HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

43rd PARLIAMENT, 1st SESSION

Standing Committee on Finance

EVIDENCE

NUMBER 036

Thursday, June 11, 2020

Chair: The Honourable Wayne Easter

Standing Committee on Finance

Thursday, June 11, 2020

● (1515)

[*English*]

The Chair (Hon. Wayne Easter (Malpeque, Lib.)): We will call the meeting to order.

Welcome to meeting number 36, panel number one, of the House of Commons Standing Committee on Finance.

Pursuant to our order of reference from the House, we are meeting on the government's response to the COVID-19 pandemic.

Today's meeting is taking place by video conference and the proceedings will be made available via the House of Commons website.

For committee members, we've had lots of reading material for this meeting today: the COVID-19 report, which is getting longer by the week, and the report of the Canada Pension Plan Investment Board.

We're fortunate to welcome to the committee today, on behalf of the Canada Pension Plan Investment Board, Mr. Machin, president and CEO; and Michel Leduc, senior managing director and global head of public affairs and communications.

Mr. Machin, welcome, and thank you for coming. The floor is yours.

Mr. Mark Machin (President and Chief Executive Officer, Canada Pension Plan Investment Board): Thank you.

Good afternoon, Mr. Chair and committee members.

I'd like to start my remarks by commending members of Parliament for your dedicated public service in response to the COVID-19 pandemic. I recognize these are difficult times for many of your constituents. When faced with a crisis of this scale, your role as elected representatives becomes even more important.

My name is Mark Machin. I am the president and CEO of CPP Investments, and I am accompanied once again by my colleague Michel Leduc, who is our senior managing director and global head of public affairs and communications.

[*Translation*]

This is our fourth time appearing together before the House of Commons Standing Committee on Finance.

It is great to see some familiar faces, and I look forward to meeting the newest members of the committee. I am disappointed we are unable to meet in person this year, but I am also grateful that we can do this virtually.

[*English*]

CPP Investments has a critical mission, which is to help ensure Canadians have a strong foundation of financial security in retirement. To do so, we invest the assets of the CPP with a clear objective: to maximize returns without undue risk of loss, taking into account the factors that may affect the funding of the plan.

We're governed by federal legislation, the Canada Pension Plan Investment Board Act, or the CPPIB Act. Passed by Parliament in 1997, the decisions made by policy-makers at that time set us on the path to becoming the organization we are today. As outlined in the CPPIB Act, the assets of the fund are managed in the best interests of the Canadian contributors and beneficiaries who participate in the CPP. These assets are strictly segregated from government funds, secured and managed professionally, exclusively to pay earned benefits among contributors.

CPP Investments operates at arm’s length from federal and provincial governments with the oversight of an independent, highly qualified professional board of directors. Management reports not to governments but to our board of directors. Any amendments to the CPPIB Act require the consent of at least two-thirds of the provinces that participate in the CPP, representing two-thirds of the population. CPP Investments is a strong believer in the value of public accountability and transparency. Our act holds us to rigorous accountability requirements, but we also go beyond our legislated requirements and make every effort to ensure federal and provincial stewards, as well as Canadians, are kept informed of our activities.

Our approach to meet the fund’s investment objectives has a dual focus. It is designed to achieve long-term total fund returns that will best sustain the CPP and pay pensions, and to generate returns above what could be achieved through a low-cost, passive investment strategy.

To succeed in highly competitive global financial markets, an investor must have and make good use of its comparative advantages. The enduring nature of the fund, our governance, talent, culture and strategic choices drive our global competitiveness. Our investment strategy is designed to deliver a highly diversified portfolio that will maximize long-term returns without incurring undue risk. We are invested globally across public equities, private equities, bonds, private debt, real estate, infrastructure and other areas.

Today, more than 20 years after receiving our first $12 million of net inflows from contributions to invest, the fund has surpassed $400 billion and is among the world’s top pension funds. Our governance structure and clarity of mandate are internationally recognized as a leading example, for other countries to emulate, of sound management of national retirement plans.

This has been a challenging few months. The health and social impacts of the COVID-19 pandemic upended the personal and working lives of Canadians and billions of people around the world. The COVID-19 pandemic threw the global economy and financial markets into turmoil. Volatility repeatedly spiked to near historic highs. The Dow Jones had the most challenging first quarter in its 135-year history, dropping 23%. Canada's main public exchange suffered its biggest drop in eight decades. The Canadian dollar slumped to multi-year lows. This all happened during the last few weeks of our fiscal year.

● (1520)

For institutional investors, market conditions such as these will test both investment skill and organizational strength. While preventing losses does not receive the same recognition as delivering stronger returns, it is equally important, if not more so.

While the specific threat of the COVID-19 pandemic was something few of us could have fully predicted, the likelihood of a global event leading to market turmoil was something we could prepare for, and thankfully we did. The label “radical uncertainty” appropriately describes the impact of the global pandemic. However, we designed our investment portfolio to be resilient throughout wide-ranging economic conditions, including in the face of severe or radical uncertainty. Diversification through active management, when planned and executed effectively, is the most powerful shield to strengthen financial resilience. The execution of our strategy demonstrably placed the fund in a safe harbour.

From an operational perspective, preparation is the key to effective response to a crisis. In recent years, we advanced our readiness by developing financial crisis, business continuity and pandemic response plans. Plans were necessary, yet insufficient. We conducted multiple realistic exercises to put our plans into practice. We enhanced our risk management framework, asset valuation processes, and our digital and information technology capabilities.

That foresight proved to be invaluable. Once COVID-19 began to spread, we were able to act swiftly. We went from nine offices globally to 1,800 individual home offices in a matter of days. Our board of directors, senior management team, investment departments and core services rallied to guide the fund through the crisis and to help protect one of the core pillars of Canada's overall retirement security system.

Through those efforts, I'm privileged to report to Canadians and this committee that the CPP fund is sound. At the end of fiscal 2020, the fund reached $409.6 billion. Let me break that down.

We started the fiscal year at $392 billion and added $12.1 billion in net income after all costs. Despite the devastating market conditions in our fourth quarter, this represents a net annual return of 3.1% after all costs. Our increase in net assets also included $5.5 billion in net contributions received. This 3.1% fiscal year return is down from the 12.6% return we achieved during the 2019 calendar year, and that demonstrates the impact the last few weeks of our fourth quarter had on our reported performance on March 31, 2020. In reporting on a fiscal year basis, we added an extremely difficult 90-day period and dropped our fiscal 2019 Q4 results, which were very solid.

These reported numbers are superficial because, one, we don't plan, implement or invest with a view to any 90-day window and, two, no CPP benefit is determined by quarters. As a manager of a fund with an exceptionally long investment horizon, I know long-term performance is what matters most and what ultimately helps pay pensions today and tomorrow. I'll get to the relevant measures in a moment.

While our recent returns were impacted by the COVID-19 crisis, our strategy sheltered the fund from the larger losses that our benchmarks faced. Those benchmarks indicate what would have been achieved through a passive investment strategy. This fiscal year we generated an additional $23.5 billion for the fund in dollar value added, or DVA, as a result of active management.

Turning to more relevant time periods, over the last decade we generated close to $57 billion in DVA for the fund. At the end of last month, on May 31, our 10-year return was 10.4%. Over the last decade, we generated nearly one-quarter of a trillion dollars in net investment income after all costs.

● (1525)

Due to the recent volatility in financial markets, some of your constituents have likely expressed concerns about their personal retirement savings. We hope that these results will provide some reassurance that a key pillar of the Canadian retirement system, the CPP, will be available for them when they retire. But you don't need to believe me. Every three years, the office of the chief actuary conducts an independent review of the sustainability of the CPP over the next 75 years. The most recent actuarial review of the CPP was released in December 2019.

[*Technical difficulty—Editor*]

The Chair: We must have frozen up somewhere. Can members hear me?

Mr. Peter Julian (New Westminster—Burnaby, NDP): Yes, I can, Wayne. I know the feeling when you get kicked out. It's happened to me a couple of times.

The Chair: There are people doing roadwork out here, and the post office next door is having big trouble, so I worry about my system.

Mr. Peter Julian: He'll log back on.

The Chair: Alexandre, I expect somebody is working to get hold of Mr. Machin.

The Clerk of the Committee (Mr. Alexandre Roger): Yes, Mr. Chair. We're calling him right now.

The Chair: Okay.

Ms. Elizabeth May (Saanich—Gulf Islands, GP): It's almost biblical: many are cold, but few are frozen.

Mr. Michel Leduc (Senior Managing Director and Global Head of Public Affairs and Communications, Canada Pension Plan Investment Board): It's too bad because he was getting to the best part.

The Chair: We'll get to him, Mr. Leduc, hopefully.

Where are you, Michel?

● (1530)

Mr. Michel Leduc: I'm east of downtown Toronto, in Riverdale.

The Chair: We are learning some things about rural areas in this day and age of Zoom. They don't have as good a broadband as downtown Toronto.

Mr. Michel Leduc: Part of the issue with downtown Toronto is that, with people working from home, demands have been put on the system.

The Chair: It is unreal. Can you imagine the demand in a 200 apartment building?

Mr. Michel Leduc: Yes.

The Chair: I hope Mr. Machin has invested in Zoom. It's being used a lot these days.

Mr. Michel Leduc: I've sent Mark a quick note, so I'm sure he's just rebooting.

The Chair: I think the clerk was working with our technicians to get to him. It could be a number of things.

The Clerk: I noticed that he just left the meeting, so he'll probably be up and running very shortly.

The Chair: Okay.

Alexandre, if I forget to mute my mike when people are speaking, just put your hand up. I have gravel trucks backing up two feet from my wall, so they're rather noisy. I usually leave it on when I'm chairing, but I'll put it on mute.

The Clerk: Understood, sir. We can actually hear the beeping when they're going backwards.

We're not able to get in contact with Mr. Machin. He's not answering his phone. We left him a message and we also sent him an email with the connection information so that he can connect.

There he is. We'll let him in.

Mr. Mark Machin: Hi. Can you hear me on this one?

The Chair: Yes, we can hear you again now. Technology's so much fun.

Mr. Mark Machin: Yes. This has worked for about a thousand calls, but it just died on me, so I apologize to you and the committee.

Where did I lose you? Where would you like me to recommence?

The Chair: You were just talking about the actuarial reviews. You were getting pretty close to the end, I think.

Mr. Michel Leduc: Mark, you were very close to the end. You were just completing the part on the office of the chief actuary, and then ESG.

Mr. Mark Machin: Okay, then maybe I will thank the committee for its patience.

I think it's important to re-emphasize that point. You don't have to believe me necessarily on the sustainability of the CPP. It's important to recognize that every three years the office of the chief actuary conducts an independent review of the sustainability of the CPP over the next 75 years. The most recent actuarial review of the CPP was released in December 2019. That report concluded that the CPP will be sustainable over the next 75 years. While the report was produced prior to the COVID-19 pandemic, it does account for financial market volatility and changes to long-term demographic trends, as well as other factors.

A key assumption in the report is that the base CPP will earn an average annual net real rate of return of 3.95% over the 75 years covered by the report. The corresponding assumption for the more conservatively invested additional CPP is an average annual net real rate of return of 3.38%. As of this year, our average annual real rate of return over a 10-year period is 8.1%.

The review also showed that investment income in the base CPP account was 107% higher than expected over the three years since the previous review. Of the total $41 billion by which the fund's assets grew more quickly than expected, $39 billion came from higher than expected investment income.

I may just turn to one last topic. I will skip over part of my prepared remarks, given the delay, but the last thing I want to touch on is our approach to environmental, social and governance factors, or ESG.

We're always looking for ways to evolve as an organization, and this extends to our approach to ESG. We consider ESG factors when calibrating a portfolio over the long term and evaluating investment opportunities, understanding the approach of our partners, and engaging with companies to seek improvements in business practices and disclosure. Being an engaged owner can enhance the long-term performance of the companies in which we invest.

Climate change and the gradual transition to the low-carbon environment will also continue to influence the world we live in. We have committed to being a leader among asset owners in understanding the risks posed and opportunities presented by climate change. We've developed and continue to improve our systems and processes to ensure we fully understand the risks and opportunities presented by climate change. We do this in accordance with the existing legislative provisions in the CPPIB Act and our investment objectives.

With that, I will conclude my remarks. Both Michel and I welcome the opportunity to discuss how we invest the funds entrusted to us and our role in helping to ensure that the CPP remains sustainable for future generations.

We look forward to your questions.

Thank you.

● (1535)

The Chair: Thank you very much, Mark, and also thank you for the report you sent us earlier.

We'll go first to a six-minute round. I'll lay out who's on the list.

First up is Mr. Poilievre—

The Chair: I don't see him. Are you starting, Michael?

Mr. Michael Cooper (St. Albert—Edmonton, CPC): Yes, I'm going to start.

The Chair: Okay, first we have Michael Cooper and then Ms. Koutrakis. Mr. Ste-Marie, did you say Mr. Barsalou-Duval was taking the first round? Just let me know when we get there. Then we have Mr. Julian.

Mr. Cooper, you're on.

Mr. Michael Cooper: Thank you, Mr. Chair.

I want to thank the witnesses and also acknowledge the time that Mr. Leduc spent with me about a week or two ago. I appreciated going over some of the issues respecting the CPPIB.

I want to ask a question around some of the points I raised with Mr. Leduc during our meeting. In that regard, I understand that at present about 11% of the CPPIB's portfolio is invested in China. I have seen some projections of how this is set to increase to 20% of the portfolio as soon as 2025. In light of the current geopolitical climate and having regard for China's blameworthy conduct in the COVID pandemic, coupled with the fact that other pension funds are doing exactly the opposite—for example, the Federal Retirement Thrift Investment Board, which administers the Thrift Savings Plan, the largest pension plan in the U.S. has recently halted all investments in China—what is the position of the CPPIB going forward vis-à-vis China?

Mr. Mark Machin: Thank you for the question.

There are really two reasons that we invest in China. The first is that it is a very large market. It is the second-largest capital market in the world, and therefore it is one that we can diversify into. It's one that is, in many ways, uncorrelated with the rest of the world and, arguably, increasingly uncorrelated with the rest of the world.

From a portfolio construction point of view, that is quite valuable because when there's turmoil in other major markets, there may not be turmoil in that market, and vice versa. The diversification benefit is the most powerful factor that encourages us to continue to have some exposure to that market, given that it's the second biggest market.

The second reason that we invest is alpha, or what we call outperformance relative to an index. That's very hard to come by, but it's incredibly valuable for a portfolio. If you can pick the right stock over the wrong stock, if you can pick Alibaba over Luckin Coffee—which some of you will have seen was a debacle and faced delisting from the U.S. exchange just recently—the right building over the wrong building, the right company over the wrong company or the right fund over the wrong fund, there's a huge amount of value. There's a lot of research showing how much alpha, how much value, there is in that, and it's much more than in developed markets.

Those are really the two reasons we invest in the market, and so far it has performed well for us. The Chinese investments over the fiscal year were up almost 10% and performed well. Again, if you look at the performance, just in March for example, the Chinese market was essentially flat in comparison to where the U.S. markets and North American markets were trading at that point. There are the reasons.

Having said that, we have two sides to our mandate, maximizing returns without undue risk. It's very important for us to thoroughly understand all the risks of investing in any market, not just at an individual security level or an individual company level but also the risks of the market overall and where they might be going. We spend a lot of time understanding those risks.

● (1540)

Mr. Michael Cooper: Thank you for that.

I would acknowledge that the portfolio is well managed, and I don't question that diversification plays an important role in that regard. Nonetheless, you did cite Alibaba, for example. CPPIB's investment is in Alibaba Group Holding Limited. Is that correct?

Mr. Mark Machin: Yes. It would be the company that's listed in New York and Hong Kong.

Mr. Michael Cooper: Okay. It's set up atop a variable interest entity, is it not?

Mr. Mark Machin: That's correct.

Mr. Michael Cooper: Does that cause you some level of concern in terms of how the regime may approach a variable interest entity? We know, for example, that the Chinese Supreme People's Court declared VIE structures to be illegal. In fairness, that's a court of civil law of limited jurisdiction, but does that cause you some concern?

Mr. Mark Machin: Contractual structures like that are important to analyze and reach a really thorough understanding of the potential risks that are involved. That is absolutely one of the factors that is taken into consideration when the teams invest in any company. For a company of the size and importance of Alibaba, I think it's unlikely there's going to be some radical change to those contractual structures, but it's certainly not something that we're naive to, and it's something that we've studied very carefully.

Mr. Michael Cooper: We have seen that in the past with other international investors. For example, with China Unicom, back in the 1990s the central government forced certain structures to be unwound, which disadvantaged international investors.

I saw that there was recently an investment in Ant Financial, which is a company that about two years ago was blocked by the U.S. from acquiring MoneyGram in a $1.2-billion acquisition, on the basis of national security concerns.

Can you tell me a little about CPPIB's investment in Ant Financial?

● (1545)

Mr. Mark Machin: Sure.

We invested in Ant Financial a couple of years ago. It is partly owned by Alibaba. It is the largest fintech company in the world. They provide financial services, mainly from very small investors, smaller investors, medium-sized investors and SMEs. It has increased financial inclusion in China. It is, by some measures, the largest fintech company in the world and one of the most successful so far, and an investment we are quite comfortable with.

They, like many Chinese companies, have had challenges making acquisitions, particularly in the U.S., but increasingly in other countries around the world due to concerns over national security. I imagine they were disappointed by their inability to complete that transaction. However, I understand that MoneyGram has a number of different functions, and so they probably should not have expected to be able to acquire it in the first place.

The Chair: We'll have to end it there. We're substantially over.

Next is Ms. Koutrakis, followed by Mr. Barsalou-Duval.

Ms. Annie Koutrakis (Vimy, Lib.): Thank you, Mr. Chair.

Thank you to our witnesses today.

I am pleased to hear about CPP Investment's rates of return and your performance, given the economic uncertainty we are facing today. Canadians can be confident knowing that the CPP will remain solvent for at least 75 years, and I commend you on your efforts to create a sustainable pension plan for Canadians. That being said, there is always more that can be done to support Canadians in retirement. I look forward to our discussion on CPP Investment's investment strategy and sustainability as we emerge from the pandemic.

I understand that your investments in real estate and infrastructure represent 20% of your assets. With COVID-19, we see potential for a real shift away from business air travel, commuting, in-store shopping, use of offices, etc.

One would expect that your real estate and infrastructure portfolio, which includes assets such as airports and office buildings and which was worth about $80 billion, will be affected by the long-term impacts of COVID. Has this been reflected in your latest results? Do you see these as potentially permanent shifts, and what do you plan to do about it?

Mr. Mark Machin: Thank you for the excellent questions and ones that we wrestle with all the time.

I think it's really interesting. If you look at the real estate portfolio and the real estate industry, there are certain parts of it that have really benefited in some ways from the pandemic. For example, I hesitate to say this seeing as I was cut off on another go, but data centres and broadband have been an area that has really benefited. Anything involved with e-commerce and home delivery and logistics has really benefited. Those areas are booming. At the other end of the spectrum, you have hotels and hospitality and also shopping malls, and they've been really hard hit. In the middle you have offices, which I'll come back to.

On the hospitality side, we have very little exposure to hospitality. We don't invest in hotels and the equity of hotels. We've had that as an investment strategy for many years. We never liked hospitality as an area to invest in.

Shopping malls we do have exposure to in Canada, North America and Europe and around the world, and they have been hard hit. We tend to invest with very strong partners and in what we think are the destination malls rather than smaller malls, but I would say for the North American shopping mall industry that this is going to be a really tough time if there is going to be a requirement for social distancing rather than the best strategy, which is to try to get as many people through the malls as possible.

In addition, arguably in North America, shopping malls have been very overbuilt. By some estimates there are four times the number of malls that are needed in the U.S., so it was always an expectation that these were going to decline. This has probably accelerated that decline as more people have gone to e-commerce rather than going to a physical store. That's probably going to accelerate this transition to the use of those shopping malls towards other things, such as performance centres or entertainment centres.

On offices, I'd say that it's interesting. The jury is out among smart people right now. On the one hand, as long as there is a requirement for social distancing, then arguably people are going to need bigger floor plates if you can get the people into the offices. On the other hand, yes, the work from home environment generally has been one that most companies in the knowledge industries have been able to cope with and it has worked, so there is probably going to be some stickiness in not needing people to commute all the time and in their being able to work remotely and work from different centres. I personally hope that does stick, to some extent.

That being said, it's still not clear what human behaviour will revert to. Generally, when we went through what was a much shorter episode of SARS back in the day, which a number of the committee members will remember, there was a lot of talk back then about people working remotely permanently. It didn't happen, so it's possible that people will revert to the behaviour of wanting to work together in teams, seeing each other and being physically close to each other. It's not clear yet. We are watching that behaviour very carefully.

Sorry, I didn't mention infrastructure. We don't own any airports, and that's not necessarily from a strategy point of view. I wouldn't like to say that we were really smart in not owning airports; we couldn't find one that we could buy at what we thought was a reasonable price. We were consistently outbid over the last 10 or 12 years around the world on airports, so we have zero airports in our infrastructure portfolio.

We do have other assets, which I'd be happy to talk about, some of which have been impacted and others of which have been less impacted.

● (1550)

Ms. Annie Koutrakis: Are there any long-term trends that the CPPIB has observed as a result of the pandemic, and do you see any buying opportunities that these trends may present, like a once-in-a-lifetime buying opportunity as a result of COVID?

Mr. Mark Machin: We'll see whether once-in-a-lifetime opportunities come back again. I mean, there may have been some in the depths of that crisis, and certainly we took advantage quickly of some opportunities, particularly in the credit markets.

On the long-term trends, in a short answer, I think what's happened here is an acceleration of a number of trends that were going to happen, particularly accelerations online, so that's anything fintech related, referring to my previous answer. The stickiness of people moving to home banking and doing their finances online, seeing as they've been forced to, particularly in older age groups, is something that is likely to stay. It's the same with telemedicine. People who've used telemedicine have really enjoyed the experience and are likely to keep going in that direction.

On home education, I'd say there are mixed views. What we've found is that in the east, people in India and Asia who have used home education have had a really good experience. People in the west, in Europe and North America, have had a really unsatisfactory experience and really haven't enjoyed it. We're trying to dig into why. There's some speculation that in the east there are much more specialized apps and that companies have been very creative in designing a particular online experience that really engages and is tailored to students, whereas in the west, people have just generally had the traditional teacher get online and try to teach a class, which has not worked so well.

There are a lot of trends like this that we're trying to analyze and be ahead of. One other one that I'll mention, which is going to be a longer-term trend, is I think the move to autonomous vehicles. I think a lot of us, if there had been an autonomous vehicle to jump into to get us between one place and another, would have done that, rather than being next to another pair of lungs. That's something where we would continue to invest, and we've made a number of investments around that area.

Ms. Annie Koutrakis: Thank you so much for that.

Mr. Chair, it brings me back to my CIBC Wood Gundy days and speaking to our analysts.

Thank you so much for that response.

The Chair: Thank you very much, both of you.

We'll turn to Mr. Ste-Marie. I believe he's up on the first round.

Go ahead, Gabriel.

[*Translation*]

Mr. Gabriel Ste-Marie (Joliette, BQ): Thank you, Mr. Chair.

First of all, I would like to inform you that I will be taking the first speaking turn, and my colleague Mr. Barsalou-Duval will be taking the second one. We will do the same for the next round of questions.

Hello, Mr. Machin and Mr. Leduc. Thank you for being here.

Mr. Machin, thank you for your presentation. The answers to our questions are welcome and very enlightening.

We can see that the financial markets have been very volatile since the beginning of the pandemic. This is very worrying. I would like to have your analysis of the situation with regard to the links between the pandemic and what is happening on the financial markets right now. I would also like to know your forecasts for the next few months.

I'd also like to raise something more specific. The governments of rich countries, in response to the effects of COVID-19, have brought in significant income support measures. The same is true for central banks, which has led to a significant injection of liquidity. But it seems to me that much of this liquidity, that is, new money, has not been used to support demand, either for consumer spending or for investment. Eventually, this liquidity could end up in the financial markets, which could lead to a rise in asset prices, which I would describe as artificial. On a global scale, this could even present the risk of a financial bubble.

What is your analysis of the situation, and what are you doing about it?

● (1555)

[*English*]

Mr. Mark Machin: Thank you for the excellent question. This is one that we will consistently wrestle with.

Briefly to your first point, I won't give a market forecast. I'll give you an economic forecast—at least based on our economics team—and certainly it's a depressing environment.

These forecasts we hope are negative and will be revised upward over time. For the moment, we see that Canada is in a very sharp recession and likely will grow negative seven-plus per cent this year, but hopefully will bounce back 8% next year. Similarly, the U.S. is over 6% negative for this year, and globally, we see 3.8% negative growth for this year.

It's a very sharp recovery. We predict at the moment that the economy won't recover to its full pre-COVID level of output around the world until the second half of 2022. That is our current prediction. We're looking at it very carefully, based on the employment forecast, based on hopefully a little more optimism around vaccine research, but that's our current prediction.

To your point on asset prices and how they may have moved given the stimulus, that's certainly something that I think, in the short term, a lot of people are taking quite a lot of relief from. There has been a huge stimulus around the world, both on the fiscal front and on the monetary front, and it has had its impacts, certainly for most of the time. Although we've had a difficult day today in markets, most of the time it's put liquidity back into markets and put confidence back into markets.

You are right that it is possible this will result in very high asset prices. Certainly we've seen a very surprising and very rapid rise in equity markets, until this morning. We've certainly seen very little fall-off in real asset prices in many markets. While that is comforting as an owner of assets, it is something we are looking at very carefully, making sure we have a portfolio that will perform no matter what happens, no matter what risks emerge and no matter what events might happen.

We consistently stress test for what would happen if there were another scenario like the global financial crisis tomorrow. What happens if there is something even worse than that tomorrow? It's certainly something we don't wish for, but it is our responsibility to make sure we understand what the consequences of that would be and to make sure the portfolio would be safe even through those types of events.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you for that very good answer.

I will move on to something else. While your office's only criterion is performance, many funds incorporate ethical criteria into their investment strategy. Not only do ethical funds not underperform financially, but by limiting negative externalities, they bring benefits to society.

Your office could, like the Caisse de dépôt et placement, consider the benefits of these investments for society, for example. In this regard, would it take a legislative change to ensure that the billions you manage are also used for economic development?

We can also think about speeding up the green shift. As a first step, would you consider an environmental audit of your investments? You could for instance integrate climate change awareness into your investments, or you could assess the impact of your investments on CO_2 emissions.

● (1600)

[*English*]

Mr. Mark Machin: I would say two things on that front, one on the structure of our mandate and then secondly on our investments in the energy transition.

First of all, I think the country has been really well served by the simplicity of the mandate we were given back in the CPPIB Act in 1997, which is to maximize returns without undue risk of loss. Then it was left to a professional board of directors and management teams over the years to figure out how to do that.

What is the best portfolio we can find, whether in Canada or around the world, to achieve that objective? It's a very difficult objective. Managing money is not simple. It's very competitive. Having that clarity of purpose has made it at least slightly simpler for us to execute, and it has served really well, so we always have the interest of building value in the fund. That is the number one thing that drives what we do every day.

If you load in other complexities and objectives, then it becomes much more difficult, and there are obviously compromises and trade-offs. I think it's something that the country was very smart about—and people were very smart about—back in 1997 in setting up the fund this way. I think it has really proved itself over the years and is the envy of the world, frankly, as a simple, straightforward way to set up the objectives of the fund.

Having said all that, we do believe that climate change is happening, and we do believe it is a major risk, so for the last 12 years we've been focused on understanding the risk, and it's challenging. It's a very difficult risk to understand. We publish a sustainable investing report, “Investing Responsibly for CPP Contributors and Beneficiaries”, every October. It goes into some depth about how we are thinking about climate change and what we're doing with respect to it. I will give you just a couple of highlights around it, because it's a long topic.

The first is that every single major investment we make must take into account climate change risks and make sure that we understand those risks and what might happen to the company, what might happen to the asset, before we make the investment, and that we've been sufficiently compensated for it. For example, in the last year, we invested in a toll road in Indonesia. One of the major issues was, what will happen with climate change? What will happen with flooding? What will happen to the geography around that toll road as climate changes? If it changes [*Technical difficulty—Editor*]. Understanding the risks is really important.

The second thing is understanding overall, from a top-down perspective, what the risks are that we have in our portfolio and stress-testing the portfolio depending on whether we have faster shifts in climate or slower shifts in climate.

It's a complex area. It's one where we are determined to be at the forefront of understanding those risks and understanding where the opportunities lie around it, so that we can invest in those opportunities.

The Chair: Okay. Thanks you both. We're substantially over, but I will let people go when I think there's information being provided.

We will now go to Mr. Julian, who will be followed in the second round by Mr. Poilievre.

Peter.

[*Translation*]

Mr. Peter Julian: Thank you very much, Mr. Chair.

I also thank the witnesses for being here today. I hope that their families are healthy and safe.

My questions are going to be addressed to Mr. Machin and I'd like his answers to be brief.

It's about the salaries you pay yourselves. You got a raise this year. The Caisse de dépôt et placement du Québec carried out a consultation regarding senior executives.

● (1605)

[*English*]

The Chair: Peter, the translators can't catch what you're saying. You're breaking up somehow. Maybe you can try it a little slower?

[*Translation*]

Mr. Peter Julian: All right, Mr. Chair. I'm going to speak more slowly, even though it's difficult for me.

I was talking about the Caisse de dépôt et placement du Québec, which managed the compensation for senior executives. [*Technical difficulties*] in the third quarter. The same thing is happening elsewhere in the world, for other pension plans.

Do you think raising your salary this year, during a pandemic, is appropriate?

[*English*]

The Chair: Peter, I hate to interrupt, but we're only getting you in English. The translation isn't coming through. Try your English channel and see if that works. I don't know. It's breaking up.

For some reason, the translators can't pick you up.

[*Translation*]

Mr. Peter Julian: All right.

Can I still speak French? Currently, I'm on the English channel. Can you hear me?

[*English*]

I'm on the English channel right now. I tried the French channel

[*Translation*]

Now I'm on the French channel. Can people hear me? Is everything all right now?

[*English*]

The Chair: Okay. That's good, Peter.

[*Translation*]

Mr. Peter Julian: Here is my first question: is it appropriate to increase salaries during a pandemic?

My second question concerns nursing homes across the country, including those operated by Revera, of course, and the investments that have been made for other pension plans.

Has the Canada Pension Plan Investment Board made any investments in long-term care facilities in Canada or elsewhere?

[*English*]

The Chair: Mr. Machin.

Mr. Mark Machin: Thank you. I think I got the first and the last questions. I'll take the last question. I'm just trying to understand the second question, but on long-term care.... In fact, Mr. Chair, my colleagues didn't get the second question either, so perhaps we could get that repeated.

On long-term care, the answer is effectively no. We don't have any significant investments in long-term care homes. Technically, we have some extremely small holdings, which we only have through index holdings. I would say that obviously we are really sensitive to the very difficult time that people have had in these long-term care homes, but certainly in Canada it's not something that we have had significant exposure to.

Mr. Peter Julian: Thank you very much.

My first question was about executive compensation. Other pension funds have basically frozen compensation. Yours has increased this year. My question was whether you felt that was appropriate, but I want to move on to a key point of your presentation, which was the issue of radical uncertainty.

Climate change is the big radical uncertainty facing our country and the planet. It will cost us $5 billion this year, as you're well aware, and $50 billion a year as we go over the next three decades. I'd be interested in knowing what the sum total of carbon reserves held in companies that have been invested in by the CPPIB is. What's the sum total of carbon reserves, and of course, what is the risk, which goes with that, of stranded assets if we meet our climate change objectives?

Secondly, could you tell us the sum total of members of boards or managing directors within the CPPIB who are also holding positions on boards of directors in oil and gas companies? Isn't that a clear conflict of interest? What's the sum total of managing directors and members of the board of directors who also sit on the boards of oil and gas companies?

• (1610)

Mr. Mark Machin: On the carbon footprint, in our sustainable investing report, on page 61, we disclose—using both scope 1 and scope 2 definitions—the amount of greenhouse gas emissions from the portfolio. We also disclose it on an equity ownership basis, so the per cent of equity ownership and also the per cent of the long-term capital structure that we own. This is across all assets across the portfolio.

To give you a number—and this is challenging work; there are a lot of estimates that go into this—we use, as much as we can, specific information that is disclosed by the companies we invest in. However, it's about 25.7 million tonnes of carbon dioxide equivalent, based on long-term capital ownership. That is the amount of our total carbon emissions across the fund.

As I say, it's challenging. We have used S&P Trucost, a division of S&P, to try to get to as accurate a number for the companies, where we are using proxies and estimates, but that is.... At the moment, the based-on proxy data is about 53% of that number, 18% is coming from company-reported data and14% from Trucost models. That gives you a sense of the amount of carbon emissions from the total portfolio.

With respect to your second question, I'm not sure I have the numbers completely at hand on how many people sit on oil and gas company boards. Generally, across all of our invested companies, we have about 190 board positions for all of the boards we sit on across all the portfolio companies. Some of these are direct. Some are our employees sitting on company boards, and some of are where we will find a particular expert we think is appropriate for that position to act on our behalf. A handful of those will be on traditional energy boards.

Again, another cut would be that if you look at the overall portfolio and how much we have invested in traditional energy, it's about 2.8% of the portfolio at year-end. Our renewables portfolio right now is over 2.2% at last count, and climbing rapidly. I would imagine that in the short term our renewables portfolio percentage will exceed the amount we have in traditional energy, and that makes sense given the move along the energy transition.

The Chair: Peter, you have time for a quick one. I knocked off the time where we had the trouble in the beginning.

Mr. Peter Julian: Thank you very much, Mr. Chair.

Could you provide us with the list of managing directors and members of the board who also sit on other boards?

Secondly, coming back to the issue of executive compensation, again I'll ask, do you feel it's appropriate in a pandemic, when other pension funds have frozen compensation for their executive officers...?

Mr. Mark Machin: I certainly can follow up with the information on the managing directors and board directors. As far as I recall, and my colleague Michel may correct me, I'm not aware of our board of directors sitting on the boards of oil companies. I will have to double-check that.

With respect to compensation, I'll also let Michel cover that.

The Chair: Michel, the floor is yours.

Mr. Michel Leduc: Thank you for the question.

As you can imagine, executive compensation is set by the board of directors, as is the case for most organizations. As it turns out, there was actually a comment piece that had been published in the National Post about CPPIB's compensation, which gave the opportunity for our chair of the board to respond. We'd be more than happy to provide the chair's response to the clerk for this committee, but if I have a bit of time, maybe I could summarize the contents.

First, just to be clear, the board did establish a salary freeze on the CEO's salary for the current year, as well as freezing salaries for all senior executives at CPPIB, in recognition of the economic circumstances caused by COVID-19.

In regard to incentive compensation, that's a look back. That's looking at past performance, at the past performance of 20 quarters, not only the 20th quarter that rolls out in the fifth year on which the incentive is based. That's essentially to recognize the importance of aligning investment behaviour—especially a long-term investor—with long-term decisions and not making short-term decisions that may not be in the best interests of the fund. As we have seen, significant economic problems have been caused by short-term thinking, in the financial sector specifically.

In the first 19 quarters of those 20, tremendous value was created, in the order of about $140 billion net income. In the 20th quarter, when the pandemic hit, the fund was impacted, so total fund returns were affected. Having said that, due to all of the decisions that had been made because of active management, because of the strategy put in place by the management team and because of a lot of the diversification well beyond what would be available on public markets, the fund was actually placed, because of its resiliency, in a safe harbour. Had it been invested in the passive strategy, a low-cost simple strategy of indices, the fund would have dropped by about $23.5 billion more.

I think it's a recognition in terms of both the incentive framework for the performance of total fund returns—those 19 quarters—as well as the relative return. As I've said, those details are laid out in the letter from our chair. We would absolutely share that with the committee through the clerk if that's appropriate.

• (1615)

The Chair: Thank you, Mr. Leduc. Just send that letter to the clerk.

We'll go to the second round of five minutes.

We'll start with Mr. Poilievre and then go on to Mr. Fragiskatos.

Hon. Pierre Poilievre (Carleton, CPC): Thank you very much, Mr. Chair.

Thank you, Mr. Leduc and Mr. Machin, not just for your appearance but also for the openness with which you've shared information with members of Parliament and have remained transparent while you do a very difficult job in a tremendously unusual time.

I'd like to discuss the times we're in. I think all of us expected catastrophic drops in the market as soon as the governments of the world started locking down their workforces, and that did happen, albeit only briefly. In late March, markets crashed, by about a third here in Canada and roughly the same in the United States, but then they came roaring back.

That bounceback seemed to coincide with the enormous amount of money that our central banks have been printing here in Canada. It's now about $400 billion of what is effectively quantitative easing through a bond-buying program. In the United States, there's been a similarly large program of purchasing assets and an extraordinary purchase of bonds, not just government bonds but now also private bonds. In Canada, the bank is buying 10 billion dollars' worth of private sector corporate bonds.

The result is that markets are surprisingly valued. According to the CAPE or Shiller price earnings ratio, the S&P 500 this week was 28, which is extremely high. It's only been that high in the lead-up to the tech bubble bursting and in the late 1920s, in 1929, right before the great crash that led to the Great Depression.

I want to get your impressions on how our markets are valued right now and whether you think there is a bubble. If there is, how are you protecting the $409 billion over which you and your fund are the custodians?

● (1620)

Mr. Mark Machin: Those are really important questions. Before I give an answer, let me go through the skills we have as an investor.

That is, we think we have very good skill at building a diversified portfolio around the world, figuring out what the best long-term portfolio is and diversifying that. Second, we think we have developed skill at picking the right fund over the wrong fund, the right stock over the wrong stock or the right building over the wrong building in securities selection. We have great skill at diversification and securities selection. The third skill is market timing. It is one of those skills that are very elusive for investors and very hard to do. I couldn't put my hand on my heart and say that we have developed skill in telling you what the market is going to do tomorrow or even in the next quarter. We think it's a very elusive skill. We do have a macro investing team that does try to figure out shorter-term issues in markets and take advantage of those anomalies, but it's a tough skill to demonstrate.

With all of those caveats, yes, I would say that most people have been quite surprised about the rally in markets until this morning. Clearly, there's been a significant correction today in adjusting for that. Part of it has been clearly driven by the amount of stimulus that has been provided by the fiscal and monetary stimulus, including, anecdotally, in the U.S. the record number of smaller investors opening accounts and putting money into the market. We've seen extraordinary rallies in the stocks of bankrupt companies. We've seen extraordinary rallies in the stocks of well-known companies. There's some evidence that people are taking their cheques in the U.S. and putting them into brokerage accounts. I hope that doesn't end badly for a lot of people. I do hope they have been prudent in how they've invested their stimulus cheques, but it is an issue and something that we have looked at.

What can we do? We can make sure that we are really focused on our first two skills and are really focused on stress-testing the portfolio. We're really focused on making sure we have a properly diversified portfolio so that all our eggs are not in one market, one basket, one geography, one asset class or one strategy. It is properly diversified across multiple different markets, multiple different time zones and multiple different assets. If something pops in one area, then hopefully other markets are less immune to that. That's the benefit of diversification. Secondly, if we pick the right stocks over the wrong stocks, it doesn't matter if the whole market goes down; we've still made money.

Finally, as I said earlier, we run stress tests. What would happen if tomorrow the global financial crisis happened? What would happen if worse than that happened? We disclose those on page 163 or 164, I think, of the annual report. We go through those stress tests and how we shock the portfolio.

The Chair: Pierre, I've been letting everybody go over time. We have a fair bit of time today. Go ahead with a quick question, if you could.

Hon. Pierre Poilievre: Thank you very much, Mr. Chairman.

Thank you for your answer. By the way, I'm glad you said that you're not trying to time the market. We didn't hire you as a day trader. We hired you because we know you have the brainpower to find good value and invest for the long run. That appears to be what you're doing.

I want to ask about interest rates. You're not a fortune teller, but you do understand finance better than almost anyone. I want to ask whether or not you worry that in two or three years, this extraordinary amount of new money pouring into our system could lead to inflation. I know that everybody claims the short-term problem is deflation, but I am talking about the medium term. All of this money is going to stay sloshing around in the economies of the world. If it does, then inflation will result and interest rates will have to go up to contain that problem.

First of all, do you agree with that? Second of all, how sensitive is the $409 billion you've invested on our behalf to future increases in interest rates?

● (1625)

Mr. Mark Machin: It's an excellent question.

The risk of inflation is real. It's quite possible. There have been massive deflationary pressures for years, whether they're from demographics, technology or globalization. Those things have resulted in deflationary pressures generally around the world. I think the first two forces are likely to stay in place. There is a question mark as to whether the third one is going in reverse. It could exacerbate a potential inflationary pressure over time.

As a fundamental forecast, we're not predicting, as a base case, inflation. If we look at world inflation, we expect inflation in our central economic forecast to be about 2.4% for 2022-23 and 2.5% for 2023-24. Inflation in Canada is similar, so in the 2.5% to 2.6% range, and in the U.S. it's 2.9% to 3.0%, in that time frame.

That's the central forecast. There are clearly risks. We publish interest rate sensitivity in the annual report, on page 165, and we show that if you hold all the other variables constant, a move of 25 basis points in nominal risk-free interest rates would result in an increase or decrease in value in the portfolio of about $2.5 billion. That's as of March 31. That's the sensitivity, basically. It's about $2.5 billion of sensitivity to the debt instruments in the portfolio. Putting it through the rest of the portfolio is a complicated exercise, but again, part of it would be making sure we have a diversified portfolio, sufficient investments in inflation-protected assets, a substantial real assets portfolio and substantial investments in equities, quite of few of which will perform reasonably well even in an inflationary environment.

The Chair: We'll have to end that round there.

We'll go to Mr. Fragiskatos, and then to Mr. Cumming.

Mr. Leduc, I can see you. If you want to add a point, raise your hand and I'll let you in.

Mr. Fragiskatos.

Mr. Peter Fragiskatos (London North Centre, Lib.): Thank you very much, Mr. Chair.

Mr. Machin, thank you very much for a really impressive presentation. You've been quite open with us on a number of issues.

I apologize if you raised this at the tail end of your testimony—you were hard pressed to conclude it—but I have a question on whether or not the CPPIB has an estimate, a projection, regarding the rate of return over the next few years. You cited the report of the chief actuary, and you mentioned that in their view this number has to be 3.95% to ensure the long-term sustainability of the fund—in other words, over the next 75 years.

Do you have an estimate of what you see as the rate of return over the next few years?

Mr. Mark Machin: These were the expected returns of the reference portfolio for the base CPP, from Q1 2020 to Q1 2025. Remember, that was at the bottom, and I gave those numbers. It's about 7.9%. That was the current modelling of our economics group the last time I had an update of that type for the reference portfolio overall.

Mr. Peter Fragiskatos: When were those projections made? Was it pre-COVID?

Mr. Mark Machin: It was April, post-COVID.

Mr. Peter Fragiskatos: Okay.

● (1630)

Mr. Mark Machin: There's a bit of a dip there, so you probably want to adjust those down based on the rally in markets between now and then.

I think there are two parts to your question. One is that returns are, obviously, from where the markets are at one point to where they are going to be, and that's clearly going to be significantly dampened by the time markets come back. At the same time, I think your underlying question is whether there will be dampened returns based on the underlying economic performance. As I said, we expect a swoosh-shaped economic recovery at the moment, with economic production back at pre-COVID levels by the second half of 2022. Markets generally precede that because they're always looking forward. It does factor in COVID, but this is for a period of up to 2025.

Mr. Peter Fragiskatos: My curiosity relates to the extent to which they factored in COVID.

Mr. Mark Machin: They did.

Mr. Peter Fragiskatos: For example, just a few days ago, as you would have seen, the World Bank estimated a 5.2% decline in global GDP over the next year. To be fair, it estimates that global GDP will rebound significantly by, I think, over 4% once we reach 2021. You've told us that we'll get back to pre-COVID levels of economic growth by 2022.

You cited a rate of return going forward over the next few years. Does that estimate take into account all of those different things? The IMF has come up with projections as well, for instance.

Mr. Mark Machin: Sorry, let me be a bit clearer. The numbers I gave you were returns for the overall portfolio, the benchmark for our portfolio, in fact. On an economic front, I also said the output would be back to the levels of GDP by the second half of 2022. Growth-wise, there's a swoosh, but we expect quite a sharp recovery. We expect Canada's GDP growth next year, for example, to be 8.1%. You can see it's down, but in the second half of this year we anticipate, hopefully, fairly rapid growth.

Mr. Peter Fragiskatos: You said 8.1%. That relates to what, sorry?

Mr. Mark Machin: That's for the next calendar year for Canada. If you do this on a quarter-on-quarter basis, for the third quarter of this year we anticipate Canada will rebound over 18%, and then in the fourth quarter over 17%. This is quarter-on-quarter annualized growth.

Mr. Peter Fragiskatos: I understand.

Mr. Mark Machin: Going into next year, it's 14% and then 10%, and then it moderates again in the second half of next year.

Mr. Peter Fragiskatos: Thanks very much.

I also want to ask you a question related to the CPPIB's global focus and approach.

One thing that has been looked at is the monumental growth we have seen in the value of the fund. My understanding is that in 2006 the value of the fund was $96 billion, at least according to CBC News. It's now well over $400 billion. One reason for this, which has been pointed to, is the global focus that has taken shape over that time. We have, as you mentioned in your presentation, nine offices globally: two in the U.S., two in Europe, two in Asia, one in Brazil and one in Australia. You talked about the 1,800-plus employees who normally would have been stationed in those offices around the world. You said that they are now working from home.

To what extent is this limiting the ability of the CPPIB to carry out its work and grow the value even higher, or is it limiting this at all? Will these employees end up staying at home? Do you have any thoughts on that?

Mr. Mark Machin: It's a great question about how we run the operations now. We all hope this will be over sooner rather than later, but if it's not, we'll still have to operate on the basis we can. We can operate safely, and can run our process, the portfolio, all the risk systems, etc.

I think where it limits things is with people flying in and out of countries. I'm very grateful for the fact that we have people in these countries, because it can be very challenging, if you don't have people on the ground in these countries and you're trying to fly people in an out, to look at your assets, examine issues that are arising in those assets or make new investments. The fact that we have people in Australia, India, the U.S. and South America means that we're not going to have problems with people not being able to fly in and out, with massive quarantine periods at both ends or with all the risks that people are going to have to undertake. If they're in-country, they can look after our assets and the risks, and find new opportunities because we have the offices there. I'm quite grateful that we have that footprint in place.

● (1635)

Mr. Peter Fragiskatos: Thank you very much.

The Chair: Thank you.

You're substantially over, too, Peter.

We'll go to Mr. Cumming and then on to Mr. Fraser.

James.

Mr. James Cumming (Edmonton Centre, CPC): Thank you, Mr. Chair.

Thank you for appearing today, for your candid responses to the questions that have been put in front of you, and for meeting with me prior to this meeting. I appreciate very much the responses you gave me at that time as well.

It's a net return of 3.1% and, as we all know, a tough last quarter, COVID-related. With the direct investments you're doing, which have become a more significant part of the portfolio, do you think it has fairly factored in the impact on those direct investments and those companies that have been impacted by COVID? They wouldn't line up with your year-end, and certainly you have to do some adjustments. Can you comment on that?

Mr. Mark Machin: Yes. That's a terrific question.

One of the things I did when I sat in my seat as CEO four years ago was to focus on our private market valuations. We had pretty good private market valuations, private asset evaluations, but we wanted to make sure that they were world-class. When my chief financial and risk officer, Neil Beaumont, arrived, we sat down shortly after he was hired and said, “Okay, we're going to make this approach really world-class.”

We said that we were going to make sure that we have independent teams of valuers who are incredibly rigorous, and they have the call, they have the pen—the investment teams don't have the call—and also that we have an incredibly rigorous and much more regular approach to private asset valuations. I didn't know that something dramatic would happen on my watch, but both of us looked at each other and thought, “The chances are, with this expanding recovery, it probably will happen on our watch.” We wanted to be prepared for it.

In fact, again, it's super lucky. If you go to our website, you'll see that on January 24, Neil Beaumont put up an interactive video showing how we do our private asset valuations and how had we improved and that this was the approach. We didn't know that we were about to hit a massive market event and would be able to test that process, but we're super glad that we did and super glad that we put it out for the public to understand how we were doing that approach.

As we came in through this and looked at it year-round, we took a really hard look and took some really tough marks on the valuation of our private assets, so they really do represent the value of those assets at that point in the market. They're a true representation of the value of those assets, whether it's private equity assets, real estate assets or infrastructure assets. There were some tough conversations, obviously, with investment teams that believed in the long-term value of these assets, but we wanted to make sure that they were truly right.

Also, then, we have an independent audit approach that comes in, makes sure and goes through a very large number of those assets again. They do their work to make sure that those really are robust valuations. We were quite satisfied with the fact that we had been.... My chief financial risk officer won't like me saying that we were “conservative” on it, but I think he would say we got the right valuations—

Hon. Pierre Poilievre: There's nothing wrong with that.

Mr. Mark Machin: I think we got the right valuations.

Mr. James Cumming: Given what has happened in the last three months with those private investments, are you starting to see interest in those companies, because there are liquidity issues, looking for additional investment from you, whether it be through debt instruments or equity instruments? Have you started to see that, and is it something you're going after if it looks like the right circumstance?

Mr. Mark Machin: Absolutely, we will go after it if it's the right circumstance. That's the key. We'll look at each of them based on the merits, the risk and return characteristics, and the opportunities. We also stress-test the portfolio across all the private assets and the significant public holdings we have to look at whether we will need to put more capital in and to make sure that we have reserved significant liquidity for that potential event.

We're very rigorous about it. We have a team for portfolio value creation that is working with the investment teams to go through the plans, the liquidity profiles and capital needs of those companies, working with partners where we have partners and working with the management teams to make sure that we've thought through exactly that: If there's a prolonged economic stress here, what do the companies do? We'll only put money in if we think there's a good opportunity on a risk-adjusted basis.

● (1640)

The Chair: We will have to move on.

Mr. Fraser will be followed by Mr. Barsalou-Duval.

Sean.

Mr. Sean Fraser (Central Nova, Lib.): Thank you very much, Mr. Chair.

Thank you to our witnesses for being here. This has been very engaging testimony today.

I'll start with a question based on the place where I gained half of the lessons I've learned since I entered politics, and that's at a table in Tim Hortons in the town of Pictou, where a local resident who was interested in the CPP and in giving me political advice said that what the federal government ought to do if it wanted to try to win some votes—not that that's what it's about—is to bump up benefits for seniors. They pointed specifically to the CPP, because it had had a history for quite a few years of having higher earnings than payouts.

However, I have some concerns around Canada's demographics and the fact that in my home province, Nova Scotia, we have an aging population as significant as anywhere else, although it's a problem right across the world and certainly within Canada.

I'm curious as to whether our witness can shed some light on whether the Canada pension plan is sustainable in its current form, whether in fact the lessons I learned at Tim Hortons are valuable, and whether it's doing so well that we could actually afford an increase in the CPP to help seniors living in retirement.

Mr. Mark Machin: I'll say a couple of things, and I think this is one Michel Leduc may want to add a little bit on.

On demographics, yes, Canada has an aging population, somewhat offset by net immigration, but it is a challenge for the country and for the fund. The chief actuary models that in and models in expectations for demographics and the aging of the population—birth rates, death rates, longevity rates, etc.—and the fund is sustainable under the chief actuary's assumptions. That is all factored into the sustainability of the fund in the latest report.

If you, as the federal and provincial stewards of the fund, decide that you want to adjust benefits, it certainly is within your purview to do that. Our job is to invest the money we get and to make sure, ideally, that we give you that flexibility over time by making sure that the returns exceed the expectations set by the chief actuary. We work extremely hard every day to try to give you that flexibility over time.

Mr. Sean Fraser: I want to talk about one sector that I think does have potential to give that increased flexibility. One of the disappointments I have about some of the conversations that touch on the green economy is that they often turn into ideological battles about the energy industry. To me, there's a separate conversation to be had, separated from whatever climate ideology a person may have. I personally believe we need to be more and more aggressive in terms of our fight against climate change, but I'm actually curious from a purely economic perspective about what you think about the future in the green economy, which will certainly provide certain returns in terms of our emissions reductions.

If we're dealing with it in terms of crass economics, where do you see the future of the CPPIB in terms of its investment in the green economy, in terms of giving that kind of flexibility by capitalizing on a global opportunity in an emerging sector?

● (1645)

Mr. Mark Machin: We have a rapidly expanding investment portfolio in renewable energy. We've been investing in it, and we've had a dedicated team since 2018. We've invested around the world, whether it's in wind, in solar, in hydro, and we continue to do so. For example, in the last few months, we created a joint venture with Enbridge in Europe for offshore wind. We continue to put money into that. Importantly, we made our largest acquisition to date in renewables, in Pattern Energy, which is a $6-billion company focused on North American and Japanese wind and renewable assets. We bought that in the last couple of months.

We're substantially ramping up our investments in these areas, and we think they stand, in many cases—well, in all cases that we make—on their own two feet in terms of returns. We like the risk-adjusted returns in wind and solar. And it's not just wind and solar and hydro. We're also focused on innovative areas. We have a group that's dedicated to looking for innovation in the energy transition and has made a number of investments, for example in charging. There is a company called ChargePoint that is putting electric vehicle charge points in place around the world.

I might highlight one of the investments we made a couple of years ago, in Alberta, because it just came online. That's the Alberta Carbon Trunk Line. That is a carbon capture project, which was switched on in the last couple of days. Once it's up and running at full capacity, it will be extracting about 15 million tonnes of carbon a year, which is the equivalent of taking almost all of the cars in Alberta off the road. We're quite excited about that area and are looking for more opportunities.

Mr. Sean Fraser: I may revisit this, but I expect I only have time for one quick question.

Is that fair, Mr. Chair?

The Chair: You really don't, but we'll give it to you. We've been doing it for everybody else.

Mr. Sean Fraser: Thank you.

I'll explore that another time.

I'll squeeze in one quick one. In response to Ms. Koutrakis, you highlighted some of the short-term concerns around the changing social circumstances in which we find ourselves. Are there longer-term trends that the organization is focusing on as a result of this pandemic, whether it's working from home, production of personal protective equipment, or any other significant social change in the way we live or work that you're targeting to maximize long-term returns for the money you hold for the benefit of Canadians' retirement security?

Mr. Mark Machin: Yes. It's a really important question. It's one that we have teams working on across the fund, trying to identify those trends, not just the shorter-term trends but the longer-term trends.

Before I give a few more examples, we think that some of these trends will come back over time. I don't think travel and hospitality are over. I don't think sporting events are over. Even things like movie theatres, which are in some ways somewhat irrational.... We're social beings. We've seen time and again that while people can comfortably watch movies at home, comfortably eat at home, we want to go out. We all want to go out to the noisy restaurant because it has buzz. We want to go and sit in a movie theatre and share an experience with a bunch of people we're never going to talk to, but because there's more buzz in doing that—or maybe there's a slightly better screen—I think a number of these things that rationally maybe shouldn't come back are going to come back, in my personal view.

There may be some terrific opportunities in those sectors, and there have been. We will see. The markets have anticipated a number of these. We've seen, for example, the cruise line companies come back incredibly strongly since March 31. However, it's going to take time for the traffic there to pick up.

There are a number of things that we think will pick up over time, other than data centres, telemedicine and fintech online. I think online grocery ordering is something that is really only limited by capacity. I think quite a few of us have tried to get capacity for online ordering of groceries and have been frustrated by the fact that you just can't get it. Where it has been available, it has increased up to capacity. I think it's likely going to continue. People will continue to try to order online.

I do think, to your point, that the flexibility on location of staff will continue to stick. There will be more flexibility for people who have particular skills and particular expertise. They don't need to keep flying in and out of places or participating via long commutes.

I do think there will be more flexibility, and I hope that's the case. It will bring a lot more people, smart people, who've moved away from the typical centre into the knowledge workforce. I hope that will happen as well.

● (1650)

Mr. Sean Fraser:. Thank you, Mr. Chair.

The Chair: You're welcome.

I'll lay out the next questioners: Mr. Barsalou-Duval will have two minutes, Mr. Julian the same, and then we'll go on to Mr. Morantz and Ms. Dzerowicz.

Before I do that, I do have a question on the oil and gas industry that partly spins off Sean's question. I do see our oil and gas industry constantly under attack. I believe that what we're seeing happen in Canada is that we're driving capital investment out of the country. We're driving human resources out of the country. We're driving innovation and knowledge out of the country. At the same time, the oil and gas industry is expanding elsewhere. We're not using the benefits of our natural resource to transition to a green economy.

We had a meeting this morning with the oil and gas industry in Newfoundland. What they told us is that there are 17 new finds in Norway. The investment isn't coming in to the offshore industry in Newfoundland, and, as a result, the working vessels, etc., are leaving Newfoundland and going to Norway.

There is a lot of politics around this, I know, but my question for you is really this: What are you seeing in terms of the global investment in the oil and gas industry? Is it increasing in other parts of the world? Are we the only ones driving it away?

Mr. Mark Machin: As I said earlier, we're believers in climate change. Climate change is happening. We believe in the energy transition. The energy transition will be under way towards a low-carbon economy over time. However, even the most optimistic projections, whether we like it or not, see a significant role for traditional energy for quite a while yet. If I take, for example, the IEA's projections for the energy transition, the most optimistic projection they have is that by 2040 there is still 58% of the world's energy supply being provided by traditional energy.

That's probably not consistent with a great climate outcome, so there's going to have to be even more innovation there, whether it's carbon capture, other approaches or a more rapid transition. There's clearly a role for traditional energy: for airplanes to fly and for other things that it's very difficult to innovate around. We see that there will be investment in the traditional oil and gas industry for a period of time.

I'm not sure that there is a huge surge in investment right now. I think it is a challenged industry, given where prices went. It had a double whammy during COVID. There was not only the COVID pandemic and a complete dry-up in demand, but also this huge spat between Saudi Arabia and Russia that caused a massive crash in the price. It was under very significant stress at that point. I feel for the people who are in that industry, who've been really challenged during this time, but they have a long track record of battling back.

• (1655)

The Chair: Thank you.

Mr. Barsalou-Duval, you have two minutes.

[*Translation*]

Mr. Xavier Barsalou-Duval (Pierre-Boucher—Les Patriotes—Verchères, BQ): Thank you very much, Mr. Chair.

Mr. Machin, if we look at the geographic distribution of investments made by the Canada Pension Plan Investment Board, we see that 64% of those investments were made in Canada in 2006, but that percentage falls to 15.6% in 2020. That is a very significant decrease. I understand that there is a desire to diversify assets. On the other hand, when you invest a lot of money abroad, you need to have a very good grasp of those markets.

First, I am concerned about the speed of this knowledge acquisition, given both the speed of this investment diversification, and the desire to limit risks.

Second, I'm concerned that there are almost no investments in Canada anymore. Of course, I am more concerned about Quebec, since I am a Quebecker and I want Quebec's economy to do well. How can you explain this decline in investment: is it because the Canadian economy is considered too risky or not diversified enough, or because you don't have confidence in it?

Could you explain how your investment strategy in Quebec differs from the one you apply in Canada, and give us an idea of the percentage of investments made in Quebec as compared to Canada?

[*English*]

The Chair: Go ahead, Mr. Machin.

Mr. Mark Machin: I'm very happy to.

As of the fiscal year end, we have around 15.6% of the fund invested in Canada, or about $63.9 billion. One of the purposes of the fund, as originally set up, was to diversify the portfolio into a global portfolio. When we started, what we inherited from our predecessor was 100% domestic investment in Canada, and so we've been diversifying that gradually around the world where we have found good opportunities.

That being said, we have substantial investment in Canada, and we will continue to have substantial investment in Canada. It's our home market, and we understand the risks here, but we are massively overweight versus any measure of Canada's weight from a global GDP perspective, which is around 2%, and from a global equity market perspective, which I think is around 2.6% of global equity markets, etc. Having 15.6% versus two and something per cent in Canada is massively overweight. We are quite comfortable with that. We probably will remain overweight for quite a while.

In Quebec, we have over $4 billion invested across equities and real assets and bonds. We continue to look for great opportunities in Quebec and in other provinces. We continue to look at some of the really vibrant companies in Quebec.

The Chair: Okay. Thank you.

Mr. Julian, go ahead for a couple of minutes.

Mr. Peter Julian: Thanks very much to our guests. I appreciate your frank answers.

I have two questions.

First, what is the sum total of the investments of CPPIB in tobacco companies, private prisons and weapons manufacturers? I know that's been an issue that has arisen in the past. You've divested of at least two private prisons. I'd like to know what the existing investments are.

Second, there has been a mention about the CPP pushing for more diversity on the boards of companies in which they have investments. I noticed the interesting phrase that the CPP will not vote for managing directors if the board has no women directors and where no exception is warranted. Could you explain what the exception is?

I don't see any reference to people of colour and indigenous people on corporate boards. That, of course, is a big problem in Canada. Is it the intent of the CPPIB to weigh in to ensure that Canada's corporations have more diversity on their boards of directors?

• (1700)

Mr. Mark Machin: Thank you.

I'm going to let Michel answer the first question, which is very much in his purview, and then I'll answer the second.

The Chair: Mr. Leduc.

Mr. Michel Leduc: Thank you.

On our exposures to a wide variety of different types of companies, you mentioned, for example, tobacco. As well, in the U.S. some detention centres are privately run. As part of our efforts to widely diversify the fund, not only geographically but by asset, some segments of our businesses, some of our investment strategies, efficiently apply indices, which means that, to gain added exposures, we might put part of the fund in something that would mirror, say, the SNP500. In doing so, we would then capture some of these types of assets you referred to.

What's come to the fore for us is that.... Individually, these are very tiny exposures for the CPP fund in the context of $400 billion-plus; some of them may be one or two million dollars, because they're spread out across about 4,000 holdings. Even though we've had a very robust due diligence process on the wide variety of risks that would come our way when we make a direct investment in a specific company—a much larger position—we found there could be some exaggerated risks even if it's a small holding.

So we've applied the learning from the processes we've had in looking at large positions. We found tools that are able to identify where there could be exaggerated sources of risk, whether they're controversy risks, social or governance risks, or environmental risks. When those are flagged to us, even though there could be thousands, we're able to narrow them down to a few, and then we're able to apply a more rigorous, detailed assessment. In some of those cases, it's turned out we were not comfortable with the wide range of risk, and the example you provided around detention centres would be one of those cases.

In a situation where we've looked at tobacco companies.... By virtue of our mandate, we don't have broad, sectoral, broad-brush exclusions, so it is not consistent with the CPPIB Act to say we will not invest in tobacco, full stop. Having said that, it does allow us to take an idiosyncratic view if a particular tobacco company is behaving in a certain way that increases, for example, its legal risks. Then we are given the opportunity to do a deeper dive, and there have been instances where we were not comfortable.

At the end of all this process, the one thing that stands consistent is being true to the legislative mandate of making sure that when we are taking a position for the long-term returns we are also equally looking at the long-term risks associated with them.

Mr. Peter Julian: Mr. Chair, I have a question on—

The Chair: Peter, we're way over time.

Mr. Machin, please hold it down to about a minute, if you can. I have three other questioners.

Mr. Mark Machin: Okay. I'll try to do it in a minute. It's a huge question, really important question on board effectiveness.

Page 48 and onward in our sustainable investing report, which is online, goes through all the reasons why we think gender diversity is a really important issue for company performance. We've analyzed this from a quantitative point of view. We've done meta-analysis. We've done our own quant portfolios, and we believe this is a real issue.

Therefore, we began voting against this a couple of years ago in Canada. We've extended it now across the world, and we've been pretty pleased. It has been a real success, not just us but all the movements. It's just terrific to see that real progress has been made in Canada. As of December, 30.4% of TSX 60 board members were women, in the TSX composite, 27.6% are women. So progress has been made—not full progress, but it's still terrific—and we hope that continues around the world.

To the specific question of what excuses we will accept, it's not an excuse that we can't find anyone or there's no expertise in this sector or anything. It may be that there is a particular board limit and there will be turnover in a year or two and therefore they have their eyes on doing it at that point and it's just impractical for them to do it that year, for example. But we're not taking the weak excuses as an answer.

● (1705)

The Chair: Thank you.

We have Mr. Morantz, followed by Ms. Dzerowicz, who will split with Mr. McLeod.

Mr. Morantz.

Mr. Marty Morantz (Charleswood—St. James—Assiniboia—Headingley, CPC): Thank you, Mr. Chair.

I don't have many questions. We've covered a lot of really good ground today.

I want to ask about the increase in the employer-employee contributions. I don't think we've touched on that yet.

From 2018 to now, they've gone up by about 30 basis points, from 495 to 525. Could you describe the reason for that, and whether you anticipate that this is a trend now and we'll be seeing regular increases? For years, it was at 495 and was stable at that rate.

Mr. Mark Machin: That refers to the reform and the legislation that was passed in 2016-17 for the additional CPP. That was a decision taken by provincial and federal governments. Back then, legislation was passed to increase the contribution rates.

Those will gradually increase, both the rate of the contribution required on the earnings covered by the CPP and the upper limit on the covered earnings. That upper limit increases between 2023 and 2025, so it's being gradually phased in over that time period.

Our job is to manage the money that comes from that. We describe in the annual report on page 21 how we do that, how we're —

Mr. Marty Morantz: I understand that.

These increases were legislated. Were they based on actuarial advice?

Mr. Mark Machin: I would presume that was the case, but it's not our realm to get into the policy changes; our realm is to invest the money that comes to us. Clearly, there's an increased benefit that comes from that increased contribution. The goal is that, over time, the maximum benefit will rise from about 25% of pensionable earnings to 33% of pensionable earnings, once this all plays through.

Mr. Marty Morantz: I was curious about the rate of return. The Canadian dollar has been declining. It's gone up a little bit lately, but it's weakened significantly over the last.... If you go back to 2012, I think it was at par. When you're calculating your rate of return overall, year to year, do you take into account the value of your foreign assets vis-à-vis the value of the Canadian dollar?

Mr. Mark Machin: One of the benefits of diversifying the portfolio globally is that hedge, if you will, so when the Canadian economy is being hit hard on a relative basis, the foreign assets to some extent will be valued higher, and vice versa. When the Canadian economy is doing well, then contributions in employment are high, which offsets any relative weakness from the international economy.

It's one of the reasons we don't hedge the exposure to foreign currencies, because we think there's a natural hedge there in terms of the contributions versus where the portfolio is based. So yes, that's one of the things we think about.

Mr. Marty Morantz: Okay, thank you.

The Chair: We'll turn to Ms. Dzerowicz, who will be followed by Mr. McLeod.

Go ahead, Julie.

Ms. Julie Dzerowicz (Davenport, Lib.): Thank you so much, Mr. Chair.

I just want to say a huge thanks to you, Mr. Machin, and your team for your excellent work in managing what I think most agree is a “best in class” and well-run pension fund. You've done a wonderful job in responding to a wide range of questions today, and most of my questions have already been asked.

There is one area I want to delve a bit more into. The chair raised some very important questions around investment in oil and gas companies. You provided a wonderful response around the fact that we're going to need some traditional oil for many years to come, but climate change is still happening. The world will be looking at all companies to reduce their emissions.

Mark Carney, a recent Bank of England governor, in one of his last speeches said, “Companies and industries that are not moving towards zero-carbon emissions will be punished by investors and go bankrupt”.

You've mentioned that every company CPPIB invests in has to show that it is disclosing risk posed by climate change to its business. Do you think that we also have to start moving towards asking businesses to show how they're moving towards zero-carbon emissions?

● (1710)

Mr. Mark Machin: Thank you for the kind comments at the beginning. I really appreciate them. I'll accept them on behalf of my 1,800 colleagues who do all the hard work.

With respect to Mark Carney and his work on climate, we were one of only two pension funds involved in the task force for climate-related disclosure, chaired by Michael Bloomberg. The purpose of that is to make sure, as you say, that we really understand what the risks are in our portfolio. Otherwise, it's extremely hard, when you have thousands of company positions, to really understand what we own in the portfolio and what the risks are. That's something that has been extremely helpful as more and more companies adopt these standards and we ourselves adopt the standards.

With respect to moving toward requirements for people to move to zero emissions, I think it's possible that it's something that people will require over time. I think the U.K. government is moving to being carbon-neutral by 2050. I think an increasing number of governments are moving toward that type of scenario. I think energy companies generally around the world do see that this transition is happening. They want to be ahead of it, in many cases. One thing Mark Carney has said is to just be careful about cutting off funding to these companies when they are actually funding transition. It's all very well to exclude everything from your portfolio, but then you end up not actually funding the transition. Some of these companies are real experts in this area. They can actually make massive investments in renewable power and manage that transition. That's certainly something that we see around the world.

I gave the example earlier of a joint venture with Enbridge in Europe called Maple Power. Together, we are making very substantial investments in offshore wind in Europe. We're very happy with that relationship and those investments.

The Chair: Thanks to you both.

The last questioner is Mr. McLeod.

Go ahead, Michael.

Mr. Michael McLeod (Northwest Territories, Lib.): Thank you, Mr. Chairman.

Thank you to the witnesses for appearing and for their very interesting information. I also want to thank them for their engagement with northern governments. I think that's really good to see. People are quite happy to have that discussion with them and their making themselves available.

On indigenous hiring, I'm not satisfied that the numbers are where they should be, but you're working at it, you have good programs in place, and that's all I can ask.

I guess the biggest piece everybody wants to hear about is that the fund is sound and secure. It was interesting to see how well the fund was doing in December and then to watch how things affected investment during the pandemic and the ability to bounce back. Has the employment situation, with the great employment numbers that we were seeing, helped? Has that impacted how the investment has been doing—before and now?

● (1715)

Mr. Mark Machin: I'll say one quick thing on the territories. I was thrilled to get to up the Yukon earlier this year. We have 88,000 residents in the territories who serve as contributors and beneficiaries, so we see that as important. I was hoping to get to the Arctic Indigenous Investment Conference in June in Nunavut, so I was disappointed, but hopefully there will be next year. It was terrific to make that meeting in Yukon and meet with a number of indigenous leaders, and to speak at Yukon College's School of Business and Leadership. We're working as hard as we can to increase the number of indigenous employees we have.

I've forgotten your main question. I apologize.

Mr. Michael McLeod: My main question was around the employment numbers and how they helped.

Mr. Mark Machin: Sorry, yes, it was about the employment numbers. At the moment, we're anticipating that the employment numbers will have a significant impact on the inflows into the fund. Based on our modelling, we expect a very small inflow into the fund this year, and then it picks up rapidly after that. We do hope that as the employment numbers improve here....

It's certainly gone from what could have been a reasonably significant outflow from the fund this year to a very modest inflow to the fund based on the latest employment numbers. It is much more promising than we had previously anticipated. It's still down, obviously, based on what we had previously anticipated the flows into the fund would be, but we do see a rapid rebound in the next year.

Mr. Michael McLeod: Can I just ask one more quick question?

The Chair: We're over, but go ahead.

Mr. Michael McLeod: You mentioned that the fund was doing well in December. That was a record high, right? I thought it was the best in 20 years.

Mr. Mark Machin: The 12.6% wouldn't be a record. We've had higher percentage returns for particular years. We had 18% in at least one fiscal year, but last year was a very strong year. I'd love to say to expect 12.6% in the future, but that would be a little optimistic.

Mr. Michael McLeod: Thank you.

The Chair: Okay, we are going to have to end it there. The minister's on the next panel, and we really don't want to keep him waiting.

Many members thank you for your candid responses. I can tell you, not all witnesses get that kind of reaction from members on this committee. We certainly thank you. Through you, we want to thank all your teams and all your staff for the work that they do. I think your performance record, as evidenced in your report and what you stated today, speaks well for itself. I think Canadians can be proud of the work that the Canada Pension Plan Investment Board does.

With that, thank you again to you both, Mr. Leduc and Mr. Machin. I hope that next time we'll get to meet in person. We are living in interesting times.

We will suspend the meeting for about two minutes while the staff bring the other witnesses online.

● (1715)

_____________________(Pause)_____________________

● (1730)

The Chair: Seeing as we're short on time, we'll call the meeting to order.

Welcome to meeting number 36 of the House of Commons Standing Committee on Finance. Pursuant to the order of reference from the House, we are meeting on the government's response to the COVID-19 pandemic.

We'll be having the minister here today. The biweekly report has been sent to the committee.

With the minister, we have the Canadian Development Investment Corporation, the Canada Revenue Agency, the Department of Employment and Social Development, the Department of Finance and Global Affairs Canada.

We've just had the Canada Pension Plan Investment Board here, and I couldn't help but think of when we were going through the testing of all those earphones that have been sent out to representatives. I hope they invest in the company that sells these earphones, because there are a lot of them going out.

Minister, welcome. It's great to see you in person, at least on the screen. Thank you for coming. The floor is yours.

Hon. Bill Morneau (Minister of Finance): Thank you, Mr. Chair.

Before I begin, I'd like to once again thank the members of the committee for their continued work during this particularly challenging period for all of us.

The pandemic continues, obviously, to have serious economic impacts across Canada. For many Canadians, the pandemic has brought about unprecedented uncertainty: uncertainty about their jobs and their financial security and uncertainty about making ends meet.

Today marks three months since the Prime Minister announced the first elements of Canada's COVID-19 response plan. From the very beginning, we've maintained an unwavering commitment to supporting Canadian households and businesses. We've rolled out measures for workers and businesses across all sectors and for employers of all sizes. We've worked and are continuing to work closely with local, provincial, territorial and indigenous partners to minimize the health, economic and social impacts of COVID-19.

Now, three months into the crisis, there are some encouraging signs in Canada that the spread of the virus is slowing down. Many provinces and territories in Canada are beginning to cautiously reopen their economies, something that the finance ministers are telling me in my weekly calls is really beginning across the country, but we're not out of the woods yet. COVID-19 continues to pose significant risks to Canadians and, of course, to our economy.

[*Translation*]

That is why our government continues to take action to reduce the impact of COVID-19. Our goals remain the same: to protect Canadians, support Canadian workers and businesses, and support our communities to ensure that Canada is ready to bounce back when we emerge from this crisis.

I'd like to highlight some of the measures we've recently announced.

Earlier this month, the Prime Minister announced that funding for the federal gas tax fund has been brought forward this year. The gas tax fund is a permanent source of funding that is provided to the provinces and territories. The provinces and territories then disburse the money to municipalities to support various local priorities.

Usually, the federal government transfers the money in two instalments, one during the summer and the other a few months later. We know that this year the municipalities need the money now so that they can deal with the crisis caused by COVID-19.

● (1735)

[*English*]

In the next few weeks, $2.2 billion from the federal gas tax fund will go to Canadian municipalities: money that will help municipalities move forward with infrastructure projects that will improve quality of life, help restart local economies and create good jobs. We understand that more will be needed to help municipalities, as many are facing significant COVID-19-related financial pressures, but we know that this is an important first step. We'll keep working with provinces and territories in order to help support municipalities.

[*Translation*]

As the provinces and territories gradually get their economies back on track, our top priority remains protecting the health of Canadians. That is why we have begun negotiations with our provincial and territorial counterparts to ensure that any reopening takes place while protecting the health of Canadians and minimizing the risk of transmission of the virus.

In particular, we are working with the provinces and territories to ensure that all Canadians can have paid sick days. People need to be able to stay home if they have symptoms of COVID-19 without worrying about how they're going to pay their bills.

We also continue to ship equipment across the country, such as surgical masks and gloves, and provide support to the provinces and territories in testing for COVID-19.

[*English*]

As we continue our discussions with our provincial counterparts to make sure Canadians can get back to work safely, we'll also be focused on the following areas: testing and contact tracing; making sure there is personal protective equipment, so Canadians are safe on the job; support for child care; support for vulnerable people, like those in long-term care facilities; and support for cities and municipalities. We know we all need to work together.

Throughout the pandemic, one thing has been clear: we've all been touched by this crisis.

Last week, the Prime Minister announced that seniors eligible for old-age security in the guaranteed income supplement will receive their special one-time tax-free payment during the week of July 6. Seniors eligible for the OAS pension will receive a payment of $300. Those eligible for the GIS, who are the most vulnerable, will receive an additional $200.

The pandemic has also heightened and highlighted the additional challenges already facing indigenous peoples in our country. We're working with first nations, Inuit and Métis communities to address their specific needs. Since we last met, our government has announced additional funding to support indigenous peoples. This includes an additional $75 million in supports for organizations that provide services to indigenous people in urban centres and off reserve, and an additional $650 million to support communities on health care, income support and new shelters for women.

This builds on measures already announced to support the public health response in indigenous communities, as well as the support to indigenous businesses and aboriginal financial institutions.

[*Translation*]

The measures to help Canadians that were recently announced, and which I just mentioned, are in addition to the measures that were previously put in place. These are measures that we continue to improve. For example, we continue to improve the Canada emergency wage subsidy. Last month, we proposed that the program be extended to August 29.

In recent weeks, the government has also held consultations with representatives of business, labour, non-profit organizations and charities. We want to see what improvements can be made to the program. The Canada emergency wage subsidy has already helped more than 2.6 million Canadians keep or return to their jobs.

● (1740)

[*English*]

The key objectives of any potential changes to the Canada emergency wage subsidy would be to maximize employment to ensure that the program reflects the immediate needs of employers and to support the post-crisis economic recovery.

Overall, our government's swift and comprehensive actions through the COVID-19 economic response plan are providing more than $150 billion in direct support to Canadians. This, coupled with liquidity support of $85 billion through tax and duty deferrals, represents support equivalent to more than 10% of our GDP. This has put Canada at the forefront of our international peers in the robustness of our response. We've done this because we believe that, by investing in Canadians now, we stand well prepared for success in the economic recovery to come.

While there is reason to be optimistic, we must all continue to take precautions to control the spread of the virus. As provinces, territories, municipalities and businesses begin to gradually reopen, we'll stand ready to support them to make sure Canadians remain safe and supported. Our government will be there with Canadians every step of the way.

[*Translation*]

I would now be pleased to take questions from the members.

[*English*]

The Chair: Thank you very much, Minister, and thank you for the work you and your team do. We know you must be tired. There have been long days and short nights for you folks, I expect, so thank you for your efforts.

The minister has to stop at 7:15 or 6:15, your time.

Hon. Bill Morneau: You almost got me there.

The Chair: We'll make a hard stop at 6:15, your time.

We'll go to five-minute rounds. We'll start with Mr. Cumming, then Mr. McLeod, Mr. Ste-Marie, Mr. Julian, Mr. Cooper and Ms. Dzerowicz, and that will end it.

Mr. Cumming, the floor is yours.

Mr. James Cumming: Thank you, Mr. Chair.

Thank you, Mr. Minister, for appearing again in front of us today.

In my 30-some years in the private sector dealing with uncertain times, and there were many of them, I was always able to produce some kind of a budget or a forecast. In fact, I just found out that Parliament has always received a budget or a forecast in the last 100 years.

Can you tell us today when we can expect an economic forecast or budget?

Hon. Bill Morneau: I completely appreciate and understand the importance of continuing to provide information to Parliament and to Canadians.

The biweekly report that you received in contemplation of this meeting, of course, details all of the measures that we've put forward. We are working to make sure that we keep updating that so that people have a very good understanding of the measures that we've put forward. Of course, we do intend to give a better understanding of our economic base. That will be able to be done as the economy gets more stable and as we get into a better position to make those understandings well known to Canadians.

Mr. James Cumming: We're asking businesses to forecast their revenues to be able to apply for programs. We're asking them to deal with their spending and be able to understand how their businesses are operating. You have a very talented crew here who are on this call with you today.

When can that team put together a full forecast or full budget so that people can see exactly where we're going and get some certainty about what's going to happen in the future?

Hon. Bill Morneau: I think the challenge that we're all facing is that we are looking for certainty at a time where it's very difficult to deliver certainty. You will have seen this week that the OECD put out a forecast, but in fact, what it said is that it couldn't give us a forecast so it gave out two separate scenarios.

We're going to continue to deliver for you and for Canadians an understanding of the investments. As the situation is stable enough to provide better and more comprehensive information, we will be coming forward with that information.

Mr. James Cumming: You said that you're still looking at changes to the wage subsidy to better serve the businesses that are out there. I spoke to a company today, Canadian Benefit Providers. They have a flow-through on the insurance costs, but they really get paid through administration fees. Their top-end revenue has stayed quite high, but of course, their administration fees have gone way down. Overall, their revenues have not gone down enough to apply for the CEWS. It strikes me. They have a massive payroll, and they're a great company, but they are falling through the cracks.

Is that something your department will look at trying to revise?

● (1745)

Hon. Bill Morneau: First of all, I appreciate your providing that input from that company. We've been trying to get insights from businesses and participants in the economy from across the country. We have had, among the many recommendations or ideas, a suggestion that, for some businesses, the revenue cut-off at 30% puts them at one side or the other of that line. That's something that we've heard. It's something that we are certainly considering as we think about next steps in the wage subsidy. I'm hopeful that we'll have more information on that in the near future.

Mr. James Cumming: The oil and gas sector continues to wait. I see on the BDC site that the details for that program have yet to be announced. It was suppose to be days. Then it became weeks. Now it comes into months. I know that you're fully aware of the struggles in that sector.

When can it expect the details to be announced?

Hon. Bill Morneau: Well, thank you for that. We've been trying to support the energy sector—in fact, all sectors—with access to financing across the country. Obviously, the emergency business account has gone out across the country to small businesses. That's been very successful. With regard to the BCAP that was specifically designed for the energy sector, the final terms and conditions, I understand, are almost ready. We wanted to make sure and they wanted to make sure that the reserve-based lending approach that's so important for that sector was appropriately tailored.

I'm encouraged to hear that is imminent. Of course, the large employer emergency financing facility is open. We are seeing firms come forward to that as well.

I'm pleased that we're moving forward on all these fronts.

The Chair: Ask your last question, James.

Mr. James Cumming: Minister, with regard to the CEBA program, there were changes that were announced several weeks ago. They still haven't been executed. Specifically, those with regard to personal chequing accounts still haven't been executed.

When can we announce to small businesses that these changes will be in place so that they can access those funds that they desperately need?

Hon. Bill Morneau: First of all, I think we have to acknowledge how successful this program has been in getting support out to small businesses with more than 650,000 loans. That's very important.

Of course, EDC has said that there will be an ability to enlarge the companies that are eligible. I think that will be out in the coming days. Then there will be additional facilities through the regional development agencies.

We are expanding the range of businesses, as we've said. It is imminent. We're very pleased to see that the support has gone to such a broad range of businesses across the country.

The Chair: Thank you, both.

James, I have the same concern on the personal banking account, but I have sent people to the regional development agencies, and it has gone through on the personal banking account there. That's just a point of information for you.

Mr. McLeod.

Mr. Michael McLeod: Thank you, Mr. Chair.

Thank you to the minister for appearing in front of us once again. I also want to say thank you to the minister and his cabinet colleagues for providing very good communication with the Government of the Northwest Territories and other northern governments.

I'm also very happy to report that we've had no cases of COVID-19 for over a month now, and our territories are beginning to safely reopen. However, the economic picture is not as positive; there's a lot of uncertainty about jobs. I've joined my three northern colleagues in the Senate, as well as many municipal, territorial and business leaders in supporting greater flexibility for programs like the wage subsidy to reflect the unique nature of our region.

Is the government prepared to make much-needed improvements to ensure that northern businesses are able to access these emergency programs?

Hon. Bill Morneau: Thank you. I think it's an important question.

We are not looking at making changes to the wage subsidy that are specific to any one sector or any one region, necessarily. We're trying as best we can to consider the issues around the program that have come to us through these consultations. They include a number of areas, and we're trying to reflect those areas to make sure the support for employment and for businesses to get through this time is appropriate. I suspect the kinds of issues you're hearing have been reflected in our consultations, and I'm certainly very hopeful that businesses in northern Canada and across the country will see that our continuing support for businesses and for their employees will be a positive way for us to get through this crisis.

● (1750)

Mr. Michael McLeod: In the north I think we have a number of challenges that the rest of the country doesn't face. I'm hoping that as the government rolls out its recovery supports, like the $14 billion announced last week to help reopen the provincial and territorial economies safely and carefully, the government and you would consider delivering these funds on a base-plus per capita allocation, which is a lot better for us. We have small populations; we have a significantly higher cost of living and doing business than the rest of Canada. Would you look at that? It's been done historically with other programs.

Hon. Bill Morneau: I know that, and I think that has been one way that programs have been delivered. We're trying to come up with an approach that recognizes the challenges the provinces and territories are going to face in the restart. By definition, those challenges are going to have some element of base costs, as you would probably identify, so we're thinking about things like testing and tracing, which will require some sort of human resource capability in case there's a second wave. We are thinking about ensuring we have the capacity in our health care system in case there's a second wave. Elements of that will be different in different parts of the country, and I think that's appropriate.

We're expecting to work together with the provinces and territories to get to what we hope will be an outcome that allows us to be an important partner in getting the restart done safely. That includes in the north, where the challenges are different, as you say. The distance to provide health care is obviously challenging in the north, the infrastructure that might be used for testing is going to be more challenging in some cases; we recognize that. There are going to be different issues in different parts of the country, and as a result, those discussions will have to be somewhat tailored to each situation.

Mr. Michael McLeod: A lot of what happens in the area of job creation is going to be what we announce in the next while. We've made significant announcements in the north; a lot of these projects have not hit the ground yet. We've also announced budgets that we have not seen moved forward, for example, the northern trade corridors. The money's been announced for the north, there has been no call; we don't have a call; we don't have projects identified. Because of our seasonal construction season and winter roads and all these things that impact the ability to do construction, we need the calls to come out early. We still haven't seen anything on the northern trade corridors. Could we see that move forward fairly quickly?

Hon. Bill Morneau: I think I will have to defer that question. I'd be happy to have my colleague, Minister McKenna, get back on the specific nature of the funding for infrastructure.

Obviously there have been some things that, by necessity, have been delayed during the course of the crisis. We want to see funding move forward, because that's why we've put it there. We want to see funding move forward that will enable important infrastructure to get done. That's an objective of our government that continues.

Especially in the north, I think the economy has opened up enough so that the construction can go on, from what I hear from the finance minister in your jurisdiction, so I would think that would be an objective that we would certainly share, but I don't have any specific insights for you on whether things that haven't gotten done before are not happening for a particular reason. I would be happy to have Catherine McKenna get back to you.

Mr. Michael McLeod: Thank you.

The Chair: Thank you. If we could do that, that would be great.

Mr. Ste-Marie is next, followed by Mr. Julian.

● (1755)

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

Thank you, Minister, and thank you for being here.

I would also like to greet all the teams from the different departments who are with us at the end of this afternoon.

Minister, this morning, I met with some representatives of the creative sector such as stage workers, musicians and technicians. This sector has ceased its activities and it will be a very long time before it starts up again. Almost all of these workers are self-employed workers who are not eligible for the Canada emergency wage subsidy.

They are asking you to do three things: first, to recognize the importance of the creative sector; second, to extend the Canada emergency response benefit, at least for sectors like theirs, because those who are living this reality have nothing else; and third, to insert a mechanism to allow them to qualify for the Canada emergency response benefit so that they don't lose everything if their income exceeds $1,000 a month.

What would you have to say to them?

Hon. Bill Morneau: I know that the creative sector is very important. I also know that a large majority of these people are self-employed. For that reason, I know that the Canada emergency benefit is very important to them. We want people to know that we are working on an approach to protect them and ensure they have enough money during the COVID-19 pandemic.

I understand that some people are eager to take advantage of the Canada emergency benefit. We are now looking at how the programs can best protect people and businesses. The Canada emergency benefit, wage subsidies and our employment insurance system must work together to ensure our near future. At the moment, I am very concerned about this issue, and we will have more information about it soon.

Mr. Gabriel Ste-Marie: Thank you very much.

My next question is on a completely different subject.

When you make eligibility for the Canada emergency business account more flexible, it would be important to allow small businesses that operate with the owner's personal account to have access to the program. The number of refusals on the basis of this criterion alone would be several hundred. In addition, Quebec would be more affected than the other provinces because it is home to 28% of the independent small businesses in Canada.

I fully understand the argument that it is not possible to exercise the same control over personal accounts as over business accounts to combat money laundering. In my view, the solution in this regard would be to simply ask these companies to open a corporate account so that they can have access to the emergency account program.

As part of these more flexible criteria, could you allow small businesses with personal accounts to take out a loan under the program, provided they open a business account? This would mean removing the requirement that they had to have a business account already open at the start of the pandemic.

Hon. Bill Morneau: During a crisis, it is important to consider interesting ideas, and your suggestion is one of them. We are currently looking at how we can broaden the eligibility of businesses for this emergency account.

As you know, 650,000 companies already have such an account—so it went very well.

Our analysis of the situation will allow us to say more about this. I am confident that we will be able to announce a broadening of this emergency account next week. If more can be done, rest assured that we will take your suggestion into account.

Mr. Gabriel Ste-Marie: Thank you.

It would be amazing to see this change implemented next week.

I'd like to ask one last question.

Hon. Bill Morneau: I haven't said exactly what we're going to have, but I'm listening.

● (1800)

Mr. Gabriel Ste-Marie: That's fine, thank you.

I have another quick question about the economic update.

We've been asking you questions about this for a month, but you always give us the same answer. However, according to the Bloomberg news agency, a budget update could be in the works for the summer.

Can we expect you to table it on July 8, when we sit in the House?

Also, why inform Bloomberg before you tell the MPs about it?

Hon. Bill Morneau: I can assure you that we have not yet decided exactly what the next steps will be, because the economy is still unstable at the moment.

We need to be very clear about our investments and forecasts. As I said, when the situation is more stable, we will have more to say about it. In my opinion, I do not have enough information to present a complete plan.

Mr. Gabriel Ste-Marie: Thank you.

[*English*]

The Chair: Thank you, both.

Mr. Julian.

Mr. Peter Julian: Thanks to our witnesses for being here today. We hope your families are safe and healthy.

Thank you, Mr. Morneau, for coming back yet again to the finance committee. Through this crisis, you've been very available not only for meetings with the finance critics, but also with the finance committee. The meetings are not always easy, but we appreciate your availability, and certainly your ear.

My first question is very simple. We've been told by OSFI that, in terms of liquidity support, Canadian banks have received access to about $750 billion in liquidity support. That's three-quarters of a trillion dollars. As you know, they have made $5 billion in profits thus far during the pandemic, but we are hearing from small businesses that can't access credit. We are hearing from people who are seeing their lines of credit and their credit card numbers going up. There are penalties and fees being imposed by the banks, and folks are paying interest charges that are, frankly, unreasonable in a pandemic.

My question is very simple. With all this largesse, this $750 billion in liquidity support, why have you not imposed any requirements on the banks to actually provide support to people who are trying to survive this pandemic?

Hon. Bill Morneau: Thank you for your continued focus on how we can support Canadians.

I would say that in fact we have pushed hard for the banking sector to support its customers, and of course that means supporting Canadians. We worked hard to encourage the banks to get to an ability for those in challenge with their credit cards to defer their credit card payments and to take down the interest charges. In most cases, they're now half of what they were before the pandemic. I think that was certainly a positive step for us working together.

I think in terms of the liquidity that we put in the market for banks to use, I'd just like to give you some statistics.

According to the Bank of Canada, total business financing growth increased to 10.7% in April from 7.4% in March. Loan growth was very strong at 30%, driven by non-mortgage loans. These figures don't include the now over 665,000 businesses that got the CEBA loan. I'll also tell you that this week the big six banks reported payments deferred on $67 billion worth of loans.

Mr. Julian, I will always be working hard to push the banks to make sure that they're supporting their customers. We are absolutely expecting everyone to play a part in this challenge.

The money we've put into people's hands directly, supplemented by those loan deferrals, means we've very much filled an important gap in the economy, but there is more to do. We will be expecting all participants to do more to help us get through this.

Mr. Peter Julian: I would say and suggest that with all the loan guarantees being offered, we've socialized the risk and continue to privatize the profit, but I'll move on to my next question.

For people with disabilities, for one one-thousandth of what is being provided to Canada's big banks, every person with a disability across the country could receive a small benefit of $600 to weather this crisis. There was a misfire with the government's announcement that it would only apply to people who have the disability tax credit, which means, largely, people with disabilities who have a taxable income. However, the poorest of the poor among people with disabilities are not covered, yet within the Canada Revenue Agency you have access to information on those who receive the CPP disability, those who use alternative formats through disabled access to CRA, and through the T5007, access to who is getting disability supports through the provinces.

Why are you not extending the benefit to every person with a disability?

● (1805)

The Chair: Peter, that's the last question.

Mr. Minister.

Hon. Bill Morneau: Mr. Julian, I appreciate your bringing this up. We were extremely disappointed that we were not able to move forward on the measure that was going to provide $600 to people with disabilities across the country, a very large number of people with disabilities.

Mr. Peter Julian: It would be 40%.

Hon. Bill Morneau: I think you point out appropriately that there are different ways that different parts of the economy look at people with disabilities. Obviously, we came up with an approach that we thought would have a very significant impact on a very large cross-section of people experiencing particular challenges. I'm just hoping that we can get this back on track, because to me it's unacceptable that we can't actually deliver on what we're trying to deliver for people with disabilities.

Mr. Peter Julian: However, is it—

The Chair: Thank you, both. Peter, we're over the time.

We're turning to Mr. Cooper, and Ms. Dzerowicz will wrap it up.

Mr. Cooper.

Mr. Michael Cooper: Thank you to the officials, and thank you, Mr. Minister, for appearing, not just today, but for providing regular updates before our committee. It's appreciated and important.

I want to ask you a question about the Auditor General. Both the outgoing Auditor General and the incoming Auditor General have stated publicly that the Office of the Auditor General is underfunded by approximately $11 million. As a result, performance audits have been reduced in half over the last number of years, and due to the government's COVID expenditures, nearly all non-COVID-related audits will be put off this year.

What is your government going to do to remedy that and provide the Auditor General with the $11 million she needs to do her job?

Hon. Bill Morneau: First of all, Mr. Cooper, let me thank you for bringing up the Auditor General. I'm obviously very pleased that we've been able to appoint the new Auditor General. I think she will do a spectacular job. We know that she has significant experience and she'll bring that experience and a fresh look at what is a very important parliamentary role.

As you probably also know, we have increased funding for the Auditor General over the years. We've increased the number of positions in the Auditor General's office, or increased funding so they can increase the positions. I understand that the number of positions has been increased by 38 people.

What's incumbent on us is to work together with the new Auditor General to make sure that we ensure the office has the requisite ability to perform the function, so I will commit that it's an ongoing goal we have and we'll work together with her to do that.

Mr. Michael Cooper: Mr. Minister, in light of your commitment to working with the Auditor General, when can the Office of the Auditor General expect to receive the funding?

Hon. Bill Morneau: She's now new in her role, and that is appropriately something we should work together with her on to get to the conclusion that ensures the office has the support required and the appropriate level of support to do the function.

Mr. Michael Cooper: Well, the office doesn't have sufficient support, not when performance audits have been reduced in half, not when almost all non-COVID-related audits have been put off, and indeed the outgoing Auditor General said they'd probably need another year to deal with the COVID-related expenditures alone.

Thus, we have a government right now that is spending half a trillion dollars and the Auditor General is asking for $11 million.

In regard to half a trillion dollars in spending, $11 million constitutes a rounding error. What's the holdup?

Hon. Bill Morneau: First of all, we should be clear with our numbers. The numbers you're throwing around are not accurate. We detailed the investments we're making for the pandemic in the report presented to this committee. You're a very long way off in the scope of those numbers.

I think the frame that we need to make sure the Auditor General has the appropriate resources is an important one. She's been in her new role for a couple of weeks I think, and we will be working with her to make sure there is the appropriate level of funding for the needs of the Auditor General.

● (1810)

Mr. Michael Cooper: Well, your government is spending in total—not new spending—half a trillion dollars, and we're talking about $11 million.

I guess, Mr. Minister, the only reasonable conclusion one could reach about the refusal of your government to adequately resource the Office of the Auditor General is that your government is afraid of being accountable and having a fully resourced Auditor General shed light on mismanagement, including 20,000 unaccounted infrastructure projects, $5 billion in unaccounted infrastructure spending, and a $35-billion Infrastructure Bank that has completed precisely zero infrastructure projects.

Speaking of the failed Canada Infrastructure Bank, I will follow up with you on a question that I posed to the associate minister of finance when she last appeared before our committee. How much did the outgoing president of the Canada Infrastructure Bank receive in the way of bonuses?

The Chair: Mr. Minister, that will be it.

Hon. Bill Morneau: There were a number of things wrapped up in that comment/question.

I think that first it's important to acknowledge that the Auditor General's resources were reduced under the previous Conservative government and we have subsequently increased them. The point that I think you're making is that we should continue to work with the Auditor General to make sure the office is appropriately resourced. I want to confirm, again, that we will do that.

With respect to the Canada Infrastructure Bank, we think it is a very important institution that will enable us to bring more resources into the building of infrastructure across the country. That is critical. We obviously have been very pleased that we got that institution up and running. Some of its projects are already supported, and there are other projects on the way. There has recently been a new chair appointed who has a particular expertise in this area.

This is an institution that I think will have a long-term and positive impact on our infrastructure and on our economy. I'm looking forward to more work that it's going to be able to do in the coming days, months and years.

Mr. Michael Cooper: And the answer to my question—

The Chair: Ms. Dzerowicz, you will wrap it up.

Ms. Julie Dzerowicz: Great. Thank you so much, Mr. Chair.

Thank you, Minister, for being here today.

I was running through the sixth report of the Department of Finance. It's 36 pages long. It's remarkable, very thorough. It reminds us about how much work has been done over the last three months. It truly is a testament to the hard work, the extraordinary work, by you, your team and the Department of Finance. I want to say a huge thanks to you.

My first question is regarding child care. We had an economist come before the committee last week. She told us that there is going to be no economic recovery if we don't figure out how we're going to support child care. Women will not be going back to work if we do not find a way to support child care. She talked to us about household spending accounting for over 56% of the GDP and how women's incomes are critical to maintaining household purchasing power.

My question is, what approach are we looking at to support child care to ensure maximum participation by women in the workforce moving forward?

Hon. Bill Morneau: As you know, we've embarked on these discussions with the provinces. We've put $14 billion on the table, which we believe will be important for a safe restart. For us, I think a safe restart means what it means to Canadians, that we need to be able to get back to work in a safe way, one that gives us confidence. Clearly, we will have a challenge over the course of the summertime in particular, because so many of the things that children often do—camps, day cares, child care facilities—might not be fully up. The issue that economist was bringing to the table is real, and we need to work on that. It is, however, different in different parts of the country. Child care is one of those areas in which different provinces have different regimes and different capacity based on what they've built.

We've put money on the table for many things, one of which is to support child care. We are looking forward to working with the provinces to provide that support, which along with the other programs we have, programs like the emergency response benefit, do have a positive impact as well, but we're going to need to find a way to provide that support so our economy can get up and running. Obviously, we recognize that the COVID-19 crisis has had a differential impact on different groups. It has had a more significant impact on young people and on people who are lower earning, and it has had a differential impact on women. That is all important and it's all part of how we're trying to respond to this issue.

● (1815)

Ms. Julie Dzerowicz: Perfect.

I know that our government has announced $14 billion for the provinces and territories for sick leave, child care, and PPE, as well as for transit, so monies that will go be going to the cities. I know we're still in negotiations on that, but how are we going to ensure that the dollars allocated will go directly to each of those buckets? What kind of transparency are we going to be asking for as we're moving forward and delivering the $14 billion?

Hon. Bill Morneau: I think one of the things we have seen during the course of this pandemic, notwithstanding the regular differences in jurisdiction between provinces and the federal government, is a high level of co-operation and understanding that we need to support Canadians. We will need to negotiate outcomes and agree on what we're trying to achieve. We're putting $14 billion on the table, and that's important.

Those negotiations are going on. We should expect there will be different points of view, as there always are. But I think we share the goal and I'm confident we'll get to a conclusion that will make sense for Canadians in those areas, in the testing, tracing and sick leave and child care, and in helping municipalities, places where we know.... With regard to municipalities, if we don't have transit, people can't get back to work. So there's a whole host of areas we need to work together on that are largely provincial jurisdictions, but in which the federal government can provide support.

The Chair: You can have about a 30-second question, Julie, and the same for the answer.

Ms. Julie Dzerowicz: Sure.

Minister, how has the take-up of CECRA been so far? If the take-up hasn't been very big, would we consider other options to support small businesses and their need to pay rent?

Hon. Bill Morneau: First, I would say that we always have to look at all of these programs together. There are many different programs we're helping people with: the CERB, the wage subsidy, the CEBA loans to small business, etc. The emergency commercial rent approach, I'm very encouraged by right now. After many weeks of discussion, we've seen provinces move forward with bans on evictions. That is starting to change the activity between tenants and landlords. We've seen a very significant uptick in applications in the last few days. We're now in a phase where I think there are very encouraging signs that this program can have a big impact on commercial tenants. I'm looking forward to seeing landlords and tenants continuing to work together in making sure people can get through this time, and that's what we're trying to achieve.

Ms. Julie Dzerowicz: Thank you.

The Chair: Thanks, both of you.

I just have a couple of points, Minister. On the economist that Ms. Dzerowicz mentioned, her key line was—I think it has a nice ring to it— that “child care is the secret sauce to recovery”. She explained in her evidence that “the secret sauce to recovery” means that if women got child care, they could get back into the workforce, etc. That has a nice ring to it.

There was a witness on June 4, and if there's one thing I can really congratulate you, the Prime Minister and the cabinet on, it's a willingness to basically change the programs to make them work as new information comes in. I know you're trying to do that with the wage subsidy, but one company that was before us on June 4 was Brandt Tractor—I know that Finance has this information—which employs 3,200 people. Their problem is that they actually bought out another company last year. If both companies were operating on their own, they would both qualify for the wage subsidy, but because they purchased this other company, that affects their revenue, so they don't have required drop in revenues to access the subsidy. They are an example that I know you're trying to fix. They're not the only company in that situation, but I just draw that example to your attention because they were a witness before the committee. They're a strong Canadian company, and they were very worried about their 3,200 jobs. This is in the evidence. I know that it's gone to Finance, but it's in the evidence for June 4.

With that, I again sincerely want to thank you for today, and also for the reports you give us. There is a lot of information. As Julie said, it is really unbelievable the amount of programs that have been rolled out and the changes that have been made to them as we roll along. There are still people falling through the cracks—I know that—but we thank you for your efforts. We know that you're working long hours and working hard.

With that, thank you for appearing before us again.

● (1820)

Hon. Bill Morneau: Thank you, Mr. Chair, and thanks for all the participation. We'll see you soon.

The Chair: Now we're turning to the officials. I know that we have a new individual among the mix: Mr. Michael Carter, executive vice-president of the Canada Development Investment Corporation.

I know that members had asked that you appear before the committee on behalf of the corporation. A lot of the other departments are normal. I don't know if you have a two- or three-minute opening, Mr. Carter, that you want to start with, to basically explain what the Canada Development Investment Corporation does. If you do, we'll give you the time. If you don't, that's fine. We'll go to questions.

Mr. Michael Carter (Executive Vice-President, Canada Development Investment Corporation): Thank you, Mr. Chairman. I'm happy to give a short introduction.

The Canada Development Investment Corporation consists of a small group of people who are responsible to the Minister of Finance for looking after assets that the government gets and probably wants to resell. There are examples in the backgrounder.

When the governments bailed out Chrysler and General Motors, the shares in General Motors and Chrysler were given to us to look after and to sell. More recently, when the government purchased the Trans Mountain Corporation, the was given to us because the government does not intend to keep the Trans Mountain pipeline forever and will, presumably, sell it in the near future. More recently, we have, at the request of the government, incorporated the Canada Enterprise Emergency Funding Corporation, which is to carry out the LEEFF program, the large employer emergency financing facility program.

Thank you for inviting me to the committee. I'd be happy to field any questions on that.

The Chair: I will go through the list of questioners. We will start the five-minute rounds with Mr. Morantz, then Ms. Koutrakis, Mr. Barsalou-Duval and Mr. Julian.

Before we start, though, committee members, this is something I should have mentioned earlier. When we discussed the steering committee report the other day, I think we established a certain deadline for witnesses for the general panel coming up. We've had to move that deadline up a little tighter, so there will be a second panel on Thursday, June 18 after the bank economists appear. There will be a general panel with general witnesses who have asked to appear, basically. The deadline for parties to have their witness lists to committee will be noon EST on Monday June 15.

Mr. Morantz, you have five minutes.

Mr. Marty Morantz: Thank you, Mr. Chair.

I want to speak to the Global Affairs officials who are here today—whoever could possibly shed light on a question I have.

It relates to an arrangement that's been entered into between Global Affairs Canada, UNICEF and the WHO with respect to COVID-related grants that were issued for projects in Gaza and the West Bank. I'm asking because I just want to make sure that these monies, these Canadian taxpayers' dollars, do not indirectly wind up with organizations that are listed on Canada's terrorist entity list.

One of the reasons it's a concern is that this has happened before. In 2018-19, Global Affairs granted $1 million to UNICEF, and it somehow wound up with an organization called the Union of Health Workers Committees, which is known as an NGO that is linked to the Popular Front for the Liberation of Palestine.

Could you comment on these concerns and provide us with some assurances that this is not occurring and that the proper mechanisms are in place to ensure that Canadian tax dollars do not wind up in these implementing partners that may have links to organizations on the Canadian terrorist entity list?

• (1825)

Mr. Troy Lulashnyk (Director General, Maghreb, Egypt, Israel and West Bank and Gaza, Department of Foreign Affairs, Trade and Development): Thanks very much. I'll field that one. I appreciate the question.

I'd say, first and foremost, that for the two projects you mentioned with the WHO and UNICEF, there are very specific and stringent conditions on that funding and a series of measures that we have put in place to ensure that there is no misuse or diversion of it in the field.

The first point is that these projects are being implemented directly by UNICEF and by WHO, and there are not sub-implementing partners involved. So UNICEF and the WHO are directly responsible for the COVID projects implementation.

Second, for our projects, we have what is called “enhanced due diligence”, which includes a series of measures designed to prevent this misuse or diversion. It starts with very specific anti-terrorism provisions in our grant arrangements. It also includes detailed screening of individuals. On the ground there is very extensive monitoring and site visits. An oversight system is put in place, and we follow that up with detailed audit and evaluation measures so that we can be assured, as you have described, that the funds are used for the purposes they have been designed for, so there is very particular care of the programming taking place in West Bank and Gaza.

Mr. Marty Morantz: Are these new measures in place because of what happened in the incident I described earlier, or were these measures in place when your department provided a million dollars that wound up with the Union of Health Workers Committees?

Mr. Troy Lulashnyk: Yes, we run a significant number of projects in West Bank and Gaza each year. We apply this enhanced due diligence regime and framework to these projects. They have been in place for some time. They are very clearly specified, and we monitor every one of these projects.

Mr. Marty Morantz: If they've been in place for awhile and this incident happened.... I'm not sure if you're familiar with this incident, but I have the ATIP on it; I have a copy of the agreement. In the schedule it talks about the implementing partner being the Union of Health Workers Committees.

If you've had this regime in place and it's so stringent, how can we have confidence that if it happened then under the same mechanisms you're describing, it isn't happening now?

Mr. Troy Lulashnyk: These mechanisms are very stringent and cover a host of activities, from the agreement to the implementation to the operationalization on the ground, to working with the partners, then the audit and evaluation function at the end. They are robust. They are stringent. I am aware of the case you refer to. We have been working with UNICEF, with the other programmers. We have applied this system diligently across the board.

• (1830)

The Chair: Thank you.

Ms. Koutrakis.

Ms. Annie Koutrakis: Thank you to our witnesses this afternoon.

I have two questions, Mr. Chair, and they are both to the Canada Revenue Agency.

Recently there have been debates around the necessity of fines and potential jail time for the small number of people who take advantage of the CERB by submitting fraudulent applications.

Can a representative from the CRA comment on why it is important to include provisions that penalize and prosecute people who abuse the CERB?

Mr. Ted Gallivan (Assistant Commissioner, Compliance Programs Branch, Canada Revenue Agency): I think the first thing to talk about is the word “fraud” and where we would apply these measures and where we wouldn't. People who have made a mistake, people who are confused, will simply be asked to repay the funds. That's not really where we are focused.

We are focused on organized crime organizations, for example, people who have taken advantage of data theft and ID theft. We've heard reports of people who have gone into senior citizens' homes and tried to take advantage of vulnerable Canadians, making claims under those names.

Those kinds of incidents call for tougher measures. We are getting a lot of leads from Canadians. We ourselves have picked up a number of cases where we are concerned. We need our own enforcement mechanisms. Right now we have a number of joint operations with law enforcement, with local police. We would like to have our own powers at the CRA so we can pursue them ourselves.

Again, an important point to make is that these measures are for the people operating at scale or taking advantage of the data of many innocent Canadians.

Ms. Annie Koutrakis: Can you explain what type of mechanisms can be put in place to identify deliberate fraudsters, as opposed to a well-meaning Canadian who is making a mistake?

Mr. Ted Gallivan: Right now the system was set up with controls in place around something like a change in bank account information. We have certain flags right now that are picking up claims or applications for this program by people who just yesterday had changed their direct deposit information. That seems suspicious, so we're able to ask questions. Right now, even without enhanced controls we have a situation like that.

We have other situations where we find one practitioner who has 4,000 clients, and 3,900 of their clients have qualified for the program. There could be an innocent explanation for that, but maybe not. If that person is either inciting fraud or committing fraud on behalf of 3,000 people, we think it's important to have a criminal sanction at the end.

Criminal sanctions that are being sought are to deter people operating at scale, because merely asking them to pay back the money won't have the deterrent effect we need.

Ms. Annie Koutrakis: Mr. Gallivan, do we know how many fraudulent cases there are? Do we have a number on that?

Mr. Ted Gallivan: No, and I think one of the questions, again, is the definition of fraud.

There are a number of Canadians who, in all good faith, applied for this program and are now realizing that they have to pay the money back, and several hundred thousand have already paid it back.

That's not who we're talking about. I can tell you that four or five people who were already under criminal investigation by the CRA and law enforcement for other reasons also chose to engage in CERB fraud. In some cases, their communications are being intercepted, which is why we're aware of it. So there are a number of cases where people who are involved in criminal activity have expanded that activity into the CERB space, and what we're trying to do is to get the authority to respond accordingly.

● (1835)

Ms. Annie Koutrakis: Thank you.

The Chair: Turning to Mr. Barsalou-Duval, Xavier, are you there?

There you are. Go ahead Xavier. Your mike is on.

[*Translation*]

Mr. Xavier Barsalou-Duval: Thank you, Mr. Chair.

My question is for the representative of the Canada Development Investment Corporation.

Due to the COVID-19 pandemic, oil prices have collapsed. As a result, investment in certain sectors will potentially be more difficult, particularly the oil sands. Indeed, the break-even point in this sector is quite high.

Mr. Carter, does this affect Trans Mountain, which is now owned by the Government of Canada?

[*English*]

The Chair: Mr. Carter, I believe.

Mr. Michael Carter: Thank you for the question.

We have two partly related subsidiaries in the energy business.

In one case, the government owns an 8.5% interest in the Hibernia oil field offshore in Newfoundland. It is still producing, and obviously prices are lower, so the revenue is lower, but it is still producing at full steam.

The other company is the Trans Mountain pipeline. The pipeline is full and continues to be full, so COVID has no effect on its business. The expansion of the pipeline is going ahead because it was deemed by the Alberta and British Columbia governments to be an important project, so construction can continue, obviously with all sorts of safeguards for COVID.

[*Translation*]

Mr. Xavier Barsalou-Duval: With regard to additional protective measures, would it be possible to have a cost projection or an update on the costs associated with the construction of this famous pipeline? I suppose it will cost more than was originally planned. Isn't that right?

[*English*]

Mr. Michael Carter: The cost estimate that was produced last January was for $12.6 billion. So far, we don't see any likelihood of an increase in that cost. At present, things are going according to plan, and the pipeline should be completed by the end of 2022. Every indication we have is that the $12.6 billion number is still a very sound number.

[*Translation*]

Mr. Xavier Barsalou-Duval: Thank you for your answer.

I must admit I'm somewhat surprised to hear that costs aren't expected to go up. In fact, certain measures must be put in place, particularly with respect to physical distancing and protective equipment for personnel. These extra precautions must certainly result in additional costs and perhaps even additional delays for suppliers. Workers need more time to complete their tasks and companies are not as productive as they would like.

My next question concerns the Large Employer Emergency Financing Facility. Who will benefit from this program and what are the terms and conditions of the program? I know a decision has been made on this and it will be made public, but can you tell us when the information will be released?

[*English*]

Mr. Michael Carter: Our intention is that as soon as loans are made, we will announce those. I think there is a requirement that the minister puts them to Parliament first—I'm not sure about that—in which case they will go that way. If that is not the case, we will publish them on our website, much the same as EDC does now with its loan portfolio.

The Chair: This will be the last question, Mr. Barsalou-Duval.

● (1840)

[*Translation*]

Mr. Xavier Barsalou-Duval: Thank you, Mr. Chair.

I'm glad to hear that, Mr. Carter, because I think it's important to be transparent.

My last question concerns the air transport sector. I was wondering whether there was any aid planned, or, at least, whether there were ongoing negotiations with companies in the airline industry.

Is the government considering requiring air carriers to reimburse consumers whose flights have been cancelled, even though this is not one of its loan conditions?

I think people would be very upset to see the government helping companies that don't pay back consumers and don't obey the law.

[*English*]

The Chair: I think that would go to the Department of Finance. Is anybody there willing to take that question?

I don't know if it's one that the bureaucracy, the public servants can answer. Does it have to go to the minister? Is anybody willing to take a stab at it?

Go ahead, Ms. Dancey.

Ms. Evelyn Dancey (Associate Assistant Deputy Minister, Economic Development and Corporate Finance Branch, Department of Finance): In respect of discussions with air carriers, of course the large employer emergency financing facility program is available to air carriers that meet the size threshold of that program. In respect of the issue of vouchers, that would be a matter that is discussed outside the context of that program. That would involve government policy, government decision-making, were there to be a movement from a regulatory or other perspective. We wouldn't anticipate that being adjudicated through the lending program.

The officials or the minister best placed, I believe, to comment on that issue would be the Minister of Transport and Transport Canada.

The Chair: Thank you.

We are turning to Mr. Julian, followed by Mr. Cooper.

Mr. Peter Julian: I appreciate all the witnesses being here. We hope your families are safe and healthy.

I have two comments and then five questions. I'll put them all out and hopefully have—

The Chair: You only get five minutes to get the answers in, too.

Mr. Peter Julian: Yes, fair enough.

I have two questions for the Department of Finance and three questions for Mr. Carter.

As a comment to CRA, I'm glad you put that out. These are all elements covered under the Criminal Code already. The police can already do a follow-up when it comes to systemic fraud or people misusing social insurance numbers. I'm glad you have publicly said that. That's very important.

My comment would be that we have publicly available information around the Bahamas papers, the paradise papers, the Panama papers, the Isle of Man scam. No corporation has ever been charged, let alone convicted. I think it's a bit rich to focus on widows and students who may have inappropriately gotten the amount.

My questions are first for Mr. Carter.

You mentioned Trans Mountain. The construction costs obviously have to be revised. I'm a few blocks from Trans Mountain and there's not a single person in the Lower Mainland who believes that the costs will not be anything less than 50% higher than what you're projecting. I think it's about time that Trans Mountain did a revised construction schedule. My question is this: How much did we lose on Trans Mountain, including interest payments last year?

In terms of the LEEFF program, I have two questions. First off, how does CDEV intend to monitor executive bonuses and all of the things that are supposed to be conditions around the LEEFF, such as not to issue executive bonuses? What is the process in terms of LEEFF loan forgiveness? We've seen a lot of loans that have turned into grants and gifts in the past, even in January of this year. What would be the process if a company just wanted their loan forgiven? Is it the finance minister going to the board? Is it the board making a recommendation?

I have two questions for the Department of Finance.

Could I have some clarity around the supplementary unemployment benefits? There is still inconsistency about whether or not somebody on the CERB can receive a SUBP. We're hearing from other ministries that they can't. We heard from Finance that they can.

Last, I have a question on ferries as designated organizations. I'm thinking of BC Ferries. Where are we in designating ferry companies as organizations that are able to obtain the wage subsidy?

Thank you very much.

The Chair: I don't know whether we'll have time to get through it all, but we'll go to Mr. Carter on the first couple of questions.

Mr. Michael Carter: Thank you, Mr. Chairman.

I'll answer them in reverse order.

There is no intention that any loans will be forgiven. Our mandate from the minister is that once we make a loan, we become purely commercial, the same as a bank.

As for the second one, with respect to executive compensation, there are limits put on executive compensation as a part of the loan program, and those will be strictly enforced. They will be attested to by the senior officers of the company and by the directors of the company on an annual basis.

As far as the Trans Mountain numbers are concerned, I don't have them in front of me. Our annual report was put up on our website and was tabled in Parliament recently. I'd be happy to come back to you with a written answer to that specific question.

● (1845)

Mr. Peter Julian: Thank you.

The Chair: If you could, Mr. Carter, that would be great.

I think the other question on supplemental EI benefits would go to Employment and Social Development.

Go ahead, Mr. Ram.

Mr. Elisha Ram (Associate Assistant Deputy Minister, Skills and Employment Branch, Department of Employment and Social Development): Good afternoon.

I think, as we have stated before this committee in the past, the provisions of the supplemental unemployment benefit program that exist under the employment insurance system do not exist for the Canada emergency response benefit. Having said that, there is an exception for up to $1,000 that people can receive from employment or self-employment while they're receiving the CERB, and that can include payments from employers that could be related to a provision under our SUB program. I hope that's clear.

The Chair: Thank you, Mr. Ram.

Is somebody willing to take the question about ferries?

Go ahead, Andrew.

Mr. Andrew Marsland (Senior Assistant Deputy Minister, Tax Policy Branch, Department of Finance): Thank you, Mr. Chair.

I think the question relates to the definition of eligible entity. The legislation effectively excludes corporations that are wholly or substantially owned by the federal government, the provincial government or a municipality. To the extent that a ferry didn't fall into that category, it would qualify to the extent that it does; it would not under the wage subsidy legislation. That's the overall policy. I'm not sure that I understand in terms of where we are on that; that is the legislative framework as it stands.

The Chair: We will have to end it there.

Your point, Peter, is that BC Ferries isn't eligible, correct? I'm not quite understanding here.

Mr. Peter Julian: My point is that BC Ferries has applied to be a designated organization in the same way that we have specialized schools that were designated and are able to obtain the wage subsidy program. BC Ferries has done the same thing. Our understanding is that an application had been made to make it a designated organization, and I understand that the answer is that this has not been approved.

The Chair: It's information noted, and Mr. Marsland and others can take that back.

We turn now to Mr. Cooper, who will be followed by Mr. Fragiskatos.

Michael.

Mr. Michael Cooper: Thank you, Mr. Chair.

I want to ask a couple of questions about the LEEFF program.

First of all, the minister, in his testimony before the committee earlier today, indicated that there had been some uptick. I am curious to know what those figures look like in terms of the applications.

Mr. Michael Carter: I think the minister was actually referring to another program.

In terms of our program, we've been open for business for less than three weeks now. We have received a few dozen inquiries. It obviously takes time to get from an inquiry to an application to making a loan. We have not yet made any loans.

I wouldn't expect that we would make any loans for another few weeks at least because the negotiation of those kinds of loans does take some time. It requires the co-operation of other lenders because, as part of our security requirement, we want to be able to share up to 20% in the security, which will require the other lenders to agree to that, which doesn't happen overnight.

● (1850)

Mr. Michael Cooper: Have there been any applications?

Mr. Michael Carter: Yes.

Mr. Michael Cooper: Roughly how many?

Mr. Michael Carter: It's around 10 at this point.

Mr. Michael Cooper: That's all.

In terms of some of the eligibility criteria, is a company required to sign onto the recommendations of the Task Force on Climate-related Financial Disclosures?

Mr. Michael Carter: We have requirements in the term sheets that companies file the information on what the government wants companies to do in relation to how they get to neutral carbon emissions by 2050. This is a process that securities industries and the government are trying to get all companies to do. We're making it mandatory for companies that borrow money.

Mr. Michael Cooper: One of the concerns that I've heard about the program is the presence of a government representative on a board. Can you speak to when that observer would cease to be present? Would it be upon the repayment of a loan?

Mr. Michael Carter: We have a right to appoint an observer. I think in practice we would probably not appoint an observer in most cases. I think it's there as a backup in case we have some concern about the particular company.

Back in 2009-10, the American government had a program for the U.S. banks called TARP . They had the right to appoint an observer. In practice I don't know whether they ever exercised it, but if they did, they certainly didn't exercise it very often. I anticipate we will be in a similar situation.

Mr. Michael Cooper: What would be the circumstances or parameters upon which an observer would be appointed?

Mr. Michael Carter: We haven't worked those out yet. Most loans would not be problematic. If there was a problematic loan, we would want to look at what was causing those problems and we might want to take some steps, such as appointing an observer.

The Chair: You have one last question, Michael.

Mr. Michael Cooper: Could you provide some clarity with respect to what constitutes having significant operations in Canada for the purpose of qualifying?

Mr. Michael Carter: It is not something you can put an absolute hard number on. ISED is doing sector reviews as part of this process, and I suspect ISED will have things to say in that area. It's outside of our area.

The Chair: With that, we'll move to Mr. Fragiskatos. We'll then have a couple of minutes each for Mr. Cumming and Mr. Fraser.

Mr. Fragiskatos.

Mr. Peter Fragiskatos: Thank you, Mr. Chair.

Thank you to the officials for appearing yet again today. It's very much appreciated.

My question relates to CEBA and the inability of individuals who use a personal account to access it. I'm trying to understand why that has been an issue. What is the challenge with personal accounts? Why are they seen as problematic? I'm just looking for an answer on that.

The Chair: Who wants to take it?

Mr. Halverson, go ahead.

Mr. Soren Halverson (Associate Assistant Deputy Minister, Financial Sector Policy Branch, Department of Finance): The issue with the personal account has to do with essentially what is referred to as knowing your client. When a business sets up an account as a business bank account, the financial institution they deal with will go through a vetting process. They'll be looking at various websites from an anti-fraud, anti-money laundering perspective, looking at the specific name of that business, looking at the articles of incorporation, looking at the beneficial owners and any connections that business might have to malfeasance. It is the responsibility of the financial institution to have a very good fix on what that entity is.

It also knows that whatever transactions are happening in that account are happening specifically in connection to the business activities. Again, from a money-laundering perspective, you have a clear understanding of the cash flows and the relationship they have to what are specifically business activities.

As you move to a personal account and individuals who are conducting business from a personal account, a couple of things happen. One is you simply do not have the same association with the business name as does the financial institution that has gone through the vetting process. The process they go through in order to get themselves comfortable with an individual involves a considerably more limited degree of scrutiny.

The other thing is that if you're looking at the account from a transactions perspective, what you're likely to find is that there are commingled transactions, where somebody may have been paying for a family dinner and then perhaps on other occasions they're using the account for activities that are very focused on their business purposes. It becomes, for practical purposes, impossible to disentangle those, which just goes to not understanding that entity quite as well.

When it comes to the Canada emergency business account program, because the program was designed to move very, very quickly to make funding available to its recipients, it had to rely on certain points that were very, very easy to validate. That was one of the critical elements of its success in moving as quickly as it did. It was really for that reason that, among other things, it needed to rely on the fact of that existing business banking account.

● (1855)

Mr. Peter Fragiskatos: Thank you. I appreciate the technical reasoning.

I asked about that, because I have heard from a number of constituents who use their personal account that they've obviously had difficulties obtaining the support of CEBA, and they need it right now. I know this matter is being looked at. The minister has been very good on this and is seized with the issue, but I raise it on behalf of constituents, because they have worked hard. It has made very good business sense for them to have a personal account rather than a business account. They could not have predicted COVID-19. They could not have predicted the requirement that our government put in place with respect to CEBA privileging the business account over the personal account. I just raise it because I have heard it a number of times in the constituency. However, as I said, the minister has been quite strong on this.

We as a government continue to adapt to fill in the gaps. We are flying the plane and building it at the same time.

There is something else I want to ask, and this is for any official who wishes to take it.

You would, of course, have seen the recent changes that were introduced by the CMHC when it comes to mortgage rules, and specifically the lending requirements that are in place when it comes to securing CMHC support for insuring mortgages. To what extent is the Department of Finance concerned about household debt and its potential negative impact on the economy?

I know this has always been a concern. It's been a concern in finance. It was a concern on the part of the former governor of the Bank of Canada, and that was pre-COVID-19. With COVID-19 and its impact on the economy, I wonder if anyone from the Department of Finance could speak to what this all means for household debt levels that have seen Canadians already in a very difficult position when it comes to making mortgage payments.

The Chair: Mr. Leswick.

● (1900)

Mr. Nicholas Leswick (Assistant Deputy Minister, Economic and Fiscal Policy Branch, Department of Finance): Obviously, this has been highlighted as a key risk to the Canadian economy going into COVID-19. I think the fundamentals are pretty clear to everybody. Canadians were bearing a pretty heavy debt load in relation to their income. Probably the best flagship measure is the debt-to-income ratio that Canadian households carried into the crisis.

For fundamental reasons, we wanted to have a lower debt load so that when we endured the crisis, Canadians would be able to smooth their consumption effectively by taking on more debt. In that position, we've endured the crisis. Notwithstanding some of the very generous government support programs, Canadians are going to have to take on more debt to fund not just their essential needs, but some non-essential needs, such as paying insurance or putting gas in their car. That debt level is going to creep higher.

Just on a nominal basis, there isn't some optimal level of debt for any household to carry. I think we're probably overly fixated on the number. In the same context, Canadians' ability to service that debt will be relaxed with lower interest rates and longer amortization periods or mortgage deferrals.

It's definitely something we need to keep our eye on. As we recover through this crisis there will be another crisis around the corner, and the same expectation will be that Canadians will have the opportunity to deleverage. Then, when they need to make ends meet during the next crisis, they might have to take on more debt at that point in time. It's something we always keep our eye on, but we do it, I think, in balance with other vulnerability metrics.

The Chair: We will go a little bit over. We'll take a couple of minutes for Mr. Cumming and a couple of minutes for Mr. Fraser.

James.

Mr. James Cumming: Thank you.

My question will be for the Department of Finance. I raised it with the minister as well.

There's a specific example of a company that cannot get access to the CEWS. In April, we raised the idea of having Finance look at using different metrics for revenue calculation.

Specifically, this business receives a flow-through with insurance premiums. It flows through, they make no margin on it, but it keeps the revenues quite high. They really make their money on transactional...when there are claims. They make money off their claims cost, which is a very small portion of revenue. As you can imagine, with doctors' offices closed and the volume of claims going through, it's gone down, but they still have to maintain all their staff because they're able to do this.

Would Finance consider in this case some different form of metric? This is a business that has really been hit hard because of the lack of administrative fees, which are really the real revenue of their business, not the flow-through on the insurance premiums.

The Chair: Go ahead, Mr. Marsland.

Mr. Andrew Marsland: I can't comment on a specific employer's circumstances. I would like to understand better the exact circumstances, so perhaps I could ask the member to provide them to us and we will take a look at them with the Canada Revenue Agency.

Mr. James Cumming: Okay. I'll send that directly to you, Mr. Marsland.

Do I have time for one more?

The Chair: You have time for a quick question, James.

Mr. James Cumming: Mr. Carter, this is a fairly new program for your entity. How are you staffing up, or how are you putting a management team in place to deal with the LEEFF loan program?

Mr. Michael Carter: We've done several things. We hired a president who joined us just before the end of May. We have put together a board of directors, which includes several experienced financial people headed by Sandra Rosch, who is an experienced financial executive.

In terms of employees, we are providing Canada Development Investment Corporation employees, on a part-time basis, temporarily. We are relying primarily on financial and legal advisers we have hired, and we are infilling behind that. We have hired three additional people and we have plans to hire more.

How many we need depends to a large extent on how many loans we end up putting out, which of course at this stage we don't know.

● (1905)

The Chair: Thank you. That's good information to have.

Mr. Fraser, you'll wrap it up.

Mr. Sean Fraser: Thanks very much, Mr. Chair.

My question is for Mr. Gallivan, to build on a previous response he gave. It has to do with the recent additional powers to prevent fraud in the Canada emergency response benefit.

The calls I was getting early on at the constituency office involved individuals who weren't aware that their EI claim was automatically going to be processed as the CERB claim; individuals who maybe got an unexpected call back to work after they had applied, or people who made a simple mistake and didn't realize they weren't supposed to apply.

It would be very helpful for you to confirm unequivocally that those are not the people who will be prosecuted with the threat of imprisonment but, as you said before, it will target individuals who are running criminal organizations at scale. If you could add clarity, I think the public would greatly benefit from that, to ensure those honest mistakes are not going to be punished with the full weight of the law.

Mr. Frank Vermaeten (Assistant Commissioner, Assessment, Benefit and Service Branch, Canada Revenue Agency): Mr. Chair, it seems that Mr. Gallivan has been disconnected.

Let me provide assurances that these measures would be for absolutely egregious cases, as Mr. Gallivan pointed out, organized crime. We have absolutely no interest in those who have made mistakes or have interpreted the attestation a different way. That's not what this is about. This is for the egregious cases of scale where we have individuals who are unequivocally trying to get the benefit illegally. They're going after 100, 200 or 300 CERB payments. It's that type of thing. Those kinds of egregious cases are really what we're after. It's definitely not anyone who would make a mistake.

Mr. Sean Fraser: Thank you, Mr. Chair.

I have one final question.

Mr. Leswick, you suggested that some of these kinds of programs will be responsive not only to this crisis, but to some potential future crisis. I'm curious about one of the things we haven't really dug into. We've had some conversations at this committee about the extension of existing benefits. We've not had many conversations about the preservation of the structures that administer these benefits should they be needed in some future crisis.

I'm curious if you have thoughts on what it would take for the federal government to put structures in place that could be used automatically to stabilize the economy in the future, should another crisis of this nature arise.

Mr. Nicholas Leswick: I think a lot of lessons are to be learned and obviously there will be, and I think I undersell it to say, a post-mortem on what the crisis has taught us. Looking forward, structural changes to things like employment insurance and what we've learned around the interaction between the CERB and the self-employed and even our operational capacity to stand up systems and deliver benefits at this intense cadence, with CRA being front and centre.... I guess that will be collected to make structural policy in government going forward.

The Chair: Thank you.

As a reminder for members, the deadline for witnesses for the general panel on June 18 is now noon, eastern time, on June 15.

I know every two weeks we see most of you folks. The new addition this time is Mr. Carter. Thank you very much for taking the time to give us the background information and for assisting Canadians as you all do your best to do. Thank you for appearing today.

With that, the meeting is adjourned. Thank you all.