacks and stating that it wishes to see the budget restored to promised levels. I do not wish to ascribe unworthy motives to my colleague from the Conservative Party. However, I have a hard time understanding his interest in voting against something so straightforward. It is the expression of this committee's wishes.

I intend to vote in favour of the motion. I do not have the same feelings as those expressed by my other Liberal colleague. I only hope that Liberal solidarity will last for at least the next three minutes. That is why I will conclude my remarks now, before they have an opportunity to concoct a third position.

● (1105)

[*English*]

The Chair: Thank you.

Mr. Wallace would like to address your motion.

Mr. Mike Wallace: The point that the parliamentary secretary was making was having a respect for this place that we've heard from opposition members over and over again from the other side. You did what was required of you as chair, to follow up on whether this was actually a legal motion here, whether we have the legal responsibility of the budget of the budget officer. And it was clear that there is another committee they are assigned to.

We have heard nothing, as Mr. Pacetti has said, in terms of determining whether it's the right amount or not. It's done in another committee that has members from the Bloc, the NDP, the Liberals, and the Conservatives. They have an opportunity to ask questions. In fact, Monsieur Laforest was at that committee meeting, asking questions. If you can't get it there, you come here. Is that how it works?

Our friends across the way have talked about respect, working together, and all these things. Voting for this motion today flies completely in the face of those comments. The respect, the ethics of dealing with this—

An hon. member: Whoa, whoa.

Mr. Mike Wallace: What, you don't know how to spell it?

Now, if it passes or not, I'm comfortable that it'll go to the House and it'll probably get thrown out. But what makes me a bit angry today is that we talk about trying to get things done here. We heard earlier today about delay and so on and so forth. Well, this is exactly what we're doing here.

And we're not doing it, Mr. Chair.

The Chair: Okay. Thank you, Mr. Wallace.

Mr. McCallum.

Hon. John McCallum: Mr. Menzies isn't right when he talks about the government not being able to or having the right to influence spending within the library budget, because here's the government's own estimates—this is the 2008-09 plan—and it says: “Spending in the Library of Parliament is increasing by $3.0 million or 8.2%, of which $1.9 million is for the new office of Parliamentary Budget Officer.” So there we have it. We disagree with that because they've arbitrarily reduced that number from the amount that was previously agreed upon, and that is what the subject of this vote is.

Mr. Chair, is it appropriate for me to move that we proceed to the vote?

The Chair: I have Mr. Laforest on the list to address the motion.

I'm happy to go to a vote if members are. We'll have a recorded vote.

(Motion agreed to: yeas 6; nays 1)

The Chair: The motion is in favour, so we will present this to the House tomorrow.

Members, we will adjourn the meeting to go in camera. We do have a subcommittee meeting. It's been suggested by one of the vice-chairs that if other members want to stay and participate they're welcome to do so, but we will adjourn and go into subcommittee.

This meeting is adjourned.

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