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Chair

Mr. James Rajotte

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● (0900)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call to order the 21st meeting of the Standing Committee on Finance. We are continuing today our study on access to credit, focusing our second of three meetings on pensions.

We have several organizations with us here today. We have the Public Sector Pension Investment Board, the Pension Investment Association of Canada, Teamsters Canada, the United Senior Citizens of Ontario, and an independent analyst, Ms. Diane Urquhart.

Monsieur Laforest has a point of order.

[*Translation*]

Mr. Jean-Yves Laforest (Saint-Maurice—Champlain, BQ): Mr. Chairman, could you possibly reserve five minutes at the end of the meeting to discuss our future business and the scheduling of upcoming meetings? Is that all right?

[*English*]

The Chair: Absolutely. Thank you.

If we can have each organization and individual present an opening statement of five minutes, we'll go down the line. Then we'll start with questions from members.

We'll start with the Public Sector Pension Investment Board.

Mr. John Valentini (Executive Vice President, Chief Operating Officer and Chief Financial Officer, Public Sector Pension Investment Board): Good morning.

Mr. Chair and members of Parliament, I want to thank you for inviting us here today to discuss the current liquidity crisis, its impact on our financial system, and in particular its impact on pension funds.

My name is John Valentini. I am executive vice-president and chief operating officer of the Public Sector Pension Investment Board, otherwise known as PSP Investments. With me here today is Pierre Malo, first vice-president of asset allocation strategies and research.

[*Translation*]

PSP Investments is a Crown corporation created in 1999 by the Government of Canada to invest net contributions received after April 1, 2000 from the pension plans of the Public Service, the Canadian Forces and the Royal Canadian Mounted Police. We also manage employer and employee contributions to the Reserve Force Pension Plan made after March 1, 2007.

We are one of the youngest and fastest-growing investment managers. It is important to note that we are an investment manager and not a pension plan manager. Responsibility for liabilities rests with the federal government. The pension payments under defined benefit plans are guaranteed by the Government of Canada. We report to the Treasury Board and to each of our stakeholders, through their respective ministers, the Minister of Public Safety and the Minister of National Defence. The Office of the Chief Actuary of Canada produces a triennial report on each of the Plans, and the next one is scheduled to be released this year for the period ending March 31, 2008. Our financial statements are also audited by the Auditor General of Canada.

Historically, we have performed favourably amongst our peers in Canada. According to RBC Dexia, in the past four fiscal years ending March 2008, we ranked in the top quartile of peer pension funds in Canada based on investment performance. However, our short-term performance these past two years has clearly been impacted by the liquidity crisis that began in 2007. The ABCP crisis was clearly one of the first consequences of the global liquidity crisis. I know that this committee has studied ABCP, so I will not prolong my discussion of it, other than to say that we are extremely fortunate that the PanCanadian Investors Committee for the Restructing of Non-Bank ABCP was able to successfully restructure the non-bank ABCP market in Canada.

● (0905)

[*English*]

PSP Investments participated actively in the restructuring process. A successful resolution of the crisis is a major achievement that will help most investors, small and large, to ultimately recover the majority of their investments.

Until the fall of 2008, the global liquidity crisis remained somewhat contained. Then, in September 2008, the other shoe dropped. The financial world changed dramatically after the collapse of several large financial institutions. Confidence was broken, and financial markets around the world plunged. It was the worst sell-off since the Great Depression.

Liquidity disappeared and volatility increased dramatically. Buyers became sellers. Many investors were forced to sell their investments across all asset classes at depressed prices. While managing liquidity was challenging last autumn, PSP managed to work through that time quite effectively.

It is important to note that this was not the first time in the past decade that we experienced such a large market movement that affected pension fund returns. In 2001 equity markets dropped approximately 18%. In our own fiscal year of 2004, equity markets and PSP Investment performance rose more than 25%.

There is no doubt that the current financial crisis exacerbated a serious problem that was already present in the pension industry—namely, the funding position of many pension plans. When looking for solutions to this problem, one has to look at the basic equation of a pension plan: net contributions plus investment returns—the assets—should equate the present value of the future benefits to be paid—the liabilities. If contribution levels or investment returns are too low, or if the liability structure changes, then we see a deficit developing.

I will concentrate on how investment managers try to mitigate the market volatility. In the case of PSP Investments, the investment policy is developed taking into account the liability structure of the pension plans, the desired contribution level of the stakeholders, and the perceived risk appetite of the sponsor and stakeholders. We are currently working with Treasury Board Secretariat and the Office of the Chief Actuary in developing a financing policy that would clarify these key elements.

How do we invest the net contributions? In an ideal world, the net contributions we receive could be invested in Canadian government inflation-linked bonds, and the risk associated would be zero. Unfortunately, this is not a feasible solution. Therefore, we need to invest in different market instruments with a higher risk-adjusted return. This is done through diversification. Since 2004, PSP Investments has diversified into more asset classes, including private investments, real estate, and infrastructure. Diversification has added significant value to PSP's investment performance over that period.

In fact, a review of long-term results that we had performed ourselves last year on the major funds in Canada indicated that private investment returns in real estate, private equity, and infrastructure all outperformed the total overall return of each of those funds, thus outperforming public markets.

PSP Investments is in a unique position. We have the liquidity and the flexibility to take a long-term view of our investments. Each year we receive a steady inflow of new funds of almost $4 billion. Net contributions are projected to remain positive until the year 2030. Because of this, we are less affected by the crisis than many other investors.

We are seeing distressed price levels for many assets, including solid infrastructure and real estate assets with good cashflows and built-in price increases. As patient buyers, we are well positioned to benefit from the drop in asset prices, which means that our stakeholders will ultimately benefit from today's distressed prices. That is good for our stakeholders, and that is ultimately good for the Canadian taxpayer. Of course, for us to succeed, we need markets and the global economy to succeed as well.

I would like to thank you for your attention and for giving us the opportunity to address you today.

The Chair: Thank you very much.

We'll go to the Pension Investment Association of Canada, please.

Ms. Barbara Miazga (Secretary-Treasurer, Pension Investment Association of Canada): Thank you.

I'd like to thank the committee for inviting the Pension Investment Association of Canada, or PIAC, to appear today. I'm Barbara Miazga. I'm the secretary-treasurer of the board of directors of PIAC.

PIAC has been a collective voice for Canadian pension funds for over 30 years now. PIAC is actively involved in advocacy on behalf of its members. An example of that would be the submission made in response to the financial sector division of the Department of Finance in response to the consultation paper on private pensions, dated March 13, 2008.

My remarks today will be centred on the highlights of that submission. Moving into the background, this committee study is on measures to enhance credit availability and the stability of the Canadian financial system. The relevance to PIAC is more towards the stability of the Canadian financial system. PIAC's position is that the stability of defined benefit pension plans in Canada is integral to the overall stability of the Canadian financial system. There are really two areas in which our members impact the financial system.

One is that the financial markets are largely dominated by large institutional players. Our member funds have responsibility for oversight and management of over $940 billion in assets, so that has a significant impact. Any activities in the pension industry impact the capital markets.

The other area is that defined benefit pensions have a significant impact on the economic well-being of millions of Canadians. Those both go to PIAC's mission to promote sound investment practices and good governance for the benefit of pension plan sponsors and pension plan beneficiaries.

In the submission that PIAC made on March 13, PIAC proposed that the Government of Canada could take steps to alleviate some of the funding and regulatory challenges that pension plan sponsors are facing. Those are related to the shrinkage in defined benefit plan coverage in Canada. That decline is more pronounced for private sector workers. The fundamental reasons for the decline and for the greater impact on private sector workers are the funding challenges, the risk-reward asymmetry, and a complex regulatory regime.

There are three steps that PIAC proposes the Government of Canada could take. The first of those steps is to ease the solvency funding requirements and address the risk-reward asymmetry in the rules regarding surplus entitlement. The reason for focusing on solvency funding is that the solvency calculation is only one of two calculations to determine the funded position of a pension plan. Solvency is hypothetical in the scenario where there's a plan wind-up. The stronger the plan sponsor and the less likelihood of a wind-up, the less relevant is the solvency calculation.

So we're focusing on solvency relief as being a key component in that first step. That can be done by unconditionally extending the amortization period for solvency funding from five years to ten years for financially strong companies. It could also be achieved by providing plan sponsors with the flexibility to use letters of credit, which already exist on a permanent basis in both Alberta and British Columbia. It could also be achieved by permitting plan sponsors to establish special purpose accounts—we're calling them solvency accounts—that are independent from the main pension trust. If we do that, we will avoid the situation of trapped surplus, in which plan sponsors make solvency payments that in the future form part of a surplus. In the past, those surpluses have resulted in changes to the benefit structure that have been long-term and permanent. If the solvency account is independent from the main plan trust, that alleviates the situation of that trapped surplus.

The second step the Government of Canada could take is to facilitate the opportunity for plan sponsors to enhance the funded position of their pension plans, when they are able to do so, by amending the Income Tax Act to allow plan sponsors to make contributions beyond the current 110% to at least 125%. Doing that would allow a more sufficient cushion to be built during the good times to provide some downside protection in the tough times.

● (0910)

The final step that could be taken is to hold pension investments to the standard of a prudent person and eliminate all quantitative limits on investing. I'll focus on two reasons for eliminating the quantitative limits: one, it puts Canadian pension plans on an unlevel playing field with foreign pension plans and foreign jurisdictions not subject to those restrictions; and two, it's arbitrary.

In conclusion, funding flexibility and regulatory relief will safeguard the long-term viability of defined benefit pension plans, thus contributing to the overall stability of the Canadian financial system.

Thank you.

● (0915)

The Chair: Thank you very much for the presentation.

We'll now go to Teamsters Canada, please.

Mr. Phil Benson (Lobbyist, Teamsters Canada): Thank you, Mr. Chair, for having us here this morning.

My name is Phil Benson. I'm the lobbyist for Teamsters Canada.

Teamsters Canada is a labour organization with more than 125,000 members. It is affiliated with the International Brotherhood of Teamsters, with more than 1.4 million members across North America. We represent workers in several sectors, including transport—air, rail, road, and ports—retail, motion pictures, breweries and soft drinks, construction, and so on.

In our September 2005 submission, we stated that the private pension plan system in Canada, the U.S., and other G-8 countries is entering a period of financial crisis caused by years of inappropriate practices by those responsible for the well-being of these plans. The financial deficit of the system is in the billions, if not the trillions, of dollars. Those responsible include government and government regulators, plan sponsors, and professionals involved with the operation of the plans, including actuaries, investment managers, accountants, lawyers, and others.

After 40 years of regulation and more than a decade of unprecedented economic growth, it is unforgivable that there is a pension plan crisis in Canada. If it were a crisis during boom times, what could we expect three months into a recession? What should we expect?

We submit that nothing will change unless you have the courage to fundamentally change the regulatory regime underpinning pensions, one that recognizes that pensions are foregone wages of workers and that stops corporate greed. There should be no questions of if, only, when, and how.

Let's start with fundamentals.

Pensions are not a gift from a company. Pensions are foregone wages—a contract between the company and the worker. The regulations do not recognize that relationship, nor do they protect it. The only reason for a pension plan to exist is to deliver promised pensions to current and future retiring members of the plan. Fiduciary duty must mean fiduciary duty—no payment holidays, no surplus clawbacks.

It really comes down to risks. For pensioners and workers, risk is zero in real terms. The money has to be there. Under the current regulatory regime, pensions are viewed by companies as just another investment to manage within their goals of maximizing shareholder returns. After all, when a company boosts income and returns to shareholders, it pleases investors and fattens CEO compensation packages.

People talk about a company's risk, but we don't think there's much. If there's a surplus in the plan, take a payment holiday. If there's a solvency issue, claim financial problems and spread the solvency problems over 10 years. If a company goes bankrupt, the CEO will get a buyout and I guess he will have to downsize to a 75-foot yacht.

The underfunded pension plan means employees lose their pensions. This is not fantasy. Teamsters are at risk of losing payments from the Nortel pension plan, while the company is paying a retention bonus of $45 million to its executive officers.

The companies coming and begging for relief say they need to pay less into the underfunded pensions so they can invest in the capital items for the company, create jobs, and grow the economy. That's a great line for 2009, but that's exactly what they said in 2005 and 2006, when this started. The fact that companies admit it proves our point. To companies, the pension funds are just another capital pool to fund their ambitions. And silly us, we thought companies had a fiduciary duty to beneficiaries—clearly not. Our members and the public don't buy that argument, and we hope you don't either.

Let's talk about establishing the principle of delivery of pensions with a very high degree of certainty. Investment policies should be focused on the primary objective of meeting obligations.

Eliminating the holiday for pension payments when a plan is in surplus would send the message to lower the investment risks. Accepting the fact that pension plans are foregone wages and giving all surpluses to the beneficiaries would further that goal.

Treat pensions in the same manner as insurance, forcing a move toward bonds and away from equities. Conventional wisdom that stocks beat bonds is, well, conventional.

I gave you an article from the *National Post* by Mr. Gold and Mr. Bader, and I quote:

> Venerable pension consultant Peter Bernstein reports that over the most recent five, 10 and 25 years, U.S. Treasury bonds earned more than U.S. equities.

I'll add, there's no money in selling bonds. Of course, some claim that all bond funds would be too expensive. Well, some information just came to me. A company that we deal with has 40% of its funds in the market. It admitted that's what was causing the deficit in the fund. A wholly bond fund would have cost $30 million to $40 million a year over the past 15 years, a term of record profits. It faces $300 million a year over five or $150 million over 10.

We have pension plans because of the demands of citizens coming out of the Dirty Thirties and World War II. Come to think of it, we have just about all of our social programs because citizens demanded them.

● (0920)

I will tell you, companies don't want pension plans, they don't want unemployment insurance, CPP, workers' compensation, or welfare. They don't want health and safety laws. They don't even want to pay wages. Come to think of it, isn't that why we're here?

The two largest voter blocks, by turnout and size, are seniors and baby boomers. Seniors want to continue to receive their pensions and baby boomers are finally getting serious about retiring. Politicians long ago made their decision who they stood with; now it's your turn.

At the beginning of this presentation we asked you to have courage to dare to make changes. And I do want to be very clear that Teamsters Canada is willing to work with any and all of you to make better laws and regulations that will protect working people on the job and long retired.

Thank you for having me here. I look forward to your questions.

The Chair: Thank you very much for your presentation.

We'll now go to the United Senior Citizens of Ontario, please.

Ms. Marie Smith (President, United Senior Citizens of Ontario): Thank you.

Good morning, everyone. Good morning, Mr. Clerk.

I'm Marie Smith, president of the United Senior Citizens of Ontario. It is a pleasure to be here today to bring our problems to you.

There is great anxiety among the 300,000 seniors who are members of the United Senior Citizens of Ontario about the financial crisis. Companies are filing for bankruptcy protection and going bankrupt while their pension funds have large deficits. Seniors are worried their pensions will be cut. Personal retirement savings have been hit. Seniors are afraid to spend money because they need to preserve their capital.

The professional investment managers of Canada's pension funds have let seniors down. Pension funds bought high-risk investment products, allowing financial companies to amass these toxic products on their balance sheets. The bank executives, and the pension fund managers themselves, were paid millions of dollars in compensation based on false profits from high-risk products. Now the pensioners have to pay for their greed and possible fraud. The pension fund managers let this happen without uttering a word to us.

The United Senior Citizens of Ontario and our affiliate, the National Pensioners and Senior Citizens Federation—one million senior members—have been working with Diane Urquhart since 2006 on financial abuses affecting seniors. Pensioners and senior citizens are suffering billions of dollars in losses in their retirement accounts due to unsuitable and fraudulent investment products. These are being sold to them on the basis of misleading marketing information. We conclude that our members' interests are not being protected by current self-regulatory organizations and provincial securities commissions governing securities and accounting standards.

Representatives of the United Senior Citizens of Ontario, better known as the USCO, and the National Pensioners and Senior Citizens Federation met with federal public safety ministry officials and the opposition public safety critics in Ottawa on March 30. We have told these public safety officials that the first priority for structural change in the field of securities is to rebuild how the securities crime policing is done in this country. The USCO supports the proposed new Canadian securities crime unit developed by the respected and recently retired detective sergeant of the Toronto Police Services fraud squad, Gary Logan. We need to listen to Gary Logan because he is a success story in securities crime policing. Mr. Logan put two of Canada's notorious rogue brokers in jail—Michael Holoday and Nelson Allen.

I would also like to bring to your attention that seniors are having difficulty surviving on the old age security and the CPP pension plans. These seniors on low incomes would welcome an increase so they can have both heat and food in their homes.

Seniors would also like to thank the government for income splitting. What can you do for individuals who still have the same expenses but now find themselves living alone when everything costs the same in their home?

I'll be interested in your questions.

Thank you very much.

● (0925)

The Chair: Thank you very much for your presentation.

Now to Ms. Urquhart for your opening statement.

Mrs. Diane Urquhart (Independent Analyst, As an Individual): Good morning. I'm going to speak this morning about toxic investment products and how they've contributed to the financial crisis in Canada.

My apologies. I have a very hoarse voice this morning. Hopefully I'll get through this.

The financial crisis in Canada is wreaking havoc on millions of Canadians through pension fund underfunding, lost savings, and now lost jobs. We have the filing for bankruptcy protection in Canada of AbitibiBowater, Smurfit-Stone, Masonite, and Nortel, and General Motors is expected to do so as well. I'd like to note that the Nortel case is a legal precedent-setting one in which a major corporation of Canada plans to lay off thousands of people and not pay severance. In addition, the Nortel pension fund is expected to have a deficit of as much as 40%. So there is real anxiety among the Nortel pensioners and the severed workers of Nortel.

In many instances, the corporate calamities that are leading to the distress in the world can be tracked back to securities crime. There has been no policing, intervention, and deterrence in our country. Effective securities crime policing is a necessary ingredient for the stability of Canada's financial system. The world's financial system, including Canada's, has been rocked with systemic fraud in subprime mortgages—structured income products sold by the securities industry.

I've given testimony to your committee on two occasions: once on the income trust product, which we said was subject to systemic fraud in deceptive yields; and more recently on the non-bank, asset-backed commercial paper product, in which there is presently 85¢ of market-to-market loss on the dollar. That represents $27 billion of current losses in the asset-backed commercial paper product line of Canada. As I warned on the income trust product in 2005 and 2006, we have over $30 billion of damages in the business income trust market product alone, with about the same amount likely in the energy income trusts.

The Expert Panel on Securities Regulation responded to the public outcry about Canada's failure to deter securities fraud on January 12 by proposing a new national securities commission and having a consumer advisory panel report to that commission. The Investment Industry Regulatory Organization of Canada has responded to the public outcry with a new Canadian Foundation for the Advancement of Investor Rights. The OSC's answer to the outcry was to introduce a new investor secretariat a few weeks ago. We say that all of these proposed remedies by the investment industry and by the provincial securities regulators are sadly inadequate. These are not the appropriate remedial actions to be taken, given the lessons we must learn from the financial crisis throughout the world, now bearing down on our country as well.

I want to spend a few moments talking about securities crime policing in Canada. We do not agree with the RCMP's integrated market enforcement team having exclusive jurisdiction for securities crime policing in our country. We strongly disagree with the current actions of the Royal Canadian Mounted Police to integrate its exclusive securities crime unit with the securities regulatory system of Canada. We believe it is totally unacceptable that all current RCMP IMET securities criminal complaints and plans for investigation are obliged by this federal government to be shared with the joint consultation group.

We have a letter from Dean Buzza, the head of the RCMP IMET, indicating that every securities crime complaint and plan for an RCMP investigation must first meet with the approval and recommendation of the Investment Industry Regulatory Organization of Canada and the Mutual Fund Dealers Association of Canada. We believe this is wrong and highly vulnerable to corruptive influences on whether or not securities crime investigations are taking place in this country.

We agree that Canada should adopt a new federal-provincial securities crime unit that was proposed and designed by Gary Logan, who has 32 years of service in the securities crime policing field. We do not believe the securities commission, the current provincial commissions, nor the proposed national securities commission should be involved in securities fraud policing. This is the work of the police, and we believe the new securities crime unit, which is described in a video that's been put together by Gary and me, is the way for our country to go in order to receive justice for the victims of securities crimes.

Thank you.

● (0930)

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

We'll start questions with John McCallum, for seven minutes.

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

Thank you to all the witnesses for being here.

I guess I'd like to begin with Mr. Benson. I'm wondering if there might be any common ground here.

As you know, there are seven, I believe, major federally regulated companies seeking to spread their payments over ten years rather than five years to restore their pension assets. I don't think the unions or the pensioners are necessarily happy with that under status quo rules. But you seem to imply, and this is what I'm trying to get at, that such a ten-year period might be acceptable to you under certain conditions—for instance, if there were greater restrictions on the nature of the investments that pension funds could do.

Can you briefly tell us whether there would be some regulatory changes or quid pro quo under which you would find a ten-year period acceptable?

Mr. Phil Benson: Thank you, Mr. McCallum.

Just so you know, one of those companies that came to you just announced a $242 million profit for the first quarter.

During the last round, when we talked about it, we suggested that perhaps during boom times, when they made a profit, part of the profit should go directly to pension holders—not all of it, but of course some of it. My concern was that there would be a recession, and the comment that came back was, “You're old-fashioned, Phil. We've solved that problem; there won't be one.”

I don't like to blue-sky too much in front of committees. However, obviously some of the plans are having problems because of the regulatory schemes and decisions that were made over the years. We can't get out of that overnight. Certainly as the Teamsters we do not want companies to go out of business. We're in the business of helping businesses make money, because that's how our membership makes money.

If the core principles are there, meaning that the investment strategy is moving toward more of a bond world.... Those are some of the things we suggest in the package. As I said in my presentation, it's not if we should do it, it's when and how. And I think you're asking me the when and how question.

Hon. John McCallum: No, I'm asking you whether there are specific changes—for example, that pension funds would not be allowed to hold more than a certain percentage of their assets in the stock market, or things of that nature—that are concrete and that you would regard as satisfactory quid pro quo for a ten-year payout. If you don't have a ten-year payout, you could have major problems for some of these companies, which would not necessarily be good for the employees.

I would think there's a common interest in coming to some compromise solution on this. That's what I'm asking you.

Mr. Phil Benson: I think our major point is that if we start from a basic premise, pension plans only exist for the beneficiaries, period. In terms of moving away from the contribution holidays, away from the idea of a surplus, if we really put fiduciary duty back into fiduciary duty so that companies stop treating these funds as capital investments or tools for other purposes, we're going to look at any solution we can.

So the answer is, yes, we'd like lists. We'd like to see much more focus on bonds, long bonds, rather than in the equity market.

Just so you know that we're not talking out of hand, the Teamsters Canada plan is less than 2% in the market. I can tell you I was very relieved to have received the letter telling me that at the beginning of this year.

Hon. John McCallum: Thank you very much.

Mr. Valentini, I have just one very short question for you. There seemed to be one interesting omission from your report. What was the return on your assets, or your investment, in the latest year? I didn't hear you give us that statistic.

Mr. John Valentini: Our year-end is March 31. We are in the process of completing our year-end and an audit. We have not, therefore, completed our results. I feel it would be inappropriate at this time to divulge what they are.

We do report on a quarterly basis. We do provide our returns to our respective ministers and stakeholders on a quarterly basis. So they have received them, but our results as of March 31 of this year are not—

● (0935)

Hon. John McCallum: So you don't provide your results publicly?

Mr. John Valentini: We do provide them, as I said, per our legislation. We submit quarterly financial statements to the president of the Treasury Board and each of the ministries responsible for managing the pension plans.

Hon. John McCallum: But are those then made public?

Mr. John Valentini: They're not public, no. Per our legislation, they are not required to be public.

Hon. John McCallum: I see.

Ms. Miazga, I think you and Mr. Benson might be on a somewhat different wavelength, and I wondered what you thought of this idea of some sort of quid pro quo in the regulatory situation in return for the ten-year payout period.

Ms. Barbara Miazga: Just to clarify your question, is it asking what compromises the plan sponsor community would be willing to accept to achieve that ten-year funding rule? Is that the question?

Hon. John McCallum: That's the gist of it, yes.

Ms. Barbara Miazga: Okay. I haven't had a chance to think about that, so I may ask if we can provide a response later to the committee on that particular question.

The position we've taken is that's a requirement to help ease onerous funding requirements under solvency and that any additional restrictions, such as putting in place more quantitative limits to further constrain the plan sponsors, would just be counter-productive.

So to my knowledge—

Hon. John McCallum: It sounds like you're wanting to have your cake and eat it too, and not make any compromises.

Ms. Barbara Miazga: At this point, I'm not sure that a compromise would achieve anything without creating additional problems. The basis for lobbying to remove the quantitative limits is that they're arbitrary. The prudent person standard is more appropriate and in keeping with best practices globally. So to put in place restrictions relating to the investments would just be counter-productive. To put in place guidelines relating to the benefits, such as the inability to take contribution holidays and the inability to make changes to the benefits, is a separate issue.

The Chair: Thank you, Mr. McCallum.

[*Translation*]

Mr. Laforest, please.

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

Good morning to all of you.

My first question is for Mr. Valentini. By definition or because of the organization's name, the Public Sector Pension Investment Board is connected to the public sector. You said earlier that, under the legislation, you have no obligation to make information public regarding the Board's performance.

Mr. John Valentini: Under the legislation, we have an obligation to publish our annual report. At the end of each year, that report is submitted to the President of the Treasury Board, which tables our annual report in Parliament. If you visit our website, for example, you will be able to access our annual reports and that is where, on a yearly basis, the report is also made available to the public.

Mr. Jean-Yves Laforest: So, your returns are—

Mr. John Valentini: They are made public.

Mr. Jean-Yves Laforest: In your presentation, you said that the Board is a fund manager, as opposed to a pension plan manager. In spite of that, you refer, further on in your statement, to the basic equation of a pension plan, which suggests that you are also familiar with pension plans—

Mr. John Valentini: The liabilities must also be considered.

Mr. Jean-Yves Laforest: You state that it is the basic equation, and you go on to say: "[...] net contributions plus investment returns [...] should equate the present value [...] ". That is the basic principle that underlies a pension plan. Do you not have the sense that a lot of people have forgotten that?

Mr. John Valentini: At PSP Investments, we have not forgotten that. When we develop our investment policy and our reference index portfolio, they are built on that specific goal. We work with the Office of the Chief Actuary. Every year, we review our investment strategy to ensure that the equation is intact. Every three years, the Chief Actuary prepares a triennial actuarial report on the Plans, which also incorporates our assets. So, that is considered. Our strategies, or our reference portfolio investment, also consider that.

● (0940)

Mr. Jean-Yves Laforest: Are managers at the PSP Investment Board of which you are Executive Vice-President given performance bonuses? Do any managers receive special benefits or performance bonuses?

Mr. John Valentini: Are you talking about bonuses or performance incentives?

Mr. Jean-Yves Laforest: Yes.

Mr. John Valentini: Yes.

Mr. Jean-Yves Laforest: Such as at the Caisse de dépôt et placement du Québec?

Mr. John Valentini: Just as is the case with most of our peers or people who work in fund management, and particularly, pension fund management.

Mr. Jean-Yves Laforest: In recent years, has the Board invested in asset-backed commercial paper?

Mr. John Valentini: Yes. Our annual report is very explicit in that regard. As I mentioned in my presentation, we did invest in ABCP. We also took part in the Crawford committee for almost two years, with a view to resolving the problem.

Mr. Jean-Yves Laforest: If you invested in these securities, one imagines that you are expecting to suffer significant losses.

Mr. John Valentini: There have been losses. They are primarily connected to the liquidity crisis. The credit spreads have had a negative impact on these products. This is a basic product whose value is influenced by interest rates. Yes, we did produce forecasts. However, most of the forecasts will not be realized. In the long term, the purpose of the restructuring was to recover our initial capital.

Mr. Jean-Yves Laforest: The committee heard from Mr. Duguay, Deputy Governor of the Bank of Canada. He said that, in 2005, the Bank of Canada did issue warnings with respect to the extreme volatility of these securities—asset-backed commercial paper.

How is it that the Public Sector Pension Investment Board still decided to invest in commercial paper, even though it is a federal agency and the Bank of Canada is fairly closely linked to it? How is it that the Board still invested in these securities, particularly since only one rating agency, DBRS, had rated that investment and the others had declined to do so? That is quite troubling.

Mr. John Valentini: I must admit that I was not aware of the report tabled by the Bank of Canada several years ago. I was aware of the decision by Standard & Poor's, which refused to give a rating to ABCP in Canada. However, that goes back to the beginning of the year 2000. DBRS gave a triple AAA rating; CBRS previously, had also done so—

Mr. Jean-Yves Laforest: Yes, but it stopped doing that.

Mr. John Valentini: It did not provide a rating after that because the firm was bought out by Standard & Poor's. This market operated efficiently for almost 20 years. For almost 20 years, there was no problem. There was not even any rating downgrade for 20 years. This is a product that represented some 40% of the market. There is no doubt that—

Mr. Jean-Yves Laforest: Mr. Don Drummond, Vice-President of the TD Bank, also appeared before the committee. In answer to certain questions, he said that, as far as he is concerned, it was absolutely obvious. His bank did not invest in those securities and did not have the negative results that others did. How can you draw a parallel there? You say that it was a good investment for 20 years. And yet, one of the largest banks in Canada has clearly stated that it did not want to go in that direction. Mr. Drummond's testimony in that regard was quite telling.

Mr. John Valentini: Mr. Laforest, there is no doubt that, in retrospect, there were risks associated with these products. There was the credit risk and the liquidity risk. The liquidity risk was underestimated. One of the main reasons was the liquidity clauses, which have generated a great deal of discussion. These clauses were the same ones that appear in Canadian bank trusts, as well as in other trusts.

In early August, when Canadian banks were called on to inject liquidity into their trusts, they did so. When non-Canadian banks were asked to do so, they had not yet done so. And many of them did —

Mr. Jean-Yves Laforest: Did the performance bonuses not give people an incentive to invest a little too heavily?

The Chair: Thank you, Mr. Laforest.

Mr. John Valentini: There are many things that can act as an incentive. As I was saying, this was a very well-known product on the market. There is no doubt that the bonuses and the availability of the product were greater than for other products, in a market which was not very extensive. It represented some 40% of Canada's money market. Unfortunately, third-party ABCP suffered the consequences that Canadian bank ABCP did not, because of similar liquidity clauses. It is our belief—

● (0945)

The Chair: Thank you, Mr. Valentini.

Mr. John Valentini: That was a decision that had to be made in August, when the market fell. That was one of the decisions that was made at one point. Were we going to go after foreign banks to get them to fulfill their contracts? Some of the foreign banks who were asked to inject liquidity did so. As did the Canadian banks.

[*English*]

The Chair: *Merci.* Thank you.

Mr. Wallace.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chair. I want to welcome our witnesses here this morning. Thank you all for coming and helping us through this relatively difficult piece.

The issue of solvency is on the table, but there's one area that the Pension Investment Association of Canada brought forward that you're all more than welcome to comment on. I am not sure where I stand on it, so I'm going to ask the question. I'm going to give you an example that happened to me personally—which my colleagues know I like to do. At one time I was a member of OMERS, and I was a member of a municipal council. A payment holiday came along. The members of OMERS didn't have to pay for a couple of years, and the cities didn't have to pay their portion, because they were over-subscribed and had too much money in the system. Wisely or unwisely, I won't say which, the council of the day decided we were not going to collect the money from the municipal taxpayer and the savings would be passed on to the tax base. The staff wanted to continue to collect the money and save it for a rainy day. Whether this was right or wrong, I'm not sure.

Right now there is a 110% limit. You're advocating going to at least 125%. Is there any argument that there shouldn't be a limit at all? When things are great, we could continue to collect money and keep it in the fund. Then when things go badly, as they always do sometimes, the money would be there for that rainy day. If this were the case, we might not be in the same trouble that we're in today. Let's face it, the economy goes up and down; it has never stopped going up and down.

So why 125%? Why not no limit? You could continue to collect on defined benefit plans.

Ms. Barbara Miazga: I agree completely that the employer-employee contribution holiday, which largely arose out of surpluses, and which did not end up being permanent, created some of the problems we're facing today. Your situation at OMERS probably mirrored the experience of a lot of other plan sponsors and beneficiaries.

As for your question on the limits, PIAC has always advocated that there should be no quantitative limits. I would agree that there is no need to have a limit. If there has to be a limit, if only because there's a feeling that there should be one, it should be at least 125%. So I agree that there is an argument for having no limit. This would provide the ability to build a significant cushion that could offer protection in down markets.

What we've seen over the last couple of years is almost unprecedented in the financial industry. At the beginning of 2007-08, even very well-funded plans found themselves in completely different circumstances following the market downturn. This is particularly problematic on the solvency side, where the solvency calculation is also largely driven by the impact of declining interest rates. As interest rates go down, the value of the liabilities goes up, and that exacerbates the funded situation on the solvency basis.

Mr. Mike Wallace: Mr. Benson.

Mr. Phil Benson: I submitted to you three articles from the *National Post*, which talk a lot about OMERS and the decisions they made.

We're opposed to the payment holidays. But just talking about payment holidays and percentages of surplus doesn't get to the root topic. If you remove them and you ask people to do prudent investment, if companies cannot see any reason for having a surplus, they're not going to have one. They're going to be running at 100%. It's about changing the fundamentals of how we deal with them. As long as we're talking about a surplus, we're talking about companies and people viewing this as a way of saving money and passing it on to taxpayers. If that's removed, if the investment structures are properly run and there is no reason for a company to run a surplus, they won't. Trust me.

We talked about 2007. In 2005 and 2006, these same companies, in a time of unprecedented boom, with record profits year after year, were coming here claiming relief. We shouldn't make bad laws in bad times.

● (0950)

Mr. Mike Wallace: Let me just follow up on that with you. I appreciate that. You have some very good points. We had a meeting earlier this week. At the end of the day, right now, the surplus is a tax deduction, in a sense, for the company, and if we have it wide open it has the potential of being a big tax deduction.

At the end of the day, your argument is that the plans are there to protect workers; it's deferred wages. Even if we allow them to have big tax deductions and they stay in business, they still have employees. Does this still not help the employee in the long run, that those plants have money for that rainy day that will eventually come around?

Mr. Phil Benson: When you say the surplus can be 150%, it's just like this one company I referred to that had 40% in the market. Given their demographics—I'm not going to mention them, but I question it—their investment strategy will be to maximize returns. That's what businesses do, and God bless them—we live in a free enterprise society—that's what they're supposed to do. But what you, as a regulator, have to look at is that beneficiaries are entitled to receive what was promised.

If it is wages, then why not just pass a law that says employers can take $2 or $3 an hour off your paycheque and use it for capital investment? Intellectually, it is no different. At the end of the day, we're better off to change the structures to figure out if, when, and how we can do it, so that whether it is good times or bad times, pensions are reporting that they have met—the only thing they have met is the requirements to the beneficiaries, not a surplus, not anything else.

Mr. Mike Wallace: Thank you very much for those answers.

The Chair: Mr. Mulcair, please.

[*Translation*]

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

I would like to thank Mr. Benson for his final remarks, as they certainly clarify matters.

Earlier this week, we heard a presentation from the Canadian Institute of Actuaries, which told us that, in cases of bankruptcy, priority must be given to pensions. Do you agree with that, Mr. Benson?

[*English*]

Mr. Phil Benson: That's actually part of a written submission to the department in 2005, 2007, and 2009. Absolutely, they should be workers' wages followed by pension holders.

[*Translation*]

Mr. Thomas Mulcair: Thank you very much.

Mr. Valentini and Mr. Malo, welcome and thank you for being here.

Mr. Valentini, I cannot help but say, with a smile, that you reminded me of Jean Charest when you were giving your testimony earlier. During the fall election campaign, Mr. Charest said to all and sundry that he could not say what was the extent of the losses incurred by the Caisse de dépôt et placement, since the audited financial statements had not yet come out. In fact, everyone in Montreal knew that the Caisse had lost between $35 billion and $40 billion. Yet, he continued to say that because, technically, it was true.

You served us up exactly the same answer today. Your fiscal year has ended. You know, as we all do, that you lost several billion dollars, but you are saying this morning that you don't know the actual amount because it has not yet been audited. So, I am going to put the question to you a little differently.

Have you lost billions of dollars this year?

Mr. John Valentini: Mr. Mulcair, you have only to look at our portfolio, which is public. Our benchmark is included in the annual report. All you have to do is take a look at market returns. It is possible for someone to predict what returns will look like. PSP's returns this year will probably be similar to those of other pension funds, which have been hit just as hard, because we are all in the same market. I repeat that we are abiding by our legislation, that we release and prepare—

● (0955)

Mr. Thomas Mulcair: Mr. Valentini, I am growing impatient. Is there something in your legislation which prevents you from telling parliamentarians what the actual situation is? I asked you a clear question, and you spent two minutes talking without ever answering it. Have you lost billions of dollars in the fiscal year which just ended on March 31, yes or no?

Mr. John Valentini: And I am telling you, Mr. Mulcair, that we will post the same returns as our peers.

Mr. Thomas Mulcair: I will repeat my question for a third time, Mr. Valentini. I think your refusal to answer borders on contempt of Parliament. Yes or no, did you lose billions of dollars?

[*English*]

The Chair: Mr. Valentini, are you going to answer the question?

Mr. Thomas Mulcair: You have to answer the question, Mr. Valentini.

Mr. John Valentini: Well, if we take equity market returns that have been negative, the U.S. equities and Canadian equities have lost —

Mr. Thomas Mulcair: Answer the question Mr. Valentini.

Mr. John Valentini: —30% or 40%. The answer would be yes. I mean, the number would be in the billions, for sure.

Mr. Thomas Mulcair: Thank you.

Now, you have this wonderful way with words. You have a way of talking about *des compensations relatives au rendement*. I have a very simple question for you: are any people at your investment group, the PSP Investment Board, thinking of paying themselves a bonus this year? I've had it explained to me that you're actually thinking of trying to analyze your *rendement* over a four-year period and of trying to find a way to rationalize giving yourselves bonuses. I hope that's not true, but I'd like to give you a chance to say whether it's true or not.

Mr. John Valentini: Pages 31 to 35 of our annual report are quite explicit and provide details about how our compensation policies work. Frankly, it is the board of directors that decides whether management gets paid bonuses or not. It is not management.

Mr. Thomas Mulcair: Well, let me just put it to you this way, Mr. Valentini, now that I have you and Mr. Malo here and while this is being televised and you can send messages back to your board of directors, as I'm doing right now. Any people in this country running something called an investment board, which lost billions of dollars last year, who think—even think—about paying themselves bonuses need their heads read. I'd like you to give that message to your board of directors on behalf of my party. We would find it properly scandalous, in light of what happened last year, if in addition to your considerable salaries you decided to vote yourselves bonuses. Would you be kind enough to pass that along for us?

Mr. John Valentini: I'll pass the message.

Mr. Thomas Mulcair: Thank you very much.

Mrs. Urquhart, with regard to the presentation that was made—and I had the great fortune to hear the presentation you made with Officer Logan—you make reference to the fact that IMET is insufficient. I'd like you to elaborate on that for us, if you wouldn't mind.

Mrs. Diane Urquhart: First of all, IMET spends $40 million a year on securities crime policing, and according to the feedback we've had from the Toronto Police Services fraud squad and other fraud squads of Canada, as of 2003, the RCMP has taken effective exclusive jurisdiction. The RCMP, in the white-collar securities crime area, notwithstanding having spent in excess of $30 million per year since 2003, has been successful in only two prosecutions, and individuals were found to have been guilty of securities fraud and were placed in Canadian prison. This is an abysmal performance relative to the amount of money that has been spent and relative to the number of prosecutions that have been taking place in the United States.

We are not of the view that there is no securities fraud in Canada; we are of the view that the RCMP has not competently produced its investigations and prosecutions. Recently we have determined that one of the reasons why this is the case is that they seek to have their investigations approved by the investment industry.

Mr. Thomas Mulcair: While I agree with almost everything you've said and with the analysis that you and Mr. Logan make, there's one part on which, quite clearly, we don't agree.

I don't see how the creation of a new structure, a new institution that would be a national regulator.... For example, in Quebec, the Autorité des marchés financiers has done an excellent job of prosecuting. People like Vincent Lacroix are in jail for ten years on securities fraud, because there's a good prosecution team. You've correctly said that there's not a problem with resources. But how does changing structures answer the problem?

● (1000)

Mrs. Diane Urquhart: First of all, I want to make it clear that we're not talking about a national securities commission. We believe that the Autorité is a securities commission and that its best skills and its jurisdictional territory are in the administration of the Quebec Securities Act. What we're proposing is a passport model, a federal and provincial securities crime unit that comprises police experts who are going to allocate investigations to Quebec—

Mr. Thomas Mulcair: Great. Then we agree even on that.

Thank you.

Mrs. Diane Urquhart: —where Quebec has proper jurisdiction. So I think we agree.

The Chair: Thank you.

We'll go to Mr. McKay, please.

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

Thank you, witnesses.

I want to reinforce Mr. Mulcair's comments, Mr. Valentini. Frankly, it would be inappropriate for your organization to be awarding itself significant bonuses in light of not only your performance in the market but of market conditions. Canadians have taken a pretty major haircut in the market in the last while, and it seems to me that even if you have outperformed the market, even if you've done better than the market, it would be inappropriate for people who are controlling these vast sums of money to be awarding themselves significant compensation above and beyond normal, because we do not live in normal times.

I did want to ask Ms. Miazga a question with respect to PIAC's proposal 1(c), “permitting plan sponsors to establish special purpose accounts”. Whose accounts are they? Are they the sponsors' accounts or are they the plan's account?

Ms. Barbara Miazga: The account would be held separately from the sponsor's assets and separately from the pension plan trust assets.

Hon. John McKay: Who's the owner?

Ms. Barbara Miazga: I think the rules for ownership would be complex and would depend on the situation; however, they would provide the ability for the plan's sponsor to access those assets in times when the plan is in a fully funded position.

Hon. John McKay: If there's a bankruptcy, who gets it?

Ms. Barbara Miazga: I think in a situation of a bankruptcy you wouldn't see a situation where a plan sponsor would be able to set up such an account.

Hon. John McKay: You're setting this account up when you have more money than you need. That's the point, isn't it?

Ms. Barbara Miazga: A bankruptcy situation would probably not lend itself to having the ability to set that up.

Hon. John McKay: I understand that, but what I'm saying is that you'd never set that up when you're going into bankruptcy; you'd set it up when you have more money than you need. The economic cycle goes up, the economic cycle goes down. Who gets the dough when you go down?

Ms. Barbara Miazga: If the account was set up for the purpose of plan funding, and if that funding was required in the event that the company failed and the plan was wound down, it would go to the plan. If there was a fully funded pension plan in that situation it would revert back to the sponsor.

Hon. John McKay: Is the plan the preferred creditor in a situation of that kind?

Ms. Barbara Miazga: I can't answer that question because I don't know. It would depend on the specific circumstances.

Hon. John McKay: It's a rather significant issue, if this is a proposal to ameliorate the risk.

On letters of credit, I've never met a letter of credit that can't be revoked. If you're meeting your solvency requirements with letters of credit and the company is in financial difficulty, doesn't that actually create a whipsaw effect, so that not only does the company have problems with its bank and balance sheet, but it now has an additional problem with its pension plan, because it didn't sponsor the pension plan with cash, it sponsored the pension plan with credit?

Doesn't that, in fact, accelerate your difficulties rather than decelerate them?

Ms. Barbara Miazga: The proposal is centred around financially strong companies. The ability to use a letter of credit provides a security for the pension plan. Also, as you say, letters of credit can be revoked. The financial health of the particular plan sponsor will dictate whether or not that plan sponsor is able to put a letter of credit in place. Again, this proposal is based on the scenario where you have a financially strong plan sponsor that has the credit facilities in place to put up the letter of credit, which means they're not putting the money into the pension plan, which at some point in the future—

● (1005)

Hon. John McKay: We're here talking about companies that are on the margins, companies that are really on the edge and begging for relief. You come along with a proposal that effectively would affect only companies that don't need relief, companies that are already strong. The only companies that are going to get letters of credit from a bank are strong companies.

The Chair: Very briefly.

Ms. Barbara Miazga: PIAC's constituency is a lot broader in that we represent corporate plans, public sector plans, and quasi public sector plans. When we're looking at asking for relief, the reason we're asking for relief is because the solvency funding requirements can actually put a financially strong company into jeopardy because the requirements are onerous based on the existing rules.

The Chair: Thank you.

Monsieur Carrier, s'il vous plaît.

[*Translation*]

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

Good morning, ladies and gentlemen. I have a lot of sympathy for people facing the situation described by Ms. Smith, of United Senior Citizens of Ontario. I think that you are giving us a very accurate portrait of what retirees are going through—retirees who have neither power nor a voice in the face of the economic turbulence we are experiencing in this country.

I would like to come back to the main reason for the drop in revenues affecting various pension funds—namely, poor investments and poor decisions on the part of individuals who are supposedly investment experts. I would also like to come back to the matter of performance bonuses, because it is absolutely scandalous. People are receiving bonuses of many hundreds of thousands of dollars in addition to their salary. The amounts can be as high as one million dollars, regardless of the consequences of these individuals' decisions for overall performance.

I would also like to know what Mr. Valentini thinks of this practice. He said earlier that the board of directors is the one who sets these policies. However, I would like to hear his own views. He holds a senior management position and is responsible for an investment board. I would like to know whether he approves of the idea that performance bonuses should be paid to staff solely on the basis of short-term performance, something that can have very significant prejudicial effects on the pension fund over the long term.

Mr. John Valentini: It is important to understand certain aspects of the current situation. First of all, incentive bonuses are generally paid across the industry. That is the standard, when there is a benchmark portfolio. Furthermore, I can tell you that PSP's benchmark portfolio, which determines the basis for incentive bonuses, is considered one of the best. In fact, according to a study carried out by our peers at RBC Dexia, our benchmark portfolio ranks first. It is the most rigourous.

In addition to that, a study by our peers that I myself was involved in last year showed that, among the large funds, we were ranked at the end of the scale, which is consistent with our benchmark, which is the most rigourous.

Mr. Robert Carrier: I am going to stop you there because our time is limited. I would like to hear your opinion on performance bonuses. Do you not think they have a perverse effect on pension funds and that legislation should be passed to modify, reduce or even abolish that practice?

Mr. John Valentini: Mr. Carrier, compensation is managed by our board and paid over the long term. Incentives are based on the long term. We simply follow industry standards.

Mr. Robert Carrier: I know, you said that already, but I am wondering about these infamous industry standards. To me, they introduce distortions, since people are paid based on returns, rather than their negotiating skills. I am certain you have an expert committee that assesses risks and makes decisions in your organization. Why pay someone based on the fact that he generated certain returns, without any concern for the long-term consequences of those returns?

● (1010)

Mr. John Valentini: I believe we do consider the consequences, in the sense that we do not pay an incentive bonus on the sole basis of one year's performance. It is generally over a longer term. Even Mr. Mulcair stated that. As a general rule, incentive bonuses are based on long-term performance and on the benchmark portfolio.

Mr. Robert Carrier: I would be interested in hearing Ms. Miazga's opinion with respect to performance bonuses and I would like her to indicate whether she believes that policy should be changed in order to set things straight.

[*English*]

The Chair: Very briefly, Ms. Miazga.

Ms. Barbara Miazga: Our organization is an organization that is made up of volunteers, so we can't specifically respond to the issues of salaries and bonuses because there are none related to PIAC, other than that we have an executive director. So if you're asking me my opinion, my opinion is that the compensation practices for each organization should be determined by the board of directors and they should be transparent. They should be based on long-term objectives.

The Chair: *Merci.*

We'll go to Mr. Dechert, please.

Mr. Bob Dechert (Mississauga—Erindale, CPC): Thank you, Mr. Chair. Thank you for your presentations this morning.

Mr. Valentini, you mentioned in your presentation that the PSPIB has made investments into asset classes such as private equity investments, real estate, and infrastructure, which actually have performed quite well and in many cases have outperformed the markets. Can you give us a specific flavour of some of those investments for illustration purposes?

Mr. John Valentini: They're commonly referred to as alternative asset classes. Back in 2004, when we diversified our portfolio, we started to develop—and actually, we haven't been able to reap the benefits like many other big funds because we just started to develop them in 2004, and that's real estate, infrastructure, and private equity. When we benchmarked our 2004 diversification strategy, which included these investments, and we benchmarked them against our index portfolio, which was prior to 2004, we added $1.6 billion in added value as of last fiscal year.

As I mentioned before, I did a similar exercise and looked at the major peers, like teachers, OMERS, and Caisse. Each one of these asset classes for each one of these funds, and each asset class individually, outperformed the total overall fund, thereby out-performing public markets. These are asset classes that have performed very well. We've been developing them; we have benefited from them. I had done a pro forma exercise as well. Had we benefited from our targeted exposures, had we been able to have full target and been a mature fund, our performance would have been 1.5% higher on a four-year basis ending last year.

So clearly, these are assets that are only accessible if you are big, and as people know, infrastructure is getting a lot of profile these days. This is a good asset class. It's predictable cashflow. It's inversely correlated to the markets. Markets have been going down 30%, 40%. You'll see some people have already released results. Infrastructure returns are positive. So basically it has been our strategy since 2004, and I think I have given you a sense of the benefit of that.

Mr. Bob Dechert: In your view, if pension funds such as yours were restricted from making those kinds of investments, it would be detrimental to the pension beneficiaries you represent.

Mr. John Valentini: Just the data I've seen that I've quoted on the large pension funds—just the 1.5% we could have benefited from—clearly reflects that we could have added to the real return that ultimately, yes, has an impact on the equation of pension funds that I mentioned in my presentation. That could have an impact on contributions, definitely.

Mr. Bob Dechert: Thank you.

Mr. Benson, you have mentioned that you think pensions should be restricted in the types of investments that should be made. What is your response to the types of investments that Mr. Valentini was just describing?

Mr. Phil Benson: In the long run we are all dead.

Again, when we're looking at investment structures and investment analysis, we're talking about performance bonuses. So there's even something in there for people to try to outperform the market. We're talking about pensions. There's no reason or need to outperform anything. The only reason they exist is not to save money necessarily for a taxpayer. The reason they exist is for one reason only. The performance bonus should be, “Guess what, folks? We're in a recession, tough times, but don't worry. Your pension is still there.” That's a performance bonus. It's not talking about layered investments, about how we plan. The only reason it exists is to pay that money out.

As I say, in the long run we're all dead, but whatever we did in the past, this one recession is going to wipe it all out really quickly. Why? Because investments were made through conventional wisdom in all the right places, but in the long run it's the pensioners who are going to be hurt. The people who run at this board, the people who look after it, the people who pay into it are all going to be fine. If they fail, the workers are in trouble.

● (1015)

Mr. Bob Dechert: You mentioned the bond market, and your view is that it has performed better than the equity market. Are we talking about corporate bonds? Are we talking about strictly government bonds?

Mr. Phil Benson: That I'll leave to our actuaries. I imagine they have a blend, but they're doing fine.

Mr. Bob Dechert: So your view is that corporate bonds would be okay. But what if corporate bonds underperform compared to the types of investments Mr. Valentini is talking about?

Mr. Phil Benson: Again, we're talking about on a long run on a particular model. I'm not an actuary and I'm not a bond buyer. I do understand a little bit about economics. I would think in the long run, if this particular investment is totally safe and if it's going to guarantee what we have to do, that meets your fiduciary duty, not your best luck. How you do it I'll leave to the experts, but in the long run, our workers want to make sure they have pensions.

Mr. Bob Dechert: I have one follow-up question, Mr. Chair.

Mr. Benson, do you believe that the Canadian pension regulatory framework should be competitive with other jurisdictions, such as the United States or the United Kingdom, where Canadians compete for jobs?

Mr. Phil Benson: To keep it short and sweet, we live in Canada, and I think it's important for you to look after Canadians. Yes, we compete in a global market, but that doesn't mean we should be lowering standards. If they have best practices that are better than ours or that can help us, we should of course be looking at them.

The Chair: Thank you.

We'll go to Mr. Pacetti, please.

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

Thank you, witnesses.

It's always interesting to look at this aspect, but it's a troubling area, because I think we're all looking in retrospect at what happened, and we're looking for solutions to make sure this doesn't repeat itself. Some of the things I've heard this morning don't necessarily comfort me. I'm not sure we can reconcile the different points of view between Mr. Benson and perhaps Mr. Valentini, but I'm going to try.

John, it's a pleasure to have you here. I see here in your written submission you say, “In an ideal world, the net contributions that we receive could be invested in Canadian government inflation-linked bonds.” What's wrong with that? Why do you have to diversify? Why don't you just invest in bonds,as Mr. Benson was saying? Do you need to take the risks, and do we have to legislate that and say, “No, you have to stick to bonds”? What is it?

Mr. John Valentini: I'd like to turn to Pierre.

Would you take that question?

Mr. Pierre Malo (First Vice-President, Asset Allocation Strategies and Research, Public Sector Pension Investment Board): There are some problems in being invested 100% in real return bonds, or bonds. The first problem is that there are probably not enough of these bonds available right now. If you were to sum up all the pension assets actually being managed in Canada, you would be somewhere in the vicinity of $1.5 trillion. The real return bond market in Canada is only worth $35 billion, so we're talking a multiplier of 60 times. In other words, the amount of money to be managed in Canada by pension plans outside of RRSPs is 45 times bigger than the available real return bonds.

Mr. Massimo Pacetti: I think being diversified is justifiable. So how do we relieve the pressure and avoid having institutions like yours, Mr. Valentini, go out and get that extra one-quarter point, as the Caisse de dépôt did? That was their rationale, and I think the Banque Nationale used the same rationale. They went for that extra one-quarter point, one-eighth of a per cent on certain of these instruments. It's not worth the risk. I understand you did the analysis, but you relied on experts, and obviously the experts failed.

So I'm having trouble reconciling the fact that we use experts, but the experts have not done their jobs and they get paid anyway. Why not just simplify things and make it easy so that we have funds that are used for what they're supposed to be used for in the future? Do we need to go out and get that extra one-eighth per cent?

It's the same thing when you're going to invest in real estate. I think you're going to have the same problem in the real estate market, if not this year then possibly in the next five years. You're going to come back in four or five years and say, “Ah well, we didn't forecast that there was going to be a recession in the real estate market, but it'll come back.” I know you're an accountant, and you'll be able to flip the numbers and show us that you were great in terms of certain peers and not so good for other peers, so it'll be fine, and things go on. But in the end, it is either the taxpayers who pay or it's the pensioner or the contributor.

How do we avoid that in the future? That's the real question.

● (1020)

Mr. John Valentini: The way we manage the risk—and it is a very rigorous process—is that we establish a portfolio that we think over the long term, over a period of at least a ten-year horizon.... You don't build portfolios on one year and market timing events. You have to build them on a long-term basis. We build a portfolio in conjunction with our sponsors and the Chief Actuary of Canada in doing his equations. As we manage, assets have to equal the liabilities. We manage the assets and we have to take the liabilities into consideration, and we do work with the Chief Actuary of Canada to build a portfolio that is going to meet that at an optimal level of risk.

Mr. Massimo Pacetti: Sorry to interrupt, but our time is limited.

So you have a ten-year horizon and you have an asset mix. When do you change that? Or do you say, look, we have a ten-year horizon and we're going to stick to one-third bonds, one-third stock, one-third real estate and 10% cash?

Mr. Pierre Malo: We have a thorough review on a tri-annual basis at the same time as the tri-annual report from the OCA. But we also do reviews every year and recommend courses of action to the board. So it is reviewed on a very regular basis.

Mr. Massimo Pacetti: So if we take the last 12 months, and you had decided to invest—I'm not sure what your amount was, but let's say it was one-third in ABCPs. What's going to happen this year when those ABCPs are no longer around?

A voice: Thankfully.

Mr. Massimo Pacetti: Or unthankfully!

Mr. John Valentini: Again, the portfolio is reviewed annually. ABCP dealt with money markets and money market investments, which are part of the portfolio, and commercial paper was one of them. That was, I think, an unusual event.

Mr. Massimo Pacetti: We're going to have “unusual” events with something else in the next little while.

I just want ask one more quick question.

The Chair: Sorry, you're going over your time here, Mr. Pacetti.

Mr. Massimo Pacetti: Just a crime unit—

The Chair: There will be another Liberal round.

Mr. Massimo Pacetti: I just want to know under what department the crime unit is that she was suggesting.

Mrs. Diane Urquhart: It's under Public Safety. It reports to Peter Van Loan and also to the Standing Committee on Public Safety and National Security.

The Chair: Thank you, Vice Chair, for respecting my time limit.

Voices: Oh, oh!

Mrs. Diane Urquhart: Blame it on the witness who answered!

The Chair: We'll go to Monsieur Bernier, please.

[*Translation*]

Hon. Maxime Bernier (Beauce, CPC): Mr. Chairman, I will be sharing my time with my colleague, Mr. Kramp.

I would like to thank all of you for being here this morning. As you know, we are studying a matter of importance to all Canadians. I very much appreciate your taking the time to appear before us. We are only parliamentarians—not pension experts. That is why we are conducting this study. The goal is to become better informed and to develop the most effective means of helping Canadians over the long term.

My first question, which is addressed to each of you, deals with regulations, or rather, the way regulations are enforced in Canada. As you know, the federal government regulates only about 7% of private pension funds in Canada. Everything else falls within provincial jurisdiction. Therefore, 13 provinces are also involved in regulating this broad area of expertise. In Canada, our system is similar to the securities industry—in other words, deregulated, with direction being given primarily by the provinces.

First of all, do you think federal regulations are properly harmonized with those of the provinces? Second, do you believe there should be better cooperation with our provincial colleagues, if required, in terms of regulating pension funds in Canada? In your opinion, should we go so far as to create a government entity that would coordinate those regulations, or is it your view that there is no real problem with the way that the current system is currently regulated in Canada?

Ms. Miazga, would you care to answer?

● (1025)

[*English*]

Ms. Barbara Miazga: Yes, I can tackle that.

Just to clarify your question, it's concerning the regulatory regime and whether or not we think we would benefit from an intergovernmental body to coordinate.

Yes, I do agree. I think there are two areas where there is a problem. One, as you've mentioned, is on the pension regulation side and the other is on the securities regulation side. That affects all capital market players, because it adds to the complexity. The more administrative complexity there is, the more time-consuming it is. It just creates an extra layer of work that is not really adding any value.

So, yes, I do agree that it would be better to have better coordination for pension law and securities law. I also would submit that the federal government would be a key player and should take a lead role in achieving that. I think the biggest challenge is that everyone is not going to agree, as always.

[*Translation*]

Hon. Maxime Bernier: Thank you.

Mr. Benson.

[*English*]

Mr. Phil Benson: Thank you very much, sir.

Just to clarify, even though the federal government or the federal sector may have 7% of pensions in Canada, we have the highest concentration of union membership in the private sector under the federal jurisdiction, partly because of the nature of our work. So our greatest concern is what you do here dealing with federal plans. I'm going to limit it to that.

We're never really opposed to regulation, although we will say that perhaps some of the zanier ones might not be in line. But when it comes to protecting people's income and money, that's something we certainly support. So for us the harmonization and provincial issue is not at this time as big as the fact that it is critical to a large amount of our members what you do in the federal pension world.

[*Translation*]

Hon. Maxime Bernier: Thank you.

Ms. Smith, would you like to add something?

[*English*]

Ms. Marie Smith: I would like to add that we should have securities for all of Canada, because right now—as far as I understood when I was in England and in Europe—we're a laughing stock in all of those countries. I think we need something, and it comes out in this report that I gave about how seniors have lost their income and lost their capital and almost everything they have. So we need some securities here in Canada.

[*Translation*]

Hon. Maxime Bernier: Thank you.

[*English*]

Mrs. Diane Urquhart: I'd just like to add a comment. I'm on the investment committee of the United Church of Canada. We're a governance body for the external management of the pension plan for the ministers and staff of the United Church. I want to make a point about corporate governance. I don't think it's appropriate for governments to give prescriptive rules on exactly what to invest in and what is denied and what should be the appropriate percentages. So I agree with the prudent man concept and that they be held to account in a court of law for negligence for not following that concept.

But I do want to make an observation that the corporate governance of the major pension plans of Canada, and particularly the public plans, have been stocked by corporate executives, bank executives, consultants, and individuals who have been in the same club, who seek to have the same high compensation in their own organization. So on a reciprocal basis they've been extremely accommodating on the part of the compensation consultants to permit the pension fund managers to be paid like chief executive officers. We're got problems in both the CEO market and the pension fund market in that regard.

The Vice-Chair (Mr. Massimo Pacetti): Thank you, Monsieur Bernier.

Martha Hall Findley for five minutes.

Ms. Martha Hall Findlay (Willowdale, Lib.): Just a light-hearted comment. I keep hearing the concept of the prudent man, and I would really relish at some point having that term be the prudent person requirement. There are many prudent women.

Ms. Miazga, could you just tell me how many Canadians are beneficiaries under our defined benefit plans?

Ms. Barbara Miazga: I don't have the exact figure in front of me, but I'll just start by saying that the PIAC submission does specify “prudent person”.

Voices: Oh, oh!

● (1030)

Ms. Martha Hall Findlay: And we thank you for that.

Ms. Barbara Miazga: You're welcome.

It is in the order of millions. I don't have the statistics in front of me. I believe the statistics are in the submission that we sent on March 13. If you would like that detail, we can certainly provide it after the meeting as a follow-up.

Ms. Martha Hall Findlay: Yes, just as a curiosity, that would be great.

I have a larger comment, and that is, ultimately, money doesn't grow on trees. We have pension plans in order to provide pensioners with income after they stop working. I understand the desire to make sure there is more money available for that than there might otherwise be, and I understand the desire to have the cost of the money going into the pension plans being as small as possible, because whether they're contributory or non-contributory, no one wants to pay more than they have to pay into these plans. So there's clearly an incentive, once there is money in a plan, to make the most use of that money in terms of generating revenue. Of course, what we now see is that there was perhaps too great of an incentive to maximize the return and too great of an incentive to engage in greater risk.

I think there's an understanding that we would all like to see a greater balance, but recognizing that the balance includes a desire to not have too much going into the plan in the first place. That's just a general comment.

I have a question for Monsieur Malo. My colleague had asked a question about how, in the ideal world, the net contributions we receive would be invested in the Canadian government inflation-linked bonds. I think you said there were two answers. The first one was that there just isn't enough of a market out there. I don't know that we got to the second one. Could you provide the second part of that answer, please?

Mr. Pierre Malo: Thank you for coming back with the second portion. The second problem with the real return bonds is their yield, and again I go back to the original basic equation of a pension plan; the net contributions plus investment returns have to equal the present value of the future benefits paid to the employees.

The rate on the real return bonds...we're talking Canadian government bonds, obviously, so we don't have any company risk or whatever, of names and stuff like that, so it's really risk-less, inflation-linked bonds. Those yields now for a 25- to 30-year maturity are about 2%.

If you invest 100% of your assets into a 2% return, I can tell you right away that the contributions rate will have to go up in order to pay the future benefits. There is no magic in this equation, quite frankly. It's a give and take. So if you start from that point, that you cannot be invested because the costs to the contributors would be too much, it means you have to move into other asset classes that you hope will bring more returns and therefore maintain the contributions levels to where the sponsors and the employees want it to be.

Ms. Martha Hall Findlay: Thank you very much. That's exactly to my earlier point that the money doesn't grow on trees, and if you don't have enough revenue based on the assets in the fund, your contribution rate is going to have to go up.

My final part of this question is to Mr. Benson. We have heard a number of criticisms from you, and I think we're all trying to come to a solution, so it's a very important discussion to balance the need to keep contribution levels as low as we can with the risk. I would suggest that if you're looking for other assets that have greater revenue, you're probably looking at other assets that may have greater risks.

Mr. Benson, my question to you is this. If the answer is greater contributions, I've heard criticism, but I haven't heard real concrete solutions from you, or concrete suggestions, and if you can provide some, that would be great.

Mr. Phil Benson: When we're talking about 100% bonds, it's going to be appropriate for some, depending on the demographics of the unit who depend upon investments. Obviously, if it's an older unit, you're going to be in more bonds than cash; if you have a bunch of younger people, you might be a little bit invested in other things.

When they were talking about trying to make a quarter point more, or one and a quarter points more, to quote Mr. Malo, on the hope—the hope—that we will make more, yes, if it means more contributions, it may mean more contributions. If it means we have to pay a bit more, we may, but the one company I did mention, and it's a real example, could have paid $35 million to $40 million a year over 15 years of boom to have a perfectly safe plan; it chose not to, and it has put itself in a situation of $150 million over 10 years or $300 million over 5. It makes good, prudent business sense as well to not play games with these pension plans, so we don't end up with a GM facing these huge potential crises.

We're arguing it's not just about the worker guaranteeing the retirees. Companies need help. This is sound management for companies to put them on really good footings so that they can go and create work and create jobs. We'll leave the asset management to the experts.

● (1035)

The Chair: Thank you.

We'll go to Mr. Kramp, please.

Mr. Daryl Kramp (Prince Edward—Hastings, CPC): Thank you, Chair, and welcome to our guests.

If I could, Ms. Urquhart, I'd like to discuss this approach of prosecuting the securities fraud. You're telling us that it's almost like asking a criminal if he wants to be investigated, in other words, going to the different securities and getting their permission before they can be investigated. That bothers me. To what extent is that actually happening?

Mrs. Diane Urquhart: I have a letter from Dean Buzza from approximately December 13, 2008. It was in response to our request on behalf of a number of ABCP victims that the RCMP conduct a criminal investigation of the asset-backed commercial paper on the basis of our allegations of fraud with respect to the contracting of the ABCP. In that letter he defines what are the procedures of the RCMP, and it's very clearly stated—and I can table it with the committee—that no commander unit of the RCMP will conduct an investigation of a securities crime complaint until it has been referred, by requirement of the federal government, whoever that is...it must go to the joint consultation unit.

Mr. Daryl Kramp: And you will table that with the committee.

Mrs. Diane Urquhart: Yes, I can table that.

Mr. Daryl Kramp: Thank you very much.

If we're looking at this, there are three elements in the prosecution. One is either having the teeth or the capacity to do so; the other is having the expertise; and then the third of course is having the independence. Would you rank those in a particular order, with independence basically being number one?

Mrs. Diane Urquhart: I think in a democracy that is founded on the rule of law, the independence of the police, from not only the government but also those who they investigate, is paramount. So I would put the independence of the police at the top of the list. I would follow that with competency.

Mr. Daryl Kramp: Thank you.

Perhaps, Ms. Smith, you represent a significant number of seniors. Many seniors are astute investors, but there are a great many seniors who are not really aware of the sophistication of the particular vehicle or market possibilities that are out there right now. Do you find, in the broad middle range of the people you represent, any anecdotal and/or empirical evidence that they've been guilty of either misleading information or deliberate fraud?

Ms. Marie Smith: Yes. Misinformation is the biggest one that is coming out from most of my people. It seems we seniors have been brought up to trust people; the younger generation are not on the same wave length as we were brought up to be. So they have trusted their investor and now they are at this stage where they've lost everything. It may be their neighbour, it may be their friend down the road, or it may be their bank, where they've dealt all these years.

Mr. Daryl Kramp: Thank you.

Mr. Valentini, the Pension Benefits Standards Act of 1985 set the particular ratios for the voting shares. The pension plans cannot own 30% or more of the voting shares and/or more than 10% of their portfolio in a single investment. Do you still adhere to that standard within the public pension?

Mr. John Valentini: We don't comply with that act; we have to comply with our own act, which has similar restrictions. I understand that is under review. There is a study, and PSP has put in a submission where we favour the lifting of those restrictions. The simple reason is that we feel—especially when I talked about certain of the transactions, such as in infrastructure and private investments —those restrictions put limitations on the types of transactions we can do in some of these asset classes. We did submit a submission to the effect that we favour the lifting of those limitations.

● (1040)

Mr. Daryl Kramp: Thank you.

And I think evidence has been given today, quite frankly, about how and why, and what those limitations should be, and your opposing position as well.

Mr. Benson, with regard to the actual voting share breakdown and/or the percentage of investment, I think you were concerned not as much with the percentage as the component of the investment vehicle itself and what it should contain. Would that be correct?

Mr. Phil Benson: Exactly. Yes, it's much more dealing with the component and not what it necessarily entails.

Mr. Daryl Kramp: Thank you.

The Chair: Thank you, Mr. Kramp.

We'll go to Mr. Mulcair.

[*Translation*]

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

Not surprisingly, I am going to continue my very pleasant conversation with Mr. Valentini. I would like to come back to a phrase he used earlier, in answer to my colleague, Mr. Carrier. He said a number of times that there are industry standards—that this is the way things are done in the industry.

I understand that Mr. Valentini worked previously in the private sector, as did I, but I happen to know the difference between the two. I just want to establish the basis for our conversation. We are not talking about a group of private investments here; rather, we are talking about something that is 100% owned by the public. There is not one cent that you handle that is not public money. There is not one cent of your operating budget that is not funded with public money. Do we agree on that?

Mr. John Valentini: Yes, I fully agree. When I was comparing standards, I was talking about those of other pension funds in Canada, such as the Ontario Teachers' Pension Plan, OMERS, the Caisse de dépôt et placement, bcIMC and the CPPIB.

Mr. Thomas Mulcair: All right. Then, when you talk about the industry, you are not trying to convince us that you are part of the private sector. You are using the term “industry” as a generic term to mean “in our line of business”.

Mr. John Valentini: More specifically as regards pension fund managers such as our Board, yes. We are not comparing ourselves to them. In terms of compensation, we can compare ourselves to our peers, such as OMERS, the Caisse de dépôt and CCPIB, which are other pension funds. I also mentioned that, when we make such comparisons, the information is public. We have done some analysis, and PSP's ranking is no higher than that of our peers.

Mr. Thomas Mulcair: In fact, you said precisely that earlier, and that is one of the reasons why I decided to pursue this discussion with you during my speaking time. I would be delighted if you could change my perception, but what I take from your comments is that you are trying to rationalize this and say that, on the basis of your performance, your compensation could be enhanced. That is my perception. You keep trying to convince us that, in relation to others, you are not so bad.

Earlier, you and I agreed—although it was very difficult to have you admit this—that you lost billions of dollars last year. Earlier, you said that, as regards ABCP, the risks associated with the liquidity of these products were underestimated. You come here and tell us that you did a poor job, that you lost billions of dollars, but at the same time, you persist in asserting that, compared to others, you are not the worst off in your industry. I see that as an attempt to pave the way for your giving yourselves bonuses.

Am I wrong?

Mr. John Valentini: Yes, you are wrong. Mr. Mulcair, in the investment business, you never have a 100% success rate. Sometimes you win and sometimes you lose. In fact, in the past, we have won more often than we have lost, because our returns have been good. We are talking about ABCP now, but I could also spend the next 15 minutes telling you about all the times that we won. In the investment business, sometimes you win and sometimes you lose.

Mr. Thomas Mulcair: Okay, Mr. Valentini, we are making progress. Earlier, we were able to agree on the fact that you lost billions of dollars.Now, we have just agreed on the fact that you are managing public money. However, when you talk about industry standards and compare yourselves to the rest of the industry, I would like to insist on one thing: I would like you to pass on the following message to your partners on the Board of Directors: if they are convinced that they deserve more, they have only to leave and move into the private sector, where they may, indeed, be in a position to earn more. But, for the time being, they are managing public sector funds and, in the public sector, when you lose billions of dollars, you do not pay yourself a bonus. Do we agree on that?

● (1045)

Mr. John Valentini: I hear what you are saying. Once again, we are not comparing ourselves to the private sector, but rather, to other public sector pension funds.

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

[*English*]

The Chair: Okay. *Merci*.

I want to thank all the witnesses for your presentations here today and for your responses to our questions. If you have anything further you'd like to submit on pensions, please feel free to do so.

Colleagues, we have 15 minutes, but we do have some future business items we need to discuss very briefly, particularly credit card issues. I will thank the witnesses and they can excuse themselves. We will continue on with our discussion.

Let's suspend for two minutes, and we'll come right back.

●

——————————— (Pause) ———————————

●

The Chair: Colleagues, I will ask you to find your seats, please.

We need to discuss future business. You should all have a calendar in front of you. We obviously have one more meeting with respect to pensions under the access to credit issue. We have the Governor of the Bank of Canada on the 28th. We have what should be our final meeting on April 30 with respect to access to credit, unless members want a further meeting.

I do want to raise the issue of the credit card study. I know it is being debated in the House today, so we'll obviously have that vote before we have the study, but it's still the will—

● (1050)

Hon. John McKay: Welcome to the wonderful world of Parliament.

The Chair: Yes, welcome to the wonderful world of Parliament. But the reality is we have a motion here and the industry committee has a motion to study the credit card issue. I've been in discussions with the chair of the industry committee and we've tried to come up with a proposal to make to both committees.

There are two options. One is that both committees study the issue and try to focus on different areas. Industry would try to focus on competition; we would try to focus more on the credit or the consumer issue. That's a challenge, because you're obviously dealing with the same witnesses, so our proposal is that we do a joint committee. Our session is 9 a.m. to 11 a.m. on Tuesdays and Thursdays; their session is Tuesdays and Thursdays, 3:30 p.m. to 5:30 p.m.

The chair of that committee says they are pretty much booked up until May 7, so the option we have is to do it on Tuesday, May 12 and Thursday, May 14, from 9 a.m. to 11 a.m. and 3:30 p.m. to 5:30 p.m.

We have a good organization in terms of witnesses. The challenge is having 24 members. The vice-chair raised that. I don't know whether parties think that perhaps they could substitute so that we actually only end up with 12 members around the committee table, or 13 or 14, rather than 24, but I want to get your reaction to that. If this committee agrees to that, perhaps we could have the two subcommittees meet and do the specific logistics, if we had to.

That is my proposal. That's what the chair of the industry committee is going to propose to his committee this afternoon.

I'd like to hear the reaction to that.

Mr. McKay.

Hon. John McKay: I would respond that a committee of 24 is unworkable, and I can't imagine anybody wanting to participate in that.

What about a joint subcommittee? The subcommittee would be equally composed of the two committees.

The Chair: I'm certainly open to that, if that's okay with members of this committee.

Mr. Mulcair.

Mr. Thomas Mulcair: I think it is a great idea to have the joint committee, and, frankly, 24 is not the end of the world.

The Chair: You prefer 24.

Mr. Thomas Mulcair: Yes. Let people make their own logistics. They don't need to have the whole group the whole time. I don't think we should start micromanaging that. Simply say it's a joint committee. That means that members of both committees can show up and we'll stretch the table. I come from a family of 10 kids, so it has never intimidated me to have a lot of people around the table.

An hon. member: Now we know.

An hon. member: That explains everything.

The Chair: You should never reveal biographical information.

Mr. Wallace, please.

Mr. Mike Wallace: Thank you, Mr. Chair.

I'm one of the fortunate ones to be on both Industry and Finance. I think I might be the only one, so I'm actually quite in favour of a joint meeting, and I'm flexible on the numbers. I think slightly bigger than 12 and maybe not all 24 would be required, and we would be able, as members, to come at different times and participate.

We have a study going on in banking in the Senate, and then we're going to have them come to our committee, and then the industry committee.... I simply think it is a good use of time, ours and theirs, so I am in favour of you and the chair of the other committee working out a possibility of a joint committee. I do not think you can separate the issues of debit cards and credit cards, the fees the merchants are paying, the fees the consumers are paying. It's all going to be one big item at the end of the day. I think it is better for parliamentarians that there be one report, and that's what would come out of this.

The Chair: Thank you.

I have Mr. Pacetti, Mr. Kramp, and then Monsieur Laforest.

Mr. Massimo Pacetti: Let me start with a question. When are you proposing the meetings again?

The Chair: Because Industry is committed until May 7, it would be May 12 and May 14, or we could do it May 26 and May 28.

Mr. Massimo Pacetti: Initially, that would be four meetings.

The Chair: It would be four meetings, yes.

Mr. Massimo Pacetti: I would be in favour of what Mr. McKay proposed if we were to have 20 meetings, but if we're to limit it to four, I don't have a problem with the joint meetings. Then within our own parties we will decide who's to be in attendance. Whether it will be 12 or 24, as Mr. Mulcair said, we'll simply stretch the table.

If we decide to have 20 meetings, I think it would be an inefficient use of our time. I have no problem with a joint committee. If it's limited to four meetings, then I think it's fine. But if we stretch it out it becomes a problem in terms of logistics.

The Chair: Thank you. I appreciate that.

Mr. Kramp.

Mr. Daryl Kramp: Thank you, Chair.

I'm in concurrence with Mr. McKay. I think 24 is unworkable. Each party can figure out who they wish to have there; otherwise we'll be down to a few minutes per witness. That won't be adequate if we wish to balance that. So let's just leave it at the normal committee structure for witnesses and how many minutes we have: seven down to five, etc. Each party can work out its own internal representation.

The Chair: Thank you.

Monsieur Laforest.

● (1055)

[*Translation*]

Mr. Jean-Yves Laforest: I agree with what Mr. Kramp just said. A committee of 24 could really be too much. Even the witnesses would get lost in the shuffle. That is not the idea. We want to be effective and show that we are serious. You said there would be four afternoon meetings. Will they all be held between 3:30 and 5:30 p. m.?

[*English*]

The Chair: My proposal is to have a meeting on May 12 from 9 to 11 in the normal Finance slot, from 3:30 to 5:30 in the normal Industry slot, and then on May 14 for the same times.

We're not that far apart. We have five Conservatives on the side now. Perhaps we could have six to eight. The Conservatives don't have to send 10. The Bloc could send three and the NDP could have two or three.

I don't think we're that far apart, frankly.

[*Translation*]

Mr. Jean-Yves Laforest: So, on the 12th, we will meet in the morning and the afternoon, and on the 14th, the morning and afternoon, once again. There will be two meetings per day.

Mr. Chairman, I would like to ask that, both for this study and for other future studies, the clerk send us the list of witnesses suggested by the other parties. We have received this kind of thing in the past. It gives us a chance to see exactly who will be appearing, in order to avoid inviting people twice. In terms of our effectiveness, I think that would be helpful.

[*English*]

The Chair: Sure. And in discussion with the researchers, there was thought of having the Canadian Federation of Independent Business, the Retail Council of Canada—those who have real concerns about the credit card and the merchant discount rates. We could have the financial institutions, and companies like Moneris that are split off. Then we could have Visa, Mastercard, and maybe American Express. Those are four logical meeting groups.

That's a valid suggestion and we'll do that.

Mr. Pacetti.

Mr. Massimo Pacetti: My suggestion is that on Tuesday between 11 and 1, if possible, we have our steering committee with the industry committee and discuss the logistics on the makeup of the committee. We can also discuss witnesses and how we're going to structure them together. If we need to we can have another steering committee on the Thursday.

We have enough time to plan it, but I think we should get going on it sooner than later.

The Chair: So on Tuesday, April 28, the steering committee will discuss witness groupings.

Mr. Massimo Pacetti: First we can discuss logistics—whether we'll go with 24 or 12. We have to see what Industry thinks. Then we can discuss witnesses once we have a format. Even chairing the committee is going to be an issue. It's nice to say you're going to co-chair, but that means the Conservatives would have to be okay with the fact—

The Chair: Everyone knows that Finance is the most important committee.

Some hon. members: Oh, oh!

The Chair: The proposal is to have a subcommittee at 11 a.m. on Tuesday. Looking at my other vice-chairs and Mr. Mulcair...Mr. Menzies isn't here, so he's agreeable.

Some hon. members: Oh, oh!

Mr. Massimo Pacetti: We'll talk to each other and report back.

The Chair: So at 11 a.m. on Tuesday, April 28, we'll have a joint steering committee.

Mr. Wallace.

Mr. Mike Wallace: Just so you know, today's industry meeting is about future business, so I'll certainly bring what was said here to that.

An hon. member: Don't screw it up.

Mr. Mike Wallace: I'll try not to.

The Chair: Monsieur Laforest.

[*Translation*]

Mr. Jean-Yves Laforest: That is it for credit cards, then.

You also talked about a trip to Washington. Have you set a date for that trip?

[*English*]

The Chair: We don't have a day yet for Washington, but we'll concur and I'll report to the committee at the subcommittee.

[*Translation*]

Mr. Jean-Yves Laforest: We are talking about our future business. However, we are almost in the middle of May. In the third week of May, after the break, we have to plan one, two or three meetings to discuss our report on the study that we are currently conducting. We will eventually have to make recommendations to the government, and that work has to be included in our future business. Provision should be made for this.

[*English*]

The Chair: Well, if the committee is agreeable, we can also do this in the subcommittee on Tuesday. But we have invited the two ministers, Minister Blackburn and Minister Flaherty. Obviously, we'll fit them in before May 31. We can, if the committee is agreeable, allocate at least two meetings, maybe three meetings, to a discussion on access to credit. Two meetings? *D'accord*?

Some hon. members: Agreed.

The Chair: Thank you all.

The meeting is adjourned.

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