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## **Standing Committee on Public Accounts**

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**EVIDENCE**

**Thursday, February 17, 2011**

**Chair**

**The Honourable Joseph Volpe**



## Standing Committee on Public Accounts

Thursday, February 17, 2011

● (1530)

[English]

**The Chair (Hon. Joseph Volpe (Eglinton—Lawrence, Lib.)):** We'll bring the meeting to order, colleagues.

Witnesses, if you'd be patient with us, we have a brief item of business and then we'll carry on.

You have before you, colleagues, the 18th report of the subcommittee. The Subcommittee on Agenda and Procedure of the Standing Committee on Public Accounts has the honour to present its 18th report.

We met on the 16th—yesterday—to consider the business of the committee and agreed to make the following recommendations. You have them both before you.

Are there any comments or questions on them?

Shall I take that as an indication that we are all in agreement and the recommendations are adopted as presented?

**Some hon. members:** Agreed.

**The Chair:** So done.

**Mr. David Christopherson (Hamilton Centre, NDP):** Are we? Well, unless you're going to talk about the—

**The Chair:** No, go ahead.

**Mr. David Christopherson:** If you're going to do a report, obviously I don't need to say anything...on the March 10 meeting?

**The Chair:** I was just going to go there.

**Mr. David Christopherson:** You were about to comment? Fair enough. I thought you were moving on.

**The Chair:** I want to update the committee members. I gave you an indication that I was going to be speaking with the lawyer who is representing Madam Ouimet. We made several efforts to connect. We did so this morning.

We have a verbal understanding on where we will go. I asked him to send me something first. I said that if I thought it met the wishes of the committee, then I would respond to him so that we could have the confirmation items as per our understanding, and we're in the process of doing that. Okay?

**An hon. member:** That's fine.

**The Chair:** So thanks for giving me the flexibility that I needed to nail things down as per the committee's desires.

That's it.

Now we have before us several witnesses today. From the Office of the Auditor General of Canada, we have Mr. John Wiersema, deputy auditor general; Madam Nancy Cheng, assistant auditor general; and Mr. Richard Domingue, principal.

From the Department of Finance, we have Michael Horgan, the deputy minister; and Madam Diane Lafleur, director general, financial sector, policy branch. Welcome.

From the Canada Deposit Insurance Corporation, we have Michèle Bourque, president and CEO. Welcome.

And from the Office of the Superintendent of Financial Institutions, we have with us today Gary Walker, assistant superintendent, corporate services sector. Welcome to you as well.

Each of the four groups are going to be making a brief presentation. Some will be briefer than others, but since all of you are familiar with some of the procedures and conventions of committees, I won't belabour the point about hoping you'll stay within five to seven minutes. Then we'll go to questions. We'll go through all of the presentations first.

Mr. Wiersema.

**Mr. John Wiersema (Deputy Auditor General, Office of the Auditor General of Canada):** Thank you for this opportunity to meet with your committee this afternoon to discuss the chapter, "Regulating and Supervising Large Banks" from our fall 2010 report.

As you indicated, joining me at the table are Nancy Cheng and Richard Domingue, who were responsible for this audit.

We conducted this audit following a period when the Canadian financial sector had to cope with significant pressures in domestic and international markets. Our audit objective was to determine whether the Department of Finance, the Office of the Superintendent of Financial Institutions Canada, and the Canada Deposit Insurance Corporation had appropriate processes in place to regulate and supervise Canada's large six banks.

The audit focused on the large banks because they are essential to providing stability to the Canadian financial system.

[Translation]

The audit examined four main areas: first, how the federal organizations share information; second, how they regulate the six largest banks; third, how they supervise these banks; and finally, how they request information from banks.

The audit found that, compared with many other countries, Canadian banks fared well during the recent global financial crisis. Canada's approach to regulating and supervising banks proved robust and effective. No Canadian banks failed.

[English]

The objective of regulating banks is to achieve a stable and efficient financial system. Around the world, regulations and best practices are rapidly evolving. The regulatory framework for banks needs to be kept up to date to reflect emerging domestic and international developments. We found that the federal organizations monitor emerging trends. For example, the Department of Finance Canada tracks domestic and international issues, and OSFI actively monitors and analyzes economic and market data. Information and emerging issues are regularly exchanged among the federal organizations. These exchanges were clearly a factor that helped Canada during the crisis.

We found that OSFI is implementing a requirement under the 2007 cabinet directive on streamlining regulation to incorporate effectiveness reviews into its rule-making process. However, while the Department of Finance performs some ad hoc reviews of the effectiveness of the bank regulations, significant parts of the regulatory framework are not subject to periodic reviews of their effectiveness. These reviews could support the review of the Bank Act, which takes place every five years, and help the government determine whether successive regulatory changes are working without unintended consequences.

• (1535)

[Translation]

The objective of supervising banks is to assess their safety and soundness and to intervene when necessary. We found that the Office of the Superintendent of Financial Institutions adequately supervises the six largest Canadian banks and that it is well regarded by the banks it supervises. We also found that the growing volume and complexity of its work is increasing the demand on its human resources. In this context, compensation practices and training need to be updated to ensure that it is in a better position to attract and retain qualified staff.

[English]

Reports and statistics from the regulated banks are required in order for the regulators and supervisors to perform their duties. Each large bank now submits a very large amount of statistics and information. Both the federal organizations and the banks have a common interest in collecting relevant data in a cost-effective manner. Therefore, information requests need to be periodically reviewed to determine if the data collected is relevant, accurate, and sufficient.

The Department of Finance and OSFI have agreed with our recommendations. We have reviewed the action plan, which I understand has been tabled with this committee today. OSFI's action plan, if successfully implemented, should address our recommendations. While the Department of Finance has considered our recommendation, it has decided, however, not to implement it. The committee may wish to discuss this further with the department.

[Translation]

Mr. Chair, this concludes my opening remarks.

We would be pleased to answer the committee's questions. Thank you.

[English]

**The Chair:** *Merci*, Monsieur Wiersema.

Monsieur Horgan.

**Mr. Michael Horgan (Deputy Minister, Department of Finance):** Thank you, Mr. Chairman.

It's my pleasure to be here today. You have introduced my colleague, Madam Diane Lafleur, who is the general director of the financial sector policy branch in the Department of Finance.

[Translation]

I am pleased to be here to discuss the Office of the Auditor General's report regarding regulating and supervising large banks. I want to commend the office on the quality of the final report.

[English]

Overall, it clearly highlights the strengths of the Canadian approach to financial sector regulation and supervision, which contributed to the relative success of Canada's response to the financial crisis.

[Translation]

The Canadian financial sector regulatory approach involves five federal financial sector regulatory agencies with distinct and complementary mandates: the Department of Finance, the Office of the Superintendent of Financial Institutions, the Canada Deposit Insurance Corporation, the Bank of Canada, and the Financial Consumer Agency of Canada.

[English]

The Minister of Finance has overarching authority for legislation respecting the financial sector under federal jurisdiction and responsibility for the overall stability of the financial system. Each of the agencies has specific responsibilities and powers set out in their enabling legislation and in the four acts that govern federally regulated financial institutions: the Bank Act, the Trust and Loan Companies Act, the Cooperative Credit Associations Act, and the Insurance Companies Act.

As found in the Auditor General's report, there are well-established mechanisms to ensure collaboration among these agencies. In addition, information-sharing requirements and confidentiality provisions that are enshrined in legislation allow information to flow efficiently between the organizations.

The financial institutions supervisory committee, or FISC, under the chairmanship of the Superintendent of Financial Institutions, ensures collaboration on prudential issues. The senior advisory committee, or SAC, provides advice to the Minister of Finance on policy issues affecting the financial sector, and I chair this committee as the Deputy Minister of Finance.

These coordination mechanisms have provided for collaboration among Canadian regulators, which has allowed a responsive approach to monitoring and managing the broad range of financial sector policy issues as they evolve. We agree with the Auditor General that "This ongoing exchange of information contributed to Canada's relative success in responding to the recent global financial turmoil...."

The Auditor General's report recommended that formal terms of reference be established for one of these committees, the senior advisory committee, and that these terms of reference include development of plans to perform effectiveness reviews of the regulatory and legislative framework to ensure that significant parts of the regulatory framework are periodically assessed.

As chair of the SAC, I have first-hand experience of the contribution this forum makes to ensuring that the minister is kept abreast of key developments in the financial sector and is provided with advice on ensuring that the legislative and regulatory framework is responsive to those developments.

● (1540)

[Translation]

As you know, we have recently been through very challenging times in terms of financial sector issues. We have gone through an unprecedented global financial crisis that identified a number of gaps and weaknesses in financial sector oversight in a number of countries. And we are now going through an unprecedented period of change as a result of international efforts to address those weaknesses in a coordinated way.

[English]

SAC has played a critical role throughout, meeting quarterly and more often as needed, particularly during the financial crisis, and harnessing the strong relationships between the Canadian financial sector regulatory agencies that were key to Canada's relative success. A key finding in the Auditor General's report was that Canada's information-sharing framework is effective and that its coordination mechanisms work well.

SAC was key in advising the minister on issues that arose during the crisis, often in ways that could not have been foreseen. SAC has also played a key role in developing Canada's response to the G-20 financial sector reform agenda, advising the minister on potential priorities for reform and on the impact of international proposals on the Canadian regulatory and supervisory approach. And SAC continues to play this role.

More recently SAC, for example, invited the Canada Mortgage and Housing Corporation to help form advice on ensuring the long-term sustainability of Canada's housing market. With the benefit of this advice, the government introduced adjustments to the rules for government-backed insured mortgages aimed at supporting the long-term sustainability of Canada's housing market.

We considered whether formal terms of reference for SAC would improve the functioning and effectiveness of the committee. As I've noted, SAC has proven to be a very effective forum for managing responses to financial sector developments and has been tested through an unprecedented period of crisis management and major reform. It has the flexibility to address issues as they evolve over

time and the scope to provide advice to the minister on the full range of issues affecting the financial sector.

SAC's broad scope also allows the department to respond positively to the second part of the recommendation, to periodically assess the effectiveness of the regulatory and legislative framework.

It should be noted that the financial sector legislative and regulatory framework is already subject to regular review. The financial institution statutes have a built-in sunset date, which leads to a process for review of those statutes every five years. This five-year legislative review involves broad public consultations with stakeholders and in practice has resulted in both legislative and regulatory changes and changes to the enabling legislation for regulatory agencies. As noted in the Auditor General's report, "the legislated five-year review provision helps keep the regulatory framework current and provides banks with the flexibility they need to react to changing times".

The next five-year review must be completed by April 2012. In keeping with that, the Minister of Finance issued a call for consultation for the 2012 legislative review in September of 2010. Conducting a five-year review of the statutes that govern our federally regulated financial institutions ensures that Canada remains a global leader in financial services and sets us apart from almost every other country in the world.

There are also regular international assessments and, as a result of recent G-20 commitments, periodic peer reviews of specific issues. Canada participates in the International Monetary Fund and World Bank financial sector assessment program, FSAP, which assesses Canadian adherence to international principles for financial sector regulation and supervision every five years. Canada has also been a major proponent of enhancing the Financial Stability Board's peer review process, which reviews findings from the financial sector assessment program as well as lessons learned from the financial crisis. We in Canada have volunteered to be an early candidate for peer review, beginning this year.

SAC plays an ongoing proactive role in ensuring the effectiveness of the legislative and regulatory framework, in discussing emerging risks and issues, identifying priorities, analyzing impacts, and discussing options for legislative and regulatory change. SAC discussed the new and strengthened legislation and regulation developed during the financial crisis and in response to the G-20 financial sector reform effort.

SAC has also been the forum for discussion of legislative and regulatory initiatives in response to stakeholders' interests, such as a legislative framework for federal cooperative banks, consumer protection enhancements, and a credit and debit card code of conduct.

● (1545)

[Translation]

In summary, the pace of change in the financial sector requires regular proactive risk-based assessment of the effectiveness of the legislative and regulatory framework. The current flexibility of SAC has allowed us to carry out such reviews in a timely way and make sound recommendations to the Minister of Finance on the need for new or more effective legislation and regulation in key areas of priority.

[English]

Thank you, Mr. Chairman.

**The Chair:** Thank you, Mr. Horgan.

Madame Bourque.

[Translation]

**Ms. Michèle Bourque (President and Chief Executive Officer, Canada Deposit Insurance Corporation):** Thank you. Mr. Chair and honourable committee members, good afternoon.

[English]

Mr. Chair, honourable members, good afternoon. Thank you for the opportunity to appear before you.

Since the Canada Deposit Insurance Corporation is not often called to this committee, I would like to begin my remarks by providing you with a brief snapshot of the work of the Canada Deposit Insurance Corporation, the CDIC. I will then comment on the role of CDIC as part of the Auditor General's fall 2010 report on the regulation and supervision of large banks. I will keep these opening remarks short and would direct you to additional information in our written submission.

CDIC is an independent crown corporation that is fully accountable to Parliament through the Minister of Finance. CDIC currently has 84 member institutions consisting of banks, trust and loan companies, and one retail association. The corporation is funded by premiums paid by these members and does not receive any parliamentary appropriations.

CDIC insures eligible deposits at each of our member institutions up to a maximum of \$100,000 per depositor in each of seven categories of deposits. These include eligible funds held in basic accounts, joint and trust accounts, along with registered retirement savings plans, registered retirement income funds, and tax-free savings accounts. As of April 2010, we insured over \$600 billion in deposits.

[Translation]

In addition to the provision of deposit insurance, CDIC contributes to the stability of the financial system in Canada. In order to achieve this part of our mandate, we work closely with all of the federal financial safety net agencies. The report of the Auditor General attests to this very effective working relationship with my fellow panelists from the Department of Finance and OSFI, along with the Bank of Canada and the Financial Consumer Agency of Canada.

I can add, from an international perspective, that the Canadian model of financial safety net agencies working together is the envy of many deposit insurers around the world.

CDIC was pleased to participate in this review by the Auditor General of the federal agencies responsible for the regulation and supervision of large banking institutions.

[English]

In speaking to the three recommendations in the fall 2010 report, CDIC factors indirectly into the first and third recommendations. Recommendation number one relates to the work of the senior advisory committee, or SAC, chaired by the Department of Finance. From a CDIC perspective, this committee and its numerous working groups provide invaluable and effective exchanges on a number of topics of importance in the financial sector. Coordination bodies such as SAC, the FISC, or the financial institutions supervisory committee, chaired by the superintendent and the CDIC board of directors, have proven vital during the financial crisis to stay ahead of emerging issues and to coordinate actions.

The third recommendation in the report addresses data and information requests to financial institutions. Given the compact size of CDIC, there is no duplication with regard to information requests of our members. We rely primarily on data collected by OSFI and through the umbrella of the financial information committee to carry out much of our risk assessment work. CDIC's specific data collection activities are associated with statutory and bylaw provisions, in particular those involving the collection of premiums from our member institutions.

This concludes my opening remarks. I would of course be pleased to answer any questions.

● (1550)

[Translation]

This concludes my opening remarks. I would be pleased to answer any questions. Thank you for your attention.

**The Chair:** Thank you, Ms. Bourque.

I give the floor to Gary Walker.

[English]

**Mr. Gary Walker (Assistant Superintendent, Corporate Services Sector, Office of the Superintendent of Financial Institutions):** Thank you for inviting me to appear today to speak about the Auditor General's report.

I believe that copies of my remarks have been distributed by the clerk, so to respect the members' time, I will only cover the key points now, but trust they will become part of the public record.

In brief, I'd like to thank the Office of the Auditor General for their work. We are glad the report confirms that the large Canadian banks are well supervised. We are implementing the recommendations contained in the report. OSFI had identified similar issues to those identified in the Auditor General's report through our own auditing and risk management processes. We believe we have processes in place to effectively mitigate potential risks identified.

To give a bit of context, it may be helpful to give you a brief overview of OSFI and its mandate. OSFI is responsible for prudential oversight of about 450 financial institutions in Canada and approximately 1,400 private pension plans. Currently we have approximately 570 employees working in offices in Ottawa, Toronto, Vancouver, and Montreal. OSFI is tasked with overseeing the solvency of federally regulated financial institutions in the interest of depositors, policy holders, and members of federal private pension plans.

The Auditor General's report mentioned that OSFI is fulfilling its mandate and that we should update our human resource planning to be better able to attract and attain qualified staff. We are addressing this recommendation by ensuring that our training programs and resource planning support business plan objectives and emerging risks, and by updating our compensation structure.

Training is very important to OSFI. Annual training plans are developed and prioritized as part of our annual HR planning and business plan process. The executive committee of OSFI monitors progress and provides direction on training priorities through quarterly updates. Individual divisions and units have access to training budgets for specialized training.

We also have plans to update our compensation structures to ensure that our salaries are competitive with those in the financial services industry, the market from which we source the majority of our talent. This would provide OSFI with greater ability to hire and retain the skills and experience that we need.

To respond to the Auditor General's recommendation on data collection from banks, OSFI, along with other members of the financial information committee and in partnership with the industry association, plans to use the annual housekeeping exercise to more thoroughly confirm the relevance and the continued usefulness of the data being collected.

As Mr. Wiersema suggested in his remarks, our action plan, once implemented, should adequately address the recommendation contained in the Auditor General's report. We believe that our plan will allow OSFI to remain a world-class regulator and supervisor so that we can continue to protect the interests of Canada's depositors, policy holders, and private pension plan members.

Thank you for your time. I look forward to any questions you may have about OSFI.

**The Chair:** Thank you, Mr. Walker.

First on my list I have Monsieur D'Amours.

[Translation]

**Mr. Jean-Claude D'Amours (Madawaska—Restigouche, Lib.):** Thank you, Mr. Chair.

Thank you all for being here and for your presentations.

I am going to start with a simple question to the Department of Finance representative.

Mr. Horgan, during the financial crisis, did the Government of Canada help financial institutions through the crisis directly or indirectly?

**Ms. Diane Lafleur (General Director, Financial Sector Policy Branch, Department of Finance):** As you may know, we put in place a wide range of extraordinary measures during the financial crisis to help the financial sector through the crisis and to assure ourselves that Canadian companies have access to capital so that they can continue to operate and to grow. All those measures were contained in the 2009 budget.

• (1555)

**Mr. Jean-Claude D'Amours:** Could you explain them a little, because it almost seems as if nothing happened in Canada and the federal government had no need to provide support to the banks.

My next question goes to the superintendent of financial institutions, or anyone else who would like to answer.

The federal government put measures in place. At the same time, I recall that, because of the risk, financial institutions said that times were hard and they had to increase some interest rates. I recall what happened to home equity lines of credit. Beforehand, the rates were at prime, and then, all of a sudden, they went up to prime plus one per cent because of the crisis.

The federal government was there to support financial institutions. Some people feel that the crisis is over. So how is it that financial institutions are still charging their customers the same interest rates? The federal government was there to help them, but, at the same time, they imposed a surcharge, not on businesses, but on homeowners with home equity lines of credit, that is, a line of credit based on the mortgage on their homes.

[English]

**Mr. Michael Horgan:** Well, factually, interest rates and mortgage rates are among the lowest they have been historically, so I don't know that that is the case.

It is true that the Government of Canada came in with extraordinary measures to help support the financial system in the midst of a world financial crisis, where interbank markets were tightening up. We put in a number of measures to help support the Canadian financial system.

But I think the reality has been that interest rates are at a historically low level in Canada primarily because of the response of the Bank of Canada, in monetary policy terms, to—

[Translation]

**Mr. Jean-Claude D'Amours:** Mr. Horgan, perhaps the superintendent of financial institutions can help you to answer the question. At the same time as the federal government was helping the financial institutions, those institutions were ringing all kinds of alarm bells about the financial crisis.

It is a bit like gas prices. Along comes the weekend, up goes the price. Along comes a crisis, up go the rates at the same time as the federal government is helping those same financial institutions.

Today, when people are telling us that things are going better, taxpayers are not seeing the quid pro quo. Who is in a position to make decisions, or to conduct an audit of the financial institutions, to make sure that they are not taking advantage of these supposed crises to raise rates and to take more money out of taxpayers' pockets?

**Ms. Diane Lafleur:** I would just point out that, during the crisis, the financing costs that the institutions had to pay went up significantly.

**Mr. Jean-Claude D'Amours:** I understand that, Ms. Lafleur, but that was during the crisis. At the moment, some people tell us, the crisis is over.

If the crisis is over, how come these measures are still in place?

**Ms. Diane Lafleur:** The measures that the government took were temporary. I think that, as of now, they have all expired.

I would add that all the measures were put into place on a commercial basis. In other words, financial institutions got no advantage in terms of interest rates or costs. They paid for the support they got. The assistance was provided on a commercial basis and, at the end of the day, the taxpayer made money.

**Mr. Jean-Claude D'Amours:** How much time do I have left?

**The Chair:** Maybe a minute.

**Mr. Jean-Claude D'Amours:** I will come back to this a little later and I will ask you some other questions.

I would like to talk about the Office of the Auditor General and the Department of Finance. Your turn for the hot seat, perhaps.

Mr. Horgan, you say that you accept the recommendations and that you congratulate the auditor general for the quality of the final report. But then you turn around and decide not to implement the recommendations in the auditor general's report.

You will not have time to answer all these questions. You can start now and we can continue later. Explain it to us. You say that everything is fine and that you accept them, but, unlike the Office of the Superintendent of Financial Institutions, you do not want to implement them.

● (1600)

[English]

**Mr. Michael Horgan:** Generally speaking, I think the report was a glowing endorsement by the Auditor General of the regulation of the Canadian financial sector. I don't want to put words in the mouth of the deputy auditor general. We think it has been a good report and generally a good endorsement of how the sector has operated in Canada.

It is true that there are a number of recommendations, one of which was with respect to terms of reference for the senior advisory committee. We said we would look at that and have decided at the end of the day not to implement it, not to write terms of reference for that committee. In the ultimate scheme of things, that's a relatively minor aspect of the Auditor General's report on the regulation of the financial sector and the six big banks in Canada.

The other aspect that involved the Department of Finance more directly was the financial information requirements that we are putting on the financial institutions. We agree. We've set up a

subcommittee of the senior advisory committee to coordinate the information requirements we're imposing on the financial institutions so that at least we're coordinated. We know what each body involved in this process is asking of the financial institutions. We're taking a second look and asking ourselves whether, given the amount of information we're asking for, all these things are required.

**The Chair:** Thank you, Mr. Horgan.

We've gone a little over time, and I know Mr. Wiersema wanted to address that answer. I'm wondering if you'd allow me to let you do that in a few minutes.

Madam Faille.

[Translation]

**Ms. Meili Faille (Vaudreuil-Soulanges, BQ):** Thank you, Mr. Chair.

First, I would like to bring up a matter that has been brought to my attention by some of my constituents; it is about mortgage penalties in Canada.

I have done a little research and have found out that the Ombudsman for Banking Services and Investments (OBSI) opened 301 files in the quarter ending January 31, 2010, doubling the number of files dealing with mortgage penalties. In the climate of the government support to the banks during the crisis, changes were made to mortgage rates and one thing is clear: whether mortgage rates are going up or going down, the banks seem to be taking in significant amounts in mortgage penalties.

I was wondering if this has been looked at, given the many criticisms about it, and if you find the amounts unfair and too high at the moment. One suggested solution involved using interest-rate curves that are negotiated by the Bank of Canada and not by the chartered banks.

I wonder if there is a way to make changes along those lines in order to benefit consumers.

**Ms. Diane Lafleur:** Yes indeed, the government stated in Budget 2010 that it was concerned by the issue of mortgage penalties, partly because there is no industry-wide consistency. Disclosure also varies from institution to institution because different institutions use different methods. So it is quite complicated for consumers to find their way around.

So the government indicated in last year's budget that it wanted to find a better way to standardize practices and to provide consumers with better disclosure. We are presently working towards new practices that will be more beneficial for consumers. We have not finished yet, but it is something that we are actively working on.

● (1605)

**Ms. Meili Faille:** When do you think you will be finished?

**Ms. Diane Lafleur:** That is hard for me to say. We have been working on it for some time and we hope to finish as quickly as possible.



**Ms. Meili Faille:** Could you share your action plan for the issue with committee members? I am specifically thinking about the timeframe you are working with. As you say, this was one of the important commitments. As MPs, we are being approached by chambers of commerce, by real estate brokers and by real estate boards all across Canada. I think that people are waiting to find out the direction you are heading in.

After all, people have the impression that the \$200 billion in the 2009 budget for the Extraordinary Financing Framework, which was intended to provide assistance to the banks, actually made it possible for Canadian chartered banks to strengthen their positions. For example, the Royal Bank acquired financial institutions in the United States that were in difficulty. Do you have a handle on what went on when the various chartered banks got into the market for financial institutions?

Given that OSFI provides oversight, perhaps its representative could comment on this, but so could the representative from the Department of Finance.

**Ms. Diane Lafleur:** I think that you are linking two things that are really different. Essentially, the stability of the financial institutions, well before the crisis, allowed them to get through it. With some measures, in fact...

**Ms. Meili Faille:** You are referring to the \$25 billion on October 10 and the \$50 billion on November 12...

**Ms. Diane Lafleur:** No, I am saying that the acquisitions that are perhaps going on at the moment were not financed by the government in any way. Those are two quite separate matters.

Having solid capitalization really is what allows an institution to expand its scope. The acquisitions we can see today are not because of government assistance in the form of liquidity on the financial markets.

**Ms. Meili Faille:** Okay. That is one of the comments we often see in the media. People say that banks used the money to strengthen their positions. So you do not share that view.

**Ms. Diane Lafleur:** I do not share that view. The very strong capitalization of Canadian financial institutions allowed them to get through the economic crisis and come out on the other side in a position of much greater strength than their international competitors.

**Ms. Meili Faille:** Mr. Walker, OSFI worked with the Bank of Canada on a risk assessment of the banks. A report in the media tells us that you do not want to make that information public. Why is that?

[English]

**Mr. Gary Walker:** Yes, that's true. We did make that statement. The reason is we believe that is confidential information among the members who participated in that risk assessment.

[Translation]

**Ms. Meili Faille:** Like the United States, Great Britain and Europe, where the same exercise was carried out, you believe that it is not necessary to make the information public. Do consumers not have the right to know how Canadian banks stack up against other banks?

[English]

**Mr. Gary Walker:** First of all, the risk tolerance comparison between various jurisdictions would be difficult to make because of the different assumptions used in those exercises. But it has been the OSFI decision that, because of the balance of transparency and risk, it's—

[Translation]

**Ms. Meili Faille:** I understand that you might have some reservations about publishing the information, but it gives the impression that you have something to hide.

If the financial system is as robust and solid as you say it is, why not make that information public?

● (1610)

**Ms. Diane Lafleur:** If I can jump into this debate, I would say that the exercises that were done in the United States and in Europe had very different goals from the stress tests that we did here in Canada and that are a tool we very often use when overseeing financial institutions.

In the case of the United States and Europe, it is very well known that some financial institutions were undercapitalized and vulnerable; they had to be recapitalized. So the stress tests were done in order to identify the shortfall in capital. Some governments were prepared to cover that shortfall once the results of the stress tests were published.

**Ms. Meili Faille:** I understand, but is there an equivalent tool that the consumer can have access to?

**Ms. Diane Lafleur:** The situation is very different because our banks are not undercapitalized. We had no shortfall in capital to make up. Doing that kind of exercise with a view to recapitalization was not appropriate in Canada. We were in nothing like the same situation.

**Ms. Meili Faille:** How can we assess...

**The Chair:** Thank you.

Excuse me, Ms. Faille. Perhaps you can continue in the next round.

Mr. Christopherson, the floor is yours.

[English]

**Mr. David Christopherson:** Thank you, Chair.

Thank you all very much for your attendance today.

I'll begin by commenting on Mr. Horgan's comments about how good a report it was. I agree. It was a good report. I'm surprised, collectively, that we chose to do this. We have a short period of time. There are lots of problems out there. When something goes well, the government has all the techniques and departments and vehicles to let the world know how wonderful the AG's report was. Our job is to deal with things that are problematic, so I'm really surprised that, collectively, we all made that decision, but I'm not sure it was the best use of our time.

Having said that, it is a pretty good report, and most Canadians, by and large—I'm not even going to get into tax benefits or any of that. I'm going to stay on this report, and in the context of this report, it was a good report, and I think Canadians are pleased about how strong the banking system is as a system. The government takes a lot of credit for that, but the truth is we have to also give a fair bit of that credit to the previous government, which maintained it too. Fair is fair. Give everyone his due.

However, there are a couple of things we can talk about here. I don't have anything to go on about at great length. I may run out of questions before I run out of time, which is very unusual for me. That is because I don't know what to do with a good report. I'm used to reaching for my weapons, but in this case, we'll deal with what we have.

I have one simple question first. Madame Bourque, I was just curious, on page 3 you mentioned that your colleague Michael Horgan will be speaking to this particular recommendation, and then later on you say, "The written remarks of my colleague Gary Walker address follow-up on this recommendation...."

To what degree do you coordinate your presentations?

**Ms. Michèle Bourque:** We do, absolutely. Yes, Mr. Horgan did talk about the first recommendation on SAC, and yes, Mr. Walker did talk about the third one, which talked about the financial information committee. I would say yes, we do have coordination, and my notes are absolutely consistent with what happened.

**Mr. David Christopherson:** I wasn't questioning the veracity of what you're saying. I was intrigued. We can usually tell when somebody says, hey, what are you going to say about so and so? But to have it spelled out like this...I look at it and think maybe it would be more forthright to present one report and all of you sign onto it. Initially the idea here is that we get a perspective, a perspective, a perspective, and a perspective—from different entities—but if there is going to be that much commonality in what you are saying and it's a united defence, if you will, then in the future maybe you ought to be presenting one written presentation and say you all back it.

**Ms. Michèle Bourque:** Certainly from CDIC's point of view, we were not the number one party to the recommendation, so it affects us indirectly, and that is primarily why I pointed to the others, since we are not the lead agency having to respond to the recommendations.

**Mr. David Christopherson:** Thanks. I was just more curious than anything. We'll file that away. You never know when that will be interesting to know.

Mr. Wiersema, in the last half of your ninth report you state:

While the Department of Finance has considered our recommendation, it has however decided not to implement it. The Committee may wish to discuss this with the Department.

I suspect we do.

I will start with you, though. What is the recommendation, and why were you making it?

• (1615)

**Mr. John Wiersema:** Thank you, Mr. Chairman.

This also gives me the opportunity to respond to the earlier comments that were made vis-à-vis our recommendations on SAC and the terms of reference and preparing for effectiveness reviews.

The first thing I'd like to say, Mr. Chairman, is, as we indicate in the report—and I absolutely agree with Mr. Horgan—the need for flexibility in the system is essential, and that was essential to the success of managing the crisis, the financial turmoil we went through a few years ago. SAC and the various instruments absolutely need to be flexible.

Nevertheless, we think it's a good practice to have terms of reference for a committee as important as SAC, the senior advisory committee. Those terms of reference themselves will need to build in the need for that flexibility, but we think that terms of reference for SAC would be a useful addition.

Mr. Horgan is also quite correct that this isn't exactly the most significant recommendation the Office of the Auditor General has ever made. This is in the context of a glowing endorsement. I don't know, Michael, but—

**Mr. David Christopherson:** Did he use those words?

**Mr. John Wiersema:** Absolutely. It's a positive report. It is one of the most positive reports coming out of the Office of the Auditor General. The other thing I'd like to address is the issue of the effectiveness reviews of the overall regulatory framework.

Madame Faillie talked about one aspect of it: bank penalty charges. There are many aspects. It's a large, complex framework. It is subject to review once every five years. The Bank Act review is coming up in April 2012. We think it would be useful for SAC and the government to have a plan to prepare information to feed into that legislative review. It would tell us what parts of the framework are working well, what parts might need to be studied, and what parts could perhaps be improved. This would be useful information for government initially, and then eventually for parliamentarians as they consider changes to the legislation.

Part of our recommendations deal with terms of references. They also talk about preparing information on the effectiveness of the framework, that is, which aspects could be studied, which aspects need additional information to determine their effectiveness. That's the reason for our recommendation.

Mr. Horgan is the chair of SAC. Mr. Horgan is a Deputy Minister of Finance. I accept his right to say that they considered the Auditor General's recommendation and decided not to implement it. Nevertheless, I think the Office of the Auditor General's view remains that we think these are good ideas.

**Mr. David Christopherson:** Mr. Horgan.

**Mr. Michael Horgan:** With respect to the senior advisory committee, we're an advisory committee to the Minister of Finance. There are five principals on this committee. This is not a huge, complex, cumbersome organization. We deal with whatever the members of this committee feel is important for the Minister of Finance and the financial sector at any moment in time.

I wasn't Deputy Minister of Finance through most of the crisis, but the committee responds in almost real time to whatever is happening in the financial sector and does what it has to do. You could put the five people in a minivan. You also have to understand that there is more than the SAC. Our regulatory system is not as complex as those in the United States or the U.K. We have the financial institutions supervisory committee, which is legislated and chaired by the superintendent.

The Department of Finance is on that committee. The CDIC is on it. We're all there on it. I sit on the Board of Governors of the Bank of Canada. I'm a member of the board at the CDIC. The ongoing interaction between the institutions responsible for the financial sector are taking place day in and day out at low levels and at the most senior levels of the government.

We could sit down and do a terms of reference for SAC, but the terms of reference, at the end of the day, would say that in this committee we will deal with whatever the committee members think is really important for the financial system in Canada—and we will do that. We looked at it, and our judgment was that we don't need to write terms of reference to do what we think is the right thing.

•(1620)

**The Chair:** Thank you, Mr. Horgan.

We're going to go to another banker now, if you don't mind.

**Mr. David Christopherson:** Yes.

**The Chair:** Mr. Saxton.

**Mr. Andrew Saxton (North Vancouver, CPC):** Thank you, Mr. Chair, and my thanks to the witnesses for coming here today.

As a former banker, I take particular interest in this report. Like my colleague Mr. Christopherson, I'm glad to see that it's a positive report. Unlike Mr. Christopherson, I'm also glad that we're taking the time to discuss it.

I think it's important from time to time to discuss positive reports. My first question is for Mr. Walker.

Mr. Walker, I know that recruiting and retaining staff is often a real challenge, especially when you're competing against high-paying private sector jobs. Are you concerned with the Auditor General's report, where they say that retaining qualified staff may be difficult for OSFI?

**Mr. Gary Walker:** I am concerned about that remark, because it is a valid statement. We are always concerned about our ability to attract and retain the talent we need, because it is a highly competitive industry in all its areas of specialization.

We believe that by taking the actions that we've committed to take in response to the audit, we are mitigating that risk considerably. Since the beginning of the crisis in 2007, we have increased our supervisory resources by 36%. That in itself has gone a long way to help mitigate the risk. The adjustment that we hope to make to our compensation programs will also help mitigate that risk, and we're confident that by taking the actions we've identified, we'll be okay.

**Mr. Andrew Saxton:** Thank you.

My next question is for Mr. Walker.

A few years ago it was announced that the rules and responsibilities of OSFI and CDIC would be clarified to eliminate unnecessary duplication and overlap. These changes reduced the administrative burden on the banks.

What was the nature of the overlap and duplication?

**Mr. Gary Walker:** If my memory serves me, a lot of the issues we discussed were what we might classify as background administrative services. A report was generated and submitted to the minister that suggested that we believe those administrative duplications were minimal and that we have clear and established mandates.

**Mr. Andrew Saxton:** Thank you.

My next question is for Mr. Horgan. How do our regulations manage excessive risks that banks may undertake in their activities, especially with respect to derivative products or structured products? After all, it was derivative products that got the world into this global mess in the last few years.

**Ms. Diane Lafleur:** At Finance, we set the legislative and regulatory framework, in collaboration with the financial sector agencies, but it is up to OSFI, as a prudential regulator, to do the day-to-day supervision and ensure that there are risk management practices and controls in place inside each institution to adequately manage those risks.

Now, as a related point, obviously we're very much involved in the international G-20 and Financial Stability Board work plan, which is aimed at addressing some of the core causes of the crisis, and that includes doing some work on OTC derivatives, for example. We're very involved in those, and we continue to work with our international partners to address some of the recommendations that have come out of the G-20 leaders' declarations.

**Mr. Andrew Saxton:** Thank you.

Does OSFI have anything further to add to that?

**Mr. Gary Walker:** I would agree with the statement, but we have as well been very much involved with the international deliberations and are committed to ensuring that we are implementing agreed upon recommendations here in Canada, which is in part why we have had to increase the resources, so that we can be able to deal with this new work.

**Mr. Andrew Saxton:** Thank you.

My next question is for either Finance or the Office of the Auditor General.

How does the supervision of Canada's financial institutions compare with that of our international counterparts? I think we have some good examples from the last few years.

**Mr. Michael Horgan:** Well, we subjected ourselves to international reviews through the IMF and the Financial Stability Board. We've had those reviews periodically. I think, generally speaking, we rate very well internationally. We are going through another review, which is just about to start. We've agreed to be one of the first in the next round. I think, generally speaking, Canada's system rates really quite highly internationally.

But I'd turn it to Diane, if you have comments.

•(1625)

**Ms. Diane Lafleur:** One thing I would point to—it's been alluded to through the discussion today—is the regular five-year review of the financial institution statutes. It's quite unique. We've never come across any other jurisdiction in the world that has this kind of mechanism that forces a regular look at the statutes and the regulatory framework to ensure that it remains current. A sunset is something that certainly motivates everyone to act before the date comes up, and it certainly forces the regulatory agencies and ourselves and the private sector, as well as consumer groups and other stakeholders, to have a dialogue on a regular basis, to talk about the issues, to talk about the problems that different stakeholders may have had identified over time, and to address them on a regular basis, to not let issues fester for a long period of time. And I know that we're the envy of the world in many respects. There are a lot of international colleagues who we talk to who only wish they could have this kind of system to regularly look at their framework.

**Mr. Andrew Saxton:** Are there enough forums that exist to share best practices with our international counterparts?

**Ms. Diane Lafleur:** I would say yes, because they certainly have multiplied over recent years. So on the demands on us to participate in different international fora, different working groups, standing committees, etc., whether it be in the G-20, the Financial Stability Board, at the IMF, etc., there's certainly a lot of interaction with international stakeholders. And a lot of them are very interested in the Canadian experience and what we have to share with them in terms of our strengths.

**Mr. Andrew Saxton:** Thank you, Mr. Chair.

**The Chair:** Well done. Thank you.

We'll go now to Mr. Pacetti. I understand you're splitting your time? Maybe?

**Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.):** Maybe. We'll see how it goes. I think I have only one quick question.

**The Chair:** This is a five-minute round.

**Mr. Massimo Pacetti:** Yes. Thank you, Mr. Chairman.

Thank you to the committee for allowing me to be here.

I have just a quick question, Mr. Wiersema.

At the height of the financial crisis, did your office look at how much risk there was with all the money the finance department put out? Some of it was in the budget, as you indicated, or I think Mr. Horgan indicated. But then there were additional moneys put out as well for BDC, and then there was some money put out to lend to the car manufacturers, and then there were some other moneys for some other reasons. If we added up all the different moneys that were put out, was there ever a risk assessment evaluated?

**Mr. John Wiersema:** I think the short answer to that, Mr. Chairman, is that as part of this audit, no, we did not. We have done some work on the government's economic action plan. I think this committee is aware of that. We issued an initial report on the initial stages of the rollout of the economic action plan last fall. We are in the process of doing a second audit on the economic action plan presently that has looked at and will continue to look at selected

programs that were involved. And some of the funding that you are referring to may be tied to the economic action plan.

**Mr. Massimo Pacetti:** Not necessarily. What I'm looking at is that there was a lot of money put out for the banks to sell their mortgages, so there was some money at risk from CMHC. BDC had put some money out, and I think it came to close to a billion dollars at one point—I don't remember the exact numbers; this was months ago. And then there was money put for financing the automobile dealers; then there was some other money put into other industries. I'm not sure if anybody ever made an actual total and said this is the level of risk, and if we go past this point, it's the point of no return. I think that would have been something you would have done.

I could ask Finance and they'll give me their answer.

**Mr. John Wiersema:** Very quickly, Mr. Chairman, did we do a performance audit on the assistance to the auto sector or CMHC's work or the BDC? The answer is no, we did not. We are, however, the financial auditor of CMHC. The assistance provided to the auto sector is recorded in the accounts of Canada. That is subject to OAG audit as part of those financial audits, so it would have been looked at from that perspective.

**Mr. Massimo Pacetti:** A lot of the money wasn't used, but there was a lot of money that was put out, right, Mr. Horgan?

Ms. Lafleur.

**Ms. Diane Lafleur:** There were a number of programs that were put in place to make financing available. As you say, some of them weren't used, especially the guarantee facilities. The lender's assurance facility and the one for the insurance companies as well were never used. Some of the other measures, like the insured mortgage purchase program, were used, although not to the maximum. But those were the kinds of facilities I referred to earlier that were provided on commercial terms. In the case of the IMPP, what the government was doing essentially was buying mortgages that were already insured, so they were very high quality assets, and it was done on commercial terms.

The money for the additional money for BDC, for example, was to help financing where certain markets had sort of dried up, especially because of—

•(1630)

**Mr. Massimo Pacetti:** Was there ever an audit done to make sure those were high-quality assets?

**Ms. Diane Lafleur:** They were already government-insured mortgages, so they're already backed by the full government guarantee, so there was essentially no risk.

**Mr. Massimo Pacetti:** Thank you, Mr. Chairman.

[Translation]

**Mr. Jean-Claude D'Amours:** How much time do I have left, Mr. Chair?

**The Chair:** A minute and a half.

**Mr. Jean-Claude D'Amours:** Tax evasion is a hot topic at the moment. The federal government is trying to recover as much money as possible so that it can be put it into programs, but the fact remains that taxes do not evade themselves. It often needs financial advisors, bankers and their clients.

Is there a mechanism for preventing tax evasion that involves bankers, financial advisors and clients? Perhaps the assistant superintendent can answer the question.

[English]

**Mr. Gary Walker:** That question might be better answered by my colleagues, because the mandate of OSFI is to protect the solvency—

[Translation]

**Mr. Jean-Claude D'Amours:** Okay. Then let me ask the Department of Finance representatives.

[English]

**Mr. Michael Horgan:** Well, I think the short answer is that at the Department of Finance we do the tax legislation and the regulations, but the actual enforcement of that is with the Canada Revenue Agency. They have mechanisms in place to ensure the enforcement and auditing to ensure that tax evasion is kept to a minimum.

[Translation]

**Mr. Jean-Claude D'Amours:** So, as I understand it, Mr. Horgan, you are saying that it is up to the Canada Revenue Agency to make sure that financial institutions do things correctly...

[English]

**Mr. Michael Horgan:** They're responsible—

[Translation]

**Mr. Jean-Claude D'Amours:** ...I mean by making sure that they are not involved in tax evasion, directly or indirectly, by helping their clients in that way. Is that correct?

[English]

**Mr. Michael Horgan:** When it comes to tax collection, they're the agency responsible for tax collection.

[Translation]

**Mr. Jean-Claude D'Amours:** I am not talking about tax collection. I am talking about what goes on right inside financial institutions so as to prevent financial advisors and bankers from helping their clients evade taxes, knowingly or not. I am not talking about the subsequent process of proving guilt. I want to know if, from the outset, there is a mechanism that can reassure the public that Canadian financial institutions are doing what is necessary to prevent tax evasion.

[English]

**Mr. Michael Horgan:** Yes, and that's a responsibility for the Canada Revenue Agency.

**The Chair:** That's surprising.

Mr. Shipley.

**Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC):** Thank you, Mr. Chair.

And thank you to the witnesses.

We're Canadians, all of us, and I think looking at reports that are positive is always good, because we're Canadians, because we learn from reports; we learn from positive things that have happened. I'm always looking at what we can learn from a report like this that can be transferred to other departments, other agencies, that will work, that are maybe not quite so positive as this one.

Madam Lafleur, on the regulatory framework in Canada, sure, we'd like to take credit, but we understand Canadian bank systems for many years have been strong. And that is very positive. To Canadians it seems this is the way it's always been. This is good. And it is.

You talked earlier a little bit about other countries. You said actually that they were interested in the regulatory framework we have. Does it go beyond that, where they're actually interested in the application of it, from some of the discussions you've had?

**Ms. Diane Lafleur:** By “application”, I assume you mean how they could take those practices and apply them domestically.

**Mr. Bev Shipley:** That's right. It's easy to say that this is good, they wish they had it, and all of that, but then there has to be the application of it.

• (1635)

**Ms. Diane Lafleur:** Yes, and the challenge oftentimes is that different countries have different starting points. You can't just wipe the slate clean and start over. You have to deal with the circumstances you're facing at the time.

But I think it's fair to say that there has been a fair amount of interest. I look at Michèle, because I know, for example, on the deposit insurance side, there have been a number of countries that have approached CDIC with a view to asking about its experience of how it manages the deposit insurance system here in Canada, why it didn't have to react to the crisis and provide unlimited deposit insurance, etc. So yes, there has been quite a bit of that kind of request for information.

**Mr. Bev Shipley:** We know that around the world—everybody knows—there's still a lot of uncertainty. We want to be able to help as much as we can to bring certainty back in, because Canada is not an island. Strong as we are, we get affected by the global...

I'd like to go to the conclusion part of the report, paragraph 5.71. I'd just like to read it: “According to some international organizations, Canadian banks suffered less”—we just talked a little about that—“than most countries during the recent period of financial turmoil, in part, because its regulatory framework and supervisory approach, including communication among federal organizations, are effective.” I think all of those are so important. It says, “A recent, international peer review and the financial crisis have shown that the Canadian regulatory framework is robust.”

We also understand, I think, that the challenge for us in Canada is that things become more complex, just about like every other instance. With innovation, things are more complex where financial markets are rapidly evolving and changing, and there's uncertainty in the markets.

I'm wondering what we should be doing to ensure that the supervisors and the regulators from markets have the tools they need to do their jobs. With the national securities regulator, do we have the framework to actually put that in place?

I'll just leave that. I have others too, but I think I'm going to run out of time.

**Mr. Michael Horgan:** I might make several comments. First, on some of your initial remarks, I think one of the strengths of the Canadian system is not only that we have regulations, but we have supervision, so we enforce the regulations, and I think we have a robust—if I can put it this way—Superintendent of Financial Institutions and an organization that is not just.... The regulations aren't just there; we actually have people who are implementing them and following those regulations and following the financial system on a day in and day out basis. So I think that's probably a strength of the Canadian system.

I think we've done well, but we always have to learn. Financial markets change all the time. We constantly have to keep up on developments, and we are doing that domestically, and of course we're following developments internationally very closely. It's very important for us to keep up with the latest developments and the latest techniques and tools to have an effective financial regulatory system.

On your comment on the Canadian securities regulator, as you know, it's the Government of Canada's view that we should put in place a Canadian securities regulator. If and when that is put in place, subject of course to the decisions by the Supreme Court of Canada, that securities regulator would be very much part of the regulatory system we would have. That would have to be integrated into the system we've got now in a robust way.

**The Chair:** Thank you, Mr. Horgan and Mr. Shipley.

Mr. Horgan, just very quickly, I know that if anybody is listening to this...from your last two responses, I felt if I were in the audience someplace I would have to ask on their behalf. If the CRA is the one that's responsible for ensuring that the framework you've put in place is followed and that it translates into appropriate revenues for the Government of Canada, the people of Canada, who is responsible for people like Jones and what he perpetrated on the Canadian public, or indeed the other fellow, Madoff, and the banks? Who would take responsibility for that if you say the system is well regulated by you?

• (1640)

**Mr. Michael Horgan:** I think that's an issue of securities regulation, which at the moment is done at the provincial level. I think one of the things you're proposing to do as the Government of Canada is to put in place a Canadian securities regulator, and part of that would be an enhanced and robust enforcement of those securities regulations.

**The Chair:** That's not good enough now?

**Mr. Michael Horgan:** We think it would be better if there were a Canadian securities regulator.

**The Chair:** Monsieur Vincent.

[Translation]

**Mr. Robert Vincent (Shefford, BQ):** Thank you, Mr. Chair. I am going to share my time with Ms. Faille.

Mr. Horgan, you said the following in your opening remarks:

More recently, SAC invited the Canada Mortgage and Housing Corporation to help form advice on ensuring the long-term sustainability of Canada's housing market. With the benefit of this advice, the Government introduced adjustments to the rules for government-backed insured mortgages aimed at supporting the long-term stability of Canada's housing market.

In terms of access to housing, we know that bank rates have gone down because of the economic crisis. Yet we see that, in all the provinces, inflation has triggered a dramatic increase in the prices of houses, condos or whatever sells on the market. But if interest rates go up by 2%, many owners could lose their houses because of all the financial implications. It is not normal for house prices to go up this much during an economic crisis. You might not find the situation alarming at the moment, but have you started thinking seriously about it?

They showed on TV the financial ramifications for condos that were sold at \$150,000 but were actually worth \$120,000. And the Canada Mortgage and Housing Corporation is financing that. No one is losing money, but, sooner or later, someone will be. It will be the banks and CMHC. Have you been warned? Do you think we should avoid the day when interest rates go up, depression hits, and houses are repossessed?

**Ms. Diane Lafleur:** In short, I would say yes. Absolutely. We are keeping a close watch on that. Let me remind you that, in 2008, even before the crisis was at its peak, the government changed the criteria for insured mortgages. It has since taken action twice, including last January, tightening up the criteria again. The main goal is to maintain long-term stability of Canada's mortgage market.

We realized during the economic crisis that some practices were really reckless. That started in the United States and in other places, and it almost became the norm. In Canada, those practices were not very frequent, but there were some signs here and there. The government saw fit to do something before the 40-year mortgages with no down payment became too popular. The purpose of all that was to ensure that Canadians who buy houses can continue to pay their mortgages even if interest rates fluctuate.

**Mr. Robert Vincent:** The minimum wage and people's salaries do not go up, but house prices do. The financial backlash will affect banks and CMHC. Right now, we are managing to give people a chance to pay, but tomorrow, when interest rates will go up by 1 or 2%, what will happen with all those houses? Will you repossess the houses and then repay the banks?

**Ms. Diane Lafleur:** One thing we did—last April, I believe—was to make the criteria stricter for people who were applying for a mortgage. They must qualify for a five-year rate, even if they get a one-year mortgage. The five-year rate is normally higher than the one-year or two-year rate. Most people take out a short-term mortgage, but we want to make sure that, if interest rates increase, they will be able to handle a higher rate. So that leaves some leeway.

• (1645)

**Ms. Meili Faille:** Do we still have time?

**The Chair:** You have one minute.

**Ms. Meili Faille:** My question follows from my colleague's.

The federal government absorbs mortgage penalty charges when its employees relocate. Could you tell us how much the government paid out in 2007, 2008, 2009 and 2010, throughout the crisis? If you don't have the figures handy, could you send them to us?

**Ms. Diane Lafleur:** I sure don't have that kind of information with me.

**Ms. Meili Faille:** Could you send us a written report about it? That would be useful to us.

**Ms. Diane Lafleur:** I'm not sure that falls under the Department of Finance, but we are going to look into it.

**Ms. Meili Faille:** Perhaps you could find out for us.

As part of the G20 discussions, recommendations have been made to standardize minimum values on reserves in order to be able to offer more guarantees to the banking sector. Could you comment on that and on complex products in particular?

From the study on commercial paper, I learned that it was possible to have mortgage-backed paper. And this is about complex products. Do you think that banks should have to publish or explain the risk associated with these types of complex products? I am talking about high-risk assets. This issue has been on the G20 agenda.

**The Chair:** Ms. Lafleur, it is Mr. Young's turn now. So you will have some time to think about it. You can perhaps answer the question during the next round.

In terms of the answers to the previous question, I would ask that you send them to the clerk. Thank you.

[English]

**Mr. Terence Young (Oakville, CPC):** Thank you, Mr. Chair.

Mr. Horgan, I'm fascinated with this senior advisory committee. I've never seen anything like it in government before; I'm not saying it hasn't existed. It seems you go from a macro-supervisory role—and you can go micro pretty quickly—meeting when you have to meet and advising the government of the day. Is this a unique model, outside of the private sector?

**Mr. Michael Horgan:** I don't know whether it's unique. I think it's probably pretty unusual. I asked the other day how long it has been in existence in Canada. It has been in existence for a long time. It's a supple mechanism. There are only five principals. At the meeting we have other people, but we can be very quick, very nimble.

One thing the committee does not do, because it is handled by the Superintendent of Financial Institutions through the other committee, the FISC, is that we do not get into individual company situations. That is a matter for the Superintendent of Financial Institutions. As it turns out, we all participate in the financial institutions supervisory committee, but that's under the auspices and the rules of confidentiality that the superintendent must follow.

So you have a small, nimble body that can address any of the financial issues confronting Canada and provide almost real-time advice to the minister.

**Mr. Terence Young:** How did this work in, say, November 2008?

**Mr. Michael Horgan:** I can't answer that question because I only became Deputy Minister of Finance in September 2009. I'm told that the committee started to meet quite regularly. The financial crisis

was unfolding in real time and all of the institutions, including SAC, had to respond to this crisis on a daily basis.

Diane, you were there when I wasn't.

**Ms. Diane Lafleur:** It's safe to say that back in 2007, when the ABCT problem started to appear, SAC started to meet on a much more frequent basis. At the height of the crisis, it wasn't uncommon to have two meetings a day.

**Mr. Terence Young:** That's interesting. I know one large private sector company that during the worldwide recession would get all 12 of their vice-presidents to meet every Saturday night, either on a conference call or personally, to go through their plans to get through the crisis.

Would you feel comfortable commenting on how that model might work if Canada wants to address the sale of derivatives, for example, and how they affect banking?

• (1650)

**Mr. Michael Horgan:** The standard practice for SAC would be to meet at least on a quarterly basis, but we meet more frequently when required. During the financial crisis, as Diane said, sometimes there was a meeting a couple of times a day. We have a very flexible agenda. We have some long-standing projects that we at SAC are looking at, and we have subcommittees of officials who are looking at various medium- to longer-term issues that are reported to SAC at our regular meetings.

But there are issues of more immediate importance that we may have to consider more quickly. For example, there are the changes the Minister of Finance recently announced with respect to mortgages. The SAC met a couple of times and talked about the issues surrounding the housing market. We invited the Canada Mortgage and Housing Corporation to sit in and provide us their assessment of where the housing market was, and we took some decisions about what our advice would be to the minister. Ultimately, it's the minister who makes the decision, but we worked over several meetings to provide advice to the minister on what we thought should be done.

Our agenda is very flexible. The members are free to add items to the agenda that they think are of importance to the committee, and we have a thorough thrashing out. I'll be honest. We all come with our different points of view. We all have something different that we bring to the table, because of our different perspectives. But I think the committee works well, and generally speaking, we can work it out and come to a consensus on what the advice to the minister should be. I'm not saying the minister always takes the advice. That's his prerogative, obviously.

**The Chair:** Thank you, Mr. Horgan.

Mr. Christopherson, I'm back to you, but I'm wondering whether you wanted to use some of your time to allow Madame Lafleur to finish off the answer to a question raised by Madame Faille.

**Mr. David Christopherson:** I will be able to, because I only have one quick question, and it's all but a throwaway question.

**The Chair:** Wonderful.

**Mr. David Christopherson:** Madame Bourque, you mentioned on page 2 that in 1996 a member institution failed. I was just curious about which one it was and what the repercussions were.

**Ms. Michèle Bourque:** In 1996 it was a small mortgage corporation, Security Home Mortgage Corporation, which had about \$50 million in deposits. In terms of repercussions, there weren't many. It was at the tail end of a difficult period that some of the mortgage corporations were having at that time. Depositors were paid very rapidly, and there were no consequences as such.

**Mr. David Christopherson:** Great. Thank you.

Chair, you can use the time as you think appropriate.

**The Chair:** That's very nice. Thank you very much.

Madame Lafleur, Madame Faille had a series of questions. I didn't want to interrupt, because I didn't want to rush you through it. So I want to thank Mr. Christopherson for giving you the opportunity to address those questions.

[Translation]

**Ms. Diane Lafleur:** If I understood correctly, there were two parts to your question. One was about capital standards for complex products and derivatives. In the new Basel Accord, called Basel III, capital standards are obviously stricter for financial institutions with products like that. The Office of the Superintendent of Financial Institutions and the Canadian government have made a firm commitment to apply the new Basel standards to Canadian institutions.

More recently, OSFI released a consultation document proposing a timeframe by which the standards should be in place. The timeframe may even seem a bit rushed. We have every intention to enforce them.

In terms of disclosure, which was the other part to your question, I can take you back to April 2008. At that time, the Financial Stability Forum, which is now the Financial Stability Board, issued a report with, I believe, 63 recommendations on how to deal with the causes of the economic crisis.

There was a series of recommendations on disclosures, especially disclosures related to derivatives and complex products. There was a recommendation on how to make more disclosures. Even a disclosure template was provided. This is all related to the new standards that Canada was the first to adopt. The fiscal year for Canadian banks is from November 1 to October 31. So they ended up making their third quarter disclosures in August 2008, before all the other international institutions. So Canada was first to adopt the new standards, well before all the other countries. They have now become generally accepted standards.

• (1655)

**Ms. Meili Faille:** By applying them, we are making sure that we won't end up in a system like the one we've experienced with the commercial paper. Is that a guarantee?

**Ms. Diane Lafleur:** Nothing is ever guaranteed. The disclosure is there, but how investors use it is another story. All we can do is to make sure that the information is available.

**Ms. Meili Faille:** How do you go about monitoring that?

**Ms. Diane Lafleur:** The Office of the Superintendent of Financial Institutions does the monitoring. The Financial Stability Board also did a peer review to see to what extent the various member countries of the Financial Stability Board have enforced and complied with these new disclosure standards.

**The Chair:** Thank you, Ms. Lafleur.

Thank you, Mr. Christopherson.

Mr. Dreesen now has the floor.

[English]

**Mr. Earl Dreesen (Red Deer, CPC):** Thank you, Mr. Chair.

Mr. Horgan, I just wanted to go back to some of the issues involved in our G-20 commitments. You spoke in your presentation about our participation in the International Monetary Fund and the World Bank financial sector assessment program and the other types of things that are going to be taking place. You also indicated that you're going to be discussing things with them, and there'll be a bit of a peer review. What have been some of the lessons learned? And when you do get together for this peer review, what kind of advice are you going to be giving some of your international counterparts?

**Ms. Diane Lafleur:** The way the system now works, the IMF has instituted this financial sector assessment program, or FSAP, program. Canada was one of the first countries to go through an FSAP when it was still a pilot project in 1999. We did an update in 2007-08. The commitment now is for significant financial sectors, including countries like Canada, to do an FSAP about every five years, with regular updates through the article IV process.

Roughly at the mid-point during that five-year cycle, the Financial Stability Board, through its standing committee on standards implementation, will do a peer review, not to rate countries but to check in on what they've done to implement the recommendations coming out of the FSAP. We're about halfway through that five-year cycle, so our peer review will start in May or June of this year and conclude by the end of the calendar year. The focus will be on the recommendations that came out of the FSAP, so it will look at what we've done since we've gotten those recommendations, how we've acted on them. Then it will look at how we came through the crisis, considering the strengths and the weaknesses that we've identified, and we'll have a peer discussion with our colleagues.

There have already been three countries that have been through this process. Italy and Spain just had their peer reviews released. Those were timely reviews, because there's lots to be learned from those experiences.

It's really a sharing of information, but it keeps a country's feet to the fire. You don't have five years anymore to think about implementing the recommendations. You're going to want to have something to say at the midpoint during that peer review, so it forces everybody to raise their game a bit.

**Mr. Earl Dreesen:** Mr. Walker, paragraph 5.53 talks about employees with highly specialized knowledge, skills, and experiences to supervise the banks and identify significant issues. What are some of the issues that you see? When you're looking for recruitment of people to come in to help you in this, where do they get that training?



Is there in-house training to make sure that people are up to date on some of the techniques required for investigations? Is there some type of post-secondary recruitment strategy? Where do you go to look for the type of people who are important for your organization?

• (1700)

**Mr. Gary Walker:** Because of the degree of specialization within the industry, it's a matter of balance between training and development of existing staff and bringing in new people who have been there, seen it, done it on the outside, and can bring a little more current information.

Some examples of specialties at the forefront today would be credit risk, operational risk, and stochastic modelling, because of the risk assessment models that are being introduced and that we supervise. Those types of individuals are difficult to find.

One of the advantages we have, though, as the regulator, particularly now, is the good reputation OSFI has. These people are talented but scarce, and they see OSFI as a tremendous learning experience.

With respect to training, we have to ensure that the people who have been with OSFI longer keep current. So we bring in specialists. We have internal training from those new hires, who bring more recent experience. In addition, we bring in other specialists from wherever we need to find them.

**Mr. Earl Dreeshen:** You said you increased your staff by 36%. I'm not sure what you were saying exactly. That's since about 2007?

**Mr. Gary Walker:** Yes, since 2007 we've increased our supervisory staff, our complement, by about 36%.

**Mr. Earl Dreeshen:** Do you see, now that—

**The Chair:** Thank you, Mr. Dreeshen.

I'll use my discretion, but I don't see others, except for Madame Faille.

Monsieur D'Amours.

[Translation]

**Mr. Jean-Claude D'Amours:** Mr. Horgan, Ms. Lafleur, does the Canadian government advocate tax evasion? The answer is no.

Who supervises the banks?

**Ms. Diane Lafleur:** The Office of the Superintendent of Financial Institutions is responsible for the prudential oversight, the stability and strength of financial institutions. The Financial Consumer Agency of Canada is responsible for consumer protection.

**Mr. Jean-Claude D'Amours:** I was taken aback a little by Mr. Horgan's response earlier. He said that the Canada Revenue Agency was responsible for tax evasion. I don't understand. If an organization is responsible for financial institutions, I have trouble understanding why it doesn't make sure that there are mechanisms in place to prevent tax evasion. We will check with the Canada Revenue Agency, but I have to say that I am extremely surprised that it is up to the Canada Revenue Agency to make sure banks comply with regulations. That seems really strange to me.

I will now go to Ms. Bourque. Earlier, Mr. Walker said, and I quote: "We are responsible for the prudential oversight of about 450 financial institutions in Canada, which includes 78 banks, and

nearly 1,400 pension plans." And Ms. Bourque, you mentioned that 84 institutions are members of the Canada Deposit Insurance Corporation. What about the other institutions? Don't they want to become members?

**Ms. Michèle Bourque:** To become a CDIC member, the institution has to take deposits. As a result, financial institutions such as insurance companies are not CDIC members. Mr. Walker's organization is responsible for pension plans. Our members are really deposit-taking institutions.

**Mr. Jean-Claude D'Amours:** Are there any deposit-taking institutions that are not members?

**Ms. Michèle Bourque:** There are the credit unions, for example, and they have deposit insurance at the provincial level.

• (1705)

**Mr. Jean-Claude D'Amours:** Any others? At the national level, are there groups that are not members but take deposits?

**Ms. Michèle Bourque:** No. Not if they take retail deposits. If they take retail deposits, they are CDIC members.

**Mr. Jean-Claude D'Amours:** It's automatic. It's actually an obligation.

**Ms. Michèle Bourque:** It's an obligation, absolutely.

**Mr. Jean-Claude D'Amours:** Okay.

**Mr. Massimo Pacetti:** I am trying to figure out the numbers. There are 78 banks in Canada and 84 institutions are CDIC members. Are we right to assume that all banks take deposits?

**Ms. Michèle Bourque:** Not all banks take retail deposits. For example, some banks have branches in Canada that don't take retail deposits.

**Mr. Massimo Pacetti:** Where does the difference of six come from?

**Ms. Michèle Bourque:** Between the 84 and...

**Mr. Massimo Pacetti:** ...the 78.

**Ms. Michèle Bourque:** Banks? Are they banks?

**Mr. Massimo Pacetti:** Yes. There are 78...

**Ms. Michèle Bourque:** The 84 institutions also include trust companies.

**Mr. Massimo Pacetti:** There are trust companies.

**Ms. Michèle Bourque:** Yes. There are trust and loan companies that take deposits.

**Mr. Massimo Pacetti:** And insurance companies?

**Ms. Michèle Bourque:** No.

**Mr. Massimo Pacetti:** Mutual companies?

**Ms. Michèle Bourque:** No.

**Mr. Massimo Pacetti:** Thank you.

[English]

**The Chair:** Madame Faille.

[Translation]

**Ms. Meili Faille:** I have two questions.

A report in a financial paper—I don't have the name of the paper—indicated that junk bonds in pension plans were now at an all time high and that people seemed to be avoiding government bonds. Is there someone looking into what is happening with junk bonds?

**Ms. Diane Lafleur:** Private pension plan regulations are under shared jurisdiction in Canada. And federal jurisdiction is quite narrow. We are only responsible for private pension plans when the employer is under federal jurisdiction, such as banks, the transportation sector and sectors like that. Regulations mostly fall under provincial jurisdiction. Provinces issue their own regulations.

**Ms. Meili Faille:** Do we find these types of products in public pension plans and, if so, what is the percentage?

**Ms. Diane Lafleur:** I don't have that information with me.

**Ms. Meili Faille:** Mr. Walker, perhaps you could add something. [English]

**Mr. Gary Walker:** When you say “public pension plans”, can I ask which ones you're referring to?

[Translation]

**Ms. Meili Faille:** Our own pension plans.

[English]

**Mr. Gary Walker:** Actually, we do have an office associated with our office, the Office of the Chief Actuary, which provides the actuarial oversight to those pension plans.

[Translation]

**Ms. Meili Faille:** Okay. So we should contact the office if we want to find out the percentage that is invested in junk bonds.

[English]

**Mr. Gary Walker:** I'm hesitating because I'm not sure if he could answer that question. We can find out.

[Translation]

**Ms. Meili Faille:** You will tell us. Okay.

Here is the second question that the notaries in my constituency asked me. Mortgage transactions are also carried out by the Business Development Bank of Canada. How does the government choose the people who are able to conduct mortgage transactions for the Business Development Bank of Canada?

**Ms. Diane Lafleur:** The Business Development Bank of Canada is the responsibility of the Minister of Industry. I'm sorry, but that's not our area.

**Ms. Meili Faille:** It's not your responsibility. Okay.

Those were the simple questions I had.

[English]

**The Chair:** I have just one question, if I might. Perhaps, Mr. Horgan, you're the one to best answer it.

As Canadians, we've all lived through this cycle where the major bulwarks of healthy economies have been perceived to be the banks, and especially the very large international banks primarily resident in the United States, because that's the area we follow. We don't follow the ones in Europe or in Asia all that much. Yet over the course of

the last several years, there was a movement in our economy to try to emulate the financial practices of the Americans. I don't think I'm exaggerating if I suggest perhaps that's not proven to be the great lighthouse that it used to be.

What would cause us to move away from something that you've described and the Auditor General has described as something very, very sound? What would cause us to move away from a very small-c conservative banking system, which provided stability and continuity, to one that would emulate a system that virtually collapsed some three years ago? What would be your SAC's advice in that regard? You did initiate some changes that almost led us down the same path.

• (1710)

**Mr. Michael Horgan:** I think it is probably true to say that there were a lot of people who were putting pressure on for changes. I don't think any of the changes that were introduced in Canada really led us down that path. Indeed, probably from a regulatory supervisory point of view, and indeed from many of the banks' and financial institutions' points of view.... They're pretty conservative organizations and did not go down that path for prudential reasons.

**The Chair:** But you laid the groundwork for them, and should they have chosen, would they have been able to? You changed the regulatory system somewhat.

**Mr. Michael Horgan:** Yes, but I don't think in ways that fundamentally changed the Canadian system. I think there were probably pressures to move beyond where we went. I think now with the financial crisis, there's even less motivation to even consider those things. I think perhaps we've learned a lesson in Canada, and maybe others have learned a lesson from Canada, that a fairly kind of conservative, prudential system seems to pay off, as opposed to some of the more...I don't know quite what the right word is, but some of the ways—

**The Chair:** I'm not going to help you out there.

**Mr. Michael Horgan:** —that other people went.

**The Chair:** I wanted to say that, just simply because there are a lot of people who continually ask. So I said, okay, the first chance I get, the Deputy Minister of Finance will be the one who will answer that question, because we don't want it to be construed as a partisan query, but rather one that would be—

**Mr. Michael Horgan:** I understand.

**The Chair:** Okay.

Well, thank you very much, Mr. Horgan, Mr. Wiersema, Madame Bourque, Mr. Walker, and of course, Madame Lafleur, Madame Cheng, and Mr. Domingue. We didn't mean to leave you out of the equation at all, but members ask questions wherever they like and they chose as they chose. What can we do? We try to be like your SAC committee, fairly flexible, and arrive at something that's consensual.

Thank you very much for being with us this afternoon.

The meeting is adjourned.







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