



House of Commons
CANADA

Standing Committee on Finance

FINA • NUMBER 065 • 1st SESSION • 39th PARLIAMENT

EVIDENCE

Thursday, February 15, 2007

—
Chair

Mr. Brian Pallister

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• (1010)

[English]

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

We're here pursuant to the order of reference of Thursday, December 7, 2006, Bill C-37, an act to amend the law governing financial institutions and to provide for related and consequential matters.

Mr. Flaherty, the committee met last week, and we decided to ask you to please try to keep your opening comments to between 10 and 15 minutes, so that the members can engage in questions. If need be, we'll try to provide you a bit of time at the end.

The only problem is that we have to be done by 11 o'clock, because we have to go to another room then.

If you're ready to start, thank you.

Hon. Jim Flaherty (Minister of Finance): Thank you, Mr. Chair.

I apologize to you, Chair, and to the committee members for being late. I was in a cabinet committee meeting that ran a little late.

I thank you for the opportunity to be here today.

[Translation]

I appreciate this opportunity to appear before your Committee today to discuss Bill C-37, An Act to amend the law governing financial institutions and provide for related and consequential matters.

[English]

As you know, in November we introduced Advantage Canada, which is the long-term economic plan for our country. We introduced this along with the economic and fiscal update. Advantage Canada is a long-term economic plan designed to make Canada a world leader, both today and for future generations. It will help make the Canadian economy even stronger and improve our quality of life through competitive economic advantages. A strong economy must be supported by a financial system founded on competition, which instills confidence and efficiently provides the financial services that families, individuals, and businesses need in Canada.

Canada does have a strong and sound financial system that has served Canadians well. It provides about 700,000 highly skilled, knowledge-based, well-paying jobs.

[Translation]

In the coming years, however, Canada's financial system will have to adapt to the evolving needs of households and businesses.

It will also need to embrace the increasing use of technology in the delivery of financial services.

[English]

That would be achieved through a flexible regulatory framework founded on sound principles. That is where Bill C-37 comes in. The bill does not seek to overhaul the financial institution statutes that by and large work well. Rather, the bill introduces adjustments to the framework, fine-tuning to further promote competition disclosure, regulatory efficiency, and innovation. The results will benefit families, individuals, small businesses, and the economy overall.

Before I outline the measures in the bill, I want to underline the fact that the proposed changes I'm referring to today are based on extensive consultations. These changes were then outlined in a white paper, which was issued last June, entitled "2006 Financial Institutions Legislation Review: Proposals for an Effective and Efficient Financial Services Framework".

Catchy title, isn't it?

Some hon. members: Oh, oh!

Hon. Jim Flaherty: Bill C-37 is consistent with the policy commitment of Canada's new government to ensure that our country's regulatory framework remains responsive to domestic and global developments. It also maintains the regular practice of five-year reviews of the financial institution statutes.

This bill has three basic objectives.

• (1015)

[Translation]

First, to promote the interests of consumers. These proposals will do that in a number of ways. One way this bill will benefit consumers is by improving the disclosure regime so that consumers have the information they need to make the best decisions in light of the choices made available to the them.

[English]

For example, with the increasing popularity of online banking, Bill C-37 proposes to harmonize online and in-branch disclosure requirements. This will allow consumers to compare products more easily and ensure that adequate disclosure is provided to customers conducting transactions online.

Another way the bill will benefit consumers and small businesses is by helping reduce hold times imposed on cheques. Instead of using this regulatory power, the government has finalized an agreement with the banking industry to voluntarily reduce the maximum hold period for cheques from ten days to seven days. Once electronic cheque imaging is fully implemented, that hold period will be reduced even further to four days.

The second objective of the bill is to increase legislative and regulatory efficiency in our banking system. One such example is to simplify the foreign bank entry framework. This will be especially helpful to the so-called “near banks”. These are foreign entities that are not regulated as banks in their home jurisdictions but that provide banking-type services. A car manufacturer, for example, currently has to obtain ministerial approval before being able to provide loans or make leasing arrangements, and this will no longer be required.

The measures in the bill will simplify the entry framework, reduce the regulatory burden, and provide for an environment that is conducive to increased competition.

Another way in which this bill will increase efficiency in our banking system is to improve the regulatory approval regime. This will ensure that transactions are dealt with faster and more efficiently.

Bill C-37 also responds to changes in the marketplace. Mandatory insurance for high-loan-to-value or high-ratio mortgages was introduced over 30 years ago, and that was as a safety measure to ensure that lenders are protected against fluctuations in property values and associated defaults by borrowers. The marketplace has of course changed over time and the mortgage insurance restriction is no longer required to the same extent. So this bill proposes to raise the loan-to-value ratio requiring mortgage insurance from 75% to 80%.

[Translation]

This will lower the mortgage down payment consumers are required to make before the law requires the purchase of mortgage insurance and will create an opportunity for mortgage cost savings.

[English]

So a family purchasing a \$200,000 home with a down payment of 20% could save approximately \$1,600. This is a significant amount, of course, especially for first-time home buyers.

The third objective of Bill C-37 is to provide the financial institutions framework with the ability to adapt to new developments in the industry. Amendments in Bill C-37 reflect the fact that banking services must remain up to date with new technology. The proposal to implement electronic cheque imaging is one such example.

Given the development of new technology, the old paper-based process of clearing cheques is too labour-intensive, time-consuming, and costly. So electronic cheque imaging will result in significant efficiency gains, saving time and resources currently dedicated to the movement of cheques. This amendment is complementary to the proposal to reduce cheque hold times that I mentioned earlier.

Another important change is the proposal to allow financial institutions to add more foreign directors to their boards. This

amendment will enhance the ability of our financial institutions to pursue global business opportunities, allow for even greater benefits from the expertise and experience of foreign talent while maintaining a majority of Canadian directors on their boards.

As I've said before this committee on other occasions, I'm very proud of the performance of our financial institutions internationally, including in China, where four of our chartered banks are active and two of our largest insurers, Manulife and Sun Life, are active as well. This is something to be encouraged and applauded in terms of our financial institutions taking leadership roles outside of Canada, helping to promote trade for Canadian businesses, which can follow in the path, as they often do, of the large Canadian financial institutions.

● (1020)

[Translation]

In summing up, the amendments proposed in Bill C-37 will enhance the framework governing Canada's financial institutions.

[English]

Thank you, Chair.

I invite questions that committee members may have. And officials are here, of course, with me from the Department of Finance.

[Translation]

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

I would like members to remember that, when a minister appears, the New Democrats speak third. We'll begin with a first round of six minutes, and we'll try to have a second round. I want you to remember as well that the senior officials from the Department of Finance will be appearing at 11 o'clock.

Mr. McCallum, you have six minutes.

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

[English]

Mr. Minister, I thank you for your presentation.

I think it's unlikely that the Liberal Party would object to this, because most of it occurred when we were the government, in the form of a white paper, and I think the bill does make some useful changes, but I think it's mainly of a technical nature. So I would think that this would not be terribly controversial, nor that there would be major bones of contention.

Would you agree with that assessment, from your standpoint?

Hon. Jim Flaherty: Yes. We often agree, Mr. McCallum. It's not unusual.

Some hon. members: Oh, oh.

Hon. John McCallum: Given that we're in full agreement on this subject—

A voice: We should order drinks more often.

Some hon. members: Oh, oh.

Hon. John McCallum: It appears that we're in full agreement on this subject, although we may change our minds after we hear witnesses, and I wouldn't want to prejudice that. Since that is the case and there's not too much point in going further when we're in agreement, I'll change the subject to income trusts.

As you may know, we recently came up with a proposal to have essentially a much more moderate rate of taxation on income trusts. We believe that, as four expert witnesses who came before us established, a much more moderate tax would in fact be sufficient to ensure tax fairness and to ensure that the personal sector was not disadvantaged in any way by lower taxation paid by corporations in income trusts. We dealt with the tax fairness issue according to these four experts, and we didn't really have opposition from the government side, because on that all we got was a blacked-out paper. We didn't get the numbers.

The great virtue of our plan is that experts have also shown that by virtue of a much lower tax rate, we do much less damage to the sector, and that approximately two-thirds or so of the wealth that was destroyed—the \$25 billion of wealth that was destroyed by your plan—would come back under our much more moderate plan. So in that sense, our plan is fairer: it is fair not only to households, but also in that those who've lost so much money would stand the chance of regaining the majority of their losses.

I think this is a balanced alternative. CIBC World Markets has come out with a report stating that the Liberal proposal does create a balance between the investing public's need for a strong and growing income trust sector and the public policy need to stem tax leakage and eliminate unrelenting conversions to income trust structure. In addition, the Canadian Retired & Income Investors' Association says, and I quote:

The Liberals' policy is a major improvement over the ill-conceived, highly damaging Conservative plan. We applaud them for caring about seniors and other ordinary Canadians.

Mr. Minister, you were aware of this option. Our proposal is the same as one of the proposals made by PricewaterhouseCoopers, and certainly finance department officials were aware this was an option. Clearly it did far less damage to people who had taken the Prime Minister at his word and invested in income trusts; and clearly as well, it would have restored tax fairness, and it would have been, indeed, fairer because it would have been so much less damaging to those individuals.

So my question to you, given these third-party endorsements, and given what I would regard as a compelling need to do minimum damage to those who had taken the government at its word and invested in income trusts, rather than maximum damage to the tune of \$25 billion, is whether you would consider changing your plan to the plan that we have just proposed.

•(1025)

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

Just before you answer, Mr. Flaherty, I think we're treading on thin ice here. The normal tradition of the committee is to allow members to utilize their time in whatever fashion they please. I think you're a big boy, so you can handle and answer that question any way you

want. I don't think I have to rule it out of order, but if you wish to answer it, it's up to you. I'll let you handle it in the way you see fit.

Thank you.

Hon. Jim Flaherty: Thank you, Chair.

The preponderance of the evidence before the committee was in favour of the plan I announced on October 31, which is about tax fairness. I think the Liberal Party, including Mr. McCallum, have forgotten that. You'll see the recurring theme of tax fairness reflected in the budget I do as well. That is, that individuals in Canada should not be asked to assume the corporate tax burden, and that among corporations, regardless of corporate structure, whether it's an income trust structure or a corporate structure, everybody should bear their fair share of the tax burden. That's tax fairness.

There is leakage on this, all right. There's leakage of credibility by the Liberal Party of Canada, and by you. You said on November 5, 2006, on national television, that the government did absolutely the right thing. Since then, I guess you've had some kind of conversion by lobbyists from various parts of the country, and you've changed your mind. So now we have three Liberal plans—just as we had three budgets from the Liberals in 2005. Three seems to be the lucky number—

Hon. John McCallum: Mr. Chair, maybe I could clarify that statement.

You're taking my statement out of context. If you read the full transcript, you will see that the first part was right in terms of the government having to act. But I subsequently said that the government was totally wrong to drop a nuclear bomb on the industry when a surgical approach would have done the job.

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

Monsieur Paquette, *six minutes, s'il vous plaît.*

[*Translation*]

Mr. Pierre Paquette (Joliette, BQ): Welcome, minister.

I'll stick to the Bank Act. I don't think the bill you've introduced contains any elements to which we object. These are very technical elements. Cheque imaging is an interesting thing for consumers and banking institutions.

However, I'm concerned by what isn't in the bill. The Bank Act is revised every five years. This was an opportunity to settle and decide a number of issues. Take insurance, for example. The banks want to sell insurance. They've proposed a compromise solution, as you know, but the insurance companies don't want that.

Why haven't you decided the matter? This issue will no doubt continue over the next five years.

There's also the issue of electronic payments, which are increasing in number. Debit cards are now more popular than cash. Here I have a document from the Canadian Consumer Initiative. That consists of six Canadian consumer associations. In Quebec, Option consommateurs, a consumer association, is requesting that a coherent, modern electronic payments structure be created, as the United States and the European Union have done. According to that association, the fact that the forms of protection are highly uneven and complex will ultimately cause problems for consumers. It's already causing some, but this might even put a brake on the development of electronic payments.

Why weren't these matters addressed in the context of the Bank Act review?

[English]

Hon. Jim Flaherty: Thank you for your suggestions.

It's good that the bill is at committee. If your party has constructive suggestions, Mr. Paquette, with respect to the bill, I'd welcome consideration. I'm sure the government members of the committee would welcome consideration of those. We have made clear, as a matter of government policy, that we're not about to take action with respect to the request by banks to sell insurance more than they do now.

I'm aware that in the credit union movement, including Groupe Desjardins, there's a different scope of business.

On the second item, about electronic payments, again, that's something we could consider. And I know that you have some comments on that, Mr. Dupont.

•(1030)

[Translation]

Mr. Serge Dupont (Assistant Deputy Minister, Financial Sector Policy Branch, Department of Finance): On that point, I'd simply like to point out that the government stated in the June White Paper that it would propose a voluntary approach to all stakeholders. The federal government does not regulate all stakeholders with regard to payment systems. It regulates the banks and other stakeholders. Consequently, we will initially favour a voluntary approach based on what was used for the debit card code, to see whether we can come up with a code that can govern all electronic payment systems as a whole.

Mr. Pierre Paquette: Our system is based on self-regulation. The bank ombudsman is funded by the financial institutions. For some, that may seem to be a conflict of interest, since the banks fund the monitoring organization themselves. I'm not saying it's bad, but it seems to me that, on the consumer side, a number of things have been proposed, such as a coregulation system in which consumer organizations would play a bigger role. We should have been told why the self-regulated system is being maintained. I met with the people from the Canadian Bankers Association. They explained to me things that I thought were entirely reasonable. In that case, it's as though we were disregarding a significant problem and debate.

Mr. Serge Dupont: I don't think the problem is entirely disregarded. Moreover, the consumer associations will be invited to work on the development of this code. The Department of Finance will be acting somewhat as a leader in this field and will invite the

representatives of the provinces, the consumer organizations, payment service providers — we regulate some of them and not others — so as to put all the issues on the table and develop a code that can satisfy all those parties. The problem isn't completely disregarded, on the contrary. We're trying to involve all stakeholders in order to come up with practical solutions.

Mr. Pierre Paquette: If I have a little time left, I'd like to ask a final question on banking fees, particularly fees related to automatic teller transactions.

Have you thought of that? It seems that the practice in Canada is quite different from what it is elsewhere. In most countries, there aren't these kinds of fees. Perhaps there's some logic there. I repeat that we are at the start of a consultation process that we want to be quick — I want to reassure my friends and the parliamentary secretary — but we would like to know a little about where the government stands on this.

[English]

Hon. Jim Flaherty: Mr. Paquette, since the issue was raised in the House about ATM fees, I did communicate with the banks about that. I have a response from the Canadian Bankers Association, and I've gone ahead and communicated directly with the banks again. I'm looking for a more direct response on that issue.

I did have occasion to meet with the credit unions. I mentioned this in the House of Commons when the issue was first raised because this is really a question of competition and choice. I'm not familiar with the practices of Groupe Desjardins in Quebec, and elsewhere where they have branches, but I am familiar with the other credit unions across Canada, who informed me that they have a network in one instance of I believe 1,600 machines, and another one of 2,600 machines, where, if you're a member of one of the credit unions involved in that network, you do not have to pay any fee if you use the machine either to withdraw money or to deposit money.

So for many Canadians there is choice with respect to the use of ATMs belonging to other financial institutions than the one they do business with directly.

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

We will go to Mr. Marston, and then Ms. Ablonczy.

Mr. Wayne Marston (Hamilton East—Stoney Creek, NDP): Minister, I want to begin by saying I'm pleased with the role you were able to play recently with regard to mortgage insurance for the widows of Canadian veterans. I'm not one to give Conservatives credit too often, but that one certainly is worthy of it.

Further on the ATMs, on December 11 and December 29, in response to NDP questions in the House, you indicated you'd be raising the issue of unnecessary ATM fees charged by the banks. As we've heard, there is a differential between when the fees apply and when they don't, and of course from our perspective with the banks, with their \$19 billion in profits—Mr. Nixon receiving \$5 million in a bonus—we think it's time for action on that. If you agree with our position that the bank ATM fees are inappropriate, as you indicated before, why haven't you done something more substantial on these fees?

•(1035)

Hon. Jim Flaherty: As I said, Mr. Marston, I am dealing with the banks on the issue, which your party raised initially in the House of Commons. I'm not satisfied that I have their final positions on this yet, but I will certainly be open about it when I'm satisfied that I have their final positions.

My view of it perhaps is moderately different from yours in the sense that my goal in the financial institution sector is to see competition and choice. That's the principle we ought to promote in Canada, and there is competition and choice, given the different approach of some of the credit unions.

Mr. Wayne Marston: Under Mr. Mulroney's government in 1987, the finance committee was studying credit cards and the fees and disclosure practices, and they recommended, among other things, that a partial payment should be applied to lowering the interest-bearing balance. Would you agree with that? We think it's high time that was put into place.

Hon. Jim Flaherty: Could you describe that to me again, Mr. Marston? Just to make sure, because I—

Mr. Wayne Marston: Okay. I'll read it this time, to be very precise.

[*Translation*]

Mr. Pierre Paquette: We were too young in the Mulroney era.

[*English*]

Mr. Wayne Marston: Under the Mulroney government in 1987, the finance committee studying credit card fees and disclosure practices recommended, among other things, that any partial payment lower the interest-bearing balance.

Hon. Jim Flaherty: I understand. I take the point. Actually, I don't think we have any specific comment on that, and it wasn't in the white paper, but I'm happy to take it under advisement and go back and look at what was recommended in 1987 and consider it.

Mr. Wayne Marston: Do I have more time, Mr. Chair?

The Vice-Chair (Mr. Massimo Pacetti): Yes, you still have three minutes.

Mr. Wayne Marston: I like to do what's called a "Timmy's poll" in my city of Hamilton. This is not intended to be insulting to you, but people have asked me out there whether you were one of the advisers during the election campaign to Mr. Harper on finances.

Hon. Jim Flaherty: Not formally, no. I didn't have any formal position. I don't mind answering. I'm trying to remember now. Certainly Mr. Harper and I discussed issues relating to finances and the economy of Canada, but I did not have any formal position in the campaign.

Mr. Wayne Marston: The purpose of the question on behalf of the people at Timmy's is that they were raising it in the context of the promise on income trusts and who was involved because they were very concerned with that.

Hon. Jim Flaherty: I understand the concern. Mr. Harper and I are of one mind on that subject, obviously. The other reason for what we did on October 31 was the changes that happened last year...and had they not occurred. Different people have different views about that, and I've heard them.

What's the duty of government when there's substantial change and you see the economy going in a certain direction that in our view is not in the best interests of our country?

Mr. Wayne Marston: To be frank, the NDP did support the taxation, and in fact we called for it in the last election. The concern from people in the community was the change of position.

Hon. Jim Flaherty: I understand. The explanation is the change in circumstances and what we went through. Sometimes one has to make decisions that are uncomfortable and not decisions one would choose to make, but one feels compelled to make them in the best interest of the country. I can't explain it any better than that.

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

Ms. Ablonczy.

Ms. Diane Ablonczy (Calgary—Nose Hill, CPC): Thank you, Mr. Chair.

Thank you, Minister, for being here. We always appreciate having you available to us.

My friend Mr. McCallum chose to bring up income trusts, so I'd like to continue on that. As you know, the Liberals brought out a proposal this week. I like to think of it as the gang who couldn't shoot straight comes back.

This is kind of an odd proposal. It continues to tax some businesses more than others. It says that trusts should continue, even though a number of witnesses said that two-thirds of the trusts make payments from capital brought in by investors and not from their income earned. Some witnesses referred to a substantial segment of the industry as a Ponzi scheme, and said there were some structural problems there.

The Liberal proposal would say, "Well, no more trusts can be formed, but if you lobby hard enough maybe you can still form a trust". So there's a great deal of uncertainty re-created. I guess the Liberals haven't learned that uncertainty is not good for the market and causes a great deal of difficulty for investors.

I think the Liberals are sort of hoping they can convince Canadians that they can have their cake and eat it too. It's the same with a lot of issues with the Liberals. There's a lot of unreality about what they tell Canadians. I think this is dangerous. I'm very concerned about this.

As finance minister, what can you tell Canadians about this proposal the Liberals brought forward? I might add that their proposal came forward after we heard all the witnesses. The committee hasn't really had a chance to ask anybody about it.

•(1040)

The Vice-Chair (Mr. Massimo Pacetti): Mr. Flaherty, I must again remind you that this committee has been pretty flexible in allowing members to utilize their time any which way they choose. If you choose to answer that question, you may. You're a big boy, so I think you can handle it.

Hon. Jim Flaherty: Any proposal that would continue preferential tax treatment for trusts is unfair by definition. It fails to treat all Canadians the same for tax purposes. To the extent we can, surely that's the goal toward which we must strive—tax fairness in Canada. As I said, I hope to create more tax fairness in Canada, not less.

This most recent proposal of many proposals from the Liberal Party is a hodge-podge of a little bit of this and that. But it would continue the systemic, structural, preferential tax treatment of one form of corporate structure over others, at the expense of individuals in Canada.

The more useful commentary I've heard of late came from the New Democratic Party on the issue of accounting rules for income trusts. There has been some fairly informed commentary on this in the media and by the New Democratic Party. If further work were to be done on income trusts, I'd be inclined to look at the accuracy and fairness of the accounting that is being done to individuals in Canada who are unit holders of income trusts.

On the leakage issue, I know that some Liberals are fond of saying they don't believe the leakage numbers. I invite them to go back and look at their own figures in 2004 when Mr. Goodale was the Minister of Finance. The leakage, according to their own calculations at the time, was \$300 million, and grew with the growth of the income trust sector thereafter.

The Vice-Chair (Mr. Massimo Pacetti): Ms. Ablonczy, you have another minute.

Ms. Diane Ablonczy: Thank you.

I just want to return to the subject at hand, which is the Bank Act.

You mentioned that there were some advantages to consumers. My friend Mr. Marston knows about that. I wonder if you could tell the committee what advantages you see to consumers in the measures before us in this bill.

Hon. Jim Flaherty: One of the more significant ones probably is getting the hold period reduced, particularly for people who need that cash flow regularly to pay their mortgage payments, to pay their rent, to pay for groceries, and so on.

We have seen the growth of some of these quick money types of operation in Canada. There's been some concern about their growth and some legislative ideas put forward concerning it. To the extent we can create more efficiency and clear cheques more quickly in the Canadian financial institutions, it will benefit consumers directly, and people will see the benefit of that fairly quickly.

The Vice-Chair (Mr. Massimo Pacetti): Thank you, Mr. Flaherty. Thank you, Ms. Ablonczy.

We're going to go to three-minute rounds, since we're having a hard time focusing on the subject at hand. We're going to go three-minute rounds so that we can try to get five people in.

I will go to Mr. McKay, Mr. St-Cyr, Mr. Dykstra, Monsieur Thibault, and then Mr. Del Mastro.

Mr. McKay.

Hon. John McKay (Scarborough—Guildwood, Lib.): Minister, you chose to go with 80% for mortgage insurance. As you know, in

Scarborough and Whitby \$200,000 doesn't buy you much of a house these days, so really you've moved it from \$150,000 to \$160,000.

Why didn't you go to 85%, since the industry evidence is clear that all of these companies are making quite a bit of money, that there's not a heck of a lot of risk in the down element of the profile, that pretty well from 85% down to 75% there is virtually no risk at all, and that the real risk is from 85% on up? If in fact we're getting new entrants into the system and they want to compete for this business and we want to be protective of consumers, why not move it up to 85%?

The second question has to do with electronic clearance. I'll use you as an example. If in fact you are a good consumer and pay your Visa bill on time electronically, the money is removed from your account but not credited necessarily to your Visa bill instantaneously. Sometimes there's a day or two of clearance time. The consequence is that you have the money then being removed from your account but not credited to the bill you intended to pay on time.

Given that there is some movement on the clearance periods, why not insist that particularly the banks within the payments system clear those things instantaneously, as Canadians have a right to expect?

• (1045)

Hon. Jim Flaherty: Thanks, Mr. McKay.

On your second point, I'll raise with the banks that issue about instantaneously giving credit. I think there's probably a consumer expectation for it, and if it's not happening, there may be some technological reason, or there may not be. I'll ask and I'll respond to you when I get an answer.

On the issue of why not 85% or some other percentage—90%, I suppose—it's a judgment call about what's prudent in the market. You're correct that there are more entrants in the market now, so there's more competition in the market. We thought, based on the consultations, that it was prudent to move the extra five percentage points, to 80%.

There could be more in the future. I know we are all accustomed now to a very strong housing market. It's not inevitable that it would always be thus. We've lived through cycles before in the housing markets, and some of us are old enough to remember, I think it was August 1981, when the prime rate was 22.5%. You're too young for that—no, you're not—but some of us remember it. People were losing their homes, walking into the lawyer's office and leaving the keys because they couldn't afford to renew their mortgages.

We thought this was prudent. As I say, at 20%, on a \$200,000 home the savings is about \$1,600 for the purchase.

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

[Translation]

Mr. St-Cyr.

Mr. Thierry St-Cyr (Jeanne-Le Ber, BQ): Thank you.

I'd like to continue the discussion on electronic payments. More and more citizens are talking to us about that. This issue is a great concern for them. In Canada, one industry could expand extensively, on the Internet, among other things, if statutory measures aren't introduced to slow that trend. However, those measures aren't included in the act for the moment.

I know you favour a voluntary approach, but that involves two problems, in my view. First, it can be a long and difficult process, and it isn't clear that it will be to the advantage of consumers. In addition, people's perceptions are at issue. I won't be telling you anything new when I say that a large segment of the population has little or no trust in the financial institutions. Citizens often tell me that they doubt those institutions are able to regulate themselves. They also doubt that this process is to their advantage.

One of the measures sought by a number of consumer advocacy organizations is to set a fraud liability limit of \$50 for every electronic payment. At the moment, that limit applies when you pay by credit card.

Would you be open to the idea of applying that limit to other payment methods, so that this minimum protection always applies, regardless of payment method? We would be assured that the financial institutions would make even greater efforts to prevent fraud since they would have to bear the balance of any potential frauds.

If we were to adopt that measure, would you support it?

• (1050)

Mr. Serge Dupont: When we talk about a voluntary approach, we're not talking about a process in which providers simply do what they want to do. We're also talking about a code whose implementation is potentially monitored by the Financial Consumer Agency of Canada. Second, for these payment methods to have a future, in other words, for consumers to want to use them, we will have to convince them that standards and measures designed to protect them will be implemented. If consumers don't trust these payment methods, they won't necessarily use them.

Service providers therefore have an interest in maintaining a certain level of trust, and consumers...

Mr. Thierry St-Cyr: I'm going to interrupt you, since I understand all that. This is more a political issue, which is the minister's responsibility.

Would you support the decision to introduce limited liability, set at \$50, for all payment methods?

[English]

Hon. Jim Flaherty: I support competition, so the answer is that I wouldn't be in support of a compulsory rule for everybody in the country for it, no. I think it's one of those items financial institutions should compete about, offering various products at various prices to people. Let people make their choices.

[Translation]

The Vice-Chair (Mr. Massimo Pacetti): Thank you, Mr. St-Cyr.
[English]

Mr. Dykstra, you have three minutes, please.

Mr. Rick Dykstra (St. Catharines, CPC): Thank you, Chair.

This is to the minister or the ministry officials. There have been a lot of discussions around banks. Obviously, we have some credit unions in our country as well. Could you comment on any amendments that may be in the act that will provide some benefits for some of the credit unions?

Hon. Jim Flaherty: If you don't mind, Mr. Dupont will reply.

Mr. Serge Dupont: There's one amendment in particular in the bill, which in fact we've discussed with the Co-operative Union...the CUCC—sorry, I have the acronym, but I forget the different parts—that is allowing a retail association of credit unions to be created with a lower threshold. Currently under the act, such an association to provide services to credit unions can be created if you have ten credit unions getting together in creating such an association. We're lowering that threshold to allow two credit unions alone to do it. That means that two credit unions, which might be in separate jurisdictions in the country, can get together, for example, to share data processing and share other services that they can then render to themselves. It's allowing them to establish more competitive platforms nationally, getting together and becoming more competitive.

Mr. Rick Dykstra: Thank you.

One of the other issues that I certainly had a lot of meetings on from a local perspective was with respect to banks and insurance, and where we were going to go with that. As you mentioned, the decision was made to not move forward, Minister. Is there any thought in terms of where this is going to go? Perhaps you could comment a little further on the decision to not allow that to happen at this point.

Hon. Jim Flaherty: Thank you for the question.

Our government has been clear that we are not about to expand the ability of the banks to sell insurance. There are various concerns relating to that in terms of policy issues, but suffice it to say that we have been clear on that position and are not going to move forward on that.

• (1055)

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

We'll go to Mr. Thibault, and then Mr. Del Mastro. We need to clear the room by eleven o'clock, so I'm going to go to two minutes each, if possible.

Hon. Robert Thibault (West Nova, Lib.): Welcome, Minister.

Madame Ablonczy pointed out that we did hear witnesses who pointed to some dangers in the income trust sector, but the fact remains that the promise had been made not to tax it, and you did. What could have been a surgical strike was a nuclear bomb. Lots of money was lost. The Governor of the Bank of Canada, David Dodge, said there were some investment needs in Canada for which trusts were a good vehicle forward, a good instrument forward. You, yourself, I believe, have agreed with that by leaving the REITs in.

What I fail to understand is this. You now have a proposal on the table for modification of your plan, a proposal that maintains the principle that you want to look at—stop the proliferation of trusts—but one that answers to all those other needs by permitting them when it's the proper tool, when it's the proper instrument, thus reducing the hit on individual Canadians.

We have heard that large institutional investors were not hit by your decision, that things get mitigated over the medium to short term for them, but individual investors were hit very hard. Now you refuse to consult with the industry and you refuse to study or even discuss a proposal put forward by Mr. McCallum to mitigate some of those negative effects. I fail to understand that, Minister.

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

Hon. Jim Flaherty: Please don't misunderstand my disagreement with the position of the Liberal Party with not understanding it. I understand it fully. It does not create tax fairness. It does not stop the leakage of tax revenue, according to the Liberals' own figures in 2004. It continues to favour foreigners compared with Canadians with respect to the payment of taxes. So it fails on all three counts.

This is exactly what your government did when you were the government in the fall of 2005. You bungled the issue. You keep talking about some way of doing it other than the way we did it, and you failed.

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

We have three minutes left, so I'll give Mr. Del Mastro two minutes, hopefully on a positive note.

Mr. Dean Del Mastro (Peterborough, CPC): Thanks.

Mr. Minister, I wouldn't waste too much time trying to convince them, since 28 witnesses appeared before them and told them evidence to the contrary. They never heard any of it, so I wouldn't suggest that you're going to have any more success.

I would like to go back to the issue at hand, which is the Bank Act. As we know, there is a real entrepreneurial and creative spirit in Canada. Small business certainly relies on strength in the banking sector. The strategic investments that the sector makes in supporting small business is critical to our overall economy.

Having said that, we see fairly significant profits in the banking sector. Are you satisfied that we see enough competition in our banking sector? Do you think the banks are taking enough risk in supporting small business?

Hon. Jim Flaherty: That's a good question, and certainly a very broad question.

I'm for competition in the financial services sector and elsewhere. I'm happy to see the strength in the credit union sector, quite frankly. I think it's good to have that kind of growth and competition in financial services in Canada.

At the same time, when I look internationally, we can be very proud of our financial sector and its participation internationally. We need to grow Canadian businesses globally, which we made clear in our economic plan for Canada, Advantage Canada.

Our large chartered banks and our large insurance companies are leaders internationally. We don't have that many large businesses in Canada—unlike our neighbour to the south, perhaps—that can lead the way into large emerging economies in the world. But our banks can and our large life insurance companies can, and they're a way for Canadian businesses, including SMEs, our small and medium-sized enterprises, to have access to some of the foreign markets.

Internationally, I think it's terrific that we have this strength of financial services. I'm thrilled at the employment numbers, which are great, with substantial employment, of course, in the greater Toronto area, where I'm from. It is one of the pillars of the Canadian economy, and I hope we'll continue to have substantial competition, and even more competition in the Canadian banking system.

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

Thank you, Mr. Flaherty. I would give you a closing remark, but I think that was a good closing comment.

We have to clear out the room. The committee has Room 237-C, so can we meet you there in five or ten minutes. Thank you.

The meeting is adjourned.

Published under the authority of the Speaker of the House of Commons

Publié en conformité de l'autorité du Président de la Chambre des communes

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