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⊕ (0900)

[*English*]

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

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

Point of order? Monsieur Laforest, on a point of order.

[*Français*]

M. Jean-Yves Laforest (Saint-Maurice—Champlain, BQ): Monsieur le président, si c'était possible que vous gardiez un petit cinq minutes à la fin pour qu'on puisse discuter des travaux futurs, de l'agencement des prochaines séances. Ça va?

[*English*]

The Chair: Sure, yes. Absolutely, thank you.

The Chair: Okay. If we could have each organization and individual present an opening statement of five minutes each, we'll go down the line and then we'll start with questions from members. So we'll start with the Public Sector Pension Investment Board.

Mr. John Valentini (Executive Vice President, Chief Operating Officer and Chief Financial Officer, Public Sector Pension Investment Board): Good morning. Mr. Chair, members of Parliament, I want to thank you for inviting us here today to discuss the current liquidity crisis and its impact on our financial system and in particular its impact on pension funds.

My name is John Valentini. I am Executive Vice President and Chief Operating Officer of Public Sector Pension Investment Board, otherwise known as PSP Investments. With me here today is Pierre Malo, First Vice President, Asset Allocation Strategies and Research.

[*Français*]

Investissements PSP est une société de la Couronne créée en 1999 par le gouvernement du Canada afin d'investir les contributions nettes reçues des régimes de retraite de la Fonction publique, des Forces canadiennes et de la Gendarmerie royale du Canada après le 1^{er} avril 2000. Nous gérons également les contributions de l'employeur et des employés effectuées après le 1^{er} mars 2007 au régime de retraite de la Force de réserve. Afin de constituer une des plus jeunes sociétés de gestion de fonds au Canada, nous sommes également parmi celles connaissant la plus forte croissance. Il est important de noter que nous agissons à titre de gestionnaire de fonds et non à titre de gestionnaire des régimes de retraite. La responsabilité à l'égard du passif incombe au gouvernement fédéral. Les prestations de retraite découlant de régimes à prestations déterminées sont garanties par le gouvernement du Canada. Nous relevons du Conseil du Trésor et de chacune des parties prenantes par l'entremise de leur ministre respectif, soit le ministre de la Sécurité publique et le ministre de la Défense nationale. Le Bureau de l'actuaire en chef du Canada produit un rapport triennal sur chacun des régimes, le prochain rapport devant être produit cette année pour la période se terminant le 31 mars 2008. Nos états financiers sont vérifiés par la vérificatrice générale du Canada.

Historiquement, nos rendements se comparent favorablement à ceux d'autres régimes similaires au Canada. Selon RBC Dexia, au cours des quatre dernières années financières se terminant en mars 2008, nous nous sommes classés dans le premier quartile des régimes de retraite au Canada en termes de rendement. Cependant, la crise de liquidité

qui a commencé à 2007 a clairement affecté notre rendement à court terme et au cours des deux derniers exercices. La crise du PCAA a certainement été une des premières conséquences d'une crise de liquidité s'étendant à plusieurs pays. Je sais que ce comité a étudié le PCAA, je ne vais donc pas prolonger la discussion sur ce sujet, si ce n'est que pour souligner que nous sommes extrêmement chanceux que le Comité pancanadien des investisseurs chargés de restructurer le PCAA du tiers ait réussi à restructurer le marché canadien des PCAA du tiers.

⊕ (0905)

[*English*]

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

Until the fall of 2008, the global liquidity crisis remained somewhat contained. Then in September 2008, the other shoe dropped and the financial world changed dramatically after the collapse of several large financial institutions. Confidence was broken and financial markets around the world plunged. It was the worst sell-off since the Great Depression. Liquidity disappeared and volatility increased dramatically. Buyers became sellers. Many investors were forced to sell their investments across all asset classes at depressed prices.

While managing liquidity was challenging last autumn, PSP managed to work through those very difficult times quite effectively.

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

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

I will concentrate on how investment managers try to mitigate the market volatility. In the case of PSP Investments, the investment policy is developed taking into account the liability structure of the pension plans, the desired contribution level of the stakeholders, and the perceived risk appetite of the sponsor and stakeholders.

We are presently working with Treasury Board Secretariat and the Office of the Chief Actuary in developing a financing policy that would clarify these key elements.

How do we invest the net contributions? In an ideal world, the net contributions that we receive could be invested in Canadian government inflation-linked bonds, and the risk associated would be zero.

Unfortunately, this is not a feasible solution. Therefore, we need to invest into different market instruments with a higher risk-adjusted return. This is done through diversification. Since 2004, PSP Investments has diversified into more asset classes, including private investments, real estate and infrastructure.

Diversification has added significant value to investment performance over that period. In fact, a review of long-term results that we had performed ourselves last year on the major funds in Canada indicated that private investments returns in real estate, private equity and infrastructure all out-performed the total overall fund of each of those funds, thus out-performing public markets.

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

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

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

The Chair: Thank you very much.

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

Barbara Miazga: Thank you.

I'd like to thank the committee for inviting the Pension Investment Association of Canada, or PIAC, to appear today. I'm Barbara Miazga. I'm the Secretary-Treasurer of the Board of Directors of PIAC.

PIAC has been a collective voice for Canadian pension funds for over 30 years now. PIAC is actively involved in advocacy on behalf of its members. An example of that

would be the submission that was made in response to the financial sector division of the Department of Finance in response to the consultation paper on private pensions and that was dated March 13, 2008.

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

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

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

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

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

So we're focusing on the solvency relief as being a key component in that first step. That can be done by unconditionally extending the amortization period for solvency funding from 5 years to 10 years for financially strong companies. It could also be achieved by providing plan sponsors with the flexibility to use letters of credit which already exist on a permanent basis in both Alberta and British Columbia. It could also be achieved by permitting plan sponsors to establish special purpose accounts. We're calling them solvency accounts that are independent from the main pension trust. What that will achieve is avoiding the situation of trapped surplus where plan sponsors make solvency

payments that in the future form part of a surplus and there has been experience in the past where those surpluses have resulted in changes to the benefit structure that are long-term and permanent. If the solvency account is independent from the main plan trust, that alleviates the situation of that trust surplus.

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

⊕ (0910)

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

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

Thank you.

⊕ (0915)

The Chair: Thank you very much for the presentation.

We'll now go to Teamsters Canada, please.

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

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

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

In our September 2005 submission, we stated that the private pension plan system in Canada, the U.S., and other G-8 countries is entering a period of financial crisis caused by years of inappropriate practices by those responsible for the well-being of these plans.

The financial deficit of the system is in the billions, if not the trillions, of dollars. Those responsible include government and government regulators, plan sponsors and professionals involved with the operation of the plans, including actuaries, investment managers, accountants, lawyers, and others.

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

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

Let's start with fundamentals.

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

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

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

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

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

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

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

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

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

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

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

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

⊕ (0920)

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

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

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

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

The Chair: Thank you very much for your presentation.

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

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

Good morning everyone.

Good morning, Mr. Clerk .

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

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

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

The United Senior Citizens of Ontario and our affiliate, the National Pensioners and Senior Citizens Federation, 1,000,000 senior members, have been working with Diane Urquhart since 2006 on financial abuses affecting seniors. Pensioners and senior citizens are suffering billions of dollars in losses in their retirement accounts due to unsuitable and fraudulent investment products. These are being sold to them on the basis of misleading marketing information. We conclude that our members' interests are not being protected by current self-regulatory organizations and provincial securities commissions governing securities and accounting standards.

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

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

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

I'll be interested in your questions.

Thank you very much.

⊕ (0925)

The Chair: Thank you very much for your presentation.

Now, finally, Ms. Urquhart, for your opening statement.

Mrs. Diane Urquhart (Independent Analyst, As an Individual): Good morning, I'm going to speak this morning about toxic investment products and how they've contributed to the financial crisis in Canada. My apologies, I do have a very hoarse voice this morning. Hopefully, I'll get through it.

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

In many instances, the corporate calamities that are leading to the distress in the world can be tracked back to securities crime. There's been no policing intervention and deterrence in our country. Effective securities crime policing is a necessary ingredient for the stability of Canada's financial system. The world's, including Canada's, financial system has been rocked with systemic fraud in subprime mortgages, structured income products sold by the securities industry. I've given testimony to your committee on two occasions. Once on the income trust product, which we said was subject to systemic fraud in deceptive yields, and more recently on the non-bank, asset-backed commercial paper product in which there are, at the moment, 85¢ of market-to-market losses on the dollar; \$27 billion of current losses in the asset-backed commercial paper product line of Canada. As I warned on the income trust product in 2005 and 2006, we have over \$30 billion of damages in the business income trust market product alone, with about the same amount likely in the energy income trusts.

The Chair: Ms. Urquhart, can I just suggest putting a little distance between yourself and the microphone. There is a bit of feedback.

Mrs. Diane Urquhart: Yes, especially with a hoarse throat.

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

I want to spend a few moments talking about securities crime policing in Canada. We do not agree with the RCMP Integrated Market Enforcement Team having effective, exclusive jurisdiction for securities crime policing in our country. We strongly disagree with the current actions of the Royal Canadian Mounted Police to integrate its exclusive securities crime unit with the securities regulatory system of Canada. We believe it is totally unacceptable that all current RCMP IMET securities criminal complaints and plans for investigation are obliged by this federal government to be shared with the joint consultation group. We have a letter from Dean Buzzza, the head of the RCMP IMET, that indicates that every securities crime complaint and plan for an RCMP investigation must first meet with the approval and recommendation of the Investment Industry Regulatory Organization of Canada, and of the Mutual Fund Dealers Association of Canada. We believe that this is wrong and is highly vulnerable to corruptive influences on whether or not securities crime investigations are taking place in this country.

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

Thank you.

📞 (0930)

The Chair: Okay, thank you very much, Ms. Urquhart.

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

Hon. John McCallum (Markham—Unionville, Lib.): Thank you, Mr. Chair. Thank you to all the witnesses for being here.

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

As you know, I believe there are seven major federally regulated companies are seeking to spread their payments over 10 years rather than 5 years to restore their pension assets. I don't think the unions or the pensioners are necessarily happy with that under status quo rules. You seem to imply, and this is what I'm trying to get at, that such a 10-year period might be acceptable to you under certain conditions, like if there were greater restrictions on the nature of the investments that pension funds could do.

Can you briefly tell us whether there would be some regulatory changes or quid pro quo under which you would find a 10-year period acceptable?

Mr. Phil Benson: Thank you, Mr. McCallum. Just so you know, one of those companies that came to you just announced a \$242 million profit for the first quarter. During the last round, we talked about it. During boom times, we suggested that perhaps when they made a profit, part of the profit should go directly to pension holders--not all of it, but of course, some of it. The comment came back, my concern was there would be a recession. I was told, "Well, you're old-fashioned, Phil. We solved that problem, there won't be one".

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

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

Hon. John McCallum: No, what I'm asking you is: are there specific changes, for example that pension funds would not be allowed to hold more than a certain percentage of their assets in the stock market or things of that nature that are concrete, that you would regard as a satisfactory quid pro quo for a 10-year payout? If you don't have a 10-year payout, you could have made your profits through some of these companies, which would not necessarily be good for the employees. So, I would think there's a common interest in coming to some compromise solution on this, and that's what I'm asking you.

Mr. Phil Benson: I think there are major points that pension plans, if we start from the basic premise, pension plans only exist for the beneficiaries, period. Moving away from the contribution holidays, away from the idea of a surplus, if we really put fiduciary duty

back into fiduciary duty so companies stop treating these funds as capital investments or tools for other purposes, we're going to look at any solution we can. The answer is yes, we like lists, we'd like to see much more focus on bonds, long bonds, rather than in the equity market.

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

Hon. John McCallum: Okay, thank you very much.

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

Mr. John Valentini: Yes, our year-end is March 31, and we are in the process of completing of our year-end, and are in the midst of completing it and an audit. We have not, therefore, completed our results. I feel it would be inappropriate at this time to divulge what they are. We do report on a quarterly basis. We do provide our returns to our respective ministers and stakeholders on a quarterly basis, so they have received them. Our result is that March 31 of this year, I'm not going to--

⊕ (0935)

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

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

Hon. John McCallum: Are those then made public?

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

Hon. John McCallum: I see.

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

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

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

Barbara Miazga: I haven't had a chance to think about that and so I may ask if we can provide a response back to the committee on that particular question. The position we've taken is that that is a requirement to help ease onerous funding requirements under solvency and that any additional restrictions such as putting in place more quantitative limits to further constrain the plan sponsors would just be counter-productive. So to my knowledge--

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

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

The Chair: Thank you, Mr. McCallum.

Monsieur Laforest, s'il vous plaît.

[*Français*]

Monsieur Laforest, s'il vous plaît.

M. Jean-Yves Laforest: Merci, monsieur le président. Bonjour à tous.

J'aurais une première question pour M. Valentini. L'Office d'investissement des régimes de pensions du secteur public, dans la définition même ou dans la nomenclature de l'organisation, on parle du secteur public et vous avez dit tout à l'heure que vous n'avez pas d'obligations de par la loi de rendre public les rendements de votre Office.

M. John Valentini: Selon la loi, nous avons une obligation de rendre public notre rapport annuel. À la fin de chaque année, il est soumis au président du Conseil du Trésor, qui dépose notre rapport annuel au Parlement. Si vous allez sur notre site Web, par exemple, vous avez accès à nos rapports annuels et c'est à ce moment-là, à chaque année, que le rapport est soumis au public également.

M. Jean-Yves Laforest: Donc, les rendements sont...

M. John Valentini: Ils sont publics. Ils sont rendus publics.

M. Jean-Yves Laforest: Vous avez dit dans votre déclaration que l'Office n'agit pas à titre de gestionnaire d'origine de retraite, mais à titre de gestionnaire de fonds. Plus loin,

vous dites que malgré tout, l'équation de base d'un régime de retraite — donc vous connaissez aussi les régimes de retraite —, ...

M. John Valentini: Il faut tenir compte du passif également.

M. Jean-Yves Laforest: Vous dites que c'est une équation de base: les contributions nettes plus les rendements sur les placements doivent égaler la valeur actuelle. C'est le principe de base d'un régime de retraite. Ne pensez-vous pas que beaucoup de gens ont oublié cela?

Mr. John Valentini: Nous, à PSP, ne l'avons pas oublié. Lorsque nous établissons notre politique de placement et notre portfolio d'indices de référence, ils sont bâtis avec cet objectif. Nous travaillons avec le Bureau de l'actuaire en chef du Canada. À chaque année, nous révisons notre stratégie de placement pour s'assurer que l'équation reste intacte. À tous les trois ans, l'actuaire en chef du Canada prépare un rapport triennal, actuariel sur les plans qui incorporent également nos actifs. Alors, il en tient compte. Nos stratégies ou notre investissement du portfolio de référence en tient compte aussi.

ⓞ (0940)

M. Jean-Yves Laforest: Les gestionnaires ont-ils des primes au rendement au niveau de l'Office dont vous êtes le vice-président? Y a-t-il des gestionnaires qui reçoivent des bénéfices ou des primes au rendement?

M. John Valentini: Des primes? Des compensations incitatives au rendement?

M. Jean-Yves Laforest: Oui.

M. John Valentini: Oui.

M. Jean-Yves Laforest: Comme à la Caisse de dépôt et placement du Québec.

M. John Valentini: Comme la plupart de nos pairs ou des gens qui opèrent dans le secteur de gestion de fonds, et particulièrement dans les fonds de pension.

M. Jean-Yves Laforest: Au cours des dernières années, l'office a-t-il investi dans les papiers commerciaux adossés à des actifs?

M. John Valentini: Oui. Notre rapport annuel est très explicite à cet égard. Comme je l'ai mentionné dans mon discours, on avait investi dans du PCAE. On a également participé au Comité Crawford sur une période de près de deux ans, et ce afin de résoudre ce problème.

M. Jean-Yves Laforest: Si vous avez investi dans ces titres, on peut imaginer que vous anticiperez des pertes importantes.

M. John Valentini: Il y a des pertes. Elles sont principalement reliées à une crise de liquidité. Les écarts créditeurs ont eu un impact négatif sur ces produits. C'est un produit de base dont la valeur est influencée par les taux d'intérêt. Oui, on a réalisé des prévisions. Toutefois, la plupart des prévisions sont non-réalisables. À long terme, le but de la restructuration était de récupérer notre capital de départ.

M. Jean-Yves Laforest: À ce comité-ci, on a entendu M. Duguay, le directeur adjoint de la Banque du Canada. Il a dit qu'en 2005, la Banque du Canada avait émis des avertissements au sujet de la très grande volatilité de ces titres, des papiers commerciaux.

Comment se fait-il que l'Office d'investissement des régimes de pensions ait quand même investi dans des papiers commerciaux alors que c'est un organisme fédéral et que la Banque du Canada y soit quand même assez étroitement associée? Comment se fait-il que vous ayez investi là-dedans, d'autant plus qu'il n'y avait qu'une seule firme de cotation des BRS qui avait donné une cote là-dessus et que les autres n'avaient pas voulu le faire? C'est quand même troublant.

M. John Valentini: Je dois avouer que je n'étais pas au courant du rapport qui a été déposé par la Banque du Canada il y a quelques années. J'étais au courant de l'aspect de *standard in force*, qui avait refusé de mettre une cote au PCAA au Canada. Toutefois, cela date depuis le début des années 2000. DBRS donnait des cotes de AAA; CBRS, antérieurement, en donnait également.

M. Jean-Yves Laforest: Mais, il n'en donnait plus.

M. John Valentini: Il n'en donnait plus par après, parce que cela a été acheté par *Standard in force*. C'est un marché qui a opéré de façon efficace pendant près de 20 ans. Pendant près de 20 ans, il n'y a eu aucun défaut. Il n'y a même pas eu de *rating downgrade* pendant 20 ans. C'est un produit qui représentait 40 p. 100 du marché.

M. Jean-Yves Laforest: M. Don Drummond, vice-président de la Banque TD, a aussi comparu devant ce comité. Il nous a dit, en réponse à certaines questions, que, pour lui, c'était tellement élémentaire. Eux n'ont pas investi là-dedans et ils n'ont pas eu les résultats négatifs que d'autres ont connus. Comment pouvez-vous mettre cela en corrélation? Vous avez dit que c'était bon pendant 20 ans. Pourtant, une des grandes banques du Canada a clairement dit ne pas vouloir aller là-dedans. Son témoignage était assez révélateur.

M. John Valentini: Monsieur Laforest, en rétrospective, il y a des éléments de risque dans ces produits. Il y avait le risque de crédit et le risque de liquidité. Le risque de liquidité a été sous-estimé. L'une des causes principales était les clauses de liquidité. Ces clauses étaient les mêmes que celles qui apparaissent dans les *trust* des banques canadiennes et qui apparaissent dans les [*inaudible*].

À l'arrivée du mois d'août, les banques canadiennes ont été appelées à injecter des liquidités dans leur *trust*. C'est ce qu'elles ont faites. Quand les banques non-canadiennes ont été appelées à le faire, elles ne l'ont pas fait.

M. Jean-Yves Laforest: Les primes au rendement n'ont-elles pas incité des gens à trop investir?

Le président: Merci, monsieur Laforest.

M. John Valentini: Il y a eu plusieurs [*inaudible*] à inciter les gens. Comme je l'ai dit, il s'agissait d'un produit très reconnu dans le marché. C'est sûr que les primes et la disponibilité du produit étaient plus que d'autres produits, dans un marché qui n'était pas très profond. Cela représentait 40 p. 100 du marché monétaire au Canada. Malheureusement, ce sont les PCAA de tiers qui ont subi des conséquences que le PCAA des banques canadiennes n'ont pas subi, pour des clauses de liquidité similaires.

⊕ (0945)

Le président: Merci, monsieur Valentini.

M. John Valentini: C'est une décision qui fallait prendre au mois d'août quand le marché a tombé. C'est une des décisions qui a été prise à un moment donné: est-ce que c'était de poursuivre les banques étrangères pour qu'elles respectent leurs contrats. Il en avait eu des banques étrangères quand elles ont été appelées, elles l'ont faites comme les banques canadiennes.

[*English*]

The Chair: *Merci.* Thank you.

We'll go to Mr. Wallace, please.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chair.

I want to welcome our witnesses here this morning. Thank you for coming and helping us through this relatively difficult piece.

The issue of solvency is one that's on the table, but there's one area that the Pension Investment Association brought forward which you're more than all welcome to comment on. I am personally not sure about where I stand on it so I'm going to ask the question.

I'm going to give you an example that happened to me personally—which my colleagues know I like to do. At one time I was a member of OMERS and I was member of a municipal council. There was a holiday, a payment holiday came along and I was on council at the time. So the members of OMERS didn't have to pay for a couple of years I think it was and the cities didn't have to pay their portion because they were over-

subscribed in the sense they had too much money in the system. Wisely or unwisely, I won't say which, the council of the day decided that we were not going to collect that money from the municipal taxpayer and that savings would be also passed on to the tax base. The staff wanted to continue to collect that money and save it for a rainy day, whether that was right or wrong.

My first question really now is that right now there is a 110% limit. You're advocating, and your organization and anyone can comment to it, to go to at least 125%. Is there any argument that there shouldn't be a limit at all? That when things are great that we continue to collect money and keep it in the fund and then when things do go badly, because let's face it the economy goes up and down it has never stopped going up and down, and that money would be there for that rainy day and we might not be in the same trouble that we're having today.

I would just appreciate the comment why 125%, why not no limit and just continue to collect on defined benefit plans? I'd appreciate a response from anybody who wishes to respond, but we'll start with Barbara, I guess, first.

Barbara Miazga: Mike, just in response to your example, I do agree completely that the employer/employee contribution holiday that largely arose out of surpluses that did not end up being permanent, created some of the problems that we're facing today. Your situation at OMERS probably mirrored the experience of a lot of other plan sponsors and plan beneficiaries.

Your specific question on the limits, PIAC has always advocated that there should be no quantitative limits. I would agree that there is no need to have a limit. If there has to be a limit because there's a feeling that there should be, it should be at least 125%. So my answer to your question I do agree that there is an argument that there should be no limit. That will provide the ability to build a significant cushion that can protect in down markets.

I think what we've seen over the last couple of years is largely unprecedented in the financial industry. It goes to show that even very well-funded plans at the beginning of 2007-2008 found themselves in completely different circumstances, fell into the market downturn. Where that's particularly problematic is on the solvency side where the solvency calculation is also largely driven by the impact of the declining interest rates, as interest rates go down, the value of the liabilities goes up and that exacerbates the funded situation on a solvency basis.

Mr. Mike Wallace: Mr. Benson, would you like to comment, I'm sure?

Mr. Phil Benson: Just as a note. I put some articles in your papers I gave to you about the *National Post*, three articles that basically talk a lot about OMERS and decisions they made.

I think this question on the idea of, of course we're opposed to the payment holidays, but it's not just talking about payment holidays and percentage of surplus, it doesn't get to the root topic. If you remove them and you ask people to do prudent investment, if companies cannot see any reason for having a surplus, they're not going to have one. They're going to be running at 100%. It's changing the fundamentals of how we deal with them. As long as we're talking about a surplus, we're talking about companies and people viewing, as you did as a counsellor, as a way of saving money and passing it on to taxpayers. If that's removed, in other words if simply the investment structures are properly run, if there is nothing in it for a company to run a surplus, trust me they won't.

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

⊕ (0950)

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

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

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

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

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

The Chair: Mr. Mulcair, please.

[*Français*]

M. Thomas Mulcair (Outremont, NPD): Merci, monsieur le président.

Je tiens à remercier M. Benson surtout pour ses dernières remarques, cela clarifie bien des choses.

Plus tôt cette semaine, on a eu une présentation par la Société canadienne des actuaires qui nous a dit que, en cas de faillite, il faudrait donner priorité aux pensions. Êtes-vous d'accord avec cela, monsieur Benson?

[English]

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

[Français]

M. Thomas Mulcair: Je vous remercie beaucoup.

Monsieur Valentini, monsieur Malo, bienvenue, merci d'être là.

Monsieur Valentini, je ne peux m'empêcher, avec un sourire en coin, de vous dire que vous m'avez rappelé Jean Charest pendant votre témoignage tout à l'heure qui, lors de la campagne électorale de l'automne, disait à qui voulait l'entendre qu'il ne pouvait pas connaître les pertes de la Caisse de dépôt et placement du Québec, parce que c'est seulement une fois que les états financiers vérifiés sortent qu'on en connaîtrait l'ampleur. En fait, tout le monde à Montréal savait que la caisse avait perdu entre 35 milliards de dollars et 40 milliards de dollars. Il continuait cependant à dire cela parce que, techniquement, c'était vrai. Vous nous avez servi exactement la même réponse aujourd'hui. Votre exercice est fini. Vous savez, comme nous tous, que vous avez perdu des milliards et des milliards de dollars, mais vous arrivez ce matin et vous nous dites: « je ne peux pas savoir le vrai chiffre, ce n'est pas encore vérifié ». Alors je vais vous poser la question autrement: Est-ce que je me trompe quand je dis que vous avez perdu des milliards de dollars cette année?

M. John Valentini: Monsieur Mulcair, vous n'avez qu'à regarder notre portefeuille, c'est public, c'est dans notre rapport annuel, notre indice de référence, et vous n'avez qu'à voir ce qui est écrit comme rendement. Quelqu'un peut prévoir ce que seront les rendements. Les rendements de PSP cette année seront probablement semblables à ceux des autres fonds de pension qui ont subi les mêmes conséquences, on est dans le même marché. Je répète qu'on suit notre loi, qu'on diminue et qu'on prépare...

🕒 (0955)

M. Thomas Mulcair: Monsieur Valentini, je m'impatiente. Y a-t-il quoi que ce soit dans votre loi qui vous empêche de dire aux parlementaires ce qui en est? Je vous ai posé

une question claire, vous avez parlé pendant deux minutes sans répondre. Oui ou non, avez-vous perdu des milliards de dollars au cours de l'exercice qui vient de prendre fin le 31 mars?

M. John Valentini: Je vous dis également, monsieur Mulcair, que nous subissons les mêmes rendements que nos pairs.

M. Thomas Mulcair: Je répète ma question pour la troisième fois, monsieur Valentini, et je trouve que votre refus de répondre frise l'outrage à ce Parlement. Oui ou non, avez-vous perdu des milliards de dollars?

[*English*]

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

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

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

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

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

M. Thomas Mulcair: Thank you.

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

Mr. John Valentini: The decision to pay bonuses, on page 31 to 35 of our annual report is quite explicit and provides detail on how our compensation policies work, and, frankly, it is the board of directors that decide whether management gets paid or not, it is not management.

M. Thomas Mulcair: Well, let me just put it to you this way, Mr. Valentini, now that I have you and Mr. Malo here and this is televised and you can send messages back to your board of directors, as I'm doing right now, anyone in this country running something called an “investment board”, that lost billions of dollars last year, who thinks—even thinks—about paying themselves a bonus needs their head read. I'd like you to give that message to your board of directors, on behalf of my party, that we would find it properly

scandalous if, in the light of what happened last year, that, in addition to your considerable salaries, you decide to vote yourself bonuses. Would you be kind enough to pass that along for us?

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

M. Thomas Mulcair: Thank you very much.

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

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

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

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

I don't see how the creation of a new structure, a new institution that would be a national regulator.... For example, in Quebec, the *Autorité des marchés financiers* has done an excellent job of prosecuting. People like Vincent Lacroix are in jail for 10 years on securities fraud because there's a good prosecution team. You've correctly said there's not a problem with resources, but how does changing structures answer the problem?

🕒 (1000)

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

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

Thank you.

Mr. Thomas Mulcair: —where Quebec has proper jurisdiction. So I think we agree.

The Chair: Thank you.

We'll go to Mr. McKay, please.

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

Thank you, witnesses.

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

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

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

Hon. John McKay: Who's the owner?

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

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

Barbara Miazga: I think that in a situation of a bankruptcy, you wouldn't see yourself in the situation that a plan's sponsor would be able to set up such an account.

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

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

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

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

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

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

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

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

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

🕒 (1005)

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

The Chair: Very briefly.

Barbara Miazga: PIAC's constituency is a lot broader in that we represent corporate plans, public sector and quasi public sector plans. When we're looking at asking for relief,

the reason why we're asking for relief is because the solvency funding requirements can actually put a financially strong company into jeopardy because the requirements are onerous based on the existing rules.

The Chair: Thank you.

Monsieur Carrier, s'il vous plaît.

[*Français*]

M. Robert Carrier (Alfred-Pellan, BQ): Merci, monsieur le président.

Bonjour mesdames et messieurs. Je compatis beaucoup aux arguments énoncés par Mme Smith concernant l'Association des retraités. Je pense que vous décrivez bien la situation des retraités qui sont sans pouvoir, sans voix concernant les soubresauts économiques que l'on vit dans notre pays.

Je voulais revenir sur la question de la problématique principale de la baisse de revenus des différents fonds de retraite occasionnés par de mauvais placements, de mauvaises décisions prises par des — supposément — spécialistes de placement. J'aimerais revenir sur la question de prime au rendement spécifiquement parce que c'est vraiment scandaleux. Le fait que des gens reçoivent des primes de plusieurs centaines de milliers de dollars complémentaires à leur salaire pouvant quasiment atteindre 1 million de dollars de revenu indépendamment de ce que leur décision entraîne au niveau du rendement.

Je vais demander à M. Valentini ce qu'il pense de cette pratique. Vous avez dit plus tôt que le Conseil d'administration décidait de ces politiques. Je voudrais quand même connaître son opinion. Je pense qu'il a un poste de direction et la responsabilité d'un fonds de gestion. Je voudrais savoir s'il entérine la position selon laquelle les primes au rendement soient convenues avec du personnel uniquement payé selon un rendement à court terme pouvant pénaliser grandement à long terme l'ensemble d'un fonds de retraite.

M. John Valentini: Avant tout, il faut comprendre certains aspects. Premièrement, les primes incitatives sont généralement payées dans l'industrie — c'est la norme — contre un portfolio de référence. Je peux vous dire, aujourd'hui, que le portfolio de référence de PSP, qui établit la base des primes incitatives, est classé parmi les meilleurs. En réalité, selon une étude faite par RBC Dexia de nos pairs, notre portfolio de référence se classe le premier. C'est le plus rigoureux de nos pairs dans l'univers RBC Dexia. Cela nous place assez bien.

Également, selon une étude que j'ai fait, moi-même, l'année passée des grands de nos pairs démontre, des grands fonds, on était classé à la fin de l'échelle, ce qui est la norme avec notre référence. On a la référence la plus rigoureuse.

M. Robert Carrier: Je vais vous arrêter parce que notre temps est limité.

J'aimerais connaître votre position sur la question de prime au rendement. Ne trouvez-vous pas que cela a un effet pernicieux sur les fonds de retraite et que cela devrait être modifié, légiféré à l'effet de réduire ou de même abolir les primes au rendement?

M. John Valentini: Monsieur Carrier, la compensation est gérée par notre conseil et payé à long terme. Les incitatifs sont basés sur des périodes à long terme. On suit aussi les normes de l'industrie...

M. Robert Carrier: Je sais, vous l'avez dit. Je me questionne sur ces fameuses normes de l'industrie. À mon avis, on fausse la situation en payant les gens selon un rendement plutôt qu'en se fiant à leur compétence de négociation. Vous avez sûrement un comité d'expert qui évalue les risques et prend les décisions dans votre organisation. Pourquoi payer telle personne sur la base de son rendement et ne pas se préoccuper des conséquences de ces rendements par la suite?

🕒 (1010)

M. John Valentini: Selon moi, on tient compte des conséquences en ce sens qu'on ne paie pas de prime incitative uniquement basée sur une année de rendement. Cela se fait généralement à plus long terme, comme M. Mulcair l'a déclaré, et les primes incitatives basées sur la performance, c'est basé sur le portfolio de référence à long terme.

M. Robert Carrier: Je voudrais connaître l'opinion de Mme Miazga concernant les primes au rendement. La politique ne devrait-elle pas être modifiée afin de rétablir la situation?

[English]

The Chair: Very briefly, Ms. Miazga.

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

The Chair: Merci. We'll go to Mr. Dechert, please.

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

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

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

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

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

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

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

Mr. Bob Dechert: Thank you.

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

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

Again, when we're looking at investment structures and investment analysis, we're talking about performance bonuses. So there's even something in there for people to try to outperform the market. We're talking about pensions. There's no reason or need to outperform anything. The only reason they exist...it's not to save money, for a taxpayer, the only reason they exist, one reason, the performance bonus should be guess what,

folks, we're in a recession, tough times, but don't worry. Your pension is still there. That's a performance bonus.

It's not talking about layered investments, about how we plan. The only reason it exists is to pay that money out and I'm saying in the long run we're all dead but whatever we did in the past, this one recession is going to wipe it all out real quick. Why? Because investments were made through conventional wisdom in all the right places but in the long run it's the pensioners who are going to be hurt. The people who run at this board, the people who look after it, the people who pay into it are all going to be fine. If they fail, the workers are in trouble.

🕒 (1015)

Mr. Bob Dechert: Can I ask you, you've mentioned bonds, the bond market, and your view is it has performed better than the equity market. So are we talking corporate bonds? Are we talking strictly government bonds?

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

Mr. Bob Dechert: So your view is that--

Mr. Phil Benson: By the way--

Mr. Bob Dechert: --corporate bonds would be okay. But what if corporate bonds under-perform the types of investments that Mr. Valentini is talking about?

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

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

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

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

The Chair: Thank you.

We'll go to Mr. Pacetti, please.

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

Thank you, to the witnesses.

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

John, it's a pleasure to have you here. I see here in your written submission you say,

In an ideal world, the net contributions that we receive could be invested in Canadian government inflation-linked bonds...

What's wrong with that? Why do you have to diversify? Why don't you just invest in bonds, as Mr. Benson was saying? Do you need to take the risks, and do we have to legislate that and say, "No, you have to stick to bonds". So, what is it?

Mr. John Valentini: I'd like to turn to Pierre. Would you take that question?

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

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

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

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

So how do we avoid that in the future; that's the real question?

🕒 (1020)

Mr. John Valentini: The way we manage the risk--and it is a very rigorous process--is that we establish a portfolio that we think over the long term, over a period of at least a 10-year horizon.... You don't build portfolios on one year and market timing events. You have to build them on a long-term basis. And we build a portfolio and it's in conjunction as well with our sponsors and the chief actuary of Canada in doing his equations. Because as we manage its assets, they have to equal the liabilities. We manage the assets and we have to take the liabilities into consideration, and we do work with the chief actuary of Canada to build a portfolio that is going to meet that at an optimal level of risk.

Mr. Massimo Pacetti: Sorry to interrupt, because our time is limited, but you have a ten-year horizon and you have an asset mix. When do you change that or do you say, look we've got a ten-year horizon we're going to stick to one-third bonds, one-third stock, one-third real estate and 10% cash.

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

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

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

Mr. Massimo Pacetti: We're going to have unusual events on something else in the next little while. I just want a quick question.

The Chair: Sorry, we're over time, Mr. Pacetti.

Mr. Massimo Pacetti: Just a crime unit...

The Chair: There is another Liberal round.

Mr. Massimo Pacetti: Just under what department did the crime unit that she was suggesting...

Mrs. Diane Urquhart: Public Safety. reports to Peter Van Loan and also to the Standing Committee of Public Safety and Emergency Preparedness.

The Chair: Thank you, Mr. Chair, for respecting my time limit and we'll go to Monsieur Bernier.

[*Français*]

L'hon. Maxime Bernier (Beauce, PCC): Vous me donnez quelque temps pour poser une question au témoin. Premièrement, j'aimerais vous remercier d'être là avec nous.

Monsieur le président, j'aimerais vous avertir que je partagerai mon temps avec mon collègue, M. Kramp.

Je vous remercie d'être avec nous aujourd'hui. Vous savez qu'on étudie une question importante pour l'ensemble des Canadiens. D'avoir pris de votre temps pour venir devant nous est grandement apprécié. Comme vous le savez, nous ne sommes que des parlementaires et nous ne sommes pas des experts dans le domaine des pensions. C'est pour cela que nous faisons ce genre d'étude, actuellement, pour nous informer et prendre les meilleurs moyens pour aider les Canadiens, à long terme.

J'aurais une question qui touche plutôt à la réglementation, ou à la façon dont la réglementation est appliquée au Canada. Ma question s'adresse à chacun de vous. Comme vous le savez, le gouvernement fédéral réglemente seulement à peu près 7 p. 100 des fonds de pension privés au Canada. Le reste est sous juridiction provinciale. Nous avons 13 provinces qui réglementent aussi ce vaste champ d'expertise. Le système est un peu comme celui des valeurs mobilières au Canada, donc déréglementé, avec une orientation plus provinciale.

Premièrement, pensez-vous que la réglementation fédérale est bien harmonisée avec la réglementation des provinces? Deuxièmement, croyez-vous qu'il serait nécessaire d'avoir une meilleure collaboration, si ce n'est pas le cas, avec nos collègues des provinces, sur la réglementation des fonds de pension au Canada? Faudrait-il aller jusqu'à avoir peut-être une entité gouvernementale qui coordonne cette réglementation-là? Ou bien, est-ce qu'il n'y a absolument aucun problème et qu'au Canada, de la façon dont le système est réglementé actuellement, tout va bien?

Je ne sais pas qui pourrait répondre en premier. Madame Miazga, est-ce que vous voulez répondre?

🕒 (1025)

[English]

Barbara Miazga: Yes, I can tackle that. To clarify, your question is concerning the regulatory regime and do we think that we would benefit from an intergovernmental body to coordinate. Yes, I do agree. I think there are two areas where there is a problem. One, as you've mentioned, is on the pension regulation side and the other is on the securities regulation side. That affects all capital market players because it adds to the complexity. The more administrative complexity there is, the more time consuming. It creates an extra layer of work that is not really adding any value.

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

[Français]

L'hon. Maxime Bernier: Merci.

Monsieur Benson.

[English]

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

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

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

[Français]

L'hon. Maxime Bernier: Merci.

Madame Smith, voulez-vous ajouter quelque chose?

[English]

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

[*Français*]

L'hon. Maxime Bernier: Merci.

Oui?

[*English*]

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

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

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

Martha Hall Findley for five minutes.

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

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

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

🕒 (1030)

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

Barbara Miazga: You're welcome.

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

Ms. Martha Hall Findlay: Yes, that would be great.

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

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

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

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

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

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

and therefore maintain the contributions levels to where the sponsors and the employees want it to be.

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

My final part of this question is to Mr. Benson. We have heard a number of criticisms from you and I think we're all trying to come to a solution, so it's a very important discussion to balance the need to keep contribution levels as low as we can with the risk because I would suggest if you're looking for other assets that have greater revenue, you're probably looking at other assets that may have greater risks, so Mr. Benson my question to you is if the answer is greater contributions, I've heard criticism but I haven't heard real concrete solutions from you or concrete suggestions. If you can provide some, that would be great.

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

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

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

🕒 (1035)

The Chair: Thank you.

We'll go to Mr. Kramp, please.

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

If I could, Ms. Urquhart, I'd like to discuss this approach of prosecuting the securities fraud. You're telling us that it's almost like asking a criminal if he wants to be investigated, in other words, going to the different securities and getting their permission

before they can be investigated. That sort of bothers me. To what extent is that actually happening.

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

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

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

Mr. Daryl Kramp: Thank you very much.

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

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

Mr. Daryl Kramp: Thank you.

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

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

Mr. Daryl Kramp: Thank you.

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

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

🕒 (1040)

Mr. Daryl Kramp: Thank you.

I think evidence has been given today, I'm quoting this from Mr. Benson quite frankly, about how and why and what those limitations should be and you're opposing position as well.

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

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

Mr. Daryl Kramp: Thank you.

The Chair: Thank you, Mr. Kramp.

We'll go to Mr. Mulcair.

[*Français*]

M. Thomas Mulcair: Merci, monsieur le président. Sans surprise, je vais pouvoir poursuivre ma conversation si agréable avec M. Valentini. Je veux revenir à une phrase qu'il a employé plus tôt lorsqu'il a répondu à mon collègue, M. Carrier. Il a dit à plusieurs reprises que ce sont les normes de l'industrie. Il a dit que c'est comme cela dans l'industrie. Je comprends que M. Valentini a déjà travaillé dans le secteur privé comme moi, mais je sais la différence entre les deux. Je veux seulement établir les bases de notre conversation. Nous ne sommes pas en train de parler d'un groupe d'investissement privé ici. Nous sommes en train de parler de quelque chose qui appartient à 100 p. 100 au public. Nous nous entendons sur cela. Il n'y a pas un sou que vous traitez qui n'est pas de

l'argent public. Il n'y a pas un sou de votre fonctionnement qui n'est pas de l'argent du public. Nous nous entendons sur cela.

M. John Valentini: Je suis tout à fait d'accord. Lorsque je faisais la comparaison des normes, je parlais des normes d'autres fonds de pension au Canada tels que Teachers, Owners, Caisse de Dépôt, bcIMC, CPPIB. Alors, ma référence aux normes sont à d'autres fonds de pension au Canada.

M. Thomas Mulcair: D'accord. Donc, lorsque vous parlez de l'industrie, vous n'essayez pas de nous convaincre que vous êtes dans le secteur privé. Vous êtes en train d'utiliser le terme « industrie » comme un terme générique pour dire « dans notre domaine d'activité ».

M. John Valentini: Oui, plus spécifiquement dans le cadre de gestion de fonds de pension comme ceux de notre société. On ne se compare pas. Quand on arrive à la compensation, on se compare à nos pairs, d'autres fonds comme Teachers, Caisse de dépôt, CTPD. J'ai mentionné que lorsque l'on fait cette comparaison, l'information est publique. Nous avons fait l'analyse pour le PSP et ce n'est pas supérieur à nos pairs.

M. Thomas Mulcair: D'ailleurs, vous l'avez dit tout à l'heure, et c'est l'une des raisons pour laquelle j'ai choisi dans le temps qui m'est alloué de poursuivre avec vous. Dans ce que vous dites, monsieur Valentini, je décède — et je ne demande pas mieux que vous infirmiez ma perception — que vous essayez de rationaliser que, sur la base de votre rendement, votre compensation pourrait être bonifiée. C'est la perception que j'en ai. Vous n'arrêtez pas d'essayer de nous convaincre que par rapport à d'autres vous n'êtes pas si pire.

Tout à l'heure, vous et moi, nous avons convenu — cela a été très difficile de vous le faire admettre — que vous aviez perdu des milliards de dollars l'année dernière. Je vais vous donner la citation exacte de votre présentation de tout à l'heure en ce qui concerne les PCAA. Vous avez dit que: « Les risques concernant les liquidités de ces produits ont été sous-estimés ». Vous arrivez ici et vous nous dites que vous avez mal fait votre travail, que vous avez perdu des milliards de dollars, mais vous persistez et vous signez. Vous dites, « comparé à d'autres, on n'est pas si pire dans notre industrie ». Je perçois cela comme une tentative de préparer la voie à ce que vous vous donniez des bonus. Est-ce que je me trompe?

M. John Valentini: Vous vous trompez. Monsieur Mulcair, dans les investissements, on n'a pas un taux de réussite de 100 p. 100. On a de bons et de mauvais coups. En fait, dans le passé on a eu plus de bons que de mauvais coups. On s'est classé avec de bonnes performances. On parle de PCAA. Je pourrais parler pendant les 15 prochaines minutes de tous nos bons coups. En ce qui concerne monde des investissements, tu réussis certains investissements et tu ne le fais pas avec d'autres.

M. Thomas Mulcair: C'est d'accord, monsieur Valentini, on fait des progrès. Tout à l'heure, on a réussi à s'entendre sur le fait que vous avez perdu des milliards de dollars.

On vient de s'entendre sur le fait que vous gérez de l'argent public. Quand vous parlez des normes de l'industrie et que vous voulez vous comparer à l'industrie, j'insiste sur la chose suivante. Il faut quand même communiquer à vos autres partenaires du conseil d'administration l'information suivante. S'ils sont persuadés qu'ils méritent plus, ils peuvent s'en aller au secteur privé où ils pourront peut-être avoir plus. Pour le moment, ils sont en train de gérer des fonds du secteur public. Dans le secteur public, lorsqu'on perd des milliards de dollars, on ne se paie pas des bonus. Est-ce qu'on s'entend à ce sujet?

🕒 (1045)

M. John Valentini: J'ai entendu votre commentaire. On ne se compare pas au secteur privé mais à d'autres fonds de pension dans le secteur public.

M. Thomas Mulcair: Merci, monsieur Valentini.

[*English*]

The Chair: Okay. *Merci.*

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

Colleagues, we do have 15 minutes, but we do have some future business items we do need to discuss very briefly, particularly credit card issues. I will thank the witnesses and they can excuse themselves. We will continue on with our discussion. Let's suspend for two minutes and we'll come right back.

🕒

🕒

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

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

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

🕒 (1050)

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

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

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

The chair of that committee says they are pretty much booked up until May 7, so the option we have is to do it on Tuesday, May 12, Thursday, May 14, from 9 to 11 and 3:30 to 5:30. We have a good organization in terms of witnesses. The challenge is having 24 members. The vice-chair raised that. I don't know whether parties think perhaps they could substitute so that we actually only end up with 12 members around the committee or 13 or 14 rather than 24, but I wanted to get your reaction to that. If this committee agrees to that, perhaps we could have the two subcommittees meet and do the specific logistics if we had to.

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

I'd like to hear the reaction to that.

Mr. McKay.

Hon. John McKay: (Inaudible) committee of 24 is unworkable, and I can't imagine anybody wanting to participate in that.

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

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

Mr. Mulcair.

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

The Chair: You prefer 24.

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

An hon. member: Now we know.

An hon. member: That explains everything.

The Chair: You should never reveal biographical information.

Mr. Wallace, please.

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

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

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

The Chair: I have Mr. Pacetti, Mr. Kramp and then Monsieur Laforest.

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

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

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

The Chair: It would be four meetings.

Mr. Massimo Pacetti: I would be in favour of what Mr. McKay stated if we were to have 20 meetings, but if we're going to limit it to four I don't have a problem with the joint meeting and then within our own parties who's in attendance, so whether it will be 12 or 24, as Mr. Mulcair said, we'll just stretch the table.

If we decide to have 20 meetings, then I think it is inefficient use of our time. I have no problem doing a joint committee if it's limited to four meetings. Then I think it's fine, but if we're going to stretch it out it becomes a problem in terms of logistics.

The Chair: Okay, thank you. Appreciate that.

Mr. Kramp.

Mr. Daryl Kramp: Thank you, Chair.

I'm actually in concurrence with Mr. McKay. I think 24 is unworkable. Each party can figure out who they wish to have there. Otherwise, our time is going to be down to a minute or two or three per witness. That's not going to be adequate if we wish to balance that. So let's just leave it with the normal committee structure, the normal precedent that is there for witnesses, like, when they attend, how many minutes we have, the seven down to the five, etc., and each party will work out its own internal representation.

The Chair: Okay, thank you.

Monsieur Laforest.

🕒 (1055)

[*Français*]

M. Jean-Yves Laforest: Je suis d'accord avec ce que vient de dire M. Kramp. Effectivement, 24, c'est beaucoup trop. Il faut que ce soit efficace et il faut aussi démontrer que l'on est sérieux. Si on en a 24, même les témoins vont s'y perdre. Or, ce n'est pas l'objectif. Vous avez bien dit qu'il y aurait quatre séances, qui auraient toujours lieu en après-midi. Est-ce bien cela? Est-ce que ce serait toujours de 15 h 30 à 17 h 30?

[*English*]

The Chair: The four meetings, my proposal is to have it May 12, 9 to 11, during the normal finance slot, and 3:30 to 5:30, during normal industry slot, and then on May 14 and the same times.

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

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

[*Français*]

M. Jean-Yves Laforest: Donc, le 12, le matin et l'après-midi et le 14, le matin et l'après-midi. C'est bien ça? Il y aura deux séances par jour.

Monsieur le président, j'aimerais ça si le greffier pouvait nous faire parvenir, à la fois pour cette étude et pour les autres études à venir, la liste des témoins suggérés par les autres partis. Je pense qu'on a déjà eu quelque chose de semblable. Cela nous permet de voir exactement qui vient témoigner et ne pas faire des invitations en double. Je pense que sur le plan du fonctionnement, cela peut être assez intéressant.

[English]

The Chair: Sure. And just in discussion with the researchers, there was the thought of having the Canadian Federation of Independent Business, the Retail Council of Canada, those who have real concerns about the credit card and the merchant discount rates. You could have the financial institutions. You could have the companies like Moneris that are split off. And then you have Visa and Mastercard, if you want to have American Express. So those are four sort of logical meeting groups.

But that's a valid suggestion, and we'll do that.

Mr. Pacetti

Mr. Massimo Pacetti: My suggestion would be that on Tuesday, between 11 and 1, if possible, we have our steering committee with the industry committee, the finance with industry, and we discuss as to the logistics, as to the makeup of the committee, and then we also discuss witnesses and how we're going to structure them together. And if we need to, we'll have it again, another steering committee on the Thursday.

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

The Chair: So on Tuesday, April 28 or Tuesday, May 5?

Mr. Massimo Pacetti: Yes, Tuesday, April 28.

The Chair: Tuesday April 28, the steering committee to discuss witness groupings.

Mr. Massimo Pacetti: Well, first logistics, whether we're going to go with the 24 or 12. We have to see what industry thinks. Then at that point we'll discuss witnesses, once we have a format. Because even chairing the committee is going to be an issue, as well. It's nice to say you're going to co-chair, but then that means that the Conservatives have to be okay with the fact—

The Chair: Well, everyone knows finance is the most committee!

Some hon. members: Oh, oh!

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

Some hon. members: Oh, oh!

The Chair: Okay.

Mr. Massimo Pacetti: We talk to each other, so then we'll report back.

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

Mr. Wallace.

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

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

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

The Chair: Monsieur Laforest.

[Français]

M. Jean-Yves Laforest: Ça va pour ça, pour les cartes de crédit.

Vous aviez parlé d'un voyage à Washington. J'aimerais savoir si vous aviez prévu une date.

[English]

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

[Français]

M. Jean-Yves Laforest: Nous parlons de travaux futurs. On est presque rendu à la mi-mai. À la troisième semaine de mai, au retour de la pause, il faudra aussi prévoir une, deux ou trois séances sur la question du rapport de l'étude que nous avons actuellement. Éventuellement, il y aura des recommandations à faire au gouvernement. J'imagine qu'il faudra aussi intégrer cela aux travaux futurs. Je pense qu'on doit le prévoir.

[English]

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

Some hon. members: Agreed.

The Chair: Thank you. Thank you, all.

Meeting adjourned.