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Mr. James Rajotte

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● (0900)

[*English*]

The Vice-Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)): Order, please.

Good morning to everybody. Thank you for appearing.

We're here, pursuant to Standing Order 108(2), for a study on measures to enhance credit availability and the stability of the Canadian financial system.

I'll provide the witnesses with five minutes. Perhaps you can keep it to five minutes, and I'll try to indicate that you have a minute left when you're making your presentation. If you can stick to the time allotted to you, it would really be appreciated; the members will want to ask questions.

I have a list of witnesses here, and we can start with the Tricor Automotive Group.

Mr. Campbell, I think you're ready, so go ahead.

Mr. Joseph Campbell (President, Tricor Automotive Group): *Bonjour*, and thank you, Mr. Chairman.

On behalf of the over 6,500 employees who work for the dealerships that make up the Tricor Auto Group, I want to thank you and the committee for your efforts in addressing the gaps currently in the credit markets that are imperilling our industry.

My name is Joe Campbell, and I am president of the Tricor Automotive Group. I am joined today by Mr. Brian Rodd, who is president and CEO of Securcor Financial Group.

Let me begin with some background on Tricor and who we are.

Tricor represents over 100 franchised automobile dealerships from coast to coast in Canada, with annual sales of over $4 billion. Most of you will have a Tricor dealership in your riding. Tricor is your local dealership, from which many of you would have purchased or leased your new or used car over the last number of years. Tricor represents all the major automotive brands, both domestic and imported.

Tricor's business plan was and is based upon a unique model of individual accountability and risk management. It is this model of accountability that has resulted in an industry-leading track record that includes the successful operation of a reinsurance company for over 20 years and the successful operation of an auto management company, Tricor Automotive Group,

Otherwise known as TAG, for the last 10 years, the successful operation of our own finance company, Tricor Lease and Finance Corporation, or TLFC, has generated over $250 million in loans over the last eight years while maintaining a delinquency rate well below industry norms. This accomplishment has been achieved despite these difficult economic times.

Securcor is a Canadian-owned and managed financial services company that provides complete compliance verification between private securitization funders and the originators. In addition to serving in this compliance capacity for TLFC since its inception, Securcor has overseen and managed the origination of over $2.5 billion in auto and equipment leasing financing.

The questions before the committee today are, how did we get to where we are, and how can we help the committee solve the credit availability problem? The current credit crisis has permanently changed the playing field for dealers when looking to help their consumers finance their transportation needs. Captive finance companies and other private funders are no longer operating efficiently, and chartered banks have been unable to fill the void created.

Despite the fact that the Bank of Canada has significantly lowered the prime lending rate, its actions have not resulted in lower borrowing costs at the consumer level. Tricor is presently in the process of applying to become a chartered bank or financial institution. We believe this strategy is part of a longer-term plan to fill this gap in automotive financing in Canada. To fill the gap in the short term, however, we are working with the Department of Finance and the Business Development Bank to find solutions. The best and quickest solution would be for Tricor to make use of the credit facility that the federal government recently made available. In order to be able to make use of the facility, we need the flexibility and an understanding on the part of BDC to understand how the fundamentals of the automotive lending sector work. This understanding primarily involves recognition that with the dealerships accountable, and therefore everyone who is involved in the transaction having their interests properly aligned, risk can be mitigated and the operation can achieve and maintain success over the long run.

Essentially, what we have described and what we are asking the BDC to do is it to copy the key components of the only private model that is still successfully operating, albeit with constricted volumes, in today's credit environment. Please recognize that we are not trying to replace the bank and the critical role they play in automotive lending, but are simply trying to fill the lending void left by the reduced capacity in the market.

Our proposal, we believe, offers the best public policy solution to what is taking place in the market, not only in the short term but in the long term as well. Tricor understands how credit markets, automotive consumers, and car manufacturers interact and what the best conditions are for keeping the marketplace liquid and functional. Tricor has a vested interest in making good-quality loans, the way the marketplace should always work. We are taking risk with every loan and we understand how to mitigate that risk.

The federal government wants to jump-start the automotive sector in Canada, and Tricor, due to its efficient cost structure, with access to the credit facility, will be able to offer a less expensive source for automotive financing and leasing for the Canadian consumer immediately.

Mr. Chairman and members of the committee, thank you and *merci beaucoup*.

Mr. Rodd and I are looking forward to your questions.

● (0905)

The Vice-Chair (Mr. Massimo Pacetti): Thank you. You fell within the time slot; I appreciate that. Members will appreciate that as well.

The next group is GE Capital.

Ms. Allan, please.

Ms. Elyse Allan (President, GE Capital): Thank you very much.

My name is Elyse Allan. I'm president and CEO of GE Canada. I'm joined by my colleague, Jean-François Bertrand. Thank you for giving us the opportunity to appear before the committee.

GE is known for many things. One of them is providing light, and I hope we can provide some light to the challenges of commercial lending in the current environment.

Worldwide, GE has more than 300,000 employees in more than 100 countries. Our business units range from financial services, aviation, energy, lighting, and appliances, to health care, NBC Universal, rail, and more.

We've been in Canada since 1892. GE Canada generated $6.7 billion in revenue in 2008. We have over 9,000 employees, $24 billion in assets, over 15 major manufacturing facilities, and over 100 sales and service sites.

GE Capital Canada is one of our units. It is the largest non-bank commercial lender in Canada. GE Capital Canada lending and leasing division's head office is in Montreal. We have 600 employees at 23 offices across Canada.

GE Capital Canada provides financing to over 60,000 Canadian companies, most of which are small and medium-sized. GE Capital Canada provides lending and lease alternatives to bank financing. We help companies invest in new technology and equipment. We consolidate debt and we provide vendor and franchise financing. In 2008, our asset-based financing for new business activity in Canada was $10.9 billion.

Our 60,000 customers are in a broad range of industries: transportation, aerospace, construction, forestry, manufacturing, automotive, hospitality, and franchise finance. We also have a specialized unit to finance and manage truck and vehicle fleets.

In short, Canadian companies rely on GE Capital Canada to finance their operations, invest in new technology, and employ Canadians.

Jean-François, please.

[*Translation*]

Mr. Jean-François Bertrand (Senior Vice-President, Capital Markets, GE Capital): My name is Jean-François Bertrand and I am senior vice-president of capital markets with GE Capital Canada.

In order to explain how the credit crisis has affected us, it is important for you to understand how we finance our Canadian operations. GE Capital Canada issues unsecured commercial paper, medium term notes and asset-backed commercial paper. Some of this is issued in Canada and some on international financial markets.

The current crisis has reduced our ability to raise funds. The market in asset-backed commercial paper is down 55%, or $63 billion, since 2007. Rates for this paper are extremely volatile. The cost of issuing secured commercial paper has become prohibitive.

The market for unsecured financial corporation commercial paper is also affected, dropping 45%, or $20 billion, since 2007. GE Capital Canada's ability to issue unsecured commercial paper has dropped significantly since July 2008. Since 2003, GE Capital Canada has issued almost $15 billion in medium term notes since 2003, but we have issued none since July 2008.

With the dramatic drop in traditional sources of local financing, GE Capital has had to make use of cross-border intercompany loans in order to meet the needs of its Canadian clients. Unfortunately, long-term use of loans of this type is not sustainable because of the Canadian tax rules to which they are subject.

Loans from our American affiliates are subject to what are known in Canada as thin capitalization rules. These rules limit deductions for interest on money borrowed from American parent companies to a two to one leverage ratio, making this a very costly source of financing. By comparison, Canadian banks typically have what is considered a conservative leverage ratio ranging from 16 to one to 20 to one.

● (0910)

[*English*]

Ms. Elyse Allan: GE Capital Canada is clearly an important part of the financial infrastructure of Canada. We applaud the Government of Canada for the initiatives they have taken to strengthen this financial infrastructure that is so crucial to small and medium-sized Canadian businesses—the $12 billion secured credit facility, the amendments to the EDC mandate, and the injection of capital into EDC and BDC.

But more needs to be done. As with everything in the current economic crisis, good policies need to also be matched with good timing. We believe the secured credit facility needs to be operational in the second quarter of 2009 if we are to ensure that the capital will be available to finance Canadian business operations and investment.

Also, the facility should not be limited to only AAA-rated tranches. It should also be open to investment-grade tranches. Prior to the current crisis, investment-grade tranches were being purchased on the market. Recreating the normal market for all investment-grade tranches will allow financial companies like GE to extend more financing to those companies that are not AAA and are in fact the most vulnerable in the current crisis.

Secondly, we believe the Bank of Canada should target its intervention on non-bank financial companies, where the breakdown in the commercial paper market has had its greatest impact. The Bank of England's new asset purchase facility is actually an excellent precedent, as it creates new liquidity in the market, assures confidentiality, and provides a clear exit strategy to the bank.

Third, and finally, Canada should revise the current thin capitalization rules to make it easier for financial services subsidiaries of international companies to access related-party capital. The debt-to-equity ratio should be increased from a leverage of 2:1 to at least 10:1, as this would provide Canadian financing institutions access to additional capital, which, in turn, would finance Canadian companies.

Thank you.

[*Translation*]

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

The next group is the National Marine Manufacturers Association Canada.

Ms. Anghel, you have seven minutes.

[*English*]

Ms. Sara Anghel (Vice-President, Government Relations and Public Affairs, National Marine Manufacturers Association Canada): Thank you very much.

Good morning members of the committee, Mr. Chair, and ladies and gentlemen. My name is Sara Anghel, and I'm here representing the National Marine Manufacturers Association of Canada. I am joined today by Mr. Jeff Wilcox, president of George's Marine and Sports.

National Marine Manufacturers Association, which I'll refer to from now on as NMMA, is the leading association representing the recreational boating industry in North America. NMMA member companies produce more than 80% of the boats, engines, trailers, accessories, and gear used by boaters in North America. The association is dedicated to industry growth through programs in public policy, market research and data, product quality assurance, and marketing communications. We represent 100 members in Canada and another 1,600 members in the United States.

In 2006 we conducted an economic impact study that told us that the recreational boating community has a $26 billion impact on Canada's economy and produces close to 375,000 jobs, directly and indirectly. This includes close to 7,000 well-paying manufacturing jobs. In 2006 nearly six million Canadians took to the water in a boat. These boaters have a $6 billion impact on tourism through travel, fishing, trailering, angling, and other tourism-related activities in Canada. We also see many of our American friends taking to our waterways as they have 4.3 million boats in the eight Great Lakes states.

Of those six million boaters in Canada, 80% have a household income of less than $100,000 per year, and 95% of all boats in use and sold each year are less then 26 feet in length—trailerable boats. Boating is solidly middle class, and it is middle-class workers making and selling boats for the middle class.

These strong economic figures will no doubt be smaller this year and next due to the significant slowdown in the economy. Our industry is usually the first to suffer and the last to come out of recession, because our products are non-essential to consumers.

As we know, normally functioning capital markets began to seize up in early 2008 in the U.S., causing commercial paper markets to fail to operate effectively as investors pulled away from lending to all but the most credit-worthy organizations. Lenders traditionally active in consumer and dealer financing began to pull back or exit the recreational marine dealer inventory/floor plan lending segment.

Floor plan financing is a source of financing that permits a retail dealer to buy goods from manufacturers on a wholesale basis and finance pending resale. The products purchased become the security for the loan that is repaid when the merchandise is sold.

The total marine industry floor plan market in North America is approximately $3 billion to $4 billion.

Here in Canada, 2008 was a relatively good year; however, the availability of floor plan financing is making the 2009 season very difficult. Textron, a financial lending company, exited the market in February of this year, leaving GE Commercial Distribution Finance Canada as the sole floor plan lender for the marine industry. Textron represented nearly 30% of the marine inventory finance business in Canada. At the same time, GE is expected to reduce its wholesale marine lending due to current market conditions and the credit health of marine dealers.

As floor plan lenders leave the market, the lack of readily available alternative credit sources poses major risks to marine manufacturers and their dealer networks. As a result of the credit crisis, the marine industry's distribution chain is now in serious jeopardy, already costing jobs, which will threaten more jobs.

Due to contract requirements, manufacturers in many cases are required to buy back or repurchase inventory from a dealer that goes out of business, creating a severe negative feedback loop that drains key capital from already struggling manufacturers. Excess inventory on the market as a result of liquidation, credit inaccessibility, and low demand means less production, fewer Canadian manufacturing jobs, and closures.

I urge you to consider and include the marine industry in your decision in the same way you consider automobile dealer financing. Relief to help stabilize the floor plan lending market and ease the flow of credit is crucial. Government needs to get the banks to begin stimulating the economy by expanding their leverage.

To be more specific, the following solutions are proposed.

First, increase the amount of insurance that Export Development Canada currently provides on exported goods from 90% to 100%. If the insurance were increased to 100% and it were made easy for lenders to access, this would provide a solution for boats being exported to the U.S. by Canadian manufacturers.

● (0915)

Two, implement a similar government-backed program for boats shipped within Canada by Canadian manufacturers. This could be done by expanding the mandate of Export Development Canada or by increasing the roles of the Business Development Bank of Canada.

A federal government loan guarantee program for floor planning will increase liquidity, attract new lenders, and increase existing lender participation to marine dealers. This will keep manufacturers and dealers in business and secure many of the 375,000 jobs our industry produces across Canada. In addition, stimulating retail customer-level financing will help move products and allow new products to enter the market, thus keeping our manufacturers working.

GE cannot do this alone in our industry, and, as I mentioned, currently they are the only available financing for our industry. We urge the BDC to work to assist GE, who will in turn be able to assist Canadian manufacturers, dealers, and, more importantly, assist middle-class jobs. Our retail buying season is March to July. We need to act now to prevent further declines.

I'd like to now turn it over to Jeff to give you a brief outline of how this issue affects a local business here in Ontario.

The Vice-Chair (Mr. Massimo Pacetti): Mr. Wilcox, I warn you that you have less than a minute. If you would, just summarize your highlights.

● (0920)

Mr. Jeff Wilcox (President, George's Marine and Sports, National Marine Manufacturers Association Canada): Thank you.

My name is Jeff Wilcox. I'm president of George's Marine and Sports.

Over the past 10 years that I've managed this company, we've taken it from a $100,000 dealership to nearly $14 million. I have been president of the company since 1999 and have been employed with it since 1985. During my tenure I've seen a number of changes to both credit at the consumer's end and to wholesale credit.

These times, however, have now created some of the most challenging set of parameters I have ever seen in how small businesses run. In business, we've seen interest rates rise and fall many times, but never have we seen a change this dramatic on both the wholesale and retail side. Not only have our credit providers changed the game plan in mid-stream, but so have the retail lenders, causing pressure from below and above.

Our main floor plan lender is GE. In the past month we have seen our rates nearly triple and credit availability tighten beyond anything I've seen in the past. We have seen rates this high in the past, but never with margins on products this low. Given the current economic status, our margins on our products have declined by over 40% as a result of dealers trying to keep market share. Combined with the increased flooring costs and the decrease in margins, profitability will be next to impossible without cutting costs dramatically.

The most likely cost will be to our employees. Given that we employ highly trained people, it will be a very difficult decision, but one that we may be forced to make.

In addition to the wholesale problems that we are experiencing, retail lenders are also changing how they do business. They have increased their requirements for available credit beyond what some of the consumers are able to maintain, making it virtually impossible for a mid-income family to receive credit. In some cases, clients who would have received credit a year ago and are currently working with very little debt have been denied.

These two factors are now forcing small businesses like mine to restrict business operations and directly reduce our workforce in order to remain in business. George's Marine and Sports will most likely not look the same after this current recession ends, nor will we return to where we once were.

Thank you.

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

We'll go to the Canadian Recreational Vehicle Association, with Mr. Hanemaayer.

Mr. Jeff Hanemaayer (Senior Vice-President, Canadian Recreational Vehicle Association): Thank you for seeing us today.

I'm Jeff Hanemaayer. I'm the vice-president and a director of the Canadian Recreational Vehicle Association, CRVA. It's a non-profit industry association representing manufacturers and suppliers to the Canadian RV industry.

I'm not a financial expert, but I am joined by Pierre Major. He's the president of Textron Financial Canada's floor plan division. However, he's here not representing Textron Financial Canada, but instead basically as an expert in the field of floor plan financing in Canada.

The Canadian RV industry is valued at about $3.5 billion. That doesn't include revenue generated by campgrounds or other economic impacts that result in the tourism sector as a result of RVing. RV ownership hit a record level in 2008, with 14% of Canadian households owning an RV; that equates to over a million RVs in Canada.

RV retail sales in Canada in 2008 reached a record high of almost 58,000 new units, both motorized and towable. Although the credit crisis has reduced retail demand from record levels, demand currently remains reasonable by historic standards—this despite the fact that retail lending standards have become more strict, resulting in more willing buyers being left without retail financing.

Retail financing is still reasonably available to diligent RV dealers for credit-worthy customers. The bigger problem the industry has is that although retail sales are reasonable by historic standards, floor plan financing for dealers has become much more difficult to acquire and maintain. Survey results from members of the RV Dealers Association of Canada cite the lack of floor plan financing as their number one concern for 2009. Without adequate floor plan financing, dealers are not able to maintain an appropriate number of RVs to maximize their sales and profits.

Reduced dealer floor plan availability has been caused by three things: as mentioned earlier, the exit from RV floor plan business by Textron Financial Canada, which is one of only two major non-bank floor plan lenders in Canada, both of whom happen to be U.S.-owned; reduced lending by the other one; and the last would be minimal interest from Canadian chartered banks to increase their lending.

We have a few suggestions to improve availability of floor plan lending to the RV industry.

One would be to modify the Canada Small Business Financing Act: first to include RV dealer floor plans—RV dealers sell big-ticket items for small margins, so we need to revise the eligibility to include businesses with annual sales over $5 million; second, to revise what is eligible for financing to include RV inventory; and last, to increase the loan limits beyond the recently increased current limit to $1 million.

A second suggestion is to broaden the BDC's mandate to include RV dealer floor plan.

A third is to modify the Canadian Secured Credit Facility to include RV dealer floor plans; currently, the facility only allows for loans for vehicles and equipment.

The last is to encourage Canadian chartered banks and other lenders to increase RV dealer floor plan lending. The big banks already benefit from retail RV lending, which has a lower risk than other forms of consumer loans. They provide floor plan to a small number of dealers with whom they've had a long-term relationship; however, they are reluctant and are risk-adverse to offering new floor plan lending.

Finally, with the only other remaining non-bank floor plan lender being U.S.-based, their Canadian businesses may not be their first priority. The Canadian industry, already affected by one U.S.-based lender leaving the market, would be less vulnerable if there were other major, Canadian-sourced lenders.

Thank you.

● (0925)

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

Members, you have seven minutes.

I'd like to remind the witnesses that the members have seven minutes for questions and answers. If you keep your answers brief, the members get to ask more questions.

Mr. McCallum, you're first up, with *sept minutes, s'il vous plaît.*

Hon. John McCallum (Markham—Unionville, Lib.): Thank you very much.

Thank you to all the witnesses for coming today.

One of the recurring themes we've been concerned with is the slowness in the development of the Canadian Secured Credit Facility and the difficulties we had in getting answers from BDC as to when it would get the money out the door. The crisis is now, and if these facilities and additional lending only happen in 2010, it will conceivably be too late. I think some of your comments today reinforce these concerns.

So my first question would be to the recreational vehicle group. Why would the Business Development Bank exclude you? I don't quite understand that. And why would the Canadian Secured Credit Facility exclude you? What do they have against recreational vehicles?

Voices: Oh, oh!

Mr. Jeff Hanemaayer: As the CSCF is currently written, it does not include the RV dealer floor plan as a form of a loan that can be used for the asset-backed securities. It only includes loans and leases for vehicles and equipment. It does not include RV floor plan inventory.

Hon. John McCallum: But is there a rationale for why that should be? What would they say if they were here and asked why they don't include you?

Mr. Jeff Hanemaayer: It was the legislation that did not include the RV floor plan. That's where it's excluded. It wasn't included in the original legislation. So I don't know if it's a choice. I'm not sure which particular issue you're addressing, though. With regard to the CSCF, it was simply that RV floor plan is not included in the qualifying types of loans.

Hon. John McCallum: Okay. In terms of the CSCF, my understanding is the Prime Minister first mentioned the idea around Christmas time. The budget is now, I believe, about three months old, today is the fiftieth day since the budget received royal assent, and I'm not sure we're nearly there yet.

Ms. Allan, you talk about hoping this might occur in the second quarter. Before, we'd been told May. Do you have any idea on the timing of when this money will actually be flowing?

Ms. Elyse Allan: I would simply say that certainly our negotiations are moving forward very quickly. Since things got started, which they have, we've been working very well. We're doing something that hasn't been done before, and I think everyone appreciates that. It is moving forward and we are hoping and anticipating that it would be in the second quarter.

I'll ask Jean-François, who's involved in that, if he has additional comments.

Mr. Jean-François Bertrand: Yes. I would just add that it's a new mandate for the BDC. It was something new for them, and they work very professionally with us. We can't wait to have the money, but they do their best, I think.

Hon. John McCallum: It sounds like a bit of a slippage to me when you move—not you, the government—from saying May and now we're told second quarter, which goes until the end of June.

In terms of restrictions, again to Ms. Allan, you're saying there's a restriction because the program is limited to AAA, and prior to the crisis, BBB and upwards were eligible. Can you explain—

● (0930)

Ms. Elyse Allan: Yes, that's correct.

Hon. John McCallum: —why that is a problem and whether you think changes should be made?

Ms. Elyse Allan: Yes. It's in some ways a minor change, but it could be important in that it would extend who would be eligible for this program. So you're right, traditionally you'd be able to work down through all levels of credit from AAA and below, and right now it is specific to just triple AAA. We would like it extended. It would increase, obviously, the amount of financing and possibly go to people who are more vulnerable than those who are just triple AAA.

Jean-François.

Hon. John McCallum: Maybe I'll leave it at that, because my time is short and I have one more question I'd like to ask.

We had Mark Carney here recently talking about how interest rates had come dramatically down and how he was pleased that in the private sector this trend had been mirrored. But we seem to have a case study in front of us, with Mr. Wilcox sitting beside Ms. Allan. If I heard you correctly, the interest rate you're charged by GE Capital has tripled at the same time the Bank of Canada interest rates have trended dramatically down.

Perhaps I could ask each of you to explain, because it seems like a bit of an anomaly when the general interest rates are trending down and yours have tripled, unless there's something specific to your company that you may or may not want to get into. Why have your interest rates charged by GE Capital tripled when the general trend, at least at the official level, has been so dramatically downwards?

Mr. Jeff Wilcox: Floor plan costs in general, across the marine sector, have almost tripled, and in some places more than that. We compared where we were this time last year with a floor plan interest cost of about 3.5%. We're now approaching 8.5%, so it's about a two and a half times increase.

It's something we've talked about numerous times with GE. It seems to be that their floor plan costs have gone up. Their access to money has gone up, and therefore being a profit-maker, as well as everybody else, they've increased our costs.

Hon. John McCallum: Maybe I could ask Ms. Allan that question.

Ms. Elyse Allan: I would simply comment that, as was stated by Sara and Jeff, there were other people in the industry, none of whom are there any longer, and we're the only person left. Obviously, there's some risk in the industry that others have perceived. I would suggest that perhaps we see that and are translating it through in our pricing, not to mention that our own cost of capital, which is the reason why we are here, has continued to go up due to the lack of liquidity in the commercial paper and other forms of funding in the marketplace.

The Vice-Chair (Mr. Massimo Pacetti): You have 30 seconds.

Hon. John McCallum: Okay.

One last question, again, to Ms. Allan. On the Bank of England example in the commercial paper market, is that measure taken by Britain consistent with the direction in which Mark Carney said he is potentially moving? Is that possibly on the horizon for Canada?

Ms. Elyse Allan: That, I would guess, you would have to ask Governor Carney. I would only say that when we look at the examples, we think it is a good example of the type of program we would recommend he consider.

Hon. John McCallum: Thank you.

[*Translation*]

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

My thanks to the witnesses. Your comments were brief and members can ask a number of questions.

Mr. Laforest, you have seven minutes.

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

Good morning to all the witnesses.

My question is for GE Capital. You said that you raise your financing mainly by selling asset-based commercial paper. Now, we know that this kind of investment was largely responsible for the problems and the major losses that a number of pension funds have suffered.

I was astonished to hear you asking for the Bank of Canada to come to your assistance, given that you sold this paper to government groups, specifically government pension funds. It did not work out, they lost money and you are now asking for state assistance. I find that peculiar.

● (0935)

Mr. Jean-François Bertrand: I understand your concern.

The Canadian secured paper market was divided into two segments. There was the one set up by non-bank companies and there was the one using bank commercial paper, which has always performed very well. The other segment did not perform well; it has even needed to be restructured.

The market for secured bank paper has continued to perform well, but its image has been tarnished. Though the assets have performed well in this market, it is more difficult.

GE Capital has always used secured bank paper. So investors have not lost money and have had very good returns.

Mr. Jean-Yves Laforest: Okay.

Clients who bought the paper that you issued have not lost money.

Mr. Jean-François Bertrand: Absolutely not.

Mr. Jean-Yves Laforest: Okay.

Because it was secured bank paper?

Mr. Jean-François Bertrand: Yes.

Mr. Jean-Yves Laforest: You were not involved with the other sector. You did not issue any.

Mr. Jean-François Bertrand: Exactly.

Mr. Jean-Yves Laforest: Can you tell us if retirement funds, such as the Caisse de dépôt et placement du Québec and the Canada Pension Plan Investment Board bought paper from you?

Mr. Jean-François Bertrand: I have no idea who buys secured commercial paper because that is managed by the banks, who have their own clients. The banks are responsible for getting their own clients.

Mr. Jean-Yves Laforest: Thank you.

Mr. Hanemaayer, among your recommendations, the Canadian Recreational Vehicle Association suggests broadening the mandate of the Business Development Bank to include financing. You want the chartered banks to be able to partially finance people buying recreational vehicles.

Is that because no chartered bank was doing it?

[*English*]

Mr. Jeff Hanemaayer: Currently the Bank of Montreal is fairly involved in RV floor plan financing—they're the example I mentioned—but it's restricted to dealers that they've had long-time relationships with. Like the other banks, they're really not interested in offering more lending to the segment.

[*Translation*]

Mr. Jean-Yves Laforest: Among your lenders for people wanting to buy a recreational vehicle was the GE Capital Solutions Group. Was that group the main source of financing for people wanting to buy recreational vehicles?

[*English*]

Mr. Jeff Hanemaayer: You're asking about retail financing now, not the wholesale financing that I've been mainly speaking about?

[*Translation*]

Mr. Jean-Yves Laforest: Yes.

[*English*]

Mr. Jeff Hanemaayer: Are you going to answer this question, Pierre?

Mr. Pierre Major (Canadian Recreational Vehicle Association): Sure.

The Canadian banks have been financing retail business for a while. Many banks are still involved, but they've started to be more difficult about granting loans.

All the banks, even the caisses populaires in Quebec, are doing retail financing. I'm not sure if GE is still involved in that business. The source for retail paper is still available, but it's more restrictive.

[*Translation*]

Mr. Jean-Yves Laforest: What you are telling us this morning affects business financing for production and marketing much more than consumer financing. The recommendations you are making are to do with business financing, if I understand correctly.

● (0940)

[*English*]

Mr. Jeff Hanemaayer: That's correct.

[*Translation*]

Mr. Jean-Yves Laforest: Okay.

I have no more questions. Thank you very much.

[*English*]

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

Mr. Menzies, seven minutes.

Mr. Ted Menzies (Macleod, CPC): Thank you, Mr. Chair.

Thank you to our witnesses.

This has proven to be a most fascinating study that we've gotten into, but a very critical one. You folks represent the people whom we represent as well—the dealers, the auto dealers, the RV dealers, the financiers who back these operations—so it's good to hear from you.

We keep hearing this recurring theme about the difference in financing. We still have bank financing. The Canadian Bankers Association will come in and tell us that their numbers are up; they're lending more money. It's the non-bank financing that has disappeared from the market, and that's what has created the pressure on all of you folks. We recognize that.

We're dealing with taxpayers' money here in this secured lending facility, so we're trying to make sure that we protect taxpayers' money. We've given the business, if you will, to BDC to get this out, knowing that they haven't had to push this much money out, and report back to government, report back to Canadians, that they've done it the right way.

There was an interesting article in the *Globe* this morning that quoted Mr. Richard Gauthier:

> But even Mr. Gauthier acknowledges that Ottawa must tread carefully as it wades into this area for the first time.
>
> “There is no infrastructure, there's no mechanism in place in Canada at this stage to accommodate this kind of credit facility, so they've basically got to start from a clean piece of paper with [BDC] and all of the stakeholders and invent the process.”

So we appreciate your patience. We're hoping that BDC can get it right but get it moving. That's our concern, I guess, and I'm sure it's yours as well.

StatsCan figures show—I just got this note on my BlackBerry—that auto sales and auto manufacturing and parts manufacturing are up 19% this month over last. I guess I'm a little surprised that it's up 19%.

Mr. Campbell, perhaps you would comment on that. Your model, of having skin in the game, to me makes a lot of sense. That's maybe not the right way to term it, but you folks are the people who are involved in this, and you're doing some of your own financing.

How do we deal with this AAA rating that has to be met?

Mr. Joseph Campbell: That's exactly what we proposed to BDC. We appreciate that they are starting with a blank piece of paper and have to develop the model from scratch. It's not something they can pull out of the air and say, “Here's what you have to do.” We are very encouraged, by the comments we've gotten back, that we are working toward that solution with them and Finance.

But as Mr. Rodd can attest to, the key thing with our model, the way it has worked in the past, is that in the private sector, we in essence took the components that would have been in a rating— that's what the funder looked to do—and verified that those were there rather than waiting for a third party to do it.

That's more or less what we're asking BDC to do, to take a role that has worked in the market for the last number of years and duplicate it.

I don't know, Brian, if you want to add anything.

Mr. Brian Rodd (President, Securcor Corporation, Tricor Automotive Group): Thanks, Joe.

I think the rating issue is something we've all talked about around this table. We've been through the rating process, all of us, over the last number of years, certainly the last 10 or so.

When we started Securcor, our objective was to have a privately funded facility that really got into the details, that knew the contracts and knew the customers. We spent a ton of time up front on understanding the business being invested in before we actually went out and did any funding.

As well, we track the transactions on a very transparent basis all the way through, cradle to grave. Back then it was a negative for us, but today transparency is certainly something that is the buzzword on Bay Street and Wall Street.

That's what we add to the pie for the private funders; we're in between Joe and the funder of one of our conduits. We've provided that service with extremely good results for nine years.

Mr. Ted Menzies: Has the AAA rating changed, with all the companies represented here, from where everyone was a year ago, with the downturn, with your asset values, with your increased liability? Is that the issue?

Mr. Joseph Campbell: In terms of our facility that we're using right now, our credit has not deteriorated in the last year. We're experiencing the same results. A lot of it has to do with our unique model, where the originator of the contract, the automobile dealership, has a financial interest in the contract all the way through to the end.

In essence, it's going back to the old way of doing it, where the dealer takes responsibility for their actions and doesn't just sell the contract to somebody else and is then absolved of any financial risk.

We have the skin in the game, as you referred to it, so we have a vested interest. That's why we have not seen a deterioration in our book at all in the last year.

● (0945)

Mr. Ted Menzies: Okay. Very good.

So you've been in discussions with BDC? You've been part of the process all along?

Mr. Joseph Campbell: Yes.

Mr. Ted Menzies: To everyone here, what kind of reception have you had at BDC? I guess that's our concern. We've had BDC here, and we're all hearing concerns from our constituents.

Mr. Jean-François Bertrand: As we mentioned earlier, they work as fast they can. We're working pretty well with them. It's new for them. They've inherited a new mandate. We are collaborating with them and they are collaborating with us. We are in the process of answering their questions. I think they are at the phase of allocating the amounts at this point in time. We expect to hear from them pretty soon.

Mr. Ted Menzies: Are there any other comments?

The Vice-Chair (Mr. Massimo Pacetti): I think it's an important question.

Ms. Anghel, can you answer that? Has your organization been negotiating with BDC?

Ms. Sara Anghel: No, we have not directly. As I said, we look forward to BDC working with GE to make it more accessible for our dealers.

The Vice-Chair (Mr. Massimo Pacetti): So you would be represented through GE?

Ms. Sara Anghel: No, we're just looking forward to GE getting the access to what is needed in order for the financing to become available. The organization itself has not been interacting with BDC at this point directly. We'd be happy to do so. The opportunity perhaps has not presented itself, or we perhaps have not approached them.

The Vice-Chair (Mr. Massimo Pacetti): Mr. Hanemaayer.

Mr. Jeff Hanemaayer: As was mentioned earlier, BDC's current mandate does not include RV dealer floor plans. That's one of the changes we'd like. To say how well they worked, then, for us really doesn't apply.

Perhaps I can add a comment to an earlier question to Jeff. In terms of interest rates for our floor plan throughout the RV industry, it has increased significantly since last year. Our experience would mirror the boating dealers.

The Vice-Chair (Mr. Massimo Pacetti): You're over your time, Mr. Menzies, but I took up a little bit of it, so....

Mr. Ted Menzies: That's okay; new chair.

The Vice-Chair (Mr. Massimo Pacetti): Mr. Maloway, seven minutes.

Ignore the part about the new chair.

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

My question is probably for Jeff—or for Pierre, or for anyone else who wants to answer it.

I'd like to know what the risks are of floor plan lending. When I hear that the banks are not interested in it, and they're in the business of lending money, then why would they be shy?

Mr. Jeff Wilcox: Do you mean they're shy to enter into this floor plan?

Mr. Jim Maloway: What are the risks in the program?

Mr. Jeff Wilcox: The inherent risks, obviously, are to the financial stability of the company, carte blanche. As our floor plan costs increase and the downward pressure on the economy happens in the top end, margins have shrunk, which means our overall profitability has virtually disappeared. So the risk is to the viability of the company itself.

With regard to banks, and this is something we've been talking about, as the floor plan interests go up, we've often wondered if the chartered banks will enter back into the floor plan business as the profitability is there for them.

Mr. Jim Maloway: I've spoken to GM dealers in Winnipeg in recent weeks and I didn't get any indication from them that their floor plan arrangements were in jeopardy or that the rates were tripling. Do you have any comments on that, Joseph?

Mr. Joseph Campbell: When you look at the floor plan as compared to the consumer side, it has a distinctly different risk scenario. As different people have pointed out, inherent in the floor plan and what made it work was the put-back to the factory.

I'll speak to the auto side. In essence, the banks used to take a lot of comfort in that if a dealer went out of business, they went in and grabbed the inventory and put the inventory back to GM, Ford, Chrysler, Toyota, or whoever it was. They would be reimbursed one hundred per cent. There was no risk on that side of it. The only risk they had to deal with was the dealer not doing his portion.

Obviously, the current economic climate does not give the banks a lot of comfort; a GM or a Chrysler may or may not be there to take back the inventory. That's what's driving the floor plan crisis. We were asked last week to meet with some finance members who were beginning a study on it to understand what is driving it, but that's one of the key components driving the interest rate increase. A number of our dealers have seen their interest rates on floor plan borrowing increase significantly as well in the last 90 days.

● (0950)

Mr. Jim Maloway: Dealing with the issue of the rates tripling in a month, it seems to me that there's some profit-taking going on here or some gouging. I liken it to the trends in the insurance business where the markets go soft and people compete for business. The rates go down and are slashed in half in no time, and then all of a sudden markets tighten up and there's just no capacity out there. Rates double and triple and there are huge profits at the end of the day. Then, of course, the cycle starts again.

Is that what we're looking at here in the financing business? Does that happen?

Mr. Brian Rodd: In our current model, I think there definitely is some of that, because in our model there is only one funder left funding, and that's Sun Life insurance company. The other funders have gone away. There is opportunity there to look at risk, and they can put some nice words around it, but at the end of the day, your rate has gone up three times as well in the last year. There is some of that, but there is very little liquidity out there right now.

Ms. Elyse Allan: I'd just like to comment on your point. The reason we're here, in part, is to talk about the cost of capital, and our access to capital, as a non-bank financer, has gone up dramatically. If we look at, for example, the financial companies' unsecured CP paper, we're looking at spreads that are 40 basis points higher than what they were. Looking at the commercial paper market in general, it is down in range from 45% in terms of just availability.

Jean-François, you have some of the numbers, so maybe you want to comment.

That's why. There's just lack of liquidity out there, so there's far less money available to go around, and it is also much more expensive. That translates through, obviously, when we look at the range of risk that we have to finance in the marketplace.

Do you want to add to that?

Mr. Jean-François Bertrand: Yes. The ABCP market, the asset-backed securities market, if you include non-bank and bank paper, decreased by 55%. It was the largest market for funds in Canada, to get short-term funds for everybody, so it's important. It's $63 billion that has vanished over the last few months, and the spreads are wider by 30 to 100 basis points in that market.

There's also a mid-term notes market. Net new bond issuance was down by $10 billion in Q4 of 2008. Recently we saw a bit of improvement, but it's not related to non-bank financial companies; it was the rest of the market that improved. So it's our view that there's a segment of the financing market that probably needs support from the Bank of Canada, as was mentioned in the document they published last week.

Mr. Jim Maloway: Ms. Anghel, I have a question for you. You mentioned that if we could just free up some credit, your problems might alleviate themselves in the export of the boats to the United States, but the question is, what's the U.S. landscape like? Is that not ground zero, where the real problems are? Are there people down there to buy the boats?

Ms. Sara Anghel: That's a very valid point. Production is down anywhere from 35% to 50%, and there are plant closures as well as shutdowns for a couple of months at a time. However, I think there's still a good opportunity for Canadian manufacturers, as they have unique products.

There is a huge flood of boats sitting on dealer lots in the States. I agree with that, but I think there's a good opportunity to just continue to stimulate the Canadian aspect of it and get Canadians into the dealerships buying boats from here, and to make credit available for the floor planning so that old product is not sitting on the floor and the dealer is unable to bring in new product due to lack of financing.

Mr. Pierre Major: Can I just answer a question about the risk of floor plan? Traditionally, banks were involved, and have always been involved, in automotive financing, and I guess it's because of the size of the Canadian market. They've been touching some of their recreational vehicles in the past, but the market has always been less attractive as a size, and that's why specialized organizations like GE and Textron and in the past Bombardier Capital were more involved in floor planning the recreational vehicle.

So right now the risk in that industry is obviously that you get a buy-back agreement from the manufacturer, as Joseph was saying. The finance company will not take the risk of the product, but will take the credit risk. Currently, with what's going on in the industry, there is a lot of struggling with the manufacturer as well. So with your buy-back agreement, when it's time to price the deal, you have to take into consideration the value of the organization behind this buy-back agreement.

● (0955)

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

Mr. McKay, five minutes.

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

Thank you, Mr. Wilcox, for your reality check. Nothing like knowing you're still going to be in business, but it's going to cost you triple what it was before.

The choke point here appears to be BDC. The article Mr. Menzies referred to in the *Globe and Mail* talks about a Mr. Allan being hired, formerly of Coventree, and as I recollect Coventree, they were one of the non-bank sellers of asset-backed commercial paper. I don't know whether they created this mess in the first place, but they certainly were participants in this mess. So, ironically, the government is in the situation of having to turn to the originators of asset-backed commercial paper to be able to get into the business of asset-backed commercial paper, because clearly the expertise doesn't lie within BDC.

Tricor, I know you want to become a bank, and that ain't happening any time soon. What's not clear to me is how you will access BDC's funding under this Canadian Secured Credit Facility, and if in fact you do, do you provide serious competition to GE?

Mr. Joseph Campbell: Let me start with the first part. The strategy for the bank, we recognize and realize, is a long-term strategy. That's going to take months to do. A parallel route is to access the current credit facility in the interim on two separate tracks independent of each other. We're hoping to be able to access the credit facility on our own through our finance company, similar to how we're using Sun Life and Securcor right now to fund our contracts, to give us the liquidity we need to turn it around, to put consumers in cars immediately, and to get the inventory moving off our dealers' lots.

Hon. John McKay: Wouldn't that be cheaper money than you get from Sun Life right now?

Mr. Joseph Campbell: Yes. I'm assuming it would be yes. With the spread we're having at Sun Life and the numbers we've heard from, indicative of what appears to be the money that is going to be coming out of the credit facility, yes, it would be much less expensive—

Hon. John McKay: Why wouldn't the government just give the money or give a credit to Sun Life?

Mr. Joseph Campbell: That's an option as well, except if you do that, you're going to put an additional cost in that'll have to be passed on.

Hon. John McKay: Yes, I see.

Mr. Joseph Campbell: But yes, that's one of the options we have tabled.

Hon. John McKay: So you're trying to get directly what you can't get indirectly?

Mr. Joseph Campbell: Either way, it is what we're open to; we're working to solve it both ways.

Hon. John McKay: Is there any impediment in your mind to the speed with which this could be done from the standpoint of the government? The government has effectively admitted on the front page of the *Globe and Mail* that this is all new territory, and they're working with that limitation.

So where is the problem? From our standpoint, the recession is now and you need responses now. You need to be able to sell the vehicles now. You need to be able to move the credit now. So where's the choke point from your viewpoint?

Mr. Joseph Campbell: I'm going to let Brian answer it in more detail, but in my opinion it is a matter of the BDC not having a road map to start with and having to develop it. It's a matter of their saying here's one that's already there, as opposed to trying to recreate the wheel from scratch. Taking what's there would eliminate the choke point.

Mr. Brian Rodd: Yes, that's right. I also read the article in the *Globe and Mail* this morning. What we feel we bring to the table is a structure. It's proven. It has worked for 20 years.

The issue that the BDC sees with us is that it will never get to AAA and it will probably never get to AA. But it's an actual structure that works. It's one that the large companies are used to using and have had good success with over the years.

The AAA mandate given to the BDC is where we run into the roadblock, because we could be dispersing funds under a well-tied-together program with the BDC by the end of next week.

● (1000)

Hon. John McKay: As we found at this committee, the analysis of credit, the credit rating, is a bit more art than science. So the second choke point appears to be AAA as opposed to something less than AAA.

If you enter the marketplace through BDC, do you effectively expand the pool of credit and therefore go below AAA, thus giving GE a little bit of marketplace competition?

Mr. Brian Rodd: Not necessarily. We're sort of in different markets. Our focus is on retail consumers across the country and getting the money out to them. It's a different piece of the puzzle than GE has. So I don't think that would be the case.

But on the other side, we could certainly get money out to the street and generate sales in the dealerships extremely quickly with everything already in place.

The Vice-Chair (Mr. Massimo Pacetti): Okay.

Mr. Joseph Campbell: It would be more direct competition than the actual retail marketplace. We looked at the numbers yesterday. In real simple numbers, if we look at the retail automotive sector, the finance rates to the consumer are virtually unchanged in the last 15 months. If you go in to buy a car, new or used, and the dealership is not subsidized by the factory, you're going to pay somewhere around 8.5%. In looking at our model and the cost efficiencies we have, assuming that the cost of funds would be in the neighbourhood of 2.5% from the facility, we could have it to the consumer at 5.5%, or save them about $50 a month on a normal car payment.

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

[*Translation*]

Mr. Carrier, you have five minutes.

Mr. Robert Carrier (Alfred-Pellan, BQ): Good morning, madam; good morning, gentlemen.

I would like to ask the GE Capital people some questions.

In your presentation, you mentioned that you raise funds mainly by issuing commercial paper guaranteed by banks.

Could you tell me again about the problems you have encountered recently? Are they due to the fact that banks were hesitant to guarantee the kind of commercial paper that, likely, you were presenting to them for approval? Is that the bank reaction; are they more careful now when they are asked to guarantee these loans?

[*English*]

Mr. Jean-François Bertrand: The conduits we're using to issue commercial paper in the asset-backed market are sponsored by banks, but not guaranteed by banks. So they don't have a word to say in terms of credit. In fact, it's more the investors on the street that are not there to buy the paper from the conduit sponsored by the banks. The banks help structure the deals, but they do not decide whether to invest in our paper. Someone else is buying it. The reputation of the ABCP market has been tarnished by the non-bank ABCP that is creating the issue.

On top of that, you also have the fact of the global recession that is affecting those types of structured transactions. There was also, we think, a lack of transparency in that market in the past. There is now more disclosure than ever in that market by issuers, and the financial structures have been adapted to meet international standards. The industry has been auto-regulated. Now most of the conduits are rated by two, or even four, credit agencies, so it should bring confidence over time. But for the time being, we don't access as much money as we used to, and we think it would be important for the government to help as proposed in our document.

[*Translation*]

Mr. Robert Carrier: You are recommending that the Bank of Canada focus its intervention on non-bank finance companies.

When you say intervention, are you suggesting that the ways in which these funds are issued have to be managed differently, since they were based on credit rating agencies' evaluations that misled investors into thinking that they were sound? Are you taking that position because you are negatively impacted by this non-bank paper that you are now feeling the effects of? With your wide knowledge of financial markets, is that what you are recommending?

● (1005)

Mr. Jean-François Bertrand: We can see that the industry has improved and is a little more transparent than before, but we think that we can go further. As our document recommends, we want more transparency in the amounts issued, so that the market is more aware of what is happening. It is a little like the Canadian bond market, where there is more information. Things are a little foggy and we think that they should be clearer.

We feel that the Bank of Canada could temporarily intervene in the markets that are suffering more than others from the current recession. It could intervene directly in those markets like any other investor. It would do its own homework: it would assess the quality of the paper being issued, have funds available to buy on the secondary market and thereby improve the liquidity of the system in the targeted sectors.

We feel that, since the non-bank financial industry is more affected than others, intervention should primarily be made there. The asset-backed commercial paper, the non-bank asset-backed commercial paper, the ordinary commercial paper and the term notes issued by those companies should be supported a little more. I am not just speaking on behalf of GE Capital Canada, I am saying this on behalf of the industry as a whole.

[*English*]

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

Mr. Wallace, you're next.

I want to let the witnesses from the recreational vehicle and marine areas know that the last time the vehicle retailers were here, Mr. Wallace bought two cars. So if you get a chance make a pitch, he's good for two boats and two recreational vehicles.

Voices: Oh, oh!

The Vice-Chair (Mr. Massimo Pacetti): Mr. Wallace, you have five minutes.

Mr. Mike Wallace (Burlington, CPC): Thank you for that, Mr. Chair, and thanks for sharing that with the nation.

I'll try to go fairly quickly because I have a number of questions. I will start with TAG first, if I may.

If I understand the relationship, TAG owns Securcor, or they're two separate companies, but you look after the securitization of the leases they produce. Is that right?

Mr. Brian Rodd: Yes. We're a totally independent company—we call it a gatekeeper—on behalf of the private funders. Our role is to audit, do due diligence, inspect, and verify—

Mr. Mike Wallace: On them.

Mr. Brian Rodd: On them as well as 33 others.

Mr. Mike Wallace: Okay. One question is, has the organization, TAG, considered doing things other than automotive leasing, in terms of floor plan leasing of other industries?

Mr. Joseph Campbell: No, because our model, as far as Tricor, is to have the originator having skin in the game, and our partners all understand it. So it's an economic model.

Mr. Mike Wallace: So even with Textron leaving the marketplace and GE maybe shrinking up a little bit in terms of what they're doing, you haven't seen that as an opportunity for you guys at all.

Mr. Joseph Campbell: No. That would be a different business model from the one we have.

Mr. Mike Wallace: A couple of days ago the department released a paper on leasing and what we should be doing on it. Have you commented on that yet?

Mr. Joseph Campbell: Not yet, no.

Mr. Mike Wallace: Those comments are due May 8, so I'd appreciate you having a look at that and seeing what your pieces might....

Tell me if I'm wrong, but I believe a chartered bank is not allowed to lease automotive vehicles. Is that not correct? Why would you want to get into the chartered bank business?

Mr. Joseph Campbell: Well, it's in order to provide funding for our dealers to be able to lease the cars. The dealership is still going to be involved in the leasing.

Mr. Mike Wallace: A straight loan to them. Okay. I appreciate that.

For our friends from GE, I've heard, and it's been talked about before, that Textron has left the business of floor plan financing, leaving you folks basically the only ones in the game at this point. It has been mentioned before, the secured piece that's out there, which we're promoting, that's coming—but not available as yet—includes automotive, equipment leasing, but it does not include RV and marine at this point. They're excluded. I believe it's because of the rating of the businesses in terms of their credit ratings.

As GE, what are you hoping to accomplish through this facility when it comes? What is it that you're looking for? I know you talked about the British model and about another fund they have, but what do you need from us? If we get this facility up and running, how quickly can you, will you, have access to that? Will you be able to use that money fairly quickly? Where are you with—

● (1010)

Ms. Elyse Allan: Let me make one comment, and I'll turn it over to Jean-François.

The first thing, and I think it's important, is that it's in our best interest as well as the market's that we have more competition. I know there's been some comment, and people might say it's great that Jeff has only us to call on. At the end of the day, a healthy economy is based on a diversified source of financial lenders. So it's in everyone's best interest that we have other people in the marketplace. We can't do it all, and neither can the banks, so the loss of some of these other financial companies is in fact not in anyone's best interest. So it's important that we have a healthy economy.

In terms of this specific facility, yes, we can use it. As Jean-François has mentioned, we have been negotiating specifically with BDC since day one to help them in any way we can, to help structure it and help put it in place.

Jean-François, you might want to talk about how we use it.

Mr. Jean-François Bertrand: Basically, we have one of the largest existing programs in the ABCP market right now. When the market shut down for new originations, a lot of our clients experienced a decrease in terms of the offering, in terms of the availability of credit on our side. The fact that this facility will be up and running pretty soon will enable us to have more money to offer to our clients. On top of that, it will be easier; it will reduce the number of risks in the origination. Right now the market is so volatile, it's pretty tough to originate today and think you are going to make some money with your transactions. The rates are so volatile. When you're in business, for any good corporate citizen to make some money out of the transaction, the environment is very bad.

So just the fact that we know the money will be there will help us. We have money. We can borrow across the border, from the States, but it's not an efficient way to do business, for all the tax reasons I mentioned earlier. We are also asking the government to revise those rules that make it so expensive to borrow across the border.

Mr. Mike Wallace: I have one final question to the marine or the RV sector.

To the marine folks, thank you for coming.

Almost all your dealers use floor plan financing to finance the boats that are on the shop floor during the season—and the season is now, I understand. You borrow the money so you can buy the boats from the manufacturer to put them on the floor. You get 90 days, or whatever the term is, to hopefully sell them before you start paying interest on that loan. With only GE in the game, what is actually happening in the industry right now?

Ms. Sara Anghel: Some of the dealers were probably able to think ahead, knowing at Christmas that this was coming, so some of them have scaled back on the amount of inventory they've taken. They've shrunk down quite a bit. Others maybe didn't plan for that. I'm sure Jeff could, if he'd like, give us an example of his case.

I think the biggest issue is that they really need to get the product moved off the floor, the 2008 models, to be able to purchase more 2009 models from the manufacturers and get them moving.

I also want to just make one point. We've gone through similar scenarios down in the States, and the U.S. Treasury has actually committed to include marine dealer floor plan financing in the next round of the bailout packages and credit availability in the U.S.

● (1015)

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

Ms. Martha Hall Findlay, five minutes.

Ms. Martha Hall Findlay (Willowdale, Lib.): Thank you very much, Mr. Chair.

Thank you very much, everybody, for being here.

A special welcome to the RV guys. Having spent ten months two years ago in a very big red one, I will put a plug in to say that it is the best way to travel and it is the best way to get to see a country and to get to know people. So there you have it. Welcome.

There's an underlying issue here. Certainly following on some of the media reports this morning, one of the big challenges we have, clearly, in terms of credit was attempted to be resolved with the involvement of the BDC. It was good in terms of the way it sounded at the time, and there was a lot of support for whatever we could be doing in terms of easing the credit situation. One of the really big problems we've encountered, though, is that the BDC simply hasn't been able to get this moving. It seems rather astounding to us that we're this far along and we just see an announcement today that the BDC has taken on somebody to help them figure this out.

We have a certain concern, in opposition, that it's taken this long for the BDC. And I understand your comment that people are trying really hard, and this is not to take away from that, but it's a bit of a concern, when there are so many jobs at stake, that it has taken so long for somebody at the BDC to say, “We actually don't know how to do this properly because we've never done it before.” Add a concern that we now have, as my colleague mentioned, the hiring of Mr. Allan, who was at Coventree, and who was clearly involved in the asset-backed commercial paper fiasco that happened not too long ago.

I'm actually asking you for advice. Are there entities? Are there people? We've heard certainly from some of the other people in the auto sector pointing to entities like Wells Fargo, for example, who know what they're doing, or apparently do. I'm throwing it open. We're looking for help, all of us, in terms of a non-partisan thing. The government needs some help; BDC needs some help. Do you have any ideas? Do you have any recommendations for helping BDC right now in getting this credit facility out and getting things moving?

Mr. Brian Rodd: I don't really have a recommendation in that regard. We'll take money from anybody.

Voices: Oh, oh!

Mr. Brian Rodd: We're not that smart as people, so we like to keep it simple. The model we've been working with since 2000 is exactly what the BDC needs to roll the money out. It's proven; it's documented. All the bells and whistles are in place by lots of Toronto law firms to make sure it does work, and we have the testimonials of our partners who have been using it for up to nine years.

So that model works perfectly, and it can go very quickly to customers like Joe at Tricor and to any number of other customers we have across the country. The issue is the rating issue. They're working within the box of a AAA rating and it is not rated. We rate it internally, but it's not formally rated by any agency. And we don't see the value in it being A-rated, because we understand the details and what's actually in the things we're buying.

So it is there.

Ms. Elyse Allan: I'm just going to supplement that. I think it's in everyone's best interest to keep the BDC effort moving forward, as opposed to distracting it at this point. I think we're very close. I think we feel they've been learning and open to trying to build capacity and understanding the infrastructure necessary to do so. At this point, I think we want to bring it over the finish line with some comments, as we suggested, as did one of the other witnesses, with respect to broadening it a bit beyond the AAA rating.

So I think there might be some changes around the broadening of the program that could be helpful, but I think at this point it's in everyone's best interest to keep it going forward.

Ms. Martha Hall Findlay: And you'll understand some skepticism on the reliance on AAA rating, given what we've seen in the past. I'm not sure we're at all convinced that the rating process has been sufficiently improved to give us that comfort, so the fact of reliance on AAA rating and not allowing a greater level of flexibility is of concern.

Being in this now, we want to get it to some solution, but my question was, how do we help them do that? I, personally, have some concern about having somebody with Mr. Allan's background on it, but we have to help BDC move it forward.

Thank you.

● (1020)

The Vice-Chair (Mr. Massimo Pacetti): Thank you, Ms. Hall Findlay.

Mr. Kramp, you have five minutes.

Mr. Daryl Kramp (Prince Edward—Hastings, CPC): Thank you, Mr. Chair, and good morning all.

It's been stated that there are really only two major non-bank floor plan lenders that are U.S.-owned. The two issues are the cost of money and/or the availability of it, and they both have to be factored in at some point.

My question is for either Mr. Bertrand or Ms. Allan. Is it only the Canadian tax laws that are denying some possibility of an infusion of capital from the U.S. parent? Or, as Mr. Maloway has suggested, is it that the market itself is going to demand every bit of seed capital available to them? What is the truth here, or are both of these statements true?

Ms. Elyse Allan: A number of issues have contributed to it. One is our ability to access capital. As Jean-François mentioned, our access to capital through our traditional fundraising mechanisms—commercial paper markets and the asset-backed paper market—has declined considerably over the past six months, and the price of that funding has gone up. So both of those things have created a perception of failure in those markets for us to bring the liquidity out to all the other people who need it.

Mr. Daryl Kramp: If we were to change the tax laws to make it more attractive to invest those dollars here, would that capital be available from the U.S. market?

Ms. Elyse Allan: Tax changes would certainly help. We are staying very active in the market and bringing that financing over the border, but it costs us that much more. So when we hear about cost of capital, certainly one of the additional contributors to the cost of capital is the tax implications of us having to bring the funding.

We've always had a policy of raising capital locally in order to finance locally. Now, because of the lack of capital locally, we have to bring it across the border, and because of the thin capitalization rules on the items we mentioned, it costs us that much more.

Mr. Daryl Kramp: Can you give us some kind of figure on that so we know what we're dealing with here?

Mr. Jean-François Bertrand: It's around 75 basis points.

Mr. Daryl Kramp: Thank you.

Mr. Rodd, GE suggested adopting the Bank of England's approach to this because it provides flexibility and is simple and confidential. You say you are now operating with a system that would offer that.

The one concern that stands out here is an exit strategy if things go well or don't go well. I'd like both Mr. Bertrand and Mr. Rodd to discuss what they mean by an exit strategy and what their plans are for that.

Mr. Brian Rodd: There are two parts to that question. First, we're financing different products than GE. We're very much involved in small town car loans and car leases across Canada that have anywhere from a three- to a five-year term.

If we were to invest $100 million into a portfolio, there would automatically be an exit strategy because that portfolio would run out over the next two to three years. This is a very short-term gap fix to allow other insurance companies to come back into the market. As Ms. Allan said, being the only one in that market is not a good thing; we want competition. And competition has to come back into the market at some point.

The minister has said he wants a short-term gap fix, and we could do this very quickly. There's an automatic exit strategy. If we said this was a 60-day program or a one-year program, at the end of it they would automatically amortize. These consumer loans are diversified across the country, so the credit risk is geographically diversified. The credit profile is extremely good, as Mr. Campbell can attest to in his portfolio.

● (1025)

Mr. Joseph Campbell: The key thing here with our debt, as Brian said, is that there is an exit strategy, because you're not technically loaning us the money. We've already loaned it to consumers who are coming to you with a consumer contract saying that's what you're purchasing.

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

I have a quick question for GE. The credit crisis affected you in two ways: in the existing business, because all of a sudden, in July or sometime in the fall, you reported devastating losses or an increase in your losses, so that affected your ongoing business; and obviously, your going-forward business was affected because you weren't able to get new financing.

But what happened with the previous business? If you had good assets and not these toxic assets, for lack of a better term, you should have been able to roll with your money if you matched your assets with your liabilities in terms of maturities. Correct? So you didn't necessarily have to go to market if you had your liabilities matching your assets.

Am I missing something? Something happened with your assets where you took heavy losses, if I'm not mistaken.

Ms. Elyse Allan: We actually ended up with a very good and strong profit for the capital business at the end of the year.

Perhaps I can have Jean-François talk a little bit more specifically about the asset matching.

Mr. Jean-François Bertrand: Basically, because we are matching the maturities of our liabilities with the assets at maturity, we have to borrow constantly in order to match those maturities. That is what creates the issue of having to go to market frequently. Because the market shut down for some period of time, it created a lot of pressure and the market was a bit more—

The Vice-Chair (Mr. Massimo Pacetti): I understand that. So it means you're not perfectly matched in terms of your assets and liabilities, and I don't expect you to be, but is that part of the problem as well?

Discounting or forgetting about the fact that your new business is just non-existent because there is no money, my question is, if your ABCPs were so strong and your asset-backs were so strong, you shouldn't have run into existing problems. Correct?

Mr. Jean-François Bertrand: I understand your question.

The Vice-Chair (Mr. Massimo Pacetti): If you were perfectly matched, which I don't think you would have been—

Mr. Jean-François Bertrand: For the ABCP market, the issue is more one for the sponsor of the program, because they are the ones who need to roll the paper. It's not a GE responsibility; it's a problem for the banks that were our sponsors of the conduit. They got issues and they had to keep a high inventory of those papers.

The problem is that in the street, when they publish their financial statements, it's not seen as being very good that they cannot roll paper and they have a large inventory of it. Each time you can see, close to the quarter ends of banks, the market shifts a bit more. They have that problem.

For our commercial paper program, we have backup lines of credit. We can fund in the U.S. We can bring money cross-border. So we don't have any problem with that. But GE committed to reducing the utilization of commercial paper. I don't have the exact numbers, so I will not give those, but I think that reduced by more than 50%, probably around 60%.

Elyse, maybe you have the numbers. I don't have them.

Ms. Elyse Allan: To your earlier point, I think—

The Vice-Chair (Mr. Massimo Pacetti): The question is that a company like GE should not have been affected by the ABCPs. First of all, you're saying your assets were strong enough, or non-toxic. Secondly, if you can't lend on a paper basis, can't you lend on a bond basis and provide some other type of guarantee?

Ms. Elyse Allan: To your comments, two things happen. One, if you recall with the fall of Lehman, you had total uncertainty in the overall confidence in the market. So we, along with everyone else, just experienced globally, not only in the U.S. and Canada—

● (1030)

The Vice-Chair (Mr. Massimo Pacetti): I don't mean to interrupt, but does GE get lumped into that? Even though you're a solid company, you still get lumped into the fact that—

Ms. Elyse Allan: Everyone does. You're a financial services company, and as Jean-François mentioned, the commercial paper market for financial services companies declined dramatically in Canada as well as everywhere around the world. So when you're relying on short-term lending—

The Vice-Chair (Mr. Massimo Pacetti): So no matter what you would have done to prevent it, you would still have been affected on the overall stock market.

Ms. Elyse Allan: I think everybody was affected. We have taken very quick and decisive action now to obviously move away from the amount of paper we have short term, towards more long-term debt. We've built our cash reserves from what was $15 billion to now over $47 billion—

The Vice-Chair (Mr. Massimo Pacetti): That was the question really.

Ms. Elyse Allan: —-to offset this market.

The Vice-Chair (Mr. Massimo Pacetti): Just quickly, in one of your recommendation you're saying we should probably change the thin capitalization rules from what is presently in the regulations from 2:1 to 10:1. Is that not what caused this problem to begin with, especially in the United States?

Mr. Jean-François Bertrand: No. As we mentioned in the paper, the banks in Canada are considered to be very conservative compared to the rest of the world. They are already leveraging at 16:1 or 20:1, so going to 10:1 is not aggressive. On top of that, there's not going to be much change to the real level of capital we have. It's just that we cannot deduct the reality of what we do. We borrow across—

The Vice-Chair (Mr. Massimo Pacetti): So who is going to be subject to 2:1 ratios, versus the banks that are subject to 16:1, you're saying? Who else would be in the 2:1 category?

Mr. Jean-François Bertrand: Only industrial companies are at that level. There aren't any financial companies that can work with that type of ratio, that I know of.

The Vice-Chair (Mr. Massimo Pacetti): Okay.

Just quickly, Mr. Hanemaayer, using the example of Tricor, wouldn't you be able to organize yourselves and set up a company, for example, that provides leasing from the manufacturing point? For example, you mentioned Bombardier. Wouldn't they have enough muscle to put some pressure on BDC and be part of the new lease availability?

Mr. Jeff Hanemaayer: Bombardier is no longer in the business, so I don't quite understand how—-

The Vice-Chair (Mr. Massimo Pacetti): Well, can't you get them back in the business? Wouldn't it be in their best interest to be in business?

Mr. Jeff Hanemaayer: Bombardier is no longer in business. It was bought by GE.

The Vice-Chair (Mr. Massimo Pacetti): But they're still producing recreational vehicles.

Mr. Jeff Hanemaayer: I'm sorry, you mean Bombardier manufacturing; I thought you meant Bombardier financial.

The Vice-Chair (Mr. Massimo Pacetti): On the manufacturing end, wouldn't it be in their interest to set up a financing arm?

Mr. Jeff Hanemaayer: Would it be in Bombardier's interest to set up a finance business? You'd have to ask Bombardier.

The Vice-Chair (Mr. Massimo Pacetti): I'm asking you, because it would be in your best interest as well.

Mr. Jeff Hanemaayer: I'm a little at a loss as to why we would suggest Bombardier manufacturing—

The Vice-Chair (Mr. Massimo Pacetti): For anybody who manufactures recreational vehicles, it would be in their best interest to develop an integrated financial system to get access to money to the retailer, wouldn't it?

Mr. Jeff Hanemaayer: The gentlemen from TAG said their model basically only supports their own organization, so I don't think they'd be interested in providing financing.

The Vice-Chair (Mr. Massimo Pacetti): They said they wouldn't be, but I'm wondering why your organizations would not be interested in setting up something similar to what Tricor is doing.

Mr. Jeff Hanemaayer: We have not considered that. We would need capital sources. That's the key. Typically we're in the business of either manufacturing or retailing RVs, not in the business of acquiring capital to finance large loan portfolios.

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

Mr. Dechert, five minutes.

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

If you could stop the clock for a moment, I'd like to start with a point of order before I get to my question.

I'd like to make a point that I think some members of our committee need to be careful about the things they say about people's reputations. It's my understanding that Ms. Allan was brought into Coventree late in 2007 to deal with the issue at Coventree.

The Vice-Chair (Mr. Massimo Pacetti): That's not a point of order. You can use your own time for that if you'd like, but that's not a point of order.

Mr. Bob Dechert: I think we need to be careful about what we say about people's reputations in public.

Ms. Allan, can you explain, in layperson's terms, the difference between a risk to the taxpayers of Canada between a AAA-rated security and, for example, a BBB-rated security?

Ms. Elyse Allan: That's Jean-François' area.

● (1035)

Mr. Jean-François Bertrand: Usually you separate the world of credit into the non-investment rate and the investment rate. The investment rate, in general, is very highly.... The probability of loss is pretty low. The AAAs are the best class in terms of probability of losses in the investment-grade environment. The BBB is still a very good risk, but it's not as good as AAA. That's basically the difference.

Mr. Bob Dechert: Thank you for that.

I have another question for Ms. Allan. What should we do, as a government, going forward to prevent a repeated collapse that we've seen in the ABS financing market in the last 18 months? What would you suggest we do?

Ms. Elyse Allan: I think we want to be making sure we're doing everything we can to get a healthy economy going and introducing as many diversified sources of lending as we can. The initiatives that have been taken, such as the EDC's expansion, BDC, are all very positive in getting liquidity back into the marketplace. Right now, I think reducing the cost of capital is important, and that comes with having more players in the market who find it attractive and who are willing to be there.

Mr. Bob Dechert: Do you think there are regulatory things that the government should be doing to make sure this kind of overheated market doesn't happen again?

Ms. Elyse Allan: I think the economists and other experts in the field have made a lot of comments as to what were the causes and what weren't, so I don't think I will comment on that at this point. I am not an economist. I can only ask how we get our economy going again. As a financier, I'd ask what the government can do to help us stay active in the market in a competitive way.

Mr. Bob Dechert: Thank you.

Mr. Rodd, in answer to an earlier question, I think you said that Tricor paper is typically not rated because your members know what the underlying assets are. If you were to sell into a facility like the CSCF, what would the rating likely be?

Mr. Brian Rodd: It would likely be a single A. That's how our insurance company partners internally rate it. When you look at all the risk mitigants and the cash reserving over collateralization, the things we wrap around the structure feel very comfortable, so it would come in as a single A.

Mr. Bob Dechert: It's a reasonably high-quality, low-risk—

Mr. Brian Rodd: Absolutely, and when you look at the loss ratios.... Just to finish off on that question to Ms. Allan, I think going forward the biggest thing we all have to do is the investors have to force transparency. They've got to know what they're buying; they've got to drill down and have the systems in place so they know exactly what is in these pools of assets. Subprime would never have gotten spun the way it did if that was the case. Derivatives, which I still don't understand, would not have become a big part of this pool, this $32 billion worth of frozen commercial paper right now.

So it's just back to the basics of understanding what you're buying. I don't think that needs government regulation; I think that needs a different thinking in the street. We see that a lot today. That's what people are talking about.

Mr. Bob Dechert: So you think the market is correcting itself?

Mr. Brian Rodd: Absolutely.

Mr. Bob Dechert: Thank you for that.

Mr. Campbell, you mentioned in your comments that Tricor's model is working well, and in fact it's the way the marketplace always should have worked.

Why didn't the marketplace generally work your way? Is there something the government should be doing to encourage your model?

Mr. Joseph Campbell: I don't think there's anything the government should be doing. I think it's a matter of a recognition that over the past number of years, when dealers—and this is across all industries, not just auto—placed a consumer finance contract and the lender took it, they absolved themselves of all financial risk.

Our model is basically that the person who puts the contract takes responsibility. So if you buy an automobile, a boat—I don't care what—from me and I place your contract with somebody, I have a vested interest in you making your payments throughout the life of it. I have some financial skin in the game, as Mr. Menzies said. That's what the original model was. Over time it evolved into more of “here it is, you take it and go”, and you're not involved in the whole link. That's why the Tricor model does work. It does work long term.

Mr. Bob Dechert: Do you believe that the market will simply regulate itself now, going forward, given what's happened over the last several months?

Mr. Joseph Campbell: Yes, assuming we get to where we have the liquidity and there's a recognition that this is a different risk model and there's an income potential for taking the risk. Where there's risk there should be reward. So yes, I think the market's going to go. Those people who are qualified to take the risk, who are willing to take it, are willing to put their capital up in order to be the first line of loss.

Mr. Bob Dechert: So you believe investors will remember the history of what we've gone through over the last few months and not make the same mistakes again going forward?

Mr. Joseph Campbell: I don't think I'm willing to go that far.

Mr. Bob Dechert: But you don't think there's something the government should be doing proactively to ensure that doesn't happen?

Mr. Joseph Campbell: From a regulatory standpoint, I don't think so. I think that's one you let the market deal with. If as a dealer I have a cost of funds of 5%—and I'm just making these sums up—and if I'm willing to take the risk or if I want to transfer it over and my cost of funds is 6%, I have a economical decision I have to make. If somebody else wants to take that risk, they get the return. So you almost let the market decide it.

● (1040)

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

Mr. Maloway.

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

My question is a general question to whichever one of you would like to answer it. I'm wondering if there are any actions that any foreign jurisdictions have taken that you're aware of that could have enhanced the credit that could be usefully implemented here in Canada. Is there anybody out there who's doing a better job than we are at this point?

Mr. Jean-François Bertrand: In the document we bring to your attention today, we're just saying that the Bank of England is doing interesting things and that we could inspire ourselves from their example. By buying commercial paper—ABCP paper as well as mid-term notes—directly in the market, we think the government could help bring liquidity, because the investors are nervous to be stuck with paper that they cannot sell if they need liquidity. If the government were there, it would help; it would bring confidence that those investors could sell the paper when they needed to.

This is one of the problems we have right now. It's a question of confidence, when the market is losing confidence and you are close to market failure, if not in market failure, and you see it with the decreases in those markets that we have experienced recently.

In terms of exit strategy for the government, the government, like any normal player, could sell that paper when the market is better and confidence is back to normal; that's something important for the government. This is what is interesting. It's not a commitment for years. The government would act just by buying it; the stability comes back, then you can let it go later on—slowly, not all at the same time. That would be the exit strategy.

Mr. Jim Maloway: Does anybody else have any comments?

Jeff.

Mr. Jeff Hanemaayer: The U.S. government has a tax holiday for state and excise sales tax on recreational vehicles up to $50,000. That can save, depending on the price of the vehicle, typically upwards of 7% or 8% on the purchase price until the end of the year.

Secondly, the U.S. government is considering including vehicle floor plan in their TALF program, which has some similarities to the CSCF program here in Canada.

Mr. Jim Maloway: Is there anybody else?

Mr. Joseph Campbell: On the TALF program and on the inventory—and I applaud the efforts that are being made to address the actual retail piece, because that's what we have in place right now—I think the looming potential problem is the one on flooring, which is good to hear everybody.... It's not just an auto issue, because the TALF program is running into the same issues as the BDC up here, in that it calls for it to be AAA. There's no way, with a GM or Chrysler covenant behind it, that you're going to get anything rated up to AAA if they're responsible for buying it back. That's one thing that I think needs to be addressed from a government standpoint to get things going, because if dealers can't carry the inventory, it doesn't matter what consumers are going to want; they're not going to have it in stock and be able to get it.

Mr. Jim Maloway: Jeff mentioned earlier a need for legislative changes regarding the RV situation. Could you give us some further update as to what sorts of changes you are looking at and what stage it's at right now? Have you been discussing it with the government, and what have they told you?

Mr. Jeff Hanemaayer: Specifically, it was a recommendation to the CSCF program to include dealer floor plan, which at this stage the government is not including. That particular program is being managed by BDC. We have, as a more general recommendation, suggested that BDC, whether it be under the CSCF program or not, simply include floor plan loans as part of the type of product they'll support.

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

Mr. McKay.

Hon. John McKay: On thin capitalization.... I'm trying to remember the rationale behind the thin capitalization rule. I thought it had something to do with declaring the expenses in Canada and the income in the U.S., because the U.S. is a lower-tax jurisdiction, and this was why they were only going to allow you 2:1, but I may be wrong on that. Can you refresh my mind as to what the rationale is behind the thin capitalization rule, from the government standpoint?

● (1045)

Mr. Jean-François Bertrand: I'm not a tax expert, to start with. I think that's the idea behind it, but if you look at the current environment, it is completely changed from that. You get the funding where you can, and right now where we can get funding is across the border, not here. It's directly affecting us; that's why we're telling this committee that it would be a good measure to revise those rules, because it's a different environment right now.

Hon. John McKay: It sounds good now, but in 10 years—

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

If the witnesses have anything to add, you can always provide something in writing through the clerk. The committee members would appreciate your input.

Thank you for coming today. It was very much appreciated, and it was enlightening as well.

Members, we're going to recess for a minute because we're going to go in camera, but we have to be out of here by 11 o'clock, so it's a one-minute break and that's it.

Thank you.

[*Proceedings continue in camera*]

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