HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Public Accounts

PACP • NUMBER 134 • 1st SESSION • 42nd PARLIAMENT

EVIDENCE

Tuesday, April 30, 2019

Chair

The Honourable Kevin Sorenson

Standing Committee on Public Accounts

Tuesday, April 30, 2019

● (0915)

[*English*]

The Chair (Hon. Kevin Sorenson (Battle River—Crowfoot, CPC)): Good morning, colleagues. We will call the meeting back to order.

In the first half-hour we were fortunate enough to have met our new interim Auditor General of Canada in camera. Now we're being televised. If you have a cellphone or any kind of a device that may interrupt the proceedings, I would encourage you all to please set it to mute or silent. That would be great.

We are now reconvened to consider the special examination report, “Report of the Joint Auditors to the Board of Directors of Canada Mortgage and Housing Corporation”, of the 2018 fall reports of the Auditor General of Canada.

We have with us this morning from the Office of the Auditor General, Lissa Lamarche, assistant auditor general; and Clyde MacLellan, also assistant auditor general. From Ernst and Young, we have Michel Bergeron, managing partner. From Canada Mortgage and Housing Corporation, we have Derek Ballantyne, chairman of the board, and Evan Siddall, president and chief executive officer.

We welcome you all here. We will turn to the Auditor General's office first.

Mr. MacLellan.

[*Translation*]

Mr. Clyde MacLellan (Assistant Auditor General, Office of the Auditor General): Mr. Chair, thank you for this opportunity to discuss our special examination report on the Canada Mortgage and Housing Corporation, or CMHC.

As you mentioned, I am accompanied today by Lissa Lamarche, assistant auditor general, who was the principal responsible for this audit at the time of the report. Because this audit was done jointly with Ernst & Young, we are also accompanied by Michel Bergeron, a partner with the firm.

As you know, in a special examination, we seek to determine whether the crown corporation's systems and practices provide reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

Our examination covered the period from March to December 2017.

[*English*]

Overall, we found that the corporation had in place good corporate management practices. However, we identified a significant deficiency in the board of directors' complement and the related impact on board oversight. Specifically, we found that four of the 12 positions were vacant, which left gaps in the competencies and diversity of the board and hindered the effectiveness of its oversight.

This deficiency matters because an incomplete board of directors with competency gaps could compromise the board's ability to effectively oversee the corporation. Given the complexity of multiple transformation initiatives under way and their significance to the corporation's operations, adequate oversight and competencies were critical. In December 2017, a number of appointments to the board were announced.

We also found good strategic planning, performance measurement and risk management practices, but there was room for improvement in the corporation's capital management and stress testing practices. We noted that the corporation did not quantify the impacts of all material risks to ensure that sufficient capital was earmarked for these risks, and that it did not perform ad hoc stress testing to further explore its vulnerabilities.

These weaknesses matter, because determining the level of capital the corporation needs to address all significant risks helps mitigate financial risks to the Government of Canada and to the Canadian taxpayer. Furthermore, without the additional ad hoc stress testing, the corporation could not explore its hidden vulnerabilities and inform senior management and the board about potentially harmful scenarios.

We found that the corporation had in place good practices for its mortgage loan insurance, securitization and assisted housing activities. Specifically, the corporation planned these activities, implemented them effectively, and monitored and reported on them.

However, we noted weaknesses that were related to the significant organizational transformation initiatives under way, particularly in the integrated management of the technological and non-technological transformation initiatives, and in the identification and monitoring of performance metrics at the individual project level.

● (0920)

[*Translation*]

These weaknesses matter because for a large-scale, complex transformation program, managing all transformation initiatives together ensures proper integration of project interdependencies and facilitates change management and risk management.

In addition, without clearly defining and documenting objectives, outcomes, performance metrics and expected benefits, the corporation may not have been able to assess whether expected benefits were achieved once the projects were completed.

The corporation agreed with all of our recommendations and prepared an action plan in response to our concerns. However, because our audit work was completed in December 2017, I cannot comment on any measures the corporation has taken since then. The committee may wish to ask the corporation's officials to clarify what measures it has taken in response to our recommendations.

Mr. Chair, this concludes my opening remarks. We would be pleased to answer any questions the committee may have.

Thank you.

[*English*]

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

Now we will move to CMHC with Mr. Ballantyne, please.

[*Translation*]

Mr. Derek Ballantyne (Chairman of the Board, Canada Mortgage and Housing Corporation): Thank you, Mr. Chair.

It's a pleasure to be here. I am joined today by the president and CEO of CMHC, Evan Siddall.

By way of opening, I would like to say that we welcome the committee's interest in the most recent special examination of CMHC's operations conducted by the Auditor General of Canada and Ernst & Young.

The Financial Administration Act requires that all crown corporations undergo a special examination at least once every ten years. The special examination we are discussing today covered the period between March 1 and December 31, 2017.

For the most part, the audit concluded that CMHC maintained good corporate management practices during this period, in a manner that provided the reasonable assurance required under the Financial Administration Act.

However, as you have also heard this morning, auditors identified a significant deficiency in corporate governance related to board appointments and oversight and competencies. I will limit my remarks to measures taken to correct these issues.

Most notably, during the period covered by the audit, four of the 12 positions on CMHC's board of directors were vacant. This resulted in gaps in the competencies and diversity of the board, which the auditors concluded hindered the effectiveness of its oversight.

CMHC and the board itself have limited involvement in the selection of board members; these are Governor in Council appointments. However, I am pleased to say that the government appointed six new members—including me—to the board in December 2017, just as the special examination was wrapping up.

These appointments filled the four vacant positions as well as two that were about to expire. Importantly, they also helped to address the competency and experience gaps identified by the auditors.

Since then, the government has appointed two additional members to replace individuals whose terms had expired. Together, the eight new members have brought diverse perspectives and a wide range of skills to the board, including in areas related to affordable housing, information technology and chartered accountancy.

● (0925)

[*English*]

My own background, for example, is managing large and mid-sized housing organizations, which includes extensive work with the non-profit, charitable, social entrepreneurship, co-operative and foundation sectors.

I believe Evan would agree that the reconstituted board's knowledge and expertise have been of significant value in helping CMHC lead the national housing strategy, which was announced post-audit, as well as ensuring that Canadians benefit from stable and secure housing markets.

Also, in response to the auditor's recommendations, CMHC has introduced new practices to improve the capacity of board members to oversee the company's operations. For example, it has strengthened the annual review of board competencies to identify gaps. My board colleagues and I have received training in specific areas of corporate governance. A menu of relevant courses and training for board members is updated quarterly and the company will be presenting a list of suggested deep-dive topics for the board and its committees on an annual basis.

The board created a new oversight board committee, the housing and capital projects committee, which will replace the affordable housing committee. This committee will oversee the national housing strategy, capital spending, future of work projects and any other projects with an expected cost in excess of $10 million. The housing and capital projects committee will meet for the first time in May 2019. These include measures under the national housing strategy as well as CMHC's new housing affordability strategy, which aims to ensure that "By 2030, everyone in Canada has a home that they can afford and that meets their needs."

CMHC is supporting this new committee's work by providing regular updates on assisted housing activities. The company also provides information through its quarterly "Assisted Housing Business Supplement".

Thank you again for the opportunity to be here to answer your questions.

I will turn things over to Evan now, who will complete our presentation.

The Chair: Thank you, Derek.

Mr. Siddall.

Mr. Evan Siddall (President and Chief Executive Officer, Canada Mortgage and Housing Corporation): Thank you, Derek.

Thank you, Mr. Chair and members of the committee, and thank you all for the opportunity to be here today.

Let me begin by reiterating CMHC's commitment to the aim of special examinations required by the Financial Administration Act.

[*Translation*]

These audits provide the government, parliamentarians and Canadians in general with independent assurance that CMHC has the necessary systems and practices in place to safeguard our assets, that we efficiently and economically manage our resources, and effectively carry out our operations.

They also help build trust in CMHC, a systematically important financial institution with a legislative mandate to contribute to Canada's financial stability and facilitate access to housing.

[*English*]

They make CMHC a stronger company by identifying management deficiencies that we need to address.

I'd like to respond to a few areas. In addition to the corporate management practices that Derek has spoken about, the most recent audit also focused on two other key areas—on the one hand, management of our mortgage loan insurance, securitization and assisted housing lines, and on the other hand, management of organizational transformation initiatives. The Office of the Auditor General recommended, for example, that we enhance our assessment and documentation of the capital required to cover all material risks faced by CMHC, including reputational and strategic risks. I'm pleased to report that an assessment of these capital requirements was recently completed.

Stress testing is a crucial discipline as we continue to improve our work at CMHC. We've identified additional ad hoc stress tests, again in response to a recommendation from the OAG, to ensure that we better understand and are able to respond to vulnerabilities in the event of extreme crises. Notably, I should emphasize to committee members that we are the only Canadian financial institution to publish our stress testing results publicly, every year, as part of our commitment to transparency.

As you may also be aware, CMHC is a much-transformed institution. We are a proudly innovative and client-oriented vehicle for housing policy and housing affordability throughout the economic cycle. In 2015 we began a multi-year initiative to modernize and transform our technology and business practices. The special examination auditors made a number of recommendations related to this work. We're in the process of responding to each of them in accordance with our action plans. For example, we have established a new division to oversee project and change management initiatives and to facilitate reporting to senior management and the board on these initiatives. We've clearly defined the objectives, outcomes, performance measures and expected benefits of our transformation projects. We advise the board of key achievements on a regular basis.

The OAG also recommended that the board of directors should play a more active role in setting CMHC's strategic direction. Again, we had already taken this recommendation into account by the conclusion of the examination. As a matter of fact, last year we engaged in a thorough review of our strategy. It was discussed at three separate board meetings, including a session dedicated completely to this topic. The review also absorbed a lot of our time at the executive committee. This is not to mention the work of a dedicated strategic advisory group that met multiple times. We established a strategic function at CMHC with a series of full-time colleagues.

In short, the board played a key role in the development of our new housing affordability strategy, which housing stakeholders have endorsed across the country. As Derek noted, our strategy sets out the bold aspiration that by 2030, everyone in Canada will have a home that they can afford and that meets their needs. Clearly, this is an ambitious goal and one that exceeds the targets inherent in the national housing strategy of removing 500,000 households from housing need and reducing homelessness by half from 2018 levels. Nonetheless, achieving housing affordability is vital to all for Canada's future economic health, social stability and inclusion. We recognize this, as do housing providers and our many partners across the country. Indeed, we believe CMHC exists for this single purpose, and we recently restructured our company to deliver results for Canadians and ultimately to achieve our aspiration.

● (0930)

I am sure Derek agrees with me that we are particularly proud of our employees' resilience and commitment throughout this process. As a result of the restructuring, 215 employees changed roles. Two out of three employees are now reporting to a new leader. Despite all of these changes—the third significant reorganization in five years—we continued to provide uninterrupted service to Canadians. Our project portfolio remains largely on track.

[*Translation*]

Supported by this team of dedicated employees, the initiatives included in the national housing strategy and new measures proposed in budget 2019 provide a solid base for our new affordability strategy. Nevertheless, we realize that we will need to go further and faster to reach our goal.

At the same time, as a crown corporation with the “sacred trust” of managing public resources, we are committed to being a leader in housing risk management and an accountable, transparent, efficient and innovative organization that is admired and trusted by Canadians from coast to coast to coast.

That concludes my remarks. Thank you again for inviting us to be here. We look forward to the committee's questions.

[*English*]

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

We'll now go to the first round of questioning. That is a seven-minute round.

Mr. Sarai, you have the floor.

Mr. Randeep Sarai (Surrey Centre, Lib.): I want to thank you all. First of all, it's always good when you come after the report was done in 2017 and it's about 15 months later and most of the kinks in the system seem to be resolved, but I still have a few questions.

For the Auditor General, you used to talk about reputational harm. Is that referring to lack of business defaults? How do you calculate reputational harm for an organization? I know banks use the default rates. You need to have reserves of a certain percentage based on default, but how do you calculate or prepare for reputational harm? Also, what does that entail? Does that mean business slowdowns? Does that mean CMHC has a scandal inside, internal to their board? What would reputational harm mean for them?

● (0935)

Mr. Clyde MacLellan: When we talk about reputational risk, we usually refer to that as an illustration of operational risks that can be faced in an institution that are not financial. It's not something that we attempt to see organizations measure as a financial metric or a series of numbers. What we look to see is how the organization contemplates the types of risks that can affect its reputation. You referred to something just an an illustration, perhaps a scandal, and what that would mean to the ability of the organization to continue its business model, to respond to the perceptions in the public of those particular types of issues. We don't attempt to quantify those but we look to see how the organization would respond and whether, in this particular case, some capital would be necessary to assist in reserve for that type of situation.

Mr. Randeep Sarai: Interesting. My next question is in regard to stress testing. Because of my constituents I have a big interest in the OSFI stress test. I'm wondering if the CMHC is stress-tested against the OSFI stress test, the B-20 stress test, and how it would affect their business line and has it affected that and has that been done?

Maybe Mr. Siddall can answer that.

Mr. Evan Siddall: Let's just distinguish between the two types of stress testing of course.

Mr. Randeep Sarai: Yes.

Mr. Evan Siddall: Stress testing of our capital is something that we do with a range of scenarios of economic downturns. For example, we would model the U.S. financial crisis as if it were to happen here. We do that as part of our annual work and that's what we publish.

Somewhat confusingly the stress test I think you are referring to is the stress test associated with underwriting new mortgages, where we add approximately 2% to the prevailing rate in order to make sure that people have the ability to withstand interest rate shocks. We actually do stress test that in a different way. We looked at the impact on our business. In fact, there was a rough decline in activity. There are two parts to this. The stress test for five-year mortgages was imposed with respect to insured mortgages by the Minister of Finance in October 2016 and extended to uninsured mortgages by OSFI at the beginning of this year, so it's somewhat different.

Mr. Randeep Sarai: Yes.

Mr. Evan Siddall: The second category doesn't pertain to our business. The first does. We witnessed in 2017 and throughout 2018 declines in our volumes of insured activities of 15% to 20%. I should tell the member that was roughly as expected. We estimated it could be 20% to 25% but we thought behavioural factors, for example, people buying smaller homes, might alleviate some of that pressure. That's what we have observed and it has persisted since then.

Mr. Randeep Sarai: You did a stress test against the OSFI. That's what I was asking.

Mr. Evan Siddall: Not—

Mr. Randeep Sarai: You have used measures internally to understand how those would affect your bottom line and your actual volume amounts.

Mr. Evan Siddall: Yes, we have.

Mr. Randeep Sarai: I can see how it works for home mortgages, etc., in terms of IT transformation and I notice that you guys have implemented new technologies. I have been speaking to some of your staffers in British Columbia in terms of the new housing strategy and they have told me about new portals, etc. I'm just a little cautious and worried, when you have a portal that is calculating everything in terms of large projects and there is no human touch. Is that a factor?

I can understand on a normal home that's CHMC mortgage-insured there is probably a formula that plugs it in and calculates to see if you qualify based on your T4, etc., but when it comes to large projects, particularly, say, an example would be the affordable housing initiative, would that be all done by an IT algorithm or would it be done with a human touch? Otherwise, there will be hesitancy among people to actually submit applications or there may be biases created when people figure out what the algorithm is to approve their projects.

Mr. Evan Siddall: You'll be gratified by the answer.

First of all, we do use machines to manage workflow in our homeowner transactional business. It's a piece of software called emili, which we're updating. It's effectively a rules engine that something is either automatically approved—an insured mortgage application—or it's referred to somebody for intervention if it's more complicated.

In the case of multis, which are anything more than four homes in a unit, like apartment buildings, condos, etc., those are adjudicated differently and all, at this point, are largely manual. We're putting in a new technology system that will give people the tools to do that, but they're always complicated. They always involve different financing structures and different corporate structures. While we want to automate the rote part of that activity to make it more efficient, there is always human intervention. There is always an underwriter involved.

● (0940)

Mr. Randeep Sarai: This question may be for the Auditor General's office, or it may be for Mr. Ballantyne.

What I see in this report is that, prior to December 2017, the board was not informed well on all business lines and other practices. It seems to me that there was a disconnect. Was this because the deputy ministers who sat on that board were facilitating that gap and not making members aware, just using them more as figureheads? Was that the gap that we see in there? It seems like there was a lack of information flowing to the board itself prior to December 2017. If that was the case, has it been resolved now?

Ms. Lissa Lamarche (Assistant Auditor General, Office of the Auditor General): I believe the lack of information flow that you're referring to may be in terms of consolidation of the project initiatives that were under way. One of the observations we had was that there was no consolidated reporting on technological and non-technological initiatives to give the board an idea of how all of these came together and where the pressure points were in terms of efforts and costs.

I think that is not so much due to the board membership as it is to the information that was being accumulated on the various initiatives. The rest of the observation relates more to the different competencies and whether the board was able to play the oversight role that they were expected to play, given that there were certain competencies that weren't actually present on the board. An example of that would be IT. When you have significant IT initiatives under way and there is no IT competency or strength on the board, it limits the board's ability to effectively challenge and oversee the project that's under way. I think that—

The Chair: Thank you.

We're a minute over already, Mr. Sarai. Those were very good questions.

Mr. Randeep Sarai: Thank you.

The Chair: We will now turn to Mr. Kmiec for seven minutes, please.

Mr. Tom Kmiec (Calgary Shepard, CPC): My questions are all to you, Mr. Siddall, and to your chair if he wants to answer.

In your 2018 corporate plan, you reduced your reserve from 220% in 2016 to 165% from 2017 to 2022. On page 14 of the special examination report, the Auditor General's office said that they "noted that the Corporation not quantify how much internal capital it should set aside in case reputational and strategic risks were realized."

How did you make the determination, then, to go from 220% to 165%, if the AG's office said that in your controls internally you had a weakness to determine your capital management needs?

Mr. Evan Siddall: The change in 2018 from 220% to 165% was as a result of a change in methodology at OSFI. It's as if accounting rules changed and we had to restate. It's a comparison of apples to oranges and it would be inaccurate to suggest that we decreased our capital. As a result, it's just a different measure.

We did have some hedge or contingency capital that we'd held for general matters, largely relating to model validation—a slightly technical matter. There was nothing with respect to, as you said, reputational risk in particular, and strategic risk. That is now part of our own risk insolvency assessment process this year—Derek may want to add to this—and we will be advising the board of our views on capital, but we have used a stress test now for those activities.

Mr. Tom Kmiec: Can I ask you, then, a question because you have now been directed to pay dividends that are coming out of the reserve? For the premiums paid by homeowners who are purchasing a home and getting a policy for the banks, because it covers lenders, that dividend is now going to you. However, based on the Auditor General's report here, they are saying that there was a weakness in the controls, the capital management, the stress testing internally to determine whether you have enough money set aside to cover big scenarios, which you do post online.

How do you know the right amount of dividends you should be paying out when you've already paid out...? Last year, I think in 2018, public accounts documents showed $5.675 billion was paid out.

I'm just a little concerned. If there was a weakness going into the time period where those dividends were set to be paid, and now going forward you're paying it, can you give me some assurance that you've done the homework to ensure you have the right amount of capital? On the testing scenarios that you now post publicly, all you do is post percentages. You don't actually post the methodology as far as I know.

● (0945)

Mr. Evan Siddall: We had a lot of excess capital, and it's an effective discipline on management that management would operate with finite resources. Defining just how much excess capital we have is a problem at the margin when we're a little unsure as to what our capital should be or when the Office of the Auditor General says we haven't gotten it quite right. That's not enough to say that we shouldn't pay a dividend. It means that we may want to keep a little extra buffer to be sure and that's exactly what we did.

Mr. Tom Kmiec: Can I just interrupt you? You said, twice now, "excess capital". Does that mean that your premiums were set too high?

Mr. Evan Siddall: In hindsight, it would mean that our premiums were set too high for the economic cycle that in fact occurred, but we set our premiums to adjust for an economic cycle that could be good or bad. We've had strong economic growth that's persisted and no downturn. As a result, looking backward, we've had excess capital. Looking forward, we're pricing quite similarly because business cycles go up and down.

Mr. Tom Kmiec: Most businesses, in the good years, try to build a reserve that then they're expecting to use in the down years. This is why you would then stress-test internally to make sure that in the scenario, say a major earthquake in Vancouver or a very deep downturn, you have a reserve.

Mr. Evan Siddall: Yes.

Mr. Tom Kmiec: However, the Auditor General's report says that there was a weakness internally. Now you have, supposedly, going forward, an internal method, and those scenarios, you said, will be posted. Will the methodology be posted, as well, online?

Mr. Evan Siddall: We won't post the methodology. We debated that. We've gone quite a distance towards publishing our stress testing. It's actually a relatively complicated series of models, which we view to be proprietary. Commercially, we wouldn't publish those.

I should tell you that with respect to the payment of dividends, this is a matter that we debate—economic capital methodologies of the board—practically every meeting and certainly every time we pay a dividend. I should tell you that the 165% number includes a cushion, so it's at 100% of regulatory capital that we would have to stop underwriting new business. We have a capital of 65% on top of that, and we've paid the dividend in excess of that. I can assure you, sir, that we have, very much, sufficient capital to survive an economic downturn.

Mr. Tom Kmiec: That's not quite what the report here says. On page 14, with regard to the weakness of stress testing, it talks about the "what if" scenarios: the termination of reserve and how much reserve you should be keeping. How do you set the 100%? They're saying that there's a weakness in how you assess those various scenarios, and then when creating the cushion on top of it, you need to have the proper models.

That, then, leads me to my next question. The CMHC is going to be asked, going forward, to take on a new program, a commercial program called the FTHB incentive, which will provide shared equity mortgages. Have you done internal stress testing then, using new models based on the Auditor General's report to you, to make sure that you keep enough spare capital on hand in case some of these FTHB-incentive shared equity mortgages go under?

Mr. Evan Siddall: The answer to that question is no because we will administer that program on behalf of the Government of Canada, and we will not be required to hold capital against it. It'll be a charge against the consolidated revenue fund, so it'll be part of parliamentary appropriation, sir, not a matter for our commercial businesses.

Mr. Tom Kmiec: There's no risk to your reserve. If a shared equity mortgage fails, none of the money will be coming out of your reserve.

Mr. Evan Siddall: That's correct.

Mr. Tom Kmiec: All the money will be coming out of the consolidated revenue fund.

Mr. Evan Siddall: That's correct.

Mr. Tom Kmiec: Can I ask you about the FTHB incentive program and your capitalization needs? Will internal staff of yours be used to run this program?

Mr. Evan Siddall: Yes, that's right.

Mr. Tom Kmiec: Have you made that assessment already? You just mentioned that you've done a major reorganization at the CMHC, and I think two-thirds of your staff are now reporting to a new leader.

Mr. Evan Siddall: That's right.

Mr. Tom Kmiec: Do you have a unit now set aside within your staff complement to handle these SEM programs?

Mr. Evan Siddall: Yes, we do. In fact, the spending associated with that program is included in budget 2019, so you can refer to that for that information. It will come from parliamentary appropriations. In fact, because we just completed this reorganization, we were much better set up to drive a client-oriented business. We did add some new staff, but we also dovetailed it within the recently reorganized functions.

The Chair: Thank you very much. Our time is up, unfortunately.

Now we'll move to Mr. Christopherson for seven minutes.

Mr. David Christopherson (Hamilton Centre, NDP): Thank you, Mr. Chair. It's the first opportunity that I've had since your public announcement. I just want to welcome you to what Nathan Cullen is now calling the "lame duck caucus". I hope your retirement is as fruitful as you deserve. You've had a great career. We're very proud of the work you do.

● (0950)

The Chair: Thank you, Mr. Christopherson.

Mr. David Christopherson: I'm glad I got here. I was trapped in the traffic. I guess one of the bridges is shut down. I really wanted to be here for this one. I was very enthused to dig into this one and to get to this public meeting. The main reason is that this is a darn good report. There are some issues, and I think my two colleagues, Tom and Randeep, have done an excellent job of wading into the minutia of that, but I love it when the big problems are buried in the details of what we're working on.

In the main, your biggest problem and your biggest deficiency wasn't even your fault. It has to do with the appointments process. The auditors, in the language they use, were practically swearing when they said things like "serious weaknesses". However, it's not your fault.

I think I got something from your opening remarks, but is that now resolved? Are you up to speed now on the board appointments?

Mr. Derek Ballantyne: Yes, we are up to speed on all the appointments. We have a full complement of directors. We have bridged all the gaps or deficiencies in capabilities and capacities on the board. I think, in total, we have a rich combination of experience that covers a broad spectrum. In the context of the board composition, we're certainly bridged, and we have strengthened the internal and oversight processes, in relation to the remarks made by the Auditor General.

On both counts, both in terms of structurally adjusting some of our committees and adjusting the processes internal to the board and the board membership, I think we have addressed all those issues.

Mr. David Christopherson: That's good to hear.

I have to tell you, this is not anything new. We've had it with previous governments. The appointments process is always a problem. There always tend to be bottlenecks, and you know—full confession—I can go back to when I was in provincial government and we had the same problem. We always seemed to be behind, and it always has such a major impact. At the centre, where these decisions are made, it ranks very low in terms of crisis problems, but in terms of the problems it manifests, it's huge. I don't know what the answer is, other than to keep underscoring it through reports like this, and politically underscoring it and holding the government to account in question period as to why these things aren't happening.

When I first opened this, I thought, oh, it's CMHC—this is going to be going down the rabbit hole. This is going to get ugly, because there are so many moving parts and each piece needs to be analyzed so carefully. If there are problems anywhere, my experience is that a lot of it is due to lack of planning, lack of analysis and lack of risk assessment, which are all the areas you've done a pretty darn good job on.

My opening—and I don't say this lightly, as people know—is that, in the main, given the responsibilities, the number of moving parts that you have to be responsible for and the in-depth thinking that needs to happen, I was fairly impressed with how well the operation has run. I really appreciate the questions of my colleagues, who have a much deeper background in these things. That's why it's good to have a good mix on the public accounts committee, so that we can all bring different perspectives.

I'm curious. I noted with interest what it said on page 8 in paragraph 23 on board appointments. It struck me. It said:

> Further, anyone appointed as a director or president is required to divest themselves of any shares of lending institutions within three months of their appointment. These restrictions constrain appointments to the Board by limiting the pool of eligible candidates.

That's pretty big. Senators don't even have to do that, but we won't go there, will we?

How much does a board member make?

Mr. Derek Ballantyne: I should be able to just roll this one off the top of my head, but—

Mr. David Christopherson: Yes, you should.

Mr. Derek Ballantyne: —they're paid on a per diem basis. My recollection is that it's $400-ish a meeting. There would likely be eight meetings a year for board members, plus a couple of others that may come up as conference calls, for which a lesser fee is paid.

Mr. David Christopherson: I see you pointing somewhere.

Mr. Evan Siddall: You look like you're leaning in.

Mr. Clyde MacLellan: They're pointing to me. I don't know the answer in terms of the whole scale and what numbers apply to the scale. I will simply say that the chairman's assessment of the likely per diem is accurate, from my knowledge of Crowns, generally.

● (0955)

The Chair: Go ahead, Mr. Siddall.

Mr. Evan Siddall: I'd like to say two things. Managers need oversight. It makes us stronger. You need the sounding board. An effective board of directors is crucial to an institution as significant as ours. I would say that some past liberal practices would probably have been curtailed—in the *ancien regime*—with more informed oversight.

Having this board of directors in place is crucial and the restriction you mentioned in our legislation is quite prohibitive.

Mr. David Christopherson: Yes.

Mr. Evan Siddall: It extends to the fact that if I, as CEO, own shares in a mutual fund that happens to own shares in a lender, I can't be CEO.

Mr. David Christopherson: I get it. I understand why. It's great public policy, but from a practical level I'm wondering.... Either there should be a little less restriction or a little more money, but that's an awful lot. I mean, if you're retired and you're now sort of dabbling and recontributing based on your experience, I can see that, but somebody who's active in the middle of their career, the kind of sharp people that we're looking for.... Not that retirees aren't sharp, are they, Chair? No, they are very sharp.

Nonetheless, you do want people who have various experiences in life.

I see one of the assistant auditors general kind of nodding her head. Do you have any thoughts on this? Maybe you've had some chats.

I don't know. It just seemed to me to be an awful lot to ask. It should be asked. It's good public policy, but boy, that's not much remuneration for giving up your whole investment package, which may be leading to your retirement.

Can I hear further thoughts from the Auditor General side, please?

Mr. Derek Ballantyne: I won't comment on the wisdom—

Mr. David Christopherson: No, over here, please.

Mr. Clyde MacLellan: We have not audited compensation arrangements for boards of directors. While it is a very important conversation you're having as members, I must say our office has not done any sufficient audit work to have any real comments in that area.

The Chair: Mr. Ballantyne, did you have a comment?

Mr. Derek Ballantyne: I won't comment on whether or not it's a restriction that has impact, but I just wanted to point out that there is an option to place one's investments in a blind trust, so that if one holds those particular shares they can be placed at a distance from the individuals.

Mr. David Christopherson: I don't mean this to be my attack day on the Senate, but you'd think that people at the level of the Senate would be expected to do the same thing and they don't. In fact, they can sit on boards, but again, we won't go there.

The Chair: Maybe I'll jump in right there, Mr. Christopherson.

One should not give up in your retirement, Mr. Christopherson, and downgrade the Senate. There may be a place for you.

Mr. David Christopherson: Death, taxes and me in the Senate are three things you can guarantee.

The Chair: Mr. Arya.

Mr. Chandra Arya (Nepean, Lib.): Thank you, Mr. Chair.

Actually, I tend to agree with my colleague, Mr. Christopherson, but here I have to disagree. I am really concerned with this Auditor General's report. Some of the points that were raised by Mr. Kmiec are quite valid.

Way back in 2016, in the annual reports that we get from public accounts—in those two huge volumes—we get a few lines on the contingent liability. The contingent liability from CMHC has been to the tune of about $450 billion. When I expressed my concern I was assured then by the assistant deputy minister from the Ministry of Finance that the stress test is all done and everything is very good, but the Auditor General has not given you a clean check on that very critical component for CMHC.

You are doing a great job on other things, but when it comes to contingent liabilities all I have to look at is what happened about 10 or 12 years back in the U.S., when Freddie Mac and Fannie Mae collapsed and led to all the financial crisis.

I'll quote the Auditor General's remarks, that the need “to address all significant risks helps mitigate financial risks to the Government of Canada and to the Canadian taxpayer.”

I saw that in your prepared remarks—and I was surprised—you did not emphasize the stress test, but in your verbal remarks you changed some of the things, which was quite interesting and quite welcome, too.

Going back to this contingent liability and the stress test, I'll ask this to the Auditor General's office. Do you have expertise in evaluating the methodology used by CMHC to do the stress test?

● (1000)

Mr. Clyde MacLellan: We don't have in-house residence expertise, but when we deal with particular issues, such as what you're discussing, we engage with private sector counterparts who have the expertise to look at the different models and assess the potential impact. We address the potential issue by making sure that we engage those who have the experience.

Mr. Chandra Arya: Thank you.

Mr. Siddall, who does the stress test? Is it in house or external consultants?

Mr. Evan Siddall: We do it ourselves. We have built the models with the help of external support, but we do it ourselves.

Mr. Chandra Arya: Your employees do the stress test. They give you good results, which you give to the board to say everything is good.

Mr. Evan Siddall: OSFI oversees that work and, of course, the Auditor General did a special examination.

Mr. Chandra Arya: Once again, it is done internally, your methodology.

Mr. Evan Siddall: That's right.

Mr. Chandra Arya: You probably said that you are the only Canadian financial institution to publish these stress testing results annually. You probably said that, but you don't make public the methodology that is being used. How do we know that the stress test is good? How do we know that taxpayers will not be on the hook for anything that happens?

Mr. Evan Siddall: Thank you for that question. It is of course important.

In the first instance, it is important that we understand the risks that we manage, and it's proper that we stress test ourselves. Your question goes to how we know those are proper stress tests.

First, we operate three lines of defence within the company. The first line of defence is the business line. The second line of defence is a separate risk function. That risk function conducts the stress testing itself. Then our internal audit reviews that activity. On top of that, OSFI conducts an annual supervisory examination of what we do and reports to the minister responsible for the CMHC in addition to the board's review of that activity.

Mr. Chandra Arya: Once again, I always thought that an independent body, independent consultants who do not do any business with you, would be conducting the stress test, but here it is. It is all done internally.

Mr. Evan Siddall: If I may, sir, the Office of the Superintendent of Financial Institutions is an independent body.

Mr. Chandra Arya: Okay, but then, if you say that what you are doing is right and you have done all the three things you mentioned, why is the Auditor General not satisfied?

Mr. Evan Siddall: I think you may want to address that question to him.

Mr. Chandra Arya: Absolutely. Can you give it another shot?

The Chair: Mr. MacLellan.

Mr. Clyde MacLellan: If I may, I'll start, and then I'll ask Mr. Bergeron to provide more specific details.

What I'd like to do for a minute, if I may, is to take a look at our report in the bigger picture and drill down to the types of issues and questions you are rightly posing and delving into.

When we do a special examination of a Crown corporation, we look at risk management and the systems and practices around risk management. When we do that, with the help of external consultants in an area such as financial risk management at CMHC, we need to come up with an assessment as to whether or not those systems and practices have a significant deficiency.

I want members to be aware that, when we looked at CMHC as it relates to their risk management practices, we did not identify a significant deficiency. That's important because it sets a bar of acceptable practice as what we understand, and whether or not we feel there is a significant risk that the corporation can't meet its statutory obligations.

For the big picture, in this particular case, we didn't see a significant deficiency or that there is a massive failure.

Mr. Chandra Arya: Does Ernst and Young have any business relationship with CMHC?

Mr. Michel Bergeron (Managing Partner, Ernst and Young LLP): We are the co-auditors of CMHC, independent co-auditors.

Mr. Chandra Arya: Once again, you have a business relationship with CMHC, and you are also helping the Auditor General. The Office of the Auditor General could have found somebody who did not have any relationship with CMHC. Is that not right?

Mr. Clyde MacLellan: Let me be clear that they do not have a business relationship. Their only relationship is as co-auditors with us.

Mr. Michel Bergeron: Yes.

Ms. Lissa Lamarche: By law.

Mr. Clyde MacLellan: By law.

Mr. Michel Bergeron: Yes. As Clyde mentioned, if you look at the report on page 13 on stress testing, we do mention that the corporation has a stress testing policy in place, and they have the stress testing results to make sure they have adequate capital for business strategy. Our conclusion is there that they do have a stress testing policy. They are doing stress testing.

What we intend with our report—we feel it's important—is this. When you do ad hoc stress testing, you pick some event that you know would be major for the corporation, and the reason you do that is that, in case those events occur, then you have a plan and you are able to react to those—

● (1005)

Mr. Chandra Arya: If you remove the—

The Chair: I'll let him finish, but I can't let you come back in, Mr. Arya.

Mr. Michel Bergeron: It's really a kind of prospective signal. Let's find an event that would incur a capital problem and then look at how to resolve such an event and have a defined action plan. It's more an ad hoc additional stress testing policy in terms of being proactive for future events, but there are stress testing policies in place.

The Chair: Thank you. We'll now move into the second round.

The bells are ringing. I see that. It's about three minutes after 10. There was a motion to go to orders of the day, which means a 30-minute bell. If it's okay, we'll go for another 20 or 25 minutes. Then we can run upstairs and still make the vote.

Mr. Kelly, please, go ahead.

Mr. Pat Kelly (Calgary Rocky Ridge, CPC): Thank you. I

want to allow Mr. Kmiec to continue the line of questioning from the previous round, but before I split my time with him, I want to address or perhaps ask for clarification for Mr. Siddall. This is in response to one of Mr. Kmiec's questions on whether or not insurance premiums were set too high, given that you had excess capital. After many years of concern being expressed by the finance department about capital reserves and public risk in the insured mortgage business, CMHC in fact had excess capital to be paid back to the Crown. It seemed like you were trying to have it both ways.

If the premium was set correctly and the business cycle just happened to be positive—and you prepare for good times or bad—then it would seem that homebuyers are paying a tax when times are good. If times just turned out to be good and that meant you had excess capital that would be turned over to the Crown, how is that assessing the correct level of premium to account for good times or bad times?

Mr. Evan Siddall: We can't predict the future when we set pricing, and we set that pricing in anticipation of a business cycle over the life of a mortgage, which could be 25 years. On average, it's about seven. In fact, in our annual report, we publish an alternative view of the world that could result in a downside scenario. This is in addition to our stress testing. We've had an extended boom time in economic cycles. In hindsight, it is true that if the economy is consistently growing, the presumption associated with the insurance premium *de novo*—at the beginning—was too high. The proceeds have gone back to the Government of Canada, and in the case of our private competitors, to their shareholders too.

Mr. Pat Kelly: So they were set too high.

Mr. Evan Siddall: They weren't set too high at the time, sir. They were set too high with the benefit of hindsight.

Mr. Pat Kelly: Okay. I'll let Mr. Kmiec take over from here.

Mr. Tom Kmiec: How much time to I have, Mr. Chair?

The Chair: You have three and a half minutes.

Mr. Tom Kmiec: I want to continue partially on what I was asking about before, specifically the FTHB incentive. You said it was going to come from general revenue and it doesn't impact the reserves. Therefore, the weakness identified by the Auditor General in the capital management practices won't be impacted. Is that borrowing or are the funds going to come from the Crown borrowing program?

Mr. Evan Siddall: Yes, they would.

Mr. Tom Kmiec: My next question then is about internal stress testing in scenario planning that you undertake right now. It's to understand the vulnerabilities that the institution has as you issue insurance. You've done some work, I'm guessing, a risk analysis on FTHB and the incentive and how it impacts your regular business. Was the risk analysis on the reserve that you hold done based on the new models, post-AG report, or on the previous models?

I'm trying to understand how much actual risk assessment you have done specific to the FTHB incentive that the government proposed, based on the AG's report, which said that you had a weakness or you continue to have a weakness internally on capital management.

● (1010)

Mr. Evan Siddall: To be clear, they have stated that it is not a significant deficiency. I just want to address that.

Mr. Tom Kmiec: It said “deficiency”.

Mr. Evan Siddall: It's an insignificant deficiency.

Mr. Tom Kmiec: Sorry. Mr. MacLellan, do you assert an “insignificant deficiency”?

Mr. Clyde MacLellan: That is not a term we use. I'll just explain very briefly. If it's a significant deficiency, we will raise it. Anything else is a recommendation for a weakness that we identify as needing improvement.

Mr. Tom Kmiec: Okay, thank you.

Mr. Evan Siddall: We did assess the impact on our business as a result of some $1.25 billion in mortgage insurance activity moving away from ourselves and our private competitors into—potentially—this new incentive. Yes.

Mr. Tom Kmiec: My next question is regarding paragraph 24. The AG identified a weakness at the board level in its management of financial reporting and internal control. There was concern expressed that the depth of competency wasn't there.

I'd like to know when the board of directors was told or when they told Mr. Siddall that this FTHB incentive was going to be managed by the CMHC.

Mr. Evan Siddall: That's a question mainly for me.

Do you want to do this?

Mr. Derek Ballantyne: You can answer.

Mr. Evan Siddall: The first-time homebuyers incentive was a budget confidential matter that was confidential to our board until the moment of the budget. That's how a budget policy is derived.

We did have conversations with the board about a range of housing affordability policy options including shared equity mortgages in general, back in October, I want to say, for the first time. On the particulars of the program itself, I briefed our board the night of the budget.

Mr. Tom Kmiec: Okay.

So you had the information for it and then you briefed the board...?

Mr. Evan Siddall: Yes.

The Chair: We have to leave it there.

We'll go to Ms. Mendès and then back to Mr. Kelly and Mr. Kmiec, however they want to work it.

Ms. Mendès.

Mrs. Alexandra Mendès: Thank you very much, Mr. Chair.

[*Translation*]

Thank you all for being here today and for sharing your comments with us.

I don't know if my colleagues have already addressed this issue—and I'm sorry for my absence—but I would like to talk about the national housing strategy. Your primary purpose may still be to support national policy initiatives that are consistent with what you call your bold aspiration to ensure that, by 2030, everyone in Canada can afford housing that meets their needs.

Could you please tell us what steps you think you are taking to ensure that this happens by 2030? I would also like to know—and in this case, it really is ignorance on my part—whether this includes housing for indigenous people. Of course, I am talking about people living off reserve.

Mr. Derek Ballantyne: I'll answer first and then give the floor to Mr. Siddall.

I believe there are two parts to the answer regarding this bold ambition. First, it is about achieving, as part of the national housing strategy, fairly significant targets and activities that will largely address housing affordability issues for Canadians.

For the second component, we are working to find innovative ways to deliver our current programs or create new ones. We are also looking for other ways to do this, such as establishing partnerships with the private sector or partnerships with non-profit organizations or cooperatives. There is already a housing stock and efforts are being made by these two partners. It will be about acting as a lever when opportunities to expand the affordable housing stock arise and it can meet our ambition. These two components are in progress, but for part of the second component, we have not yet specified the measures that will be taken in the coming years.

With respect to housing for indigenous people, the national housing strategy provides housing for indigenous communities, but there is also a First Nations strategy that is the responsibility of another department, not CMHC.

Mrs. Alexandra Mendès: I'm talking about indigenous people who live off reserve.

Mr. Derek Ballantyne: Off reserve?

Mrs. Alexandra Mendès: Yes. There are needs in this regard.

Mr. Derek Ballantyne: There is a need, which isn't really identified by the national strategy. Mr. Siddall, do you want to add anything?

● (1015)

Mr. Evan Siddall: Yes.

[*English*]

I'll say this, if I may, in English.

It is possible that we will not achieve our ambitious goal. You want to achieve ambitious things without being ambitious. Just saying that we will deliver the national housing strategy to us.... You know, we're not just a delivery mechanism. We can innovate and find new ways to deliver housing and new ways to help Canadians.

The analogy we use is that, just as John F. Kennedy encouraged Americans to get to the moon within a decade by saying so, if we don't say we're trying to achieve something big—it's our moon shot—then we won't get even partway there.

Mrs. Alexandra Mendès: I get the point, and I absolutely endorse it. I'm just trying to see how we can look at it in terms of actions that would be more, perhaps, explainable to Canadians.

How are you, as an organization, going to propose to achieve this objective?

Mr. Evan Siddall: I'll give you one single example.

Through the chair, our corporate plan details this in some—I won't read you our corporate plan—but we've reorganized our company to have an innovation function to try to think of new ideas with respect to housing. The budget also includes something called the housing supply challenge, for some $300 million, which CMHC will administer. It's kind of a crowdsourcing platform to think of new ideas.

In addition, we've set for ourselves the goal of sourcing $100 million of new money from the private sector this year, which we would add to the government's fiscal commitment to the national housing strategy in order to make use of the capabilities, the convening powers and the insights we have at CMHC to grow beyond the national housing strategy and fund more than the government has committed to funding through its own resources.

The Chair: Thank you.

Mrs. Alexandra Mendès: Do I have...?

The Chair: No, your time is up.

Mr. Kmiec, please.

Mr. Tom Kmiec: Just to continue partially on what I was asking about before, will the board going forward be informed of the shared equity mortgages, given an update on the financial status of that program every quarter?

Mr. Evan Siddall: Yes.

Mr. Tom Kmiec: Will there be a premium surcharge on shared equity mortgages? If there is a premium surcharge, what will you do with that money? Will you add it to your reserve or feed it back to the general revenue fund?

Mr. Evan Siddall: Let me answer hypothetically. If there were a premium surcharge, that money would return to the CRF, the consolidated revenue fund. But we're just operating as the agent for the Government of Canada. The terms and conditions associated with the first-time homebuyers incentive are within the domain of the Minister of Finance in connection with the budget, and those have not been finalized yet. Whether or not there's a premium and any other terms and conditions has not yet been determined.

Mr. Tom Kmiec: Shared equity mortgages will have a substantial impact, because you'll have mortgages to have a shared equity stake held by the Government of Canada, and then potentially you'll also be providing CMHC insurance on some of those.

You've said you've done some internal assessment of this. Just as a general policy matter, how do you feel about shared equity mortgages?

Mr. Evan Siddall: I think the shared equity mortgage, as a policy solution, was a surgical response to a particular aggravation on the part of some young Canadian families who, as a result of very high house prices, were unable to get into the marketplace. We've learned from the example of some other jurisdictions, in particular the U.K., and improved upon that here.

Mr. Tom Kmiec: British Columbia introduced a similar program called the B.C. home ownership plan. What are your thoughts on that program? It doesn't exist anymore. It lived for a very short period of time.

Mr. Evan Siddall: The B.C. home ownership plan, as I recall, was a down payment assistance plan. It was very different in the sense that it supported additional borrowing on the part of homeowners, whereas the shared equity mortgage program does not involve a financial burden. It doesn't involve monthly interest payments or periodic interest payments or a requirement to repay that's not within the homeowner's control.

Mr. Tom Kmiec: Pardon me, Mr. Siddall, but how do you know so many details about this program? They're not in the budget and they're not in the public sphere. Do you have details on how these shared equity mortgages will work?

Mr. Evan Siddall: We've done extensive—

I'm sorry. I interrupted you.

Mr. Tom Kmiec: No, I'm just wondering how. We don't know. I sit on the finance committee regularly. I'm asked to pass the budget, but I don't know any of these details that you know. Would you be able to share these with the public accounts committee?

Mr. Evan Siddall: I am not at liberty to share terms and conditions of the program with the public accounts committee, because that's within the purview of the Minister of Finance.

Mr. Tom Kmiec: But internally, you're using what you do know in order to create models to analyze the risk to the CMHC's bottom line?

Mr. Evan Siddall: That's right.

Mr. Tom Kmiec: Okay, and those are based on the post-AG report to ensure that you don't potentially overcharge on premiums, and then you do—

● (1020)

Mr. Evan Siddall: The AG's report pertains to our mortgage insurance business, sir, not to the shared equity mortgage program. That's a new program.

Mr. Tom Kmiec: It's a new program, but it does have an impact on the regular insurance programs that you provide, because there's risk involved there.

Mr. Evan Siddall: That's right.

Mr. Tom Kmiec: So then—and this will be my last question—on the shared equity mortgages, do you know if the government will gain on the upside? If it puts 5% down on a used home, will the government gain the upside if the property gains in value? That would be a significant impact to the government's bottom line, but also, as the agent acting on behalf of the Crown, you'll be responsible for managing and knowing which mortgages and which properties the government has a stake in and is going to gain a return on.

Mr. Evan Siddall: The government may suffer a loss on those. It would be a mistake to assume that house prices always increase, and this is a bias we want to make sure people aren't burdened with. The Government of Canada is incurring significant costs that first would have to be recovered from any possible gains before it would be enriched.

Mr. Tom Kmiec: Do you mean administrative fees at the time of sale?

Mr. Evan Siddall: Indeed, they would include interest costs, our own operation costs. That's right.

Mr. Tom Kmiec: Those will be deducted at time of sale?

Mr. Evan Siddall: That would be netted from the government's returns. It wouldn't be charged to the homeowner, if that's your question, sir.

Mr. Tom Kmiec: That is my question. Thank you for the clarity.

On the downside, potentially, the government could also lose on these equity stakes.

Mr. Evan Siddall: Sure.

Mr. Tom Kmiec: Thank you.

The Chair: Thank you, Mr. Kmiec.

We'll now move to Mr. Arseneault.

[*Translation*]

Mr. René Arseneault (Madawaska—Restigouche, Lib.): Thank you, Mr. Chair.

How much time do I have left?

[*English*]

The Chair: You have five minutes.

[*Translation*]

Mr. René Arseneault: Great.

Welcome everyone. Thank you for being here.

I'd like to congratulate you on your new appointment, Mr. Ballantyne.

My colleagues have asked some excellent questions. Out of curiosity, I will address the issue of risk management, specifically paragraphs 36, 37 and 38 of the auditor's report.

I'm relieved to see that various scenarios have been simulated, including an oil shock and a large earthquake. Four variables were analyzed. According to paragraph 36, these variables are house prices, unemployment rates, gross domestic product growth rates and interest rates. Following this economic stress simulation, all results indicated that the corporation was "above the minimum threshold for all stress scenarios".

On the other hand, paragraph 38 mentions that there is a weakness because no further stress tests have been conducted and that this could lead to latent vulnerabilities. I stress the word "latent", which, by definition, means something unpredictable. It's sleeping somewhere and all of a sudden, it explodes.

Apart from the four variables in paragraph 36 I've just mentioned, are there any other variables that may have an impact on the corporation? My question is for the co-auditors.

Mr. Michel Bergeron: Thank you for your question.

First, we wanted to list the most important variables that were tested by management, not all of them. The models are relatively complex. When conducting a stress test, management tries to find the most important variables, those that have an impact on capital. There are a multitude of variables. Of course, there is an infinite number of them, but the key thing is finding the most important variables

Mr. René Arseneault: Do you agree that these four variables are the ones that can have the greatest impact on the role the corporation plays and the services it provides to Canadians?

Mr. Michel Bergeron: Yes.

Mr. René Arseneault: I'm a lawyer by training. Excuse me for saying that.

Mr. Michel Bergeron: Okay.

Mr. René Arseneault: Lawyers, auditors and accountants always show immeasurable imagination about risk.

Mr. Michel Bergeron: Yes.

Mr. René Arseneault: In the area of probability, in Canada, what scenario could be more catastrophic than the simulation we did in 2017? To have said that, you need to have an analysis that says there are other risks that could have been tested, right?

Mr. Michel Bergeron: I could give you an example by doing some reverse engineering.

What factors could cause the corporation to have capital difficulties? For example, if the 2007 recession in the United States had lasted five years instead of two and there had been a subsequent recovery, and if house prices in the United States had fallen by 60% instead of 30%, what would have happened?

There must be stress tests, whether it is this one or another. The purpose is to see which factors could endanger the corporation's capital. These situations are hypothetical and may never happen—which is what we hope—but if in 20 years' time we were to move towards such a situation, the corporation would have simulated scenarios to know how to react and which direction to take for two, three or four years. It would have time to react because it would have defined the long-term impacts from these scenarios.

These are the kinds of things you have to analyze. In the scenarios, can we extend the crisis periods and see what problems would occur? If such scenarios became a reality, they would have already been analyzed. You have to go as far as using scenarios that are striking.

● (1025)

Mr. René Arseneault: In a practical sense, for the 2017 simulation, was a certain period of time or several years used? What are we talking about?

My question can be for the corporation's representatives.

Mr. Michel Bergeron: They aren't exact models.

[*English*]

Mr. Evan Siddall: I can address this. When we look at stress testing, we look at it over a five-year period.

[*Translation*]

Mr. René Arseneault: Okay.

[*English*]

Mr. Evan Siddall: We look at a range of cases. We look at economic stresses and in particular the variable that drives our losses the most is the unemployment rate. House prices are a little more stable and don't drive it as much, so we look at anything that could affect the unemployment level. The cases we looked at last year, for example—this was published in October—were a low oil price, a global trade war, a cyber-attack on the country, an earthquake in western Canada and a volcano. We try to make up crazy things so that we can look at things differently, all of which could result in unemployment and impact on it.

[*Translation*]

Mr. René Arseneault: That answers my question.

Thank you very much.

[*English*]

The Chair: Thank you, Mr. Arseneault and Mr. Siddall.

I'm going to give Mr. Christopherson the last word today.

You have under five minutes, and then we'll go to votes.

Mr. David Christopherson: I appreciate that. Thank you, Chair.

Once again it falls to the NDP to defend poor government entities just trying to do their jobs and helping out Canadians. Oh man, it gets tiring.

Voices: Oh, oh!

Mr. David Christopherson: I appreciate the questions my colleagues are asking. They're obviously very intelligent and very insightful, but I want to draw back to the conclusion. With a grade 9 education, I rely on the auditors. I look at the conclusion on page 22. If there's anything serious to worry about—serious serious—I expect it to be here.

What does it say in the conclusion? It says, “In our opinion, based on the criteria established, there was a significant deficiency”. Now, I underscore to colleagues that “significant deficiency”, in the world of auditors, that's swearing. I mean, that's strong language. There's a big difference between “significant deficiency” and “weakness” and “improvement needed”.

I'll finish the quote. There was “a significant deficiency in the Canada Mortgage and Housing Corporation's corporate governance systems and practices,”—recognizing that they don't do the appointments, the government does—“but there was reasonable assurance that there were no significant deficiencies in the other systems and practices that we examined.” It continues:

> We concluded that except for this significant deficiency, the Corporation maintained its systems and practices during the period covered by the audit in a manner that provided the reasonable assurance required under section 138 of the Financial Administration Act.

Hence my overview that I thought this was a fairly good report, and I want to focus, if I can—I only have a couple of seconds—back on the governance again, because that's the major issue here. I won't find the quote, but you made some reference that there were a couple of things the board could have done to offset that, and I'm curious as to what it is that they should have done, recognizing that they had a huge problem. They couldn't fix it directly in terms of appointments, but you suggested that there were some things they could have done but didn't.

Would you articulate those for me in the moment or two that we have left?

Ms. Lissa Lamarche: One of the things that was suggested in the report related to training. Often what we see is that boards that identify competencies that aren't being filled by the board members either will seek external consultants to come and assist them in playing their oversight role in specific areas or will try to obtain training that will give them a bit more competency in those areas.

I come back to my earlier example of IT, technology. When there are significant IT projects, if that expertise isn't sitting on the board, then perhaps there's an opportunity to seek external advice or training.

Mr. David Christopherson: Great. Thanks.

Thanks, Chair.

The Chair: Thank you very much to our guests for appearing today. One never knows how some of these committee meetings will go, but certainly I think today was a very interesting day. We had a good report by our Auditor General's office and good questions by the committee. Thanks to all of you.

We will now adjourn.