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## Standing Committee on Finance

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EVIDENCE

**Thursday, April 2, 2009**

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**Chair**

**Mr. James Rajotte**

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Thursday, April 2, 2009

• (0900)

[English]

**The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)):** I will call the Standing Committee on Finance to order. We are continuing our study pursuant to Standing Order 108(2), a study on measures to enhance credit availability and the stability of the Canadian financial system.

We have three organizations with us here this morning.

First of all, from the Investment Industry Association of Canada, we have Mr. Ian Russell, president and CEO, back before the committee.

From Credit Union Central of Canada, we have the president and CEO, Mr. David Phillips. We also have Mr. Ralph Luimes, the CEO of HALD-NOR Credit Union from Hamilton, I believe.

From the third organization, DBRS, we have co-president—and I'll try to pronounce the last name correctly—Mr. Peter Bethlenfalvy.

We can start. We'll go in that order. We'll start with the Investment Industry Association of Canada. We generally allow about five minutes for an opening statement. We may allow a little more time today because we have three witnesses, and then we'll go to questions from members.

We'll start with Mr. Russell, please.

[Translation]

**Mr. Ian Russell (President and Chief Executive Officer, Investment Industry Association of Canada):** Thank you very much, Mr. Rajotte.

Good morning to all committee members.

[English]

Good morning. My name is Ian Russell. I appreciate this opportunity this morning to appear before the House of Commons Standing Committee on Finance to participate in your discussion on an assessment of the measures taken to enhance credit availability in the capital markets.

I'll keep my opening remarks fairly brief, and I really look forward to questions on a full array of the subject matter, be it the credit availability questions or the regulatory reform that we're all embarked on, not just in Canada but globally.

[Translation]

It did not take long for the real economy to be affected. The financial impact and loss of confidence are being felt in every region and in every sector.

[English]

We've gone through a very difficult time in financial markets over the last six months, and it's unfolding quite dramatically in its impact on the real economy. Portfolio values are generally down about 20%, with equity investments down 30% to 40%. Real estate values in Canada are in the early stages of following global trends, unemployment rates are trending higher and are already at multi-year highs, and, as you're all aware, consumer spending has retrenched.

One of the areas that I wanted to touch on and elaborate on with this committee extends a bit beyond the measures we're seeing to really an assessment of the measures that were put in place during the budget.

I have to single out the efforts of the Bank of Canada really since the beginning of this crisis in the summer of 2007. Both the bank and the federal government, through its budget, have put in place very effective measures to improve the liquidity and functioning and credit capabilities within the capital markets, but there are still liquidity concerns in the marketplace.

• (0905)

[Translation]

Despite the success of some of the measures implemented to provide liquidity to the banks, such as the insured mortgage purchase program, for example, certain capital markets products have not been able to benefit from them.

[English]

Many corporate issuers still remain on the sidelines, and while the reasons are partially due to a general de-risking of investment by buyers, a significant factor in this development is a lack of robust market liquidity. Authorities must remain vigilant in monitoring and identifying the pockets of liquidity that may disrupt the normal functioning of important sub-markets, or the market as a whole, and continue to assess what must be done over and above the remedial measures that have already been taken to address these situations.

[Translation]

We applaud the government for following the recommendation made by the expert panel on securities regulation, and implementing a transition plan to create a Canadian securities regulator with willing provinces and territories.

[English]

I'll close with those remarks, Mr. Chair, and again look forward to questions covering that wide range of territory.

**The Chair:** Thank you very much, Mr. Russell.

We'll go to Mr. Phillips.

**Mr. David Phillips (President and Chief Executive Officer, Credit Union Central of Canada):** Thank you, Mr. Chairman.

I have about five minutes of opening remarks.

Mr. Chair, members of the committee, thank you for the opportunity to speak to you today.

I'm joined by Mr. Ralph Luimes, chief executive officer of HALD-NOR Credit Union, located in southwestern Ontario. Mr. Luimes is also the chair of the steering committee responsible for the Canadian business owner strategy, our system's initiative aimed at the small to medium-sized business market. But more on that later.

Before addressing the issue that brings us before you today, please allow me to begin by making a few preliminary remarks regarding the role of Canadian Central, my organization, and more generally the credit union system in Canada.

Canadian Central is a federally regulated financial institution that operates as the national trade association for its owners, the provincial credit union centrals, and through them for approximately 440 affiliated credit unions across Canada. With over 1,700 locations, serving more than 5 million members, 24,000 employees, and holding \$114 billion in assets, credit unions represent an important component of the Canadian economy.

Credit unions in Canada come in all shapes and sizes and operate in almost every community, including large urban centres. Credit unions are the first choice of financial institution for many Canadians. In fact, one in three Canadians is a member of a credit union or a caisse populaire.

We believe these numbers reflect the system's strong cooperative values and commitment to the economic development of their communities in good times and bad. This commitment is illustrated by our continuing presence in more than 380 communities in Canada where a credit union is the only financial institution in town. Community involvement and commitment are also evidenced by the high level of the system's charitable donations, scholarships and bursaries, and employee participation in community development. In fact, in 2007 Canadian credit union community involvement reached \$35.8 million.

Let us now turn to the topic that brings us before you here today: credit availability and the stability of the Canadian financial system. Let me first assure you that as member-owned institutions, credit unions are very much aware of the economic difficulties currently

facing Canadians, and credit unions are working closely with their members and their communities to temper the impact of the crisis.

That said, certain reports have claimed that the availability of credit to businesses and consumers has, in recent months, shrunk. As a general observation, this may be true in that non-traditional lenders have retreated as financial market liquidity has grown tighter and the market for securitization has shrunk. However, the credit union system has not participated in this pullback from credit granting. Instead, we have pursued our more traditional relationship-based approach to lending, and credit unions continue to meet their members' demands.

In 2008, credit union loans grew by 7.2%. In the last quarter of 2008, our loans increased by 1.6%, which on an annualized rate amounts to a growth of 6.5%. Loans as a percentage of total deposits were 93.7% at the end of 2008, down slightly from 95.8% 12 months before, a reflection of strong growth in deposits in 2008. That stated, it's interesting to note that 10 years ago loans represented only 87% of total deposits.

Credit unions are committed to the small and medium-sized business market. Industry Canada statistics illustrate this as well. A comparison of Industry Canada SME lending data, looking at the chartered banks, foreign banks, and credit unions reveals that nationally, credit unions account for 18% of the SME lending market for authorizations \$500,000 and under. In P.E.I. and Manitoba, this figure is 50%. In Saskatchewan it equals 62%, in Alberta 20%, and in B.C. 28%. This market is a key to credit union growth, and our system will not pull back from our SME members.

• (0910)

Our commitment to this important market is further demonstrated by the system's Canadian business owner strategy, more commonly known within our system as CBOS. Created in 2005 to enhance the competencies and capacities of credit unions to serve the business owner market as well as to raise awareness about credit unions with business owners, CBOS has actively engaged over 300 credit unions since the start of the program.

As for the matter of financial stability, I wish to highlight that the credit union system remains strong. Despite the economic downturn that began in the last quarter of 2008, the Canadian credit union system ended 2008 on solid financial ground. System assets, savings/deposits, and loans all recorded gains, maintaining the annual growth reported in previous quarters, although down somewhat from the rates reported in 2007.

By the end of 2008, the combined assets for affiliated credit unions and caisses populaires across Canada rose by 8.7% or \$9.1 billion, to reach \$113 billion. This is a 45% increase, or a \$35.2 billion gain, over the last five years. Deposits and savings growth remained strong as total deposits with credit unions increased to \$100.6 billion in the fourth quarter of 2008, up 9.5%, or \$7 billion, from the previous year.

We believe the system is well positioned to face the challenges presented by the current economic situation and the opportunities to come in 2009 and beyond.

We wish to thank you once more for the opportunity to address you today. Mr. Luimes and I will be pleased to answer any questions you may have.

**The Chair:** Thank you very much, Mr. Phillips.

We'll go to Mr. Bethlenfalvy, please.

[*Translation*]

**Mr. Peter Bethlenfalvy (Co-President, DBRS):** Mr. Chair, members of the committee, my name is Peter Bethlenfalvy and I am Co-President of DBRS Ltd.

DBRS is pleased to have the opportunity to provide a statement of its views regarding this critical topic. My discussion will focus on the following areas: programs to enhance credit availability and stability in the Canadian financial system; and Canadian regulatory reform. I would like to begin by providing a brief overview of DBRS including our role in the market and our regulatory status.

DBRS is a Canadian credit rating agency established in 1976 and still privately owned by its founders. With a U.S. affiliate located in New York and Chicago, DBRS analyzes and rates a wide variety of issuers and instruments, including financial institutions, insurance companies, corporate issuers, issuers of government and municipal securities and various structured transactions. DBRS currently maintains ratings on more than 43,000 securities around the globe. DBRS rates approximately 100 of the largest banks in the world, including Canada's major banks, insurance companies, credit unions and pension funds. This gives us a unique perspective on the functioning of Canadian financial markets from a global perspective. Since its inception over thirty years ago, DBRS has been widely recognized as a provider of timely, in-depth and impartial credit analysis, and makes its ratings available to the public free of charge.

● (0915)

[*English*]

Given its extensive role in the market, DBRS is committed to ensuring the objectivity and integrity of its ratings, the independence of its analytic staff, and the transparency of its operations. DBRS has adopted a business code of conduct in accordance with the International Organization of Securities Commissions, also known as the IOSCO code.

The IOSCO code is a globally recognized framework of practical measures designed to improve investor protection, the fairness, efficiency, and transparency of the securities market, and to reduce systemic risk.

An IOSCO review published on March 12, 2009, found that seven out of 21 global credit rating agencies, with DBRS being one of the seven, have implemented the 2008 IOSCO code on credit rating provisions. IOSCO noted that DBRS substantially incorporated the IOSCO credit rating agency code with few exceptions.

DBRS believes the IOSCO code continues to serve as an appropriate foundation for prudent regulatory oversight in all jurisdictions, and that globally consistent regimes are critical for well-functioning markets.

In addition, DBRS is registered with the SEC in the United States as a nationally recognized statistical rating organization, also known as an NRSRO, and has achieved global regulatory recognition, including recognition as an external credit institution in the United States, Canada, the European Union, and Switzerland.

With that context, let me now turn to our views on the programs to enhance credit availability and the stability of the Canadian financial system, while minimizing risks to the public.

The extraordinary financing framework introduced in January under the federal budget—much along Ian's comments—was a welcome move to improve access to financing for consumers and allow businesses to obtain the financing they need to grow and create new jobs.

In October 2008 the Bank of Canada introduced measures to provide exceptional liquidity to the financial system, as long as conditions warrant. Collectively, these programs are critical vehicles to stimulate liquidity and provide funding if and where necessary, or, as I like to put it—and I think this is a fundamental point for Canada—funding if necessary but not necessarily funding.

Investment grade corporations have been able to tap the public and private term markets, including the credit unions, that issue short-term commercial paper, as evidenced by a flurry of new issuance activity over the last few months. The commercial paper market continues to be robust, and many Canadian companies manage their liquidity prudently; however, securitization, in particular the term asset-backed market, remains frozen, unlike the asset-backed market, which continues to function and has approximately \$50 billion outstanding.

DBRS appreciates the comprehensive consultation efforts regarding the Canadian Secured Credit Facility—the equivalent, I guess, of the TALF in the U.S., the Term Asset-Backed Securities Loan Facility; however, more needs to be done to stimulate this market. Term asset-backed issuance year to date has been just over \$1 billion, versus \$9.5 billion for the same period in 2008.

Depending on how rapidly these markets thaw and/or markets freeze again, additional programs may be necessary. DBRS is also supportive of quantitative easing should the need arise regarding this market, and it believes the Bank of Canada's role as lender of last resort is fundamental.

This brings me to my second topic: Canadian regulatory reform. DBRS believes the Canadian approach to banking oversight has shown itself to work very well compared to other jurisdictions. The U.S. regulatory landscape has a patchwork of institutions that requires a significantly different response. A systemic view of risk is prudent and necessary. The U.S. proposal for a new super-oversight body for systemic management of exposures in the financial system is a good step forward.

In contrast to the U.S., DBRS believes that Canada has the right mechanisms in place to oversee systemic risk. At present, Canada has a Financial Institutions Supervisory Committee, chaired by Julie Dickson of the Office of the Superintendent of Financial Institutions, and includes, among others, the chairman of the Bank of Canada, and members from the Department of Finance, CDIC, and CMHC. They meet to discuss broad issues.

DBRS suggests that the Bank of Canada should continue its monitoring and liaison role to OSFI and as a lender of last resort, but not as a regulator. There is a necessary separate but integrative role for each of the Bank of Canada, OSFI, CDIC, a national securities regulator, and the Department of Finance.

Turning lastly to the global markets, the global credit crisis was caused by a super bubble of debt, but the lack of transparency and disclosure was the accelerant to its unwinding. DBRS believes that enhanced transparency and disclosure are key to normalizing credit markets, including greater international regulatory harmonization.

• (0920)

Over the last 18 months, DBRS has implemented a number of changes across this business, with particular focus on structured finance, to enhance the quality and transparency of its credit rating process and to help restore confidence in the credit-rating opinions.

In early 2008—my final comment—DBRS took the initiative to restructure its reporting to provide more timely and transparent disclosure on securitized asset-backed transactions, and this is a leading disclosure type among all asset-backed commercial paper markets in the world. In fact, DBRS will decline to rate asset-backed commercial paper programs when an appropriate transaction level of information is not forthcoming.

As a result, we believe DBRS and Canada are providing leadership to other jurisdictions in the area of transparency and disclosure.

[Translation]

DBRS has a long and proud history of playing a role in the Canadian and global capital markets. We take this role very seriously and are appreciative of being given the opportunity to share our insights with members of the committee.

I would be pleased to answer any questions you may have. Thank you.

[English]

**The Chair:** Thank you for your presentation.

We'll start with Mr. McCallum, please.

**Hon. John McCallum (Markham—Unionville, Lib.):** My question is for Mr. Bethlenfalvy.

It's fair to say I think that you had a lot of egg on your face at the time of the asset-backed commercial paper crisis, where you were the only rating agency to give a triple-A rating. Is that a fair comment?

**Mr. Peter Bethlenfalvy:** We did rate a number of asset-backed conduits with the triple-A rating, yes.

**Hon. John McCallum:** We had hearings following that, and we hadn't gotten to you until now, but I'm a little bit surprised that you come in and give your recommendations for improving stability and all of that without any comment whatsoever on the egg you had on your face and the essential role you played in that crisis.

Can you describe briefly what led you to that position and how much blame do you accept for yourself for what happened?

**Mr. Peter Bethlenfalvy:** We did, as I mentioned, rate 43,000 securities. The asset-backed is part of our ratings.

We focus very much on the credit quality of the programs. What we didn't anticipate was the global liquidity crisis. We focused on the credit quality. And in fact if we fast-forward through these 18 months, past the Montreal accord, the reissued notes have received a single-A rating from us.

**Hon. John McCallum:** Yes, but at the time you gave a triple-A rating, and had you not done that we probably wouldn't have had this crisis, because no other rating agency was willing to do that. Is that not right?

**Mr. Peter Bethlenfalvy:** I'm not going to comment on the methodologies or the practices of the other rating agencies.

**Hon. John McCallum:** No. I'm saying they didn't give a rating.

**Mr. Peter Bethlenfalvy:** They may not have been asked to give a rating. For a number of years, Canadian investors and regulators and market participants were quite happy with the market for asset-backed commercial paper.

It is true that we did not foresee the depth of the global liquidity crisis; we did not foresee credit spreads widening to levels not seen since 1932, and then beyond. I think it's a testament to some of the credit analysis we have done that the majority of the notes still maintain an investment grade rating, a number of firms continue to hold—

**Hon. John McCallum:** I would have thought you might have shown a little bit more humility and a little bit of willingness to accept at least a modicum of the blame for this, because so many Canadians, many of low income, had their assets frozen. It was a crisis at the time. Fortunately, it's been resolved in a satisfactory way...or reasonably satisfactory. It's a lot better than it was months ago. But the conventional wisdom seems to be that had you not taken this action on the triple-A ratings, this crisis probably would not have happened. So in that sense you're at the centre of it.

You seem to be saying very little about that and offering all sorts of advice, whereas I think what we would want to hear is how come you got it so wrong and what have you done so that we can have any confidence that you won't do such a thing again.

**Mr. Peter Bethlenfalvy:** There are many questions in there. Let me address the issue of contrition or our responsibility as a major participant in not just the Canadian capital markets but in global capital markets.

We accept our share of responsibility for the ratings, for all ratings that we provide. They are opinions. They're based on public methodologies. We're very public about how we got to those ratings. In fact, the day after we met with interested parties—investors, media, anyone—to talk about those ratings.

So we accept responsibility in the context of unforeseen events in the global market.

Since that time, we've taken a number of steps to improve our rating process. First of all, as I said in my remarks, our level of disclosure now for asset-backed commercial paper is the highest standard in the world, and we provide more disclosure on a transaction-by-transaction basis on what's in the portfolio, the type of assets. We provide that on a monthly basis.

Secondly, we've enhanced a number of our methodologies, based on some of the learnings we've had, not just in asset-backed but in a whole range of securities. The securitization market is a massive market, and asset-backed is just one part of it. So we've enhanced a number our methodologies. We've created a structured finance committee, which now approves any methodology or model from many areas of the firm, so that not one area can dominate its view. As I've said, we now follow, and fully subscribe to and have been approved by, the IOSCO code, which is securities commissions—Quebec, Ontario, and all the securities commissions, major ones, on the planet.

• (0925)

**Hon. John McCallum:** Thank you.

I want to shift a little bit away from your rating agency to rating agencies in general. As we speak, the G-20 is meeting, and there's a big push among at least some countries in the G-20 to have much tougher regulation. When I read these reports, it seems there are three groups that are lumped together as in need of regulation: tax havens, rating agencies, and hedge funds. They are entities that have fundamental governance issues and therefore need to be brought under greater control.

In the case of rating agencies, one of the issues—and I'm not talking only about yours—is what some would regard as a fundamental conflict of interest, that the people you rate are the people who pay you. That causes a little bit of a conflict, not just for you, I hasten to repeat, but for rating agencies in general.

So my question is, would you concede that those countries, notably France, but not only France, I believe, that are pushing for far greater regulation of rating agencies at least have a point?

**Mr. Peter Bethlenfalvy:** Again, you have a number of questions there.

With regard to the point, we accept oversight, absolutely, and we subscribe to that oversight. In fact, the SEC has published its rules for regulating rating agencies, with which we're compliant. In fact, those rules come into effect on April 10 and we're fully compliant as of March 31.

With regard to the G-20, as you know, Canada is a co-chair of the working group, along with India, on regulatory reform, including credit rating agencies. Their communiqué on March 12, so only three weeks ago, talks about the G-20 finance ministers and central bank governors having agreed to regulatory oversight, including registration of all credit rating agencies whose ratings are used for regulatory purposes and comply with the IOSCO code.

So that's the G-20. France, Germany, the U.K., Canada—which is a key member, as I just mentioned—have subscribed to the IOSCO code of which we're one of seven that are compliant. And we are fully compliant with the SEC rules that were published in February and need to be followed in April.

**Hon. John McCallum:** Okay. Thank you very much.

**The Chair:** Thank you.

We'll go to Monsieur Laforest.

[*Translation*]

**Mr. Jean-Yves Laforest (Saint-Maurice—Champlain, BQ):** Thank you, Mr. Chair.

Good morning to everyone.

Mr. Bethlenfalvy, I would like to know a little more about the mechanics of this. You were the only agency to grant a triple A rating to ABCP. The other credit rating agencies refused to rate those securities.

How does your financing work? Who pays you? Do you charge a fee every time you give securities a high rating or when someone buys them?

• (0930)

**Mr. Peter Bethlenfalvy:** Thank you for the question. If you do not mind, I will answer in English. Thank you.

[*English*]

Let me address the conflict of interest, because the honourable member raised that as well.

There's always a conflict, regardless of who pays you. The underwriters get paid by the issuer. The accountants get paid by the issuer. The lawyers who do an underwriting get paid by the issuer. So there's always conflict.

I think the key thing with regard to conflict of interest and who pays you is that you have separation between those who do the rating and the actual payment of the rating.

We at DBRS have long separated those two. In fact, we've taken it a step further. People who are on the analytical side don't even know if we get paid for the structure, or for the rating, or even how much. They're not even aware. So forget about negotiation. They're not involved in negotiation. They're not aware.

[Translation]

**Mr. Jean-Yves Laforest:** I will re-phrase my question. When you rate a security, do you receive more money if more people buy that security?

[English]

**Mr. Peter Bethlenfalvy:** No, we do not. It's a flat fee. The structure is a flat fee. It doesn't matter how many people buy that security or the types of people who buy that security, we do get a—

[Translation]

**Mr. Jean-Yves Laforest:** Who pays the flat fee? That is what I am trying to understand. When someone buys a security, does part of the cost go to DBRS? Who pays you, the issuers or the buyers?

**Mr. Peter Bethlenfalvy:** It is always the issuers that pay.

**Mr. Jean-Yves Laforest:** So, the more they sell, the more they pay you?

[English]

**Mr. Peter Bethlenfalvy:** It depends. For a number of structures, you just pay a flat fee regardless of how much you issue.

**A voice:** A fat fee or a flat fee?

**Mr. Peter Bethlenfalvy:** A flat fee. Rating agencies, in relative terms to underwriters, with all respect to underwriters, get paid a lot less. You don't see any Porsches in the driveways of rating agency people.

The issuers do pay, that is correct. In some cases, if the issue size is increased, they get paid more. In some cases, it's just a flat fee and you can issue. The Government of Canada pays us a flat fee. The provinces or various—

[Translation]

**Mr. Jean-Yves Laforest:** I understand, but since there were so many, several issuers issued a large number of them. When you granted a triple A rating, did you confirm whether the other rating agencies had given any ratings?

Basically, given that you were the only ones in Canada to rate those securities, you were also the only ones to make any money from all those transactions.

**Mr. Peter Bethlenfalvy:** Never.

[English]

We never check with other rating agencies. We don't know what they're going to rate. I'll give you an example. We were just asked to rate the Canada Pension Plan's creditworthiness. We had no idea if they had approached other rating agencies. We used our methodologies to come up with a final rating. We published that last week for the Canada Pension Plan. And S and P provided a rating. We have no say in whether they get multiple ratings.

We have to stick with our standards, our methodologies, which are all public, on our website, and come up with a final rating independent of the fee. Our analysts don't even know if we get paid.

[Translation]

**Mr. Jean-Yves Laforest:** You said you have accepted your responsibility, but you can also say that you made a healthy profit from ABCP.

[English]

**Mr. Peter Bethlenfalvy:** We did get paid for rating. For any security, we often do get paid. Sometimes we provide ratings without fees.

[Translation]

**Mr. Jean-Yves Laforest:** At the end of your presentation, you talked about the framework of a single securities regulator, saying that it would provide a more consistent, effective and efficient means of regulating agencies, and that it would help coordinate international communication.

Those are wonderful words, but do you have specific examples to illustrate how the current system has been inconsistent, ineffective or inefficient? As we know, the OECD has said that Canada has an excellent securities system and that it has been improved by the passport system.

Were there times when communication was really bad between the 13 existing regulatory agencies?

● (0935)

[English]

**Mr. Peter Bethlenfalvy:** Those comments relate more to the fact that capital markets are global and they're interconnected, versus interconnected even within Canada. Our real point there is that harmonization amongst the G-20 countries is critical, otherwise capital will flow be arbitrated in weak regulatory regimes.

It's not specifically that anything is broken in Canada. It speaks more to the fact that whether we like it or not, we're in an interconnected capital market, and to have weak regulatory jurisdictions elsewhere is not beneficial to rating agencies or participants in the capital markets.

**The Chair:** Mr. Kramp, please.

**Mr. Daryl Kramp (Prince Edward—Hastings, CPC):** Welcome to our guests.

My first question is either to Mr. Bethlenfalvy or Mr. Russell. I want to talk, just for a second, about mark-to-market accounting, whereby the accounting standards and the assets and liabilities are assigned a value based on their market prices.

I have a statement here about how a number of financial statements had to write down the value of their financial assets, which many people say exacerbated the financial turbulence, and yet some commentators—we've had the C.D. Howe Institute here—suggest that the financial institutions should be allowed to use alternative accounting methods, either model based or historic cost valuations, when liquidity constrains the markets.



If we have a single accounting mechanism, should we maintain the consistency that we have or should we, potentially, in your opinion, be looking at other options for evaluation?

**Mr. Ian Russell:** I'll take a run at the question.

I think the debate over mark-to-market is one dealing with the procyclicality of mark-to-market, which is the point you made. In up markets, you're marking up the assets, so you're encouraging a lot more activity in the financial sector and there's the potential of bubbles. The counterpart to that is the transparency argument, which is the argument that accountants use, which is that whatever a value is, it should be disclosed.

I think the issue gets much more complex than that, and I think that's the reason—you cited the C.D. Howe Institute—to provide recommendations that give a little more flexibility in terms of some discretion in marking to market. One of the reasons for this is that it's very difficult to in fact mark to market securities that are not actively traded in the marketplace.

Part of the problem we've encountered in our markets is it's these more esoteric securities that we've had trouble valuing. The risk in a mark-to-market scenario, without some kind of discretion involved, is mismarking the assets.

I would agree with the recommendation of the C.D. Howe Institute that says we have to look at this more carefully, and we probably have to treat the accounting of financial institutions a little bit differently than maybe we have in the past because it has exacerbated some of the problems we're facing.

**Mr. Peter Bethlenfalvy:** If I could just say one quick thing on that, one of the things that we really have to watch for.... We're very supportive of mark-to-market accounting, but again, we have to have harmonized standards, because FASB is taking a certain approach and the International Accounting Standards Board may be taking a different approach.

Harmonization—I keep using that word—is critical. Otherwise, it really is difficult when we rate banks in Canada, in the United States, in Europe to have apples to apples. We'll support whatever the standard is. We think a good, clean communicated standard is what's required.

**Mr. Daryl Kramp:** Then obviously it's certainly preferable to have a base common denominator we can use that's comparable.

**Mr. Peter Bethlenfalvy:** A good corollary would be the Basel II for capital, and every jurisdiction has to have the base minimum. You can have higher standards, and OSFI has often said we want higher standards in Canada. It's part of the reason why we have less leverage in our Canadian banks.

**Mr. Daryl Kramp:** Thank you.

Mr. Phillips and Mr. Luimes, in your opening statement you basically gave us the comparison of your market authorizations for the small businesses, SMEs, in the various regions, and it was 18% overall. Yet in two of the provinces, P.E.I. and Manitoba, it's 50%, in Saskatchewan it's 62%, etc. Reading into that, in Ontario and Quebec obviously you don't have as much of a penetration. Would that be a fair assessment, then?

● (0940)

**Mr. David Phillips:** I always hesitate to use national market share figures because for a system that's as regionally based as us, that can sometimes not give the right impression. That's why I wanted to point out that this penetration is actually quite large in some parts of the country. Ontario is an area where our presence would be less so, but I think we're very accurate.

I'd actually like to draw Mr. Luimes into the discussion here because he is a CEO of a credit union in Ontario and can give you a bit of a perspective.

**Mr. Ralph Luimes (Chief Executive Officer, HALD-NOR Credit Union, Credit Union Central of Canada):** Thank you, honourable members, for providing an opportunity to share with you and respond to your questions.

I'd like to just expand on David's comments with respect to the Canadian business owner strategy. It is a two-pronged program. There's an internal component, which is our emphasis right now, and a potential external for future consideration.

The internal is readiness for market, trying to ensure that all the credit unions.... We have about 300 of the 440 or so credit unions engaged in the CBOS program right now, and our emphasis is very much on trying to improve the readiness, build what they currently have, and take it to another level. That includes probably our most significant piece, which is our training program, or HR development program, in which we have over 200 employees already enrolled just in the last two months.

**Mr. Daryl Kramp:** It's almost a fact, even admitted by the major banks, that SME lending in rural areas is slim to non-existent, and yet your penetration into those areas obviously is at least still serving part of that market. Would that be a fair assessment?

**Mr. Ralph Luimes:** Very much. The small business area and small town rural Canada, shall we say, is the heart of our operations.

**Mr. Daryl Kramp:** Thank you.

Mr. Bethlenfalvy, you made a statement that I would like you to elaborate more on so I have a better understanding. You said funding is necessary, but not necessarily funding. Can you give me more of a swing of where you were going with that?

**Mr. Peter Bethlenfalvy:** Sure, I'd be happy to.

No one expected what happened in September with Lehman Brothers and the corollary on the global capital markets. A number of the programs weren't in place either in the U.S. or Canada to help liquidity, to bridge through a tough time. I look at the insured mortgage plan that provides the Canadian banks with liquidity as a vehicle that helped. The Canadian lending assistance facility, which Parliament has passed through the budget, has not been used, but it is there if necessary. No one can predict what next week is going to bring and whether our banks will need various vehicles to get them through a short period of time if a crisis in confidence happens in the capital markets.

My point is very much to have these programs in place and if necessary they're there to be used. They may not be used. There was a problem for Canada because our banks were better. We didn't need these programs, and the international market started to say there was something wrong with the Canadian banks because the governments weren't supporting them. That's no further from the truth, but wise to put these in place to let the global community know, which often doesn't take much time to understand.

**The Chair:** Thank you.

Monsieur Mulcair.

[*Translation*]

**Mr. Thomas Mulcair (Outremont, NDP):** Thank you, Mr. Chair.

First of all, Mr. Bethlenfalvy, I would like to apologize for how we massacred your name on the name card prepared for you, but I take some solace in seeing how DBRS also massacred your name, at least in the signature of the French version. That must happen to you a lot.

I would like to come back to what my colleague, Mr. McCallum, was saying, because I think it is very important. As you can see, we do not always have enough time to really delve deeply into these matters. I would like to come back to something you said in English. You justified the triple A rating you granted to asset-backed commercial paper, citing credit quality. Also, referring to the absence of any conflict of interest, you said you were in no more of a position of conflict than the lawyers who prepared the contracts in question.

For six years, I was president of the Office des professions du Québec, a regulatory structure responsible for overseeing all professional occupations and ensuring that these professionals do their job to protect the public. I can assure you that I am very familiar with the subject and I have never heard this theory whereby the group that performs an assessment, and is paid to do so, is in no more of a position of conflict of interest than the lawyer who prepared the contracts.

Can you explain to me how, with this notion of credit quality—all use your terminology—you could have granted a triple A rating to that paper? I am a lawyer, and spent most of my career practising corporate and commercial law. I think it was very clever, from a marketing perspective, to call these “asset backed” transactions. That evoked the notion of some sort of guarantee, while it was nothing of the sort. No one was in a position to follow the owner of that truck all over the place.

Please use clear terminology so that everyone will understand. Even though I have been working in this field for a very long time, I must admit, I am having a hard time understanding your justification of triple A credit quality for something that caused one of the worst economic disasters this country has ever seen.

• (0945)

[*English*]

**Mr. Peter Bethlenfalvy:** Thank you for the question. I'll deal with the second one first and then come back to the conflict of interest.

With regard to credit quality, I think in simple terms you can make a loan—for example, asset-backed securities include auto loans or credit card receivables, and so on. So if you were to take out a loan with me for a credit card, I'd assume credit card risk with you. But if

everyone here took out a credit card and I knew your payment histories and I could pool the risk, I'd be in a better risk position just by the process of diversification.

So simply put, securitization is about diversification of risk. That's what we're good at. We understand credit risk and we understand the principles of diversification. What I guess was not as well understood was what happens if the capital markets disappear.

**Mr. Thomas Mulcair:** Hold on. You tried that one with Mr. McCallum before. It doesn't work. It's not a question of what the capital markets did. You keep talking about credit quality. In the same breath you refer to an international crunch. It doesn't work. What happened with this so-called asset-backed security—that terminology in and of itself evoked security, and you went along with that—was that you had to pursue every credit card holder, the owner of the pickup truck, and everything else. This was all bundled together. It had no credit quality because it was not something that could be executed as a debt. And that's the problem here. Through reams of contracts, individual and otherwise, you were supposed to have something that, when bundled together, represented credit quality. Simply put, it did not.

I don't find it honest of you to sit here today and claim that the problem is something in the international markets and not recognize the fact that the DBRS gave a triple-A rating to hogwash, because you couldn't realize on those assets. When you meet the smart people in the world of finance and the world of investment who looked at this stuff, they never invested in it. Jarislowsky is a good example, because, simply put, he realized there was no way to execute on those guarantees.

Are you telling us that the creditworthiness of every individual credit card holder, every individual pickup truck owner who was financing...? Is that the only thing you look at to determine credit quality? You're not looking at the value in terms of the executable quality of what's there as a legal product? That's none of your concern? Is that what you're telling this committee?

**Mr. Peter Bethlenfalvy:** No, not at all. I guess we're going to have to agree to disagree on the value of the securitization market, both in Canada and globally. I think it does serve. They're real assets. The pooling of those assets is a real vehicle. The Governor of the Bank of Canada talked about it in his speech—

**Mr. Thomas Mulcair:** They are even if they can't be realized upon?

**Mr. Peter Bethlenfalvy:** They can be realized.

**Mr. Thomas Mulcair:** One by one, you're going to go after every credit card owner, and it's going to cost you—

**Mr. Peter Bethlenfalvy:** There are ways to.... You know, in loss given default, it's not that you get zero cents on the dollar. I think if investors really felt they would get zero cents on the dollar, they'd sell even at 50¢ or 25¢. There is real value. There is liquidation value.

I would also say that we rate a whole range of securities based on our analytic capabilities, based on our methodologies and our models, and these—

**Mr. Thomas Mulcair:** With respect, your analytical models and your abilities, it seems to me, simply put, preclude you from understanding that the legal structure put in place can have a serious effect on credit quality. You have blinders on. You say no, no, these are individual credit card holders; this is the person who's put up decent collateral and has a good credit rating for a pickup truck. But how do you realize on those assets without it costing you a disproportionate amount? That has to be part of your analysis of credit quality.

• (0950)

**The Chair:** Okay.

**Mr. Peter Bethlenfalvy:** It is part of the analysis. We do that. If you default on the mortgage, there's still a loss given default. Now it's pooled. So it does happen. I think that's a fundamental part of the process of our analysis. It does occur.

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

I think we'll go to the next round, a five-minute round.

Mr. Bethlenfalvy, there are some questions here with respect to the rating, and I admit, I would agree with my colleagues here. I'm not sure that the financial crisis is the explanation for that. I assume you're going to get more questions on that. I think the crux of what members of this committee are asking is the question of why that rating was given. I don't think the answer is in the financial crisis.

We'll go to the next round, with Mr. McKay.

**Hon. John McKay (Scarborough—Guildwood, Lib.):** Mr. Bethlenfalvy, you seem to be a popular boy this morning.

**Voices:** Oh, oh!

**Hon. John McKay:** Unfortunately, as we go forth, pretty well all the questions have been explored. I can't believe I'm agreeing with Mr. Mulcair.

**Voices:** Oh, oh!

**Hon. John McKay:** The issue here is that you gave a triple-A credit rating, and a lot of people were seriously damaged by this credit rating. Others who weren't damaged, most notably the TD Bank and Ed Clark, said, "Well, I just didn't really understand the product. If I didn't understand the product, there's no way my bank was going to invest in it."

The problem with the rating as you gave it is that you in effect induced people to do it. We've had people here who didn't really understand what the investment was, but because their financial adviser—some very senior financial advisers—said it was rated well by the DBRS, it was given a good rating, it must be a good product....

It seems that whether it's intentional or unintentional, it's based on a model whose validity has expired. It almost conjures up images of Ph.D. mathematicians going through their models in the basements of these buildings and producing a model that on the face of it appears to be perfectly sensible and warrants a rating, yet when exposed to the light of day, the reality of what credit is, it's absurd.

Square the circle for me, Mr. Bethlenfalvy. How is it that you could provide a triple-A rating to a product where very senior people say, "I don't get it, I don't understand it, so we're not investing in it"?

**Mr. Peter Bethlenfalvy:** First off, TD bank is a big issuer of asset-backed commercial paper, so it's not correct. We continue to rate it, and other rating agencies rate it. In fact, they rate it triple-A today. There's \$50 billion outstanding, of which TD is a big participant. That's a fact.

The second thing I would say is that one of the big lessons learned from the whole process was the need for greater transparency and disclosure. The evolution of disclosure is that the banks wanted to keep a lot of the information confidential for competitive reasons, so they'd give it to the rating agencies and then you would have that. When the crisis hit, people wanted to know exactly what was in the portfolios. In the absence of consistent disclosure rules and confidentiality agreements, which precluded our.... For example, if a corporation gave us forecasts, we couldn't just publish those. There was a lack of transparency.

I think one of the key things now is that—

**Hon. John McKay:** Back me up over that. You said there's a lack of transparency because of disclosure rules?

**Mr. Peter Bethlenfalvy:** Yes.

• (0955)

**Hon. John McKay:** So even though you may have within your pool of knowledge the actual content, you can't disclose that information to people who are saying this paper is not saleable anymore?

**Mr. Peter Bethlenfalvy:** There's a certain confidentiality that is required of the bank—the pricing of the assets, the nature of the specific individuals or companies with those assets. We said okay, if you're going to do that, we're not going to rate it anymore.

**Hon. John McKay:** If you're going to disclose it, you're not going to rate it?

**Mr. Peter Bethlenfalvy:** If you're not going to disclose it to us, and we can't disclose it to the market, we're not going to rate it anymore.

**Hon. John McKay:** That's a change in your policy.

**Mr. Peter Bethlenfalvy:** Yes, that's a change.

**Hon. John McKay:** There are certain things now that you will not rate.

**Mr. Peter Bethlenfalvy:** Correct, and in fact we've been asked to rate some things that we refused to rate because they didn't have enough disclosure that we could put out in the marketplace.

**Hon. John McKay:** Is there a consensus among your colleagues that there are certain products you all should not be rating, as opposed to, say, this time last year, when you seemed to be rating everything, some of which might even have been true?

**Mr. Peter Bethlenfalvy:** I don't know if I can be specific, but I certainly can generalize. This is not just a corporate view, it's also a personal view. The degree of complexity was much too great. The innovation that occurred in the financial markets was much too great for investors and everyone else to fully comprehend. Now, that's great in hindsight, but we are where we are.

It's not just about disclosure. We could disclose 200 pages of information. It has to be summarized, relevant, and understandable.

**Hon. John McKay:** It has to be backed by something called reality.

**The Chair:** Thank you.

Monsieur Carrier.

[*Translation*]

**Mr. Robert Carrier (Alfred-Pellan, BQ):** Thank you, Mr. Chair.

As you can see, we have only a very short time.

Hello everyone. I would first like to commend Mr. Phillips, who gave an excellent presentation on the state of credit services for members of credit unions. I have always been a member of a credit union, on principle. Credit unions have investment programs, investment trusts.

Personally, I was indirectly affected by this, since I had investments in credit unions, and the infamous ABCP did not perform well. That is why I will immediately move on to Mr. Bethlenfalvy, and I would like to address the question of the ABCP that was rated by his credit rating agency.

I have already asked Bank of Canada representatives who controlled the rating agencies. I came to the conclusion that no one was exercising control over the rating agencies. I was told that the need to have a good reputation forced them to do a good job.

Concerning how you bill your clients, since that is how you operate, if I understand correctly, you charge a flat fee to those who need a rating. Can you tell me if the flat fee is the same every time you are asked for a rating or is each case different? Thus, in the case of ABCP, could the cost have been higher because there was greater risk or because it was more complicated?

[*English*]

**Mr. Peter Bethlenfalvy:** Thank you for the question.

The way our fee structure works, we have a flat fee, a fee schedule. The investment banks or the issuers bring us transactions and we give them the flat fee schedule. If anything, the prices are sometimes negotiated down—not up, they're never negotiated up. So we go down, and we try to have consistency. We try to charge everyone the exact same price and to be competitive and fair in that regard.

We're a private company. We don't have quarterly earnings targets to meet. It's been private since its inception in 1976. Accountants are, through the private company.... I think the ownership would be better suited to talk about the accountants and accounting, but the fees are basically paid in two forms off the flat fee. You have two options: you can either pay a flat fee and just issue as much as you

want under that, or you can do it à la carte, meaning that every time you issue a security, a fixed fee is charged.

• (1000)

[*Translation*]

**Mr. Robert Carrier:** Could you provide us with documentation on your fee schedule?

[*English*]

**Mr. Peter Bethlenfalvy:** I will follow up with that.

[*Translation*]

**Mr. Robert Carrier:** I would also like to have some statistics on asset-backed commercial paper. Our goal is to try to understand the situation.

I stated that I had come to the conclusion that there were no regulations. Rating agencies are not regulated by any organization. Correct me if I am wrong. In your presentation, you stated that a national regulatory body would be a coherent, effective and efficient means of regulating the rating agency sector.

Would that be something new? Does it already exist? Do you believe you need regulations?

[*English*]

**Mr. Peter Bethlenfalvy:** We have oversight through the IOSCO code—the International Organization of Securities Commissions, in which the Quebec Securities Commission and the Ontario Securities Commission are active participants. We are regulated through the SEC. We follow the rules and have been registered with the SEC since 2003.

So there is regulatory oversight. We meet all the securities regulators' requirements and we support and are fully compliant.

**The Chair:** Thank you.

Mr. Wallace, please.

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

Thank you, everyone, for coming today.

Do you mind if I call you Peter?

**Mr. Peter Bethlenfalvy:** Not at all.

**Mr. Mike Wallace:** I know how to say that one correctly.

I can't disagree with my colleagues. I sat through the meetings at the finance committee here in the last session—or Parliament, I guess we call it—with the discussion of the asset-backed commercial paper. We had people here who—let me put it this way—were not really sophisticated investors and who relied completely on your rating.

It's not just us hearing it here. The *National Post* talks about you as the major international debt-rating agency that refused to give ratings to Canadian ABCP, commercial-backed paper, because they were not backed by levels of liquidity agreements and standards elsewhere, and so on and so forth. So it was not just us here. The financial world was on top of your rating of these things, and you've heard a lot, so I don't want to.... We would agree with some of the criticism that you've heard from across the way, and you came here today to sort of give us advice.

I talked to a witness at our Tuesday meeting about how I want to make sure that the public, and I, understand the difference. We had a problem with the commercial paper, called asset-backed commercial paper, but that pool you talked about had a lot of things in it that were questionable, in terms of.... Securitization is a need. That's what we were hearing about. My concern, and I want to make sure I'm accurate, is that the \$12 billion facility that we're offering through this stimulus package is really for hard assets, assets people can understand—whether they're cars, trucks, or floor plans for dealerships.

A year ago, we were complaining about commercial paper and how it wasn't understandable, wasn't fully disclosed. It had a lot of things in there that I think Mr. Mulcair is absolutely...uncollectable if things went bad. Obviously, they did go bad. That is not what we're doing here, and I want you as a rating agency to tell me what the difference is, if you could.

**Mr. Peter Bethlenfalvy:** There are a couple of things.

First off, I share the concerns about the asset-backed commercial paper, and I welcome the opportunity—as painful as that may be—to sit before you and take the majority of questions. It's the right process, and we don't want to shirk from that responsibility.

One of the things was that we backed up these pools of assets with something called “market disruption liquidity lines”, and what we learned is that not all firms honour their obligations, that the conditions in there are relevant. So in January of 2007—even before this crisis hit—we said we were not going to do any more asset-backed programs without global liquidity standards, meaning you can pretty well back up the CP with an unconditional bank line of credit. In fact, in September 2007, we announced the conditions. We can now say that every conduit is 100% backed up by global liquidity standards. So in terms of how you make sure this doesn't happen again, that's an important thing.

On my point about the underlying assets, I do agree with you that there are real assets, that they're real needs, and one of the goals of that Canadian secured credit facility, I think, is to help get confidence again in the market. The rules aren't public. I suspect they'll require ratings again.

Obviously, you don't get too many kicks at the can. Our integrity is our reputation and whether the market will continue to use our ratings. So far the market continues to embrace our ratings. We were very open and honest with all of the investors. I dialogued with them extensively throughout the crisis, and continued to do so, through the Montreal accord and beyond. So I think we will continue to try to do our best, to take lessons from the past, and to ensure they don't happen going forward.

●(1005)

**Mr. Mike Wallace:** Another question?

**The Chair:** One minute.

**Mr. Mike Wallace:** I'll make it simple.

You talked about innovation in the financial markets. I call it imagination, mostly. Has the financial system become too complicated for the average person? Should we not get back to the fundamentals? Are you seeing that happen in the marketplace, since you are rating these securities that are coming forward?

**Mr. Peter Bethlenfalvy:** I think there's a degree of complexity that the market accepted. When we said we're not going to rate any more asset-backed programs with market disruption in January 2007, we almost got thrown out of Canada by investors, dealers, and others. There was quite a wave of innovation that spread through the planet, maybe driven by liquidity and too much leverage.

I would say three things. One, there's too much leverage in the global system. That has to rebalance. Number two, there has to be transparency and disclosure. To various members' comments, you've got to understand the assets; they've got to be identifiable. The third is complexity. If it's too complex, just say no. That's why we didn't rate some asset-backed commercial paper programs that came to us. We said no.

**Mr. Mike Wallace:** Thank you very much.

Thank you, Mr. Chair.

**The Chair:** Thank you.

We'll go to Mr. Pacetti, please.

**Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.):** Thank you, Mr. Chair. Thank you to the witnesses for appearing.

I kind of feel bad for Mr. Phillips and Mr. Russell.

**A voice:** No one feels bad for those guys.

●(1010)

**Mr. Massimo Pacetti:** The witness of the day is definitely Mr. Bethlenfalvy, so I guess I'm going to continue with that. I have a whole bunch of questions based on the same subject matter. I'm trying to get clarity. I understand you want to protect your corporation. But if you don't survive, somebody else will take over what you're doing today, so the idea—and I think Mr. Wallace just alluded to it, and I think everybody else around the table—is to protect the future and how we correct.

I've been hearing what you're saying. You're talking about complexity. I don't believe that. I don't believe that things have gotten too complex. For me, if I have \$50 I want to put in a bank, I want a return on it. Either it's a GIC or it's dividends in an asset growth company. The reason it's gotten complex is that there have been people who have gotten greedy out there. I expect people to protect me, whether it be a securities regulator, a rating agency, my bank, or my credit union. It doesn't matter who. However, the feeling out there is that's not what is happening.

I think Mr. Mulcair asked you about assets versus non-assets. I'm still no further ahead. You're saying that some instruments are no longer being rated by your agency. What is the difference? What's stopped? Now you're saying there are instruments that are market disruptions. What is that? You're being regulated, but who's regulating you? Who's verifying that? You're assuming that the regulator is regulating you, and the regulator is assuming you're verifying what you're rating. But you're saying, no, we never rated what was being put together because that's not our job.

I still don't understand who your customers are. Are they third parties? Is your customer just a person who's issuing the item or instrument? If you're not rating that instrument, could a third party actually hire you and ask you to evaluate or put a rating on that security?

I guess I'm going full circle. The idea is this. How do we prevent this from happening again? It will happen again where 1% is not good enough for a GIC and then 3% is not good enough. Eventually these instruments will get complex again.

My question is this. How do we avoid this? What happened in the past? Let's just look at the last 12 months. How can we avoid it happening in the future? What is your part in preventing this from repeating itself?

**Mr. Peter Bethlenfalvy:** Those are all very good questions. I think the number one thing I keep coming back to is putting our opinions into the market. Again, if I may quote from the G-20—

**Mr. Massimo Pacetti:** No, really, I don't want you to quote from anyone. I want you to tell me, so that this doesn't happen again. The G-20—I'll be able to read all the quotes in the paper tomorrow. I don't have a problem with that.

**Mr. Peter Bethlenfalvy:** Well, we do take note of what governments are saying and what they want us to do.

**Mr. Massimo Pacetti:** No, I want to know from you.

**Mr. Peter Bethlenfalvy:** They say that rating agencies have an important role in providing unbiased information and assessment to markets. That, we do believe, is a fundamental role, that more opinions with more information—and that's what it is. I would never counsel anyone to just use a rating to come to a decision. But I would also say that having a rating opinion and having public access to it, which is our issuer-pay model, allows us to make these methodologies and the ratings public for free. We changed the model and had someone else pay to get around conflicts of interest.

**Mr. Massimo Pacetti:** So you're asked to rate something, an instrument, let's say a basket. Do you actually go in there and review the contracts? You don't, correct?

**Mr. Peter Bethlenfalvy:** Sorry, could you repeat that question?

**Mr. Massimo Pacetti:** You have a basket of asset-backed commercial paper, assets—call them what you like—and you've been asked by bank A to rate these instruments. What is your role there? Do you say, okay, fine, send all the contracts over and we'll rate them, or do you say, well, I'll input them in my computer model and then send you a bill and you tell me what you want?

**Mr. Peter Bethlenfalvy:** No, you take the portfolio data that you have. If there are 10,000 pieces in, you don't go and meet every customer, but you look at the statistics, the payment history, the loan to value—

**Mr. Massimo Pacetti:** So who provides you with all that?

**Mr. Peter Bethlenfalvy:** The bank or the sponsor of the program—some of the banks that have been mentioned around the table.

**Mr. Massimo Pacetti:** Okay, so now let's say a bank asks you to quote—

**The Chair:** Final question.

**Mr. Massimo Pacetti:** Let's say TD does not ask you for a rating, but CIBC wants to buy some of that TD paper. Will CIBC be a client or a customer? Will CIBC say, can you rate the TD paper?

**Mr. Peter Bethlenfalvy:** From time to time we have customers who do that and who say, give us a third-party independent assessment of this portfolio, and that does occur.

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

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

**Mr. Bob Dechert (Mississauga—Erindale, CPC):** Thank you, Mr. Chair.

Mr. Bethlenfalvy, I'm going to ask you a different question. I know that the DBRS is also involved in rating financial institutions, and I know you have a background in the banking industry as well, with TD. Recently the economics editor of the British Broadcasting Corporation published an article on the BBC website that said a number of things about the Canadian banking system. I'd like to share those with you.

She was very critical of the British banks and the performance of the British government and she said:

Nowhere is immune, but by most key measures, the Canadians are coming out of this crisis in a league of their own.

Take the banking system. Canada's banks have not just had fewer bailouts than other countries. They've had none. Zero. Not a dime.

She said:

As the FT pointed out today, of the seven institutions in the world that still retain a triple-A Moody's credit rating, two are Canadian banks. And as their competitors have tumbled, so they have ascended the global rankings: all five Canadian banks now rank in the world top 50.

She further said:

Of course, Canada has been hit by this crisis—about a third of its GDP is taken up with exports to the US. ... But it looks set to have the shallowest recession of all the G7 economies, with the smallest decline in activity in 2009 and fastest growth in 2010.

Its sober management of the public finances has even left it room for a decent-sized stimulus package for this year and next. Net debt last year was an irritating 22% of GDP.

I wonder if you could comment on the comparisons between the Canadian banks and the banks in Europe and the United States.

• (1015)

**Mr. Peter Bethlenfalvy:** That's a great question.

First of all, I would say at the outset, I know Canadians don't like to boast. I wouldn't boast too much about our Canadian banks, because who has a crystal ball better than mine? Who knows what's around the corner? One thing about banks: no risk, no bank. Banks take risks, including Canadian banks.

Number two, the Canadian banks had less leverage. As I mentioned before, partly due to regulatory involvement and I think because of our conservative risk culture, the banks had less leverage. The U.S. has a system of massive leverage. The financial institutions are levered one times to their GDP, over \$14 trillion. The U.K. banks, in particular...their banking system has 450% of GDP. Iceland has nine times; Ireland, six times. The problem is going to be massive in western Europe, for a number of reasons, partly because of the leverage.

So on a relative basis, I think less leverage and more prudent risk management, going back to credit principles and not getting involved in a lot of toxic assets, helped the Canadian banking system. But I'd be careful to boast too much, because we still are in uncharted waters.

**Mr. Bob Dechert:** Well, she did go on to say, "Canadians are so sensible they even have the sense not to brag, in case things turn out badly for them after all." She was being cautious in that regard, but I think it's insightful to know what other people are saying about the comparisons between Canada and other places in the world.

I have a question for Mr. Russell.

Mr. Russell, your members represent and advise consumer investors across Canada. Perhaps you could tell us about your views on a national securities regulator and how you think that having a national securities regulator in Canada would better protect the customers of your members.

**Mr. Ian Russell:** Yes, I'd be pleased to answer that question.

I'll start by saying that regulatory regimes around the world are in the process of reform. We've talked a bit about that, and you're exploring that in the context of ratings.

It's my view that for us to embark on vigorous comprehensive reforms of our capital markets—and I think we need to do that—moving toward a single regulator would certainly facilitate that. I'll give you two examples.

The first one is that it's very clear in these reform discussions that there has been a lack of effective coordination among the regulators themselves, both domestically and internationally, largely because there's this interrelationship or symbiotic relationship between

banking and the capital markets. And it's important that one hand knows what the other hand is doing.

It was alluded to in this discussion that in Canada, while we do have a Financial Stability Forum, I believe it's called, which is a round table bringing the regulators together, the one seat that's missing at the table is probably one of the most important, a national regulator who represents the regulation of the capital markets.

We can talk a lot about greed—and I agree that greed was pretty rampant—but the fact is that greed is historic. What we have here is the failure of regulation, not so much in Canada but very much so in the U.S.

So I think that, first of all, the case for a national regulator can be more effectively made, again, in the context of facilitating greater coordination and greater consultation among banking regulators, insurance regulators—the Bank of Canada plays a very key role as lender of last resort—and the securities regulator.

The other point I want to make—

**The Chair:** Very briefly, Mr. Russell.

**Mr. Ian Russell:** —is I think a very important one, and it often gets missed in the debate. What we're finding in Canada, really, is an inability to implement policy quickly. We cannot implement the kinds of regulatory reforms we need fast enough. The cause, in my view, is a consensus-driven approach that we have now with a multi-jurisdictional system, and that is absolutely something that has to be solved going forward. I think a single regulator would solve it.

I could give you many more reasons, but those are two.

• (1020)

**The Chair:** Thank you very much.

I'll go to Ms. Hall Findlay, please.

**Ms. Martha Hall Findlay:** Thank you very much.

And thank you very much, all four of you, for being here.

I'm afraid I'm going to have to go back to you, Mr. Bethlenfalvy.

There have been, of course, a number of questions already this morning. We're trying to ask specific questions about the non-bank ABCP that we started to see problems with in 2007. But the answers we're getting are not specific. The answer we're hearing is the global financial crisis.

We had a question about TD Bank in particular, about Ed Clark and Don Drummond both having said that they looked at this stuff, didn't get it, and didn't buy into it. And your answer was, "Well, the TD Bank does ABCP". There's a difference between the non-bank ABCP...there's a difference between the products out there generally and the specific batch that caused, and I would suggest continues to cause, considerable difficulty for an awful lot of people. So I would like more specific answers on the batch of non-bank ABCP that is actually at question.

I will repeat a little bit of what my colleague Mr. Mulcair focused on, and that is the credit quality. Your answer was the principles of diversification. Then the question was, "But you can't realize it. It's all bunched in. You can't realize on the specific creditors that form part of the larger securitization."

I don't think it's just a question of not being able to realize; it's the underlying value of what was there. And you had an answer that had to do with liquidation value. So I would say that it's not just the fact that you can't realize on the individuals, but rather that the valuation underneath was clearly much less than anything that would have warranted a triple-A rating. Liquidation value—clearly much less than anything that would warrant a triple-A rating.

I have yet to hear anything from you today that suggests you wouldn't do the same thing all over again. I haven't heard yet anything that suggests that "we actually made a mistake". I would really like to hear from you a more specific answer, not general global crisis. What on earth possessed you to give a triple-A rating to that non-bank ABCP that so clearly did not have that underlying value?

**Mr. Peter Bethlenfalvy:** You've said a lot of things. First, we did focus on the underlying credit value, and we stand behind our ratings and continue to do so.

**Ms. Martha Hall Findlay:** Let's just get this straight. Knowing what happened, you still stand behind the triple-A rating you gave to that non-bank ABCP?

**Mr. Peter Bethlenfalvy:** What we knew at the time, based on the assets and the portfolio.... First, what we'd do differently is the credit spread movements that were outlier credit spread movements. We've since changed our models to incorporate the credit spread movement that we saw, which is similar to what we saw in the early 1930s. That's one point.

Second, I talked about market disruption. We've changed our backup line requirements so that they're unconditional funds, because when the market froze, it didn't matter whether the assets were good or not underneath. What happened was that the market froze and some banks didn't fund. We've changed that to a global liquidity style.

Third, and I keep coming back to it, for this market to continue—and it continues, not the non-bank but for bank-sponsored paper or any future sponsored paper, and there is some that's non-bank—is the transparency. You've got to know what is...with more disclosure. The structured markets' evolution is 20 to 25 years. In 1934, the SEC mandated that you had to make financial statements public. Before that, you'd buy securities without knowing what companies' statements were.

We've got a longer evolution in corporate. We're evolving in the structured market. I don't think it would be wise to go to zero in the structured market.

**Ms. Martha Hall Findlay:** And I understand....

**The Chair:** Last 30 seconds.

**Ms. Martha Hall Findlay:** In prior meetings we did talk about the move to global lines, and I understand that. However, I think the market froze because of people recognizing that maybe the underlying value simply wasn't there.

You've talked about disclosure and transparency. With respect, the reason people rely on credit ratings is that you can give somebody a 50-page prospectus. You can give them all that disclosure. We all know that people will still rely on the credit-rating agencies.

I'm just interested to hear your comment, that you still would have given this group of non-bank ABCP a triple-A rating, given everything we've seen.

• (1025)

**Mr. Peter Bethlenfalvy:** Based on what we knew, we stood by our ratings. Now we win. We continue to write a big chunk of the notes, and they're single-A, but obviously with different characteristics through the Montreal accord. We do rate the bank-sponsored programs triple-A, R1 high, with global liquidity standards, which we initiated. No other rating has initiated that.

At the end of the day, we won't exist if our ratings aren't credible in the market. Investors and other parties are not going to use our ratings; that's our capital. We think we've made the improvements we need to make. We think we've got the proper oversight with the global securities regulators. We know we have to continue improving on our job to exist.

**Ms. Martha Hall Findlay:** Thank you.

Thank you, Mr. Chair.

**The Chair:** We'll go to Mr. Menzies now, please.

**Mr. Ted Menzies (MacLeod, CPC):** Thank you, Mr. Chair, and thank you to our witnesses. I also feel bad that some of our other witnesses haven't had a chance to answer questions.

Mr. Phillips, I will direct my question to you about a comment you made, and I hope you can put it in context. We've heard from the bankers and the banking associations about access to credit, and that's what this study is supposedly prefaced on; it is making sure that people have access to credit. Your comment was that you will not pull back. We heard from the banks that they're increasing their lending portfolio, and frankly that's not what we're hearing from our constituents. That's who we're here to represent, our constituents. Whether it's an issue of them being creditworthy customers or not, that's not our judgment call, but we're getting calls from our constituents about how they get access to credit. The lobster fishermen, for example, are having trouble accessing money for their very short season, which is over on Mother's Day. I'm concerned with farmers in western Canada getting enough liquidity to put a crop in this spring.



First, is your system any different from the big banking system in Canada? We appreciate that you represent a lot of our rural constituents. So maybe give us a comment on that.

**Mr. David Phillips:** Well, I think we are different. We're committed to member service, we're committed to working with our members, and we're committed to the communities in which we're active and in which we're located. The ethic or ethos is to work with the members. We know them. We're traditional lenders in that pure sense, that loans are made on character. Deposits are sourced in the community and then loaned back into the community. So there is a big difference.

What I am looking at are the aggregate numbers. When I look at the aggregate numbers, I see an increase in lending across our system in the fourth quarter of 2008; it was an increase of 1.6%. That was actually the time when the market was dropping. It was when we really hit the decline. What is interesting, when I look back at the numbers, is that it is higher than in the first quarter of 2008. The second and third quarter increases were higher than 1.6%, but there's no real evidence of a decline in the fourth quarter of 2008. Our numbers for the first quarter of 2009 aren't out, but I would be very surprised, from anything I hear anecdotally across the system, if we were to see a decline across the system.

What's notable—and I mentioned the Canadian business owners strategy—is that we've really committed to small and medium-sized business lending. Two years ago, we initiated the first national advertising campaign in the credit union system in over 25 years, directed at increasing our presence and increasing the awareness of the services that credit unions can provide to small and medium-sized business. We had done some calculations and had seen that we actually had a fair share of that market, but the level of awareness of it was very limited.

So we got the system together and said this is something we need to address. We launched the campaign, with a lot of other parts to it, including a network for small and medium-sized businesspeople to connect with each other, and training for our own credit union staff to sensitize them to the needs of small and medium-sized business. We're going to keep that going. We're not ramping it; we're going to keep it going and keep promoting our services to small and medium-sized business.

So I'm confident that our numbers will increase. We certainly haven't seen anything that suggests that, on an aggregate basis, there's been a decrease.

I would like to ask Mr. Luimes to comment, though, because he's a real on-the-ground lender and can give you that perspective.

• (1030)

**The Chair:** Take about 30 seconds, please.

**Mr. Ralph Luimes:** We have had increased demand. I'm just going to speak to our operation at HALD-NOR Credit Union. We are not dependent, and have not been historically dependent, on third-party paper to increase our capacity. We've been able to handle it based on our financial statements, our balance sheet.

We are at the maximum, and we are borrowing. However, we are receiving a lot of increased interest. Obviously, lending rates are down. Everybody wants it. We are in a market situation now in

which we have to particularly assess the risk and we're going to be cautious.

I think that's the tension. People say, "Opportunity—go, there's innovation, it's small, agile. Here we come. Costs are down." And we have to say, let's watch the risk here. So we pick our spots, but we're definitely in the game. We continue to plan to go forward.

We consider the small business market the most agile, the most innovative, and it's going to be the heart of carrying us through this recession.

**The Chair:** Thank you.

Mr. Mulcair.

[*Translation*]

**Mr. Thomas Mulcair:** Mr. Russell, a question for you.

I will read a headline from today's *Toronto Star*.

[*English*]

YESTERDAY: How regulators have failed to crack down on stock market miscreants

—their term, not mine—

while developing an international reputation for inaction and ineffectiveness.

TODAY: How a big-budget police squad set up to take on corporate crime degenerated into a bureaucratic mess with few results.

That bureaucratic mess is IMET, the integrated market enforcement team. It is exactly as the *Toronto Star* describes it today, and we've been saying it for some time. It doesn't work—centralized, single, Ottawa-based, and incompetent.

What is it that makes you believe that bringing the regulation of markets to Ottawa would somehow make it work? Let's look at some facts. In Quebec there's the rather famous Vincent Lacroix case. He's in the slammer right now doing 8 to 12 years, so he's in appeal on the length of his sentence. He's been convicted on dozens of regulatory cases in Quebec under the provincial statutes. He faces several thousand criminal charges under the Criminal Code of Canada. Not the first day of the first trial on the first charge has ever been held under those criminal charges, and the only reason he's in jail is because Quebec's Autorité des marchés financiers does a very good job of enforcing its rules.

I find when I meet groups that just affirm that it would be better if we just brought everything together in Ottawa, like IMET.... I'm not the one who is saying they're incompetent, the *Toronto Star* is, but I happen to agree with them, because they don't get results. What is it, other than your sentiment, your feeling, and I dare say your prejudice, that says that somehow Ottawa is good at this and it would be really great if we threw more bureaucrats at it, rather than the people who are actually fighting a little bit, like Mr. Bethlenfalvy's team? If you don't do a good job of regulating your market, people won't come to you. So Quebec is doing something not only for individual investors and for the corporations involved, it's also doing something for itself, because people will come to a place that is well structured and well regulated.

I'm trying to get into your head and figure out, other than what I detect as being just a pro-Ottawa prejudice, a centralizing tendency, what makes you believe factually that they can actually do the job better.

**Mr. Ian Russell:** I'm happy to respond to that. You've covered quite a lot of ground and a lot of points, and I can appreciate where you're coming from. I'd like to parse your comments and deal with each one separately.

The first one I'll deal with is your comment about Ottawa, because I'm the last person who would think that it should be set up here and run as a federal bureaucracy. When I talk about a single regulator, when our industry talks about a single regulator, we're talking about a national regulator. So the model I'm thinking of is a model that would have federal participation, but it would have a decision-making process that essentially would integrate all of the provinces in that model. It would be a national regulator. It could be located in Montreal, and that would be a good thing. It could be located in Vancouver. So I think the first thing to say is that my vision of it is not Ottawa-based and it is not a federal bureaucracy.

• (1035)

**Mr. Thomas Mulcair:** Time is short, and I know you've had a long question. I'll leave the rest of the time to you, but I'll get in this last bit to you.

You talked about the failure of regulation and you said it was not so much here, but in the U.S. Leaving you with the rest of my time, I would like you to incorporate in your answer how you feel that reinforces your position. In the United States the FCC is a single, centralized regulatory agency. Especially in the Madoff case, they had all the information. Go online. It gives you shivers to realize they were given all the information on Madoff and they did nothing with it. It's there, it's centralized, they're incompetent. So I think the message is we're getting it wrong. It's not a question of centralization, but I said I'd leave you the rest of the time and I will.

**Mr. Ian Russell:** Thank you very much. I appreciate it and I do appreciate your question.

**The Chair:** Thirty seconds, please.

**Mr. Ian Russell:** The second point you mentioned was the Lacroix case, and I agree. I think the Quebec Supreme Court acted vigorously and I think the AMF did a great job on that. What concerns me is the provinces do have that jurisdiction to go after white collar crime. I would agree that with the federal model—and again we're talking about a national regulator, a little different—the

provinces haven't grasped the mettle as much as they should have. I'm thinking of Ontario and I'm thinking of B.C., whereas Quebec, with the way they went after Lacroix, I think was a good example. One of the things I have said is the provinces should deal with white collar crime more vigorously because they do have the authority to do it, to take on criminal cases.

The second point you mentioned was about IMET, and you're right it hasn't worked. It's been a failure. My assessment of the reason for it is, first of all, I'm not sure it was well planned and well organized, and I think the former superintendent of OSFI had a number of reasons why it had failed. Again, it comes back to coordination at the federal-provincial level. You're right, IMET had the RCMP involved in the process, but it also was engaged with provincial securities regulators and enforcement people. My understanding is that this level of coordination and cooperation between the provincial levels and the RCMP that has the responsibility with Interpol just didn't work very effectively.

So there are two things. First, I don't think the entity itself was well organized and run well. Secondly, I think it did have this fundamental federal-provincial coordinating problem that influenced it.

**The Chair:** Very briefly, if you want to finish.

**Mr. Ian Russell:** Mr. Mulcair made a very good point about the U.S., and the SEC probably should not be held up as the best example of regulators. They certainly had failures. But my sense is that the failures are not so much because it was national but more because it just didn't do the job it was supposed to do.

The other point that's happening in the U.S. is that you are going to see an integration of regulators, which, as I said earlier, is important for Canada because we need to have good cooperation and coordination among all of the regulatory bodies. That's going to happen in the U.S. between the fed, the treasury, and the SEC, and we need it to happen in Canada.

Thank you.

**The Chair:** Thank you very much.

We'll go to Mr. McKay.

**Hon. John McKay:** Thank you.

This market disruption clause is one of the more obvious things. As soon as there's a claim on the package, the insurer immediately heads to the hills and looks for market disruption, whether it's a Thai bhat or a Mexican peso or whatever, and says, "Look, we have a market disruption clause". It just seems to be a very bizarre way of having the illusion of insurance, because even if you don't have "market disruption", if your insurer happens to be AIG, for example, you have no insurance at all.

I'm kind of surprised that it took such a long time to realize that this market disruption clause is a bogus clause. It's a non-insurance clause. Is that a fair observation?

•(1040)

**Mr. Peter Bethlenfalvy:** Hindsight is a beautiful thing. That evolved with other participants, Canadian banks, regulators, who came up with that language, and it was active in the Canadian markets through the 1990s. We recognized, when we made our statement in January of 2007, that we would no longer accept market disruption to rate any new programs. We just about got thrown out of Canada by all constituents for making that statement, but that was our...you know, we make tough decisions, so we stood behind that one.

We obviously think now that needed to be a much higher standard, and that's what we've done.

**Hon. John McKay:** There are a lot of smart people buying the concept that this illusion of insurance is in fact insurance. Are there any other rating agencies operating in Canada that still accept that this is a valid clause, a meaningful clause?

**Mr. Peter Bethlenfalvy:** No, not that I'm aware of.

**Hon. John McKay:** Everybody is now drinking the same Kool-Aid, in that respect.

**Mr. Peter Bethlenfalvy:** I'm not sure I'd choose those words, but

**Hon. John McKay:** Yes. Well, maybe you were drinking the Kool-Aid before, is the issue.

With respect to this national regulator, presumably a national regulator would include your industry in its purview, and therefore you might in effect have duelling opinions of value.

I'm hard pressed to know how the regulator would get involved in a specific issuance of a security and how that would work, whether there would be an issuance of a security you rated and then the regulator rates your rating.

I'm assuming you support the concept of a national regulator, but I'm not quite sure how it would work in the instance of a rating agency.

**Mr. Peter Bethlenfalvy:** I think the key is not to say this should have been double-A or triple-A or single-A, and second-guess. I think the key is to just have oversight. Rating agencies have had no oversight. The first act was really in 2006, in Congress. So it's early days.

The analogy I like to look at is the credit default swap market, which became, I don't know, a \$500 trillion market with no oversight. I think it's important to have oversight. Just have that fact, and make sure you're following the rules in all the policies that you've laid out and consistent with the code. That you do that is I think very critical.

**Hon. John McKay:** There are not that many rating agencies in Canada, I don't think. There are two that I can think of.

Are there more than that? I don't really know what the market is.

**Mr. Peter Bethlenfalvy:** Well, there are really four global rating agencies. We're one of four, and the other three are American. Two of them operate here in Canada.

**Hon. John McKay:** Presumably the regulator would in effect agree on national standards, if not international standards, in order

for you to be able to operate in this country. That seems to me to be a step forward and an argument for a national regulator. Is that fair?

**Mr. Peter Bethlenfalvy:** I think that's a fair statement. What we're concerned about is having asymmetric regulation. When you're up against three very powerful American rating agencies and trying to compete in markets, such as the U.S. and Europe, having a level playing field is very important, both from a regulatory point of view and a competitive point of view.

**Hon. John McKay:** Thank you.

**The Chair:** Thank you.

I want to thank all the witnesses for coming today and for their presentations and responses.

I believe there is something that is going to be sent to me, as the chair, or to the clerk. I will distribute that to all committee members.

Members, we have a motion to deal with this morning as well, from Monsieur Laforest.

I want to thank the witnesses. You're free to go.

We'll suspend for a minute or two, and then we'll resume to discuss the motion.

•(1040)

(Pause)

•(1045)

**The Chair:** Members, I'll ask you to take your seats, please, and we will have Monsieur Laforest present his motion.

[*Translation*]

**Mr. Jean-Yves Laforest:** I tabled this motion and sent it to the clerk last Monday morning. I will read it.

That the Finance Committee conduct a study of the various debit and credit card transaction fees imposed by merchants as well as the standard and transactional practices that justify them and report its observations and recommendations to the House.

MPs have surely received comments from merchants and individuals regarding the lack of transparency in the plastic card transaction system, whether credit or debit cards. The committee must examine this matter, carry out an analysis of these transactions, determine the causes of increases that may seem unjustified, the reasons for differences in transaction fees imposed on merchants and, eventually, passed on to consumers.

There is a serious lack of transparency in this area. The Standing Committee on Finance must look into this, especially since this form of payment is growing. We would go so far as to say that, quite often, merchants refuse cash. Thus, this is an important matter and we must examine it.

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

[*English*]

I'll go to Mr. Menzies.

**Mr. Ted Menzies:** Thank you, Mr. Chair.

I fundamentally agree with Mr. Laforest that we need to do this.

We've been talking about this before and during the meeting, and our apologies, Mr. Chair, for discussing it then.

But fundamentally, I'm concerned that this will have three committees studying the same thing. The optics of that, when Canadians are losing their jobs, I don't think are good.

I was of the understanding that the industry committee was willing to pass it back to us, but that it needed unanimous support. Now I understand they don't have unanimous support. Having said that, whether we deal with it today or not is irrelevant.

I would like to propose or suggest a friendly amendment to Mr. Laforest's motion. I'll read it into the record:

That the Finance Committee conduct a study of the credit card and debit card system in Canada consisting of at least (10) meetings to examine, but not limited to:

(a) Transaction fees imposed on merchants;

—as Mr. Laforest had referenced—

and

(b) Proposed changes to the credit card interchange fees and the debit payment system; and

report its observations and recommendations to the House.

I would put that forward—

• (1050)

**Mr. Massimo Pacetti:** I have a point of order.

**Mr. Ted Menzies:** —as a friendly amendment just to expand it, because I think that when we get into it, we're going to find it's much deeper.

**The Chair:** Mr. Pacetti, on a point of order.

**Mr. Massimo Pacetti:** I think we have two different motions circulating. I think Mr. Menzies'—

**Mr. Ted Menzies:** I'm proposing a friendly amendment now.

**The Chair:** I don't know if this would be considered an amendment. It may be another motion.

**Mr. Ted Menzies:** I guess it expands on Mr. Laforest's motion.

**The Chair:** On the same point of order, Mr. Mulcair.

[Translation]

**Mr. Thomas Mulcair:** Yes, go ahead.

**Mr. Jean-Yves Laforest:** I am prepared to accept it as a friendly amendment and to amend my motion. It could be the same as that proposed by Mr. Menzies. I think that ten meetings is a lot and that if we said a maximum of six, that would still be quite a few.

[English]

**Mr. Ted Menzies:** Fair enough.

**The Chair:** So you would be okay with it if it said “of a maximum of 10 meetings”?

[Translation]

**Mr. Thomas Mulcair:** It would be good to add “a maximum”.

**Mr. Jean-Yves Laforest:** “A maximum of six meetings”.

**Mr. Thomas Mulcair:** It says “a maximum of ten”, but it could be six.

**Mr. Jean-Yves Laforest:** For my part, I am saying, “a maximum of six”. I think that is quite a few.

[English]

**The Chair:** Okay.

Mr. Mulcair, do you want to—

[Translation]

**Mr. Thomas Mulcair:** I think that six meetings would be good. I like the amendment. It expands a little on the main motion and goes in that direction. I am prepared to support it.

[English]

**The Chair:** My sense is that the mover of the motion will accept the friendly amendment, if there's another friendly subamendment—

**Some hon. members:** Oh, oh!

**The Chair:** —to have a maximum of six meetings.

**Mr. Ted Menzies:** It's all friendly!

I'll move it that way, if it simplifies things.

**The Chair:** Okay, thank you.

[Translation]

**Mr. Jean-Yves Laforest:** All right. Please read my amended motion.

[English]

**The Chair:** Let me read it.

**Mr. Mike Wallace:** Okay, sure, Mr. Chair.

**The Chair:** It would state:

That the Finance Committee conduct a study of the credit card and debit card system in Canada consisting of a maximum of (6) meetings to examine, but not limited to:

(a) Transaction fees imposed on merchants; and

(b) Proposed changes to the credit card interchange fees and the debit payment system; and

and report its observations and recommendations to the House.

I'll take Mr. Wallace first, and then Monsieur Laforest.

[Translation]

**Mr. Jean-Yves Laforest:** According to what you read, or at least to the translation, you stated: “—of the various debit and credit card transaction fees—”. I would like to retain the phrase “imposed on merchants”.

[English]

**Mr. Mike Wallace:** Right.

**The Chair:** Should we read the French version?

[Translation]

**The Clerk of the Committee (Mr. Jean-François Pagé):** That the Finance Committee conduct a study of the credit card and debit card system in Canada, consisting of a maximum of six (6) meetings to examine, but not limited to:

(a) Transaction fees imposed on merchants; and

(b) Proposed changes to the credit card interchange fees and the debit payment system; and report its observations and recommendations to the House.

**Mr. Jean-Yves Laforest:** That is not what I heard earlier in the translation. We said that the beginning of the motion was identical to mine, that is: “That the Finance Committee conduct a study of the various debit and credit card transaction fees imposed by merchants —”

Then there was the amendment by Mr. Menzies who moved: “— that the study be not necessarily limited to—”

• (1055)

[English]

**Mr. Ted Menzies:** Yes.

**Mr. Mike Wallace:** No, “not limited to”.

**A voice:** “Not limited to”.

[Translation]

**Mr. Jean-Yves Laforest:** “—That the study be not necessarily limited to these subjects—”

[English]

**The Chair:** Okay.

I recognize Mr. Wallace.

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

I'm happy to support both.

The one thing I had against Monsieur Laforest's motion was “by merchants”. The merchants aren't the ones imposing the fees; it's the credit card companies that are imposing the fees on the merchants. So that's been corrected.

I want to clarify something else. I agree 100% with Mr. Laforest that “not limited to” includes interest charged to card holders, because we should be able to call card holders, as those fees and interest charges apply to them as well—and that's what's meant by “not limited to”. So we can then call them also, because there are two sides to a credit card. The card companies charge the merchants, who then charge their customers, and I think we need to hear from both.

So if Mr. Laforest is satisfied that this does that, and we're able to do it, I'm satisfied with the motion also.

**The Chair:** So are you satisfied with Mr. Menzies' motion?

**Mr. Mike Wallace:** That's right, as long as that's what it means.

**The Chair:** I'm sensing there is a consensus around the table.

**Mr. Mike Wallace:** Oh, there's one other thing, Mr. Chair.

I am on the industry committee, where we do have almost the exact same motion in front of us. I'd like to see us do this at one committee. I can do it at both, but I'd like to see us do it at one committee or the other, and I think it's more appropriate here, given the credit study we're doing. But that's just my opinion.

**The Chair:** Okay.

Just to respond on that, I have talked to the chair of the industry committee, who is very amenable to having us do this study. They have quite a full session this spring, so they're very amenable to our doing it.

I have Mr. Menzies, and then Mr. Pacetti.

**Mr. Ted Menzies:** This may be presumptuous, but should this pass, Mr. Chair, I would like to recommend that you write a letter to the chair of the industry committee. I personally think the study should be done here. I go back to my initial comment, that I don't think we need three committees—between these two houses—studying the same issue.

I think your letter should ask for their unanimous support to move it out of the industry committee and over here. That's my suggestion.

**The Chair:** Okay, thank you.

Mr. Pacetti.

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

We discussed this at the subcommittee, and I don't see the rush. We have enough work to do until the beginning of May. I talked to my colleagues in the industry committee, and we have no consensus on our side as to whether it should go to the finance committee or the industry committee. The finance committee members believe that it should come to our committee here, but we don't have agreement, and I am not comfortable that....

The Senate will be looking at this and they'll also be ready to issue a report by the beginning of May, or the end of May. The industry committee is going to look at it, and if the finance committee also looks at it, I just think it would be an inefficient way of spending Parliament's time and taxpayers' money.

My suggestion would be, if I can say so, just to defer this until we have further discussions with our colleagues. We all have colleagues on the industry committee.

Mr. Wallace, you might be the broker on that, but I haven't been able to get a firm answer.

You were supposed to speak to their chair, Mr. Chair.

So I think we should just defer the vote until the next meeting, and I think that's what was agreed upon in the subcommittee. Then we also agreed in the subcommittee that we needed, maybe, only up to two, three, or even four meetings. Now we're up to six meetings. I'm not sure we need that many meetings. It would mean we're going to do this work until the end of the session, which means precluding any other work we have to do.

I think we can defer debating this motion until we get back from the two-week break.

**The Chair:** There was not a consensus at the subcommittee on how to deal with this issue, and that's why at the subcommittee Monsieur Laforest indicated he would be bringing the motion forward today—which is his right to do as a member of the committee.

I did speak to the chair of the industry committee, who indicated his willingness as the chair to have us study this issue in the finance committee. I thought there was a consensus in that committee to transfer this issue to this committee. That was my understanding from the chair.

I'm prepared to go to a vote.

Monsieur Laforest.

• (1100)

[*Translation*]

**Mr. Jean-Yves Laforest:** Thank you, Chair.

I agree that we vote on the motion, but I think that Mr. Menzies suggestion of writing a letter would truly settle the matter.

As for the other question—that it will take the committee until the end of the session to complete the work—I disagree. We stated in the motion that there will be a maximum of six meetings. If we need six meetings, that is fine—and I think we will need them because the subject is vast—but if we do not need them, we can stop earlier and other matters can be studied. That gives us every latitude to do so. Let us proceed with the vote.

[*English*]

**The Chair:** Okay, thank you.

Ms. Hall Findlay.

**Ms. Martha Hall Findlay:** Can I just ask what that process is? Just bear with my ignorance of the process of writing a letter to the chair of the industry committee. I don't know that there is a consensus, but if we're hearing that they want to do this, and we think it should be in the finance committee—because I don't think there's any disagreement that this committee should be looking at this—what does the process of just writing a letter do?

**The Chair:** My sense is that there's only one member on that committee who has not yet agreed to transfer it over. The Conservative members have agreed, the Bloc members have agreed, and I believe the NDP member has. So one member of that committee has not yet agreed to it. That's my understanding.

**Ms. Martha Hall Findlay:** So is sending a letter to the chair just for information that we've done it?

**The Chair:** In sending a letter, I would include the motion and say that I've been asked by this committee to write to the chair of the industry committee to say that we will be studying this issue. Obviously, if they feel it's more appropriate that we study it here, and only here, they would then be empowered not to study it there.

**Some hon. members:** Let's vote.

**The Chair:** Yes, let's have the vote on Mr. Menzies' amendment.

(Motion agreed to)

**The Chair:** Colleagues, you have before you the information sheet on the first report of the subcommittee.

Are there any questions on the subcommittee's report?

**Hon. John McKay:** It says that we “consider travelling to Washington”, but when do we consider it? Is this a fact or is this a consideration?

**The Chair:** It's a consideration.

**Hon. John McKay:** I see.

Do you want guidance from the larger committee as to your considerations?

**The Chair:** We'd certainly appreciate that, yes. There's no specific timeline for this. May has been put down, but as was mentioned at the subcommittee, we want to make sure that if we take a trip like this, it will be done properly. So if you have any suggestions of people we can see down there, you can submit them to the clerk.

**Hon. John McKay:** Well, I would speak in favour of that motion. I'll put it that way.

**The Chair:** Okay. The committee will adopt the subcommittee report?

**Some hon. members:** Agreed.

**The Chair:** Colleagues, I just want to say that the second report of the finance committee was ruled out of order by the Speaker this morning. It has been deemed irreceivable and is deemed withdrawn.

It just shows that sometimes you should listen to the wisdom of the chair.

**Some hon. members:** Oh, oh!

[*Translation*]

**Mr. Jean-Yves Laforest:** I received some information in that regard and I said that, barring a major surprise, I knew the outcome.

[*English*]

**The Chair:** Thank you.

The meeting is adjourned.









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