



House of Commons
CANADA

Standing Committee on Finance

FINA • NUMBER 047 • 3rd SESSION • 40th PARLIAMENT

EVIDENCE

Tuesday, November 23, 2010

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Chair

Mr. James Rajotte

Standing Committee on Finance

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• (1200)

[English]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): Good afternoon, everyone. This is the 47th meeting of the Standing Committee on Finance. Our orders today are pursuant to the order of reference of Thursday, November 4, 2010. We are studying Bill C-47, A second Act to implement certain provisions of the budget tabled in Parliament on March 4, 2010 and other measures.

We are very pleased to have officials from the Department of Finance, and the Minister of Finance, the Honourable Jim Flaherty. We have Minister Flaherty for the first hour.

Minister, as you saw when you came in, you were very warmly welcomed by all members of this committee; we appreciate having you here. We look forward to your opening statement, and then we'll have questions from members. Welcome to the committee.

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

I will not go on too long in my opening remarks, to make sure there is lots of time for the committee's questions.

Before I begin, let me congratulate the chair and all members of the finance committee for their work over the past few months on the annual pre-budget consultations. Along with my own consultations as the Minister of Finance, the finance committee's pre-budget consultation helps ensure that Canadians have the chance to make their voices heard. Recommendations flowing from this committee's hearings always inform and influence the ultimate budget content. I urge the finance committee to conclude its work. I know you're in the process of preparing your report, and I look forward to receiving and reviewing your findings.

[Translation]

First, however, I want to urge the committee to study and adopt Bill C-47, the Sustaining Canada's Economic Recovery Act.

The Sustaining Canada's Economic Recovery Act is one of the many measures the Conservative government has taken to address the global economic crisis. The act contains many provisions that are key to Budget 2010 and is thus an important part of Canada's Economic Action Plan, which helps create jobs and contributes to economic growth from coast to coast.

[English]

Since July 2009, nearly 430,000 net new jobs have been created in Canada. Of those, 380,000 are full-time jobs. The IMF and the OECD both project Canada to lead the G-7 in economic growth over the next five years; we're not alone in recognizing the strength of the

Canadian economy. *The Economist* magazine calls Canada an economic star; the OECD says "Canada looks good—it shines, actually".

Our government is on the right track on the economy and for Canadian families. However, as we have said all along, the global economic recovery remains fragile. That's why we must continue to implement Canada's economic action plan and move forward. Bill C-47, the Sustaining Canada's Economic Recovery Act, does precisely that, moving forward to ensure that our economy continues to stay on track.

The act includes measures to help Canadian families get ahead: by indexing the working income tax benefit, or WITB; by allowing RRSP proceeds to be transferred to an RDSP, a registered disability savings plan, on a tax-deferred basis; by allowing a 10-year carry-forward for RDSP grants and bonds; by further strengthening federally regulated pension plans; by measures to cut red tape, helping registered charities with disbursement quota reform, allowing taxpayers to request online notices from the Canada Revenue Agency, reducing the paperwork burden for taxpayers; by measures to close down tax loopholes, such as better targeting of tax incentives for employee stock options and addressing aggressive tax planning relating to TFSAs or tax-free savings accounts; by measures to protect consumers, such as improving the complaint process for consumers when dealing with the financial services industry; and finally, measures to promote clean energy, such as expanding access to accelerated capital cost allowance for clean energy generation.

Clearly the Sustaining Canada's Economic Recovery Act introduces key measures to support Canada's economic recovery. I would like to highlight a few of the aforementioned measures—only a few—starting with closing tax loopholes.

Our Conservative government understands that ending tax loopholes is necessary to ensure that all taxpayers pay their fair share of taxes.

•(1205)

[Translation]

In order to broaden this objective, measures were announced in Budget 2010 and are included in this act regarding the taxation of employee stock options. For instance, changes proposed to the taxation of stock option cash outs will address aggressive tax planning strategies. These strategies have enabled some individuals and businesses to avoid paying taxes on a portion of stock-based compensation.

[English]

I'm happy to report that this move in support of fairness has been welcomed even by business. I can't say that the closing of these tax options has been uniformly welcomed by business, because I have heard some concerns expressed by some businesses about the fact that we are taking away a rather lucrative tax option that has been exercised by some. But I think most of the business community accept the fact that we need to have a level playing field and that the key is lower taxes overall, not special tax options that certain groups can take advantage of.

In fact, that view is reflected by John Manley, the president of the Canadian Council of Chief Executives. Here's the way he put it. He said:

...our members have always felt that if you get the system right everybody's going to benefit. ...if you said to them, would you rather have some special treatment on options or would you rather have very competitive corporate income tax rates, they would say we will take the latter, thank you very much. Keep the rates as low as you can. Forget any special loopholes. ...having a fair tax system is going to be the top priority.

Mr. Chair, before I conclude, I would like to address important measures in Bill C-47 related to the RDSP. One of the most important actions our government has taken in support of persons with disabilities has been the creation of the registered disability savings plan. The RDSP helps parents and family members provide long-term financial security for a severely disabled child.

The Sustaining Canada's Economic Recovery Act includes two proposals to further improve the RDSP.

Under the current rules for RRSPs and RRIFs, a deceased individual's RRSP or RRIF proceeds may be transferred on a tax-free basis to the registered retirement savings plan or income fund of a financially dependent infirm child or grandchild. To give parents and grandparents more flexibility in providing for a disabled child's long-term financial security, Bill C-47 proposes to allow a deceased individual's RRSP or RRIF proceeds to be transferred on a tax-free basis to a financially dependent infirm child's or grandchild's RDSP as well.

The second improvement to the RDSP would allow a ten-year carry-forward of Canada disability savings grant and Canada disability savings bond entitlements in an RDSP. Colleagues, this recognizes the fact that many families of children with disabilities may not be able to contribute regularly to their plan. This will give them more opportunity over a longer period of time to top up those RDSPs.

Both proposed changes will further ensure that RDSPs give Canadian families peace of mind, helping them save for the long-term financial security of a loved one with a disability.

Tina Di Vito, director of retirement strategies at BMO Financial Group, called the changes fantastic measures, adding:

...the benefit will be huge. This will allow more people with disabilities to get the care they need. With the RDSP, Canada is leading the world in showing how smart policy can help provide financial security and independence for people with disabilities.

Mr. Chair, in summary, this act will help ensure that the Canadian economy continues to move in the right direction. With support from Canada's economic action plan, the Canadian economy has started to recover. We must continue to provide the steady guidance that has allowed Canada to continue on the right track to recovery.

With that, I invite the questions of the committee.

Thank you, Chair.

•(1210)

The Chair: Thank you very much, Minister Flaherty.

We will start questions from members with Mr. Brison for seven minutes.

Hon. Scott Brison (Kings—Hants, Lib.): Thank you, Minister, for meeting with us today.

You speak of the global economic system. My first question has to do with the global financial system and our G-20 commitments.

At the London G-20 summit, Canada committed to reshaping its regulatory systems to address macroprudential risk. The commitment was reaffirmed at Pittsburgh and also in Seoul. What new macroprudential measures has Canada implemented in order to meet its G-20 commitments?

Hon. Jim Flaherty: I'm pleased to say that the reforms that the G-20 has been working on in large part mirror what we've already done in Canada.

We do have a FISC committee, comprised of the leading participants in the Bank of Canada, the Department of Finance, the Office of the Superintendent of Financial Institutions, the Financial Consumer Agency of Canada, and CDIC. They meet regularly and keep an eye on the macro-economic system in Canada, looking for early warning signs. Canada's regulatory structure and regulatory rules, particularly with respect to the quantity and quality of capital and caps on leverage, have been in fact mirrored in the reforms that have been brought forward to the G-20 by the Financial Stability Board.

Hon. Scott Brison: Minister, the FISC committee has been in place since the 1980s. Other countries, including the U.S., the U.K., and also countries in the EU, as well as Australia, have set up financial stability committees that would, in Canada, take the FISC, which is Finance Canada, the Bank of Canada, OSFI, and CDIC, but would also add participants like CMHC. We've been told by your officials that there was work being conducted within these agencies in Canada, with the finance committee, the current members of the FISC committee, and CMHC and other players, to set up a financial stability committee right here in Canada, similar to those that have been set up by our other G-20 partners. We're told by your officials that your government stopped them from doing that and aborted the project. Why was that?

Hon. Jim Flaherty: I'm not sure how that was put to you. I view the FISC committee as performing that function in Canada. I'm glad we have it. I'm glad we've had it in place for a long time. It has clearly worked well, because Canada has done better than most other countries coming through this recession, which came from outside Canada.

You raise an important point, though, about CMHC, whether CMHC ought to be part of the FISC committee. As you know, CMHC has two mandates: one relates to the provision of affordable housing in Canada; the other relates to the mortgage system and insuring high-ratio mortgages. We have looked at the possibilities of CMHC, with respect to their mortgage insurance view of the world, participating in the FISC, and I'd welcome the advice of this committee on that subject.

• (1215)

Hon. Scott Brison: Minister, you've said that the financial crisis in Ireland was caused in part by a housing bubble, but I think that's broadly recognized. Various sources, including the Economist Intelligence Unit, say that Canada has a housing bubble that is in some ways worse than Ireland's. Why did your committee go against your officials and abort the formation of a financial stability committee similar to that implemented by other G-20 partners, which could take prudent action to address Canada's housing bubble?

Hon. Jim Flaherty: First of all, the evidence is not there that Canada has a housing bubble. In fact, the evidence with respect to affordability of mortgages in Canada is solid, and we have a stable market. It's a long, long stretch to compare our housing market with that of Ireland, where the banks were lending money 100% on properties, including second properties. It's a far cry from the Canadian mortgage system.

As you know, we tightened up the provisions with respect to lending on high-ratio mortgages in 2008 and again this year in 2010. Both times those measures, as well as market forces, of course, have had the kind of impact we wanted them to have; that is, a moderation on demand in the housing sector in Canada. In fact, we've seen that moderating demand this year in 2010.

My view is that we have the FISC committee that performs the functions of a financial stability committee. As I mentioned, I think it's a good question whether or not CMHC should join that committee or not, and I welcome your advice on that.

Hon. Scott Brison: Minister Flaherty, other countries have set up financial stability committees, which are distinct in terms of their mandates from the FISC committees. Your own officials wanted to set up, and were working to set up, a financial stability committee and your government stopped them.

You've said recently that "This is not the time for dangerous and risky new spending schemes that will increase deficits." Have you spoken to your justice minister about his Truth in Sentencing Act, which initially the department said would cost \$90 million over two years and now has said will cost \$2 billion to implement? Can you explain this revision from a \$90 million cost to a \$2 billion cost? And wouldn't you consider this to be a risky new spending scheme that will increase the deficit?

The Chair: Minister, you have about 30 seconds on that.

Hon. Jim Flaherty: We have built appropriate costing on government initiatives into the fiscal framework.

The Chair: Thank you, Mr. Brison.

[*Translation*]

Mr. Paillé, you have seven minutes.

Mr. Daniel Paillé (Hochelaga, BQ): Thank you, Mr. Chair.

I'm happy to have the first opportunity, after a year, to talk to the Minister of Finance for more than two 35-second periods. I'm referring to Question Period in the House of Commons.

Minister, you said that you look forward to receiving our report on pre-budget consultations. The report has actually already been made public, so you can read it now.

I would like to talk a bit about what I'm really pleased with, that is, your plan to set up a securities commission, which you mention in your budget. You probably know that, in June 2010, people like Paul Voleker, Gary Cohn, of Goldman Sachs, and Mary Shapiro came to Montreal for a meeting of the International Organization of Securities Commissions. Last week, you said that the agreement with China was actually signed by the securities commissions of Quebec and other provinces.

It seems to me, however, that the support of important institutions, such as the Canadian Chamber of Commerce, is rapidly fading. This morning's issue of the National Post contained a very good article by Mr. McIntosh.

The transition plan you released on July 12 stated that the provinces would sign a development agreement by September 2010. The annual report you submitted on October 5 stated that the agreement would be signed in fall 2010. Then, on October 8, a statement was issued saying that there was no need for that agreement.

Shouldn't you should just admit that you're giving up on the initiative.

• (1220)

[*English*]

Hon. Jim Flaherty: Not at all.

[Translation]

I want to thank the MP for his question.

The initiative is a voluntary one. The provinces may adopt the system, but don't have to. The initiative is of a voluntary nature, as I've always maintained.

[English]

Now, this idea of a national securities regulator is before the courts. The Government of Quebec chose to take the matter to court in the Quebec Court of Appeal. That was the choice of the Government of Quebec. We respect the choice of the Government of Quebec to go to court. The Government of Alberta also chose to do the same thing. We respect that choice. I am sure those governments respect our choice as the federal government to refer the entire proposed legislation to the Supreme Court of Canada. The Supreme Court of Canada has set aside, as I understand it, two days in April to hear full argument, and I'm sure we'll get a reasoned view from the Supreme Court of Canada about the legislative authority of the Parliament of—

[Translation]

Mr. Daniel Paillé: Pardon me, Mr. Chair, but I don't want the Minister to use up all my time.

[English]

Hon. Jim Flaherty:—Canada to legislate in this area. We are the only industrialized country in the world without a national securities regulator.

[Translation]

Mr. Daniel Paillé: I understand that, but I don't want you to take up all my time.

You said that membership is voluntary. In the Attorney General of Canada's factum to the Quebec Court of Appeal, your lawyers state that the government's objective is to create a Canadian securities regulatory body. Further on, the document clearly states that the progressive implementation shows the government's willingness to set up a single regulatory body. I think that your sales pitch doesn't hold water. You say that this is how things will turn out and that the opting in is a lock-in.

Are you not merely announcing that the federal government will take control of matters and then, as people will see, it will bulldoze ahead, end of story? If your bill passes, what will become of passports issued by Quebec, Alberta and other non-member provinces? Do you intend to force billers in Canada to switch to a passport system, and will your program result in two passport systems?

What would have happened when the merging took place, when the Montreal Exchange was taken over, when the Autorité des marchés financiers approved the transaction, but stated that there will be no substantial changes unless they are greenlit by that body? If everything becomes centralized in Toronto, how do you expect Quebec financial markets to remain independent?

[English]

Hon. Jim Flaherty: Thank you for the question.

The proposal is for a single national regulator. It may be that some provinces will choose to continue with their own regulatory commissions; that's up to them. The Hockin report, by the way, recommended that this not be an optional system. It was our view that in the spirit of cooperative federalism the option should be given to each province and territory to decide what they wish to do.

These recommendations have been made in Canada since 1935. The big hole we have in regulation in Canada is securities regulation. This is a weakness that is an embarrassment for Canada around the world and we need to fix it.

[Translation]

Mr. Daniel Paillé: Simply put, this is an embarrassment for you. It's an embarrassment for Toronto because everyone knows that you want to set up the regulatory body there. However, you mention the Hockin report. Have you read...

The Chair: You have 30 seconds left.

Mr. Daniel Paillé: Have you read the Lortie report? Pierre Lortie is not just an average Joe; the man was chairman of the securities commission...

This is my time, Mr. Chair, and I intend to use it.

I would like to give to the Minister a copy of

• (1225)

[English]

Securities Regulation in Canada at a Crossroads, by Pierre Lortie. I think you have to read it.

Voices: Oh, oh!

The Chair: Minister, you have 10 seconds to tell us whether you've read that report.

Hon. Jim Flaherty: I've read some of what Mr. Lortie has written in the journals and the newspapers, and he's entitled to his view.

The Chair: Thank you.

Merci.

Monsieur Mulcair, s'il vous plait.

[Translation]

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

As we've just witnessed, I am up against a seasoned parliamentarian who can suck up all the oxygen in the room along with our seven minutes, but I will nonetheless begin with a comment reflecting one of his English remarks.

[English]

The minister says that Canada is the only industrialized country without a national securities regulator. I would point out to my colleague, the finance minister, that Canada also is the only industrialized country without a national education minister, and there's a good reason for that. It goes back way before 1935, which is the date he cites. It goes right back to the picture showing the Fathers of Confederation. We have a confederal deal in this country, and it's galling to hear the minister say it's in the spirit of cooperative federalism that he's seeking to occupy a sphere that will empty out an important part of the Quebec economy, will move a lot of experts out of the province, and won't produce any results.

All we have to do is look at what happened to the people whose money was invested with Earl Jones. He was on nobody's radar screen; he was a fraudster and was not regulated. You know where he was being spotted and tracked? It was at the Royal Bank of Canada, the Beaconsfield branch in Quebec. You know what happened? People were defrauded to the tune of tens of millions of dollars and all these lovely federal structures—because the federal government is in charge of chartered banks—did nothing. There are official documents in the court record of the Earl Jones case, written by the people at the Royal Bank, the Beaconsfield branch, showing that they knew exactly what was going on. They wrote to him about it. And do you know what those people got? Zero. Do you know what the federal government did? Zero.

So instead of getting into a mode where he decides he knows how to do what the confederal deal left with the provinces since the beginning and what they know how to do, why doesn't he start taking care of the stuff that Confederation left to him, which is to take care of the chartered banks and people like Earl Jones?

Mr. Chairman, the minister is fond of across-the-board tax cuts.

[Translation]

The approach used by the Conservatives aims to reduce taxes for all businesses in the same way. There is, however, an obvious problem that the Minister knows well. I'm talking about the fact that, since the forest or the manufacturing industry made no profits and had not, consequently, paid taxes, they could not benefit from the tens of billions of dollars in across-the-board tax cuts that the government granted.

I would like the Minister to share his thoughts with us and to tell us whether he has changed his mind. I want to know if he is beginning to realize that building a diverse and balanced economy, something we have been working on diligently since the Second World War, has required a visionary government that appreciates the sheer size of the country and the need to focus on sectors that are more productive, create more jobs and are more future-oriented, such as the environment? Or will he keep limiting his across-the-board tax reduction strategy to the biggest, most profitable companies.

[English]

Hon. Jim Flaherty: Thank you, Mr. Chair.

I thank you, Mr. Mulcair, for your questions. The first set of questions you raise relate to effective regulation of securities. You raised the case of Earl Jones. I agree entirely: the regulator failed to do its job with respect to Earl Jones and failed to protect consumers

in Quebec. That regulator is the Quebec securities commission. It's responsible for that.

Mr. Thomas Mulcair: That's completely false.

Hon. Jim Flaherty: Then we have—and I lived through this—the non-asset-backed commercial paper situation, which largely affected the Caisse de dépôt in Quebec. It was fortunate that the Government of Canada intervened and led with appointing a chair, making sure we came up with a resolution process. In the end, we made sure that governments came together and funded it.

This is what happens when there is a crisis in securities: the provinces, the people, come to the Government of Canada to fix it. We do fix it.

The second question you asked me about is—

Mr. Thomas Mulcair: Mr. Chair, that's a non sequitur. The Dominion Bond Rating Service rated that non-asset-backed commercial paper “triple-A”.

You're saying that's Quebec's fault? That's nonsense. No one made them buy it. It's a total non sequitur.

The Chair: Minister, do you want to respond?

Hon. Jim Flaherty: I just want to deal with the facts, Mr. Chair.

The other party mentioned the forestry sector. An important part of the economic action plan is the money for retraining and work-sharing. Huge sums have been expended. We've run a substantial deficit in that regard. This was to make sure we had tens of thousands of Canadians involved in work-sharing to save their jobs and to retrain them, particularly in industries that are going through substantial change, like the forestry industry.

● (1230)

[Translation]

Mr. Thomas Mulcair: Mr. Chair, I would like the Minister to take a few moments to give us an update on the progress of the negotiations on sales tax harmonization in Quebec. He's told the House that negotiations were taking place. I would like to see a progress report.

[English]

Hon. Jim Flaherty: Negotiations are actively under way; the Quebec finance minister and I have had recent discussions on the subject. It's fair to say that we have made some progress. We have not resolved the issue, but we have made some progress toward harmonization of our respective sales taxes.

[Translation]

Mr. Thomas Mulcair: Mr. Chair, since time is slipping by rather quickly, I will get back to the issue of banks and respective responsibility.

[English]

It is entirely false to claim that responsibility for the Earl Jones affair lies with the Autorité des marchés financiers in Quebec. Jones was a fraudster. He was on nobody's books. He was not licensed, and the same thing could happen irrespective of the authority that would be licensing legitimate people.

The minister is an attorney, as am I, and I'm sure his staff would be able to consult the court documents and show them to him. They will show that what I'm saying is the case. In Earl Jones, the Beaconsfield branch of the Royal Bank of Canada on St. Charles Boulevard had all the information required to show that Earl Jones was carrying out an elaborate fraud with trust accounts that were not real trust accounts. You know how I know that? Because that's word for word what the Royal Bank put in. You know what the federal government, which is in charge of the chartered banks, did about this? Zero. Nothing. Zip. Nada.

The Chair: Minister Flaherty.

Hon. Jim Flaherty: The responsibility for securities regulations in Quebec has been assumed by Quebec so far. Mr. Paillé shows me in his book that this is a good idea.

You can't have it both ways. You can't say you want to regulate but it's not your fault when you fail to regulate.

The Chair: Thank you. *Merci*.

Mr. Menzies.

Mr. Ted Menzies (MacLeod, CPC): Thank you, Chair.

I'm sure that you're going to be shocked to actually hear a question that's relevant to what we're supposed to be discussing here today, and that's Bill C-47.

Thank you, Minister, for coming. I appreciate your taking time to come here today.

Reflecting on Bill C-47, there are a number of issues and measures in C-47 that follow on the path this government has taken, which has been to help job creators, and to help job seekers, which is the one I would like to ask a question about. That's the working income tax benefit that was in Budget 2007 originally. It was very forward thinking. It was doubled in 2009 and was applauded by many, such as the Caledon Institute, which suggested that it was a welcome addition to Canadian social policy and filled the long-recognized gap in Canada's income security system, and the United Way, which reflected that it's a positive change that will help to improve the situation of low-income families.

Personally, I don't think enough people, specifically those people who don't fit into that income bracket, actually understand what this has done. We have taken nearly a million people completely off the tax rolls with tax reductions, but WITB allows them to take part in the economy.

Perhaps you could explain what in Bill C-47 we've done to continue that and extend that?

Hon. Jim Flaherty: Thank you for the question.

WITB, which is a lovely acronym, given that I represent Whitby—Oshawa in the House of Commons, is an important program. It is a program that was looked at over the years by others, but it wasn't implemented. What it's designed to do is help people who are relying on social benefits, social assistance, to get back into the workforce, because we had a system that discouraged people from doing that.

It was true to say that there was very little and sometimes no advantage to getting off social assistance and getting a job. That is

self-defeating, particularly given the demographic challenge we are facing in Canada going forward.

These are a lot of people. About 1.5 million individuals and families benefit from WITB annually. We brought it in for Budget 2007. We doubled the tax relief in Budget 2009. In this bill, which comes out of this year's budget of 2010, we want to index certain personal income tax and benefits amounts to inflation under the Consumer Price Index. That would be done on an annual basis.

Assuming that this legislation gets royal assent, WITB amounts payable in 2010 and subsequent years will be indexed to inflation on an annual basis, which will provide some extra dollars to Canadian families that need it most and will further encourage able-bodied people and others, who perhaps have some disabilities, if they are able to join the workforce, to do that.

• (1235)

Mr. Ted Menzies: Thank you.

I'll turn the rest of my time over to my colleague, Mike Wallace.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chair, and thank you, Minister, for joining us today.

I left the industry meeting to come here. We're talking about pensions at industry. We've talked about pensions around this table at finance. I know that you've worked very hard with your counterparts at the provincial level on pensions.

The Conservative government has put together proposals and changes to the pension plan, the federally regulated pension plan, over the last year. Could you highlight for me, Minister, what's in Bill C-47 that continues our progress in improving the pension system for Canadians?

It's a nice question, isn't it?

Thank you.

Hon. Jim Flaherty: That's a very nice question, yes. I thank the member from Burlington for that very helpful question.

I should say, generally, to members of the committee that we're having, as you know, ongoing pension discussions with the provinces and territories. The federal government is responsible for only about 10% of the pension plans in Canada. This is an area in which we obviously need to work together, and I look forward to further discussions when we meet together as finance ministers around December 20 in Alberta.

In this particular bill, as a result of the extensive consultations led by my parliamentary secretary, Mr. Menzies, several things are being done. They include authorizing the Minister of Finance to designate an entity for the purpose of receiving, holding, and disbursing the pension benefit credits of people who cannot be located by their pension plan; permitting information to be provided in electronic form; and requiring spousal consent before the transfer of pension benefit credits to a retirement savings plan. Those are some of the specifics.

Mr. Mike Wallace: We're good.

The Chair: Thank you, Mr. Wallace.

We'll go to Mr. Szabo, please, for a five-minute round.

Mr. Paul Szabo (Mississauga South, Lib.): Thank you.

Minister, tax-free savings accounts: good idea, poorly executed. This act, Bill C-47, has to now deal with deliberate over-contributions, prohibited investments, income attributed to non-qualified investments, withdrawals of deliberate over-contributions, prohibited investments, non-qualified investments, swap transactions, related investment income, and effective prohibited asset transfer from TFSA accounts to other accounts.

Considering it was such a simple plan—a good plan—but so badly executed and having so many amendments, what have we done to make sure this never happens again, so that our tax act doesn't become even more complex than it already is?

Hon. Jim Flaherty: Thank you, Mr. Szabo.

I appreciate your comments about the importance of the tax-free savings account. This is a huge reform. Over time, this will result in most capital gains taxes not happening, because people will be able to shelter money from taxes in their tax-free savings accounts.

I wish I could say that every time we bring forward a tax proposal it's perfect. I wish I could say the human condition was such that people don't try to get around and take advantage of tax laws. They do. And they do it virtually every time we bring in something new. Most Canadians, in fact 4.8—

Mr. Paul Szabo: Thank you, Minister. I only have five minutes.

I have two more questions for you.

Hon. Jim Flaherty: Well, 4.8 million Canadians have TFSAs. We had a very small minority that tried to cheat, and we're going to stop them from cheating if you pass this bill.

Mr. Paul Szabo: Thank you.

Regarding the economic stimulus plan, the Parliamentary Budget Officer has suggested that a lot of these projects are not going to get done by the March 31 deadline. There are a number of those projects—because of inclement weather, because of delays in third-party approvals, etc. Can you tell the committee what is your intent with regard to dealing with projects that are not complete by March 31 due to no reasons beyond their control, or will you leave the burden on the backs of the provinces and municipalities to pick up the slack?

• (1240)

The Chair: Minister.

Hon. Jim Flaherty: The minister of infrastructure will make sure that we are fair and reasonable in the approach we take. Obviously, if a project is well near completion, there would be no reason not to continue the funding. But there may be, in fact we expect there are, some situations in Canada where projects have barely started or are nowhere near completion, and that would be, as the Irish say, “A horse of a different kettle of fish.”

Voices: Oh, oh!

Mr. Paul Szabo: It will be good faith.

Hon. Jim Flaherty: It will be fair and reasonable.

Mr. Paul Szabo: Finally, the Parliamentary Budget Officer is an officer of Parliament under the Parliament of Canada Act, plus he has the legislative authority to have access to all information

necessary for him to discharge his responsibility, primarily being to report to Parliament on the state of finances of the nation. The Parliamentary Budget Officer has projected that in 2016 there will still be a deficit of \$11 billion.

Minister, your department has projected that there will in fact be a surplus for 2016 of \$2.6 billion. The differential, \$13.6 billion, is a fairly significant differential. Have you looked into the reasons for that differential, and can you tell us what they are?

Hon. Jim Flaherty: The Parliamentary Budget Officer changed his assumptions with respect to economic growth. In August 2010, just a few months ago, he said I was being too pessimistic with respect to when we could balance the budget. He said we could probably do it earlier than 2015-16. More recently, he put out another estimate in which he changed all his economic assumptions. Of course, if you assume lower economic growth, then you push out balancing the budget longer. I think our assumptions with respect to economic growth, based as they are on the advice of 15 private sector economists in Canada who do not agree with the Parliamentary Budget Officer—and which we have discounted down for a risk adjustment—are much more realistic. I rely on those assessments and not his.

Mr. Paul Szabo: You're saying you're satisfied.

Hon. Jim Flaherty: I'm satisfied that we're on the right track, yes.

Mr. Paul Szabo: And he uses the same forecast as you do.

Hon. Jim Flaherty: No, he doesn't actually. He uses his own.

The Chair: Okay, thank you.

Thank you, Mr. Szabo.

We'll go to Monsieur Carrier, *s'il vous plaît, pour cinq minutes.*

[Translation]

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

Good afternoon, Minister. Restoring a balanced budget is certainly a tall order. The Parliamentary Budget Officer doesn't believe that a balance can be achieved by 2015. We talked about this earlier.

I have been an MP since 2004. That's when I first introduced myself. At that time, the Liberals were in power. Plenty of people were blowing the whistle on the Barbados tax haven, which had been sanctioned by that Liberal government and by Paul Martin, whose shipping company was registered in Barbados. According to my information, in 2004, 27 billion Canadian dollars were invested in Barbados by people wishing to avoid paying taxes in Canada. This was seen as unfair. My information states that, in 2009, Canadian investments in Barbados totalled \$41 billion.

Could you tell me how much tax money the government loses because of these investments? Why is your government, which is not Liberal, maintaining the tax exemption Paul Martin agreed to out of what could be seen as personal interest?

[English]

Hon. Jim Flaherty: Thank you for the question. You have put your finger on a very important issue. It is an issue with respect to which we've been very concerned—so has the OECD—and we made substantial progress here. I'll speak specifically about Barbados in a moment.

The OECD publish a list, and one can call it a grey list or a black list—we supported this—of countries that are not prepared to exchange tax information. This is the essence of the problem: it's countries taking deposits and not being prepared to exchange that information with the country of the originator of the deposits. So these are tax information exchange agreements that we are requiring from other countries in the world, including Barbados, and we've made substantial progress on that. We'll be able to speak more about it soon, not only Barbados, but a number of other countries, where it's been suggested that they were not freely exchanging information.

• (1245)

[Translation]

Mr. Robert Carrier: You are limiting your answer to tax information exchange. We agree when it comes to that issue.

In June of this year, Bahamas, Bermuda, Dominica, the Cayman Islands, the Turks and Caicos Islands and St. Lucia were added to the list. These are countries with which, in addition to Barbados, we have an agreement for exchanging tax information. However, we then learned that companies that invest through their branches in those countries are exempt from tax in Canada. That's another disadvantage for our country. It's hard to justify to Canadians why we ask them to pay their taxes, to make an additional effort, while the government ensures that a number of companies with a branch in those countries are exempt from tax.

I would like to hear what you think about this.

The Chair: You have a minute left.

[English]

Hon. Jim Flaherty: Thank you, Chair.

The issue is not an issue of corporate taxation, because global corporations structure themselves in various ways and pay taxes in various jurisdictions, and we certainly obtain our share of that. We have many Canadian corporations that are global in scope and we have large banks and other large financial institutions that are global in scope and pay a lot of tax in Canada.

The issue really is tax evasion, that is, our citizens or corporations are able to hide money in other countries and thereby avoid paying tax. By entering into tax information exchange agreements, we take away the possibility that people can feel that they can go hide their money somewhere and the Government of Canada, in particular the Canada Revenue Agency, won't know about it. We will know about it.

The Chair: Thank you.

We'll go to Mr. Hiebert now, please.

Mr. Russ Hiebert (South Surrey—White Rock—Cloverdale, CPC): Thank you, Mr. Chair.

Minister, we hear from constituents in small businesses in our communities about the burden they face with filing tax returns, the red tape associated with that. This is especially true of the small and medium-sized businesses in our communities that are the largest job providers, as you know. The Canadian Federation of Independent Business estimates that businesses currently spend over \$30 billion a year in complying with regulations.

Our government has done a lot to reduce the number of regulations that businesses have to comply with and the paperwork burden associated with that, but Bill C-47 goes further and it includes two important measures. I was wondering if you could elaborate for this committee the steps this bill takes to reduce that paperwork burden even further.

Hon. Jim Flaherty: Thank you.

As you know, we did reduce the paperwork burden on business in Canada by 20%. That got rid of about 80,000 redundant regulatory requirements.

There are two specific red tape provisions in Bill C-47. First of all, there's providing Canada Revenue Agency with the authority to issue notices online, if the taxpayer requests, for those notices that can currently only be sent by ordinary mail. That will decrease the amount and volume of paper. Secondly, it will allow certain small businesses to file and remit semi-annually rather than monthly. Many small businesses would prefer to do that, and it reduces their paperwork burden as well.

Mr. Russ Hiebert: Thank you, Mr. Chair.

I'll pass the balance of my time to my colleague.

The Chair: Ms. Block, please.

Mrs. Kelly Block (Saskatoon—Rosetown—Biggar, CPC): Thank you very much. I'm going to focus on a similar subject to red tape, but in a different area.

Supporting the good work of charities across Canada is obviously a shared goal among all parliamentarians. During the finance committee pre-budget consultations, we heard many ways that government could assist charities, either through tax changes or reducing red tape. I know we have heard from many charities throughout the years about the need to cut their red tape so they can devote more of their time and energy, their resources, to actually helping others and not dealing with needless administrative paperwork.

One measure being legislated through Bill C-47 helps to cut red tape facing charities. I'm wondering if you'd be willing to describe how this measure will help the charity sector. Also, what has been the reaction to date among the charities to that important measure?

• (1250)

Hon. Jim Flaherty: Thank you for the question.

It was charities, especially smaller charities, that asked for a change about what is called the disbursement quota. The disbursement quota came in 1976. Basically, it is designed to ensure that charities don't hold on to too many resources, that they actually distribute and disburse the funds. The limit was \$25,000. This bill proposes to take that to \$100,000 for charitable organizations.

As I say, this is particularly important for small and rural charities.

Mrs. Kelly Block: Thank you.

The Chair: You have a minute and a half.

Mr. Hiebert.

Mr. Russ Hiebert: I have an additional question, if there's time.

My colleague Mr. Szabo introduced the subject of the tax-free savings account and the changes in Bill C-47. But I don't feel he provided an appropriate amount of time for you to elaborate on the changes that are taking place in that respect.

I'm sure Canadians are becoming aware of the fact that as a Conservative government we've cut taxes in a hundred different areas, in every form of tax that the government collects: personal, consumption, business, and excise.

The tax-free savings account was a landmark change for Canadians. I note that Peter Aceto, the chief executive officer of ING Direct Canada, is known to say:

We think TFSA's are a great gift the government has given Canadians to help them save.... It's the most important thing that's happened in that regard since RRSPs 50 years ago.

Bill C-47 does address some of the abuses that were taking place in the last year. I am wondering if you could elaborate further for the committee on what those changes are.

Hon. Jim Flaherty: We're making some modifications to the TFSA rules. As usual, we had some aggressive tax planning, I think it's called, to try to take extraordinary advantage of the TFSA rules. This was by a small number of people, but we have to nip it in the bud. That's why there are some changes in Bill C-47.

Overall, I'm thrilled. The take-up is approaching five million people. In the last number we have, there are 4.8 million Canadians with tax-free savings accounts. I would encourage all Canadians, young and old, to get one.

The Chair: Thank you.

We'll go now to Mr. Brison again.

Hon. Scott Brison: Thank you, Mr. Chair.

Minister, you said earlier today that you disagree with the Economist Intelligence Unit and you disagree with Bank of Canada Governor Mark Carney. Both the Economist Intelligence Unit and Governor Carney have spoken of the Canadian housing bubble and the risk that overinflated housing prices represent to Canada.

You also aborted the work being done within the Department of Finance, the Bank of Canada, OSFI, and CDIC to form a financial stability committee. As you said earlier today, you don't believe there's a housing bubble in Canada.

How can Canadians trust your judgment now when you say there's no housing bubble? In 2006, you were the minister who brought in zero down, 40-year mortgages, which led to record high Canadian household debt levels.

Hon. Jim Flaherty: There's a lot in that question. I'm satisfied, Mr. Brison, with how the FISC committee works and how hard it works, and how it gets the job done on behalf of Canadians, watching out for danger signs in our economy on a macro level. I'm

also very satisfied, I must say, with the work of the Office of the Superintendent of Financial Institutions with respect to supervising our federally regulated financial institutions in Canada.

There is no evidence of a housing bubble. We have been concerned from time to time and we watch carefully. That is why twice now we have tightened up the rules with respect to high-ratio mortgages, particularly with respect to the size of down payments and discouraging speculative properties being used for high-ratio mortgages.

• (1255)

Hon. Scott Brison: But Minister, were you not the minister who brought in zero down, 40-year mortgages in 2006?

Hon. Jim Flaherty: We have tightened up the market twice, as I say, in 2008 and 2010.

Hon. Scott Brison: But that's because you loosened it, Minister.

Hon. Jim Flaherty: The housing market is very important in Canada, and it changes, as you know. Interest rates change, and it's important in Canada that we watch what is a dynamic market.

The new housing market in Canada is one of the great employers in this country, particularly in our metropolitan areas—Montreal, Toronto, Vancouver, and elsewhere, Calgary certainly. We have to not only watch to ensure that we don't have excessive mortgage borrowing and too much risk-taking on that, but we also have to ensure that we have a viable housing industry in this country, because it's good for Canadians.

Hon. Scott Brison: Minister, you brought in zero down, 40-year mortgages in 2006, so you had already let the horse out of the barn in terms of high mortgage debt in Canada. You caused, in part, those inflated personal debt levels. To say you're tightening up now doesn't reflect your role in creating the problem in the first place.

I'd like to have Mr. Pacetti....

The Chair: Minister, did you want to respond briefly to that?

Hon. Jim Flaherty: I didn't hear a question.

The Chair: Mr. Pacetti, you have a full minute and a half.

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

I have a quick question. It's more of a technical question. I have a constituent who's disabled and would like to open a registered disability savings plan, but before he can he has to be recognized by CRA as being disabled. He has been refused and he has now appealed before CRA. It's in the Tax Court of Canada, but the Tax Court has refused his appeal because he has a zero assessment, a zero taxable amount. He would like his family and the government to also contribute to his registered disability savings plan, but they cannot because he cannot have the disability certificate that CRA requires.

I'm not sure if you're aware of the case. It was also reported in the *Star* a couple of weeks ago. It may be a technical question, but if I could get your input on it, I would appreciate it.

The Chair: Minister, you have about 30 seconds.

Hon. Jim Flaherty: I'm aware of the case that was referred to in the *Toronto Star*. I agree with the honourable member that this is not right and needs to be fixed. I have instructed my officials to fix it, and we will correct that situation so that it doesn't happen again.

Mr. Massimo Pacetti: So we don't see it in Bill C-47, correct?

Hon. Jim Flaherty: No, it was not something that was brought to our attention until more recently than this bill.

Mr. Massimo Pacetti: So how long before we can see the change?

Hon. Jim Flaherty: I can't guarantee how long, but we will get it fixed. Whether it's a regulatory fix or a legislative fix, I'm not sure, but we will get it fixed.

Mr. Massimo Pacetti: Do we know how many cases would be affected?

Hon. Jim Flaherty: No, I can't give you a number. I agree with you that this is a situation that's not right and we need to fix it, and we will.

The Chair: Thank you very much, Mr. Pacetti.

Mr. Menzies, a very brief round, please. One question.

Mr. Ted Menzies: Thank you, Chair.

Very quickly, Mr. Minister, I know you were in Oakville yesterday talking to some Canadian families. Can you share with us what you're hearing. I know you've got a very elaborate process ongoing on your pre-budget consultations with Canadians. Did you hear, or are you hearing so far, if we're on the right track? What are they asking you to do?

Hon. Jim Flaherty: Thank you for that leading question.

What I'm hearing is that we don't need any big new spending plans, that they appreciate the fact that our economic performance in Canada has certainly been better than that of our neighbour, the United States, and other industrialized countries. There is some concern about making sure the recovery keeps going, and the economic action plan is recognized as a useful plan to keep the economy going. There's a desire to get back to balanced budgets, and we will stay the course that we set out previously, including in the fall economic update, to get to a balanced budget by 2015-16.

I think one of the lessons of this economic crisis we've been going through is that people recognize the importance of sovereign states like Canada making sure we keep our fiscal house, our books, in order, so that when difficult times come we're able to take action and not get into very difficult situations, as some other countries have.

• (1300)

The Chair: Thank you, Mr. Menzies.

Minister, I want to thank you for appearing before us today, for responding to our questions. As you can tell, we are a committee still working towards a consensus on the securities regulation issue.

Thank you very much for being here. We appreciate it.

Colleagues, we will suspend for a couple of minutes.

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(Pause)

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The Chair: I call the meeting back to order. I do want to thank the officials from the Department of Finance and other departments for being here today to answer our questions.

We will proceed in the same order of questions.

My understanding is there are no opening statements from the officials today, so we will go in order of questions by party. Therefore, the Liberal Party has the first round, if it so wishes.

Mr. Brison.

Hon. Scott Brison: Initially, on Bill C-47, I would like you to explain. We're all very interested in the accelerated capital cost allowance on box-top sets of televisions, because I think that's an issue that's pivotal to our deliberations today. So please explain to the committee the accelerated capital cost allowance on these. We do have a global economic crisis, and the government is bringing forward visionary policies to address the issue that we're hearing about from constituents on an ongoing basis, and that is, accelerated capital cost allowance around box-top sets? What is that? I don't own a television. Explain to me the policy. It's very important that we understand it.

Mr. Tim Wach (Director of Legislative Development, Tax Policy Branch, Department of Finance): The box-top sets in question are the decoders that are used for satellite or cable television. It's actually not an accelerated capital cost allowance that is provided, but really one that reflects the economic life of the asset. The change that was proposed in the budget and that is included in Bill C-47 is simply intended to bring the CCA rate into line with the economic useful life of the underlying asset. It was a particular item that was identified by the department. We are constantly looking at the rates that are provided for tax depreciation to ensure that they accurately reflect the economics of the particular assets, and this is one that was identified and brought forward as part of the regular process.

• (1305)

Hon. Scott Brison: In terms of the amendments to the Bank Act, we're entering now, of course, a period of discussion around the Bank Act where we will be potentially amending the Bank Act further. Why would these amendments be part of this legislation as part of a more fulsome reform of the Bank Act, which occurs every five years and is coming up in the next, I believe, few months? The Bank Act is to be...by 2012, so why would this amendment to the Bank Act in this legislation not have waited until that round of reform?

Mrs. Diane Lafleur (General Director, Financial Sector Policy Branch, Department of Finance): The amendments to the Bank Act in respect of dispute resolution mechanisms stem directly from an announcement that was made in Budget 2010, so it makes sense that it would be in a budget implementation act. You're correct that we recently launched, in September, the next five-year review of the financial institution statutes. The initial call for comments ended last Friday, if I'm not mistaken. That will take some time to actually come together into a legislative package that the committee will consider. In the meantime, this amendment, which relates, as I said, to a budget measure, was ready to go and is appropriately included in the Budget Implementation Act.

Hon. Scott Brison: When you're speaking about amendments to the Bank Act and other prudential regulatory changes, could you inform the committee as to the discussions within Finance Canada, the Bank of Canada, OSFI, CDIC, around the financial stability committee.

Mrs. Diane Lafleur: The Department of Finance follows international developments very closely. As the Minister of Finance says, we already have in place in Canada a system that works very effectively. Adding to what the minister said earlier today, I would also mention that there is already what's called the "senior advisory committee" as well, which is composed of the same membership as the FISC but is chaired by the deputy minister of finance.

Its membership is not establishing legislation, so it does have some flexibility to invite other parties to the table should there be a need. You suggested that CMHC might contribute to the discussion, and indeed that is possible in the context of the senior advisory committee, which is a policy committee that advises the minister on such issues.

Hon. Scott Brison: The FISC has been established since the 1980s, I believe. That's Finance Canada, Bank of Canada, CDIC, and OSFI—

Mrs. Diane Lafleur: And the Financial Consumer Agency of Canada.

Hon. Scott Brison: Other countries, the U.K., the U.S., and Australia, have set up a financial stability committee that would be similar to the FISC. The financial stability committees have included agencies such as CMHC. Were the agencies working together to set up the same type of permanent financial stability committee here in Canada?

Mrs. Diane Lafleur: The agencies, as I said, follow very closely what's going on internationally. Of course, we look to see if there's anything that can be learned from the experiences. As the minister mentioned, our starting point was fundamentally different from that of the United States, the U.K., and a number of other countries.

We already had in place very well-established—as you say, going back to the late eighties—mechanisms for sharing information and coordinating actions. Our starting point simply was not the same as that of those countries. We were quite satisfied with how those structures functioned during the crisis. As we saw, the Canadian system came through the crisis quite well.

• (1310)

Hon. Scott Brison: So do you agree with the minister that there's no housing bubble in Canada, that the Economist Intelligence Unit

and the Governor of the Bank of Canada are in fact misinformed that there is a housing bubble in Canada?

Mrs. Diane Lafleur: My area of expertise is financial sector regulations, so I do not feel that I am in a position to comment on whether there is or is not a housing bubble in Canada. It would simply be beyond my area of expertise.

Hon. Scott Brison: Will you comment on where the directive came from to stop the discussions between Finance Canada, the Bank of Canada, OSFI, CDIC, and CMHC? Where did the direction come from to abort the discussion to form a financial stability committee?

The Chair: Just a brief response.

Mrs. Diane Lafleur: I'm not aware of any such direction.

[*Translation*]

The Chair: You have the floor, Mr. Paillé.

Mr. Daniel Paillé: Mr. Chair, we usually ask the minister about policy matters. Today, we have senior officials from the Department of Finance before us. I will not be asking them any questions. I would even suggest that, come time for the clause-by-clause study, we vote on the clauses in blocks. That is our only comment.

[*English*]

The Chair: Okay. Thank you.

I have three more members who wish to ask questions, including me. I want to ask about the Federal-Provincial Fiscal Arrangements Act. I'm asking because it is still an issue that I deal with in Alberta, particularly with the finance minister of Alberta, with respect to health transfers. I'm not sure if the person who can best respond to this is at the table. But it is still in contention. The finance minister of Alberta has written to me, to Mr. Menzies, and to the Minister of Finance with respect to the health care transfers. The argument is that Alberta is currently receiving less than it ought to under the health care transfers.

At present, it's a combination of cash and tax points, and you obviously know that. The health care accord runs until 2014. After the expiry of that accord, our government has committed to fund equal per capita cash transfers to all provinces. The argument by the Minister of Finance of Alberta is that the change in the equalization formula after the 2004 health care accord changed the framework. This in fact changed the amount that Ontario would have received as a cash portion for its health care transfer, but this was not done for the Province of Alberta.

They argue that there was a change made because Ontario became a have-not province under the equalization formula. As a result of this change, Ontario is getting more cash per person than Alberta. I've asked this question before and I've gotten responses saying that this is not the case. But the provincial government is still pushing this fairly aggressively. I think it's my responsibility as an Alberta MP to provide as detailed a response as I can to this concern.

Mr. Tom McGirr (Chief, Equalization and Policy Development, Department of Finance): The answer to this question is a bit complex. You're getting into the nuts and bolts of how the CHT is actually calculated. Part of the CHT calculation, as you're rightly pointing out, deals with the tax point transfer. But the tax point transfer, the equalization system, also takes into account the ability of provinces to raise income taxes. So there's an offsetting calculation that happens within CHT. There is an adjustment made for the amount of money that equalization is already providing, which brings the level of the tax point transfer up to a certain level.

But they didn't recognize a negative amount, which is what was going to happen to Ontario when it became a receiving province in 2009-10. We made an adjustment that recognized this inequity to the Province of Ontario in the form of an additional payment that was made in 2009-10 and again in 2010-11. That system in 2011-12 is longer available for Ontario, and Ontario will be treated just like any other equalization-receiving province.

The Chair: So that will no longer be available in the next fiscal year?

Mr. Tom McGirr: It was a one-time adjustment. It was only for 2009-10 and 2010-11 that an additional payment was set out under the act.

• (1315)

The Chair: What is the linkage between the changes made to the equalization formula and the cash transfers?

Mr. Tom McGirr: There's no interaction at all with the changes that were made to the equalization program. If you are referring to the changes that were effective in 2009-10, there's no interaction.

The Chair: The Alberta government is arguing that the changes made to the equalization formula after the 2004 health accord have affected cash transfers going to the Province of Ontario. But you're stating categorically that this is not the case.

Mr. Tom McGirr: There's no interaction between the equalization changes and the cash transfer of the CHT, no.

The Chair: I appreciate that answer. If you have anything further on that, I would certainly appreciate it as the chair and as a member of this committee.

I have Monsieur Mulcair, *s'il vous plaît*.

[Translation]

Mr. Thomas Mulcair: Thank you, Mr. Chair.

It is a pleasure to meet with the finance officials again. I would like to know whether they can describe the current efforts being made to reduce the opportunities for Canadians to use tax havens, which, for lack of a better term, I will call opaque jurisdictions. According to the OECD, the figure is in the neighbourhood of \$6,000 billion, or \$6 trillion, which, in proper French, would be "6 billions". That can lead to confusion here, in Canada, because the English "billion" is not the same thing; the difference is a factor of 1,000, so it can be a bit complicated. The Tax Justice Network in the U.K. estimates that the amount of money being hidden in these opaque jurisdictions is more along the lines of \$10,000 billion.

What are we doing in terms of strictly enforcing legislation? Do we need more resources? Should we do something on that front?

[English]

Mr. Gérard Lalonde (Director, Tax Legislation Division, Tax Policy Branch, Department of Finance): Thank you for that question.

As you may know, the OECD and the G-20 have strongly supported the introduction and use of tax information exchange agreements to ensure that countries can be informed about income that their residents and citizens may have in other jurisdictions. To that end, and even before the attention of the G-20 on the issue, the Government of Canada was proactive and in 2007 introduced a policy that provided incentives for countries to enter into tax information exchange agreements with Canada, as well as disincentives for refusing to do so after having been invited to do so, and introduced as a policy, in addition to the tax information exchange agreements that are particular to information exchange, that all of Canada's new tax treaties and renegotiations of existing tax treaties from that point hence would be required to include the OECD standard language on the exchange of tax information.

That's a policy that Canada has pursued vigorously. Canada has signed some 11 tax information exchange agreements so far and is under negotiation with another 14. We've also updated some treaties, perhaps most notably with the country of Switzerland, and we now have the latest OECD-approved language for tax information exchange for Switzerland. The government sees this as a very important tool for permitting tax information exchange because, as the minister said, if Canadians are of the view that they could in the past have hidden income in other jurisdictions, they will be disabused of that in the near future.

[Translation]

Mr. Thomas Mulcair: I have a purely personal question for you, but I assure you that I am not trying to be critical, I just find it intriguing. Given that you need to know French in order to get to a position of your level and given that people whose first language is French regularly try to answer in English when we ask them questions in English, even if they are not nearly as comfortable in it as their first language, I just find it interesting that you answered me in English.

[English]

Mr. Ted Menzies: On a point of order, Mr. Chair, this has nothing to do with the appearance of these officials. That is an offensive comment—

The Chair: Order, order.

Mr. Ted Menzies: —and should be withdrawn.

Mr. Thomas Mulcair: *Non, ce n'est pas une question...*

Mr. Ted Menzies: We have translation here.

• (1320)

[Translation]

Mr. Thomas Mulcair: It is hardly an offensive question, Mr. Chair. To have such a high-level position, you have to have a certain level of proficiency in both languages. Furthermore, there was nothing inappropriate or disrespectful about the question. If Mr. Lalonde does not wish to answer, he does not have to, but my question was directed at him.

I would point out, Mr. Chair, that Mr. Menzies has interrupted me at least 20 times in the past two years, something I have never done to him in my life. I would ask you to start reigning him in, because members are not allowed to interrupt someone whenever they want.

[English]

The Chair: Just on this point of order, Mr. Mulcair, as you know, when a member raises a point of order, they can do so, and the chair cannot shut down a point of order.

[Translation]

Mr. Thomas Mulcair: But when it is not a point of order, Mr. Chair, it is your responsibility to intervene.

[English]

The Chair: Where they raise a point of order, I have to rule whether it's a point of order.

I would just observe as the chair that it is the right of witnesses to speak in either official language,

[Translation]

in French or in English. It is up to the witness.

Mr. Thomas Mulcair: I asked Mr. Lalonde a question, and I want an answer.

Go ahead, Mr. Lalonde.

Mr. Gérard Lalonde: It is for the chair of this committee to say whether I have to answer that question or not. I have no problem doing so, but it may be for the chair to say one way or the other.

Mr. Thomas Mulcair: Do you have to have a certain level of proficiency in French in order to hold a high-level position such as yours?

Mr. Gérard Lalonde: I will wait for the answer of the...

Mr. Thomas Mulcair: That tells me everything I need to know. Okay, it is fine, Mr. Chair.

[English]

The Chair: I do want to clarify this, though. All officials, I think, should be aware of this. It is up to the official themselves to determine whether they wish to speak in English or French,

[Translation]

in French or in English. It is up to you.

[English]

You can speak either official language before this committee, whichever you prefer.

[Translation]

Mr. Thomas Mulcair: Thank you, Mr. Chair.

[English]

The Chair: I have Mr. Pacetti, please.

Mr. Massimo Pacetti: I'm not sure anymore what language we're supposed to be speaking.

A voice: Italian.

Mr. Massimo Pacetti: Come on!

Mr. Lalonde, please feel comfortable to speak whatever language... I struggle with languages all the time. I speak three of them and not one of them perfectly. I think it's better off if you can speak English and tell us what you have to tell us, especially in technical terms, so don't get intimidated, please.

It's unbelievable.

I have a question, and it is the same question I asked the Minister of Finance. I have a constituent who has a bigger problem than what language he speaks. It's based on the fact that he wants to open up a registered disability savings plan, but he can't because CRA has not accepted his disability form or his disability tax credit.

It's fine that this particular taxpayer has gotten some press and some media, and the Minister of Finance has said there's a willingness to change. So my first question would be, is there a willingness by the bureaucracy to change this anomaly, or whatever you want to call it, this oversight?

Mr. Gérard Lalonde: I don't think it's a matter or a question of the willingness of the bureaucracy. We make recommendations, of course, to our political masters, but the minister has already indicated to the committee that the situation is wrong and needs to be fixed, and he's directed us to ensure that it is fixed.

The manner of fixing it, of course, is an amendment to the Income Tax Act, and we will, of course, produce one for the minister to consider.

Mr. Massimo Pacetti: But that's your job to do so. It wouldn't be up to CRA to do so. It would be up to you; it would be up to the—

Mr. Gérard Lalonde: It would be up to the Department of Finance to do it, that's correct.

Mr. Massimo Pacetti: How long is this going to take? Why would this take so long? It's not possible that this is the only case that's ever come up.

Mr. Gérard Lalonde: Well, I don't think one could say it has taken so long. The case was reported a couple of weeks ago. The minister has been well aware of the situation. The minister responded—

Mr. Massimo Pacetti: The minister was made aware of this case only a couple of weeks ago, but your department must be aware. There's jurisprudence on these types of cases. It's not the first time that this case or this type of case has been brought up.

Mr. Gérard Lalonde: Well, there are a series of rules in the act to govern when taxpayers can appeal, either within the CRA or—

Mr. Massimo Pacetti: I understand that, but the department must oversee all the appeals that CRA has to deal with and decide which ones are fair and which ones are not fair and which ones require amendment. I can't believe it has to come to this.

• (1325)

The Chair: Mr. Pacetti, let's let Mr. Lalonde complete his response.

Mr. Massimo Pacetti: But he's going to tell me the story about how CRA works. I understand how CRA works. I want to know how Finance works.

Mr. Gérard Lalonde: First, we don't look at every appeal that comes through. The Income Tax Act does have a series of provisions that govern when taxpayers can appeal their tax assessments and when no appeal is allowed.

In general, no appeal is allowed in circumstances where there's no tax in dispute, and I don't think it takes a lot of imagination to figure out why, as a general rule, that would be the case, the workload being as it is both for the courts and for the CRA.

However, there are some circumstances where—

Mr. Massimo Pacetti: I don't think people would simply appeal for fun if their tax assessment was nil. It would be for a reason. I can't believe that for as long as the income tax has existed, this is the first case that has come forward.

Every time we speak to CRA, CRA is saying they are not the ones who make the rules; it's the Department of Finance.

Mr. Gérard Lalonde: In fact, there are a number of cases where there are exceptions to the basic rule where you can't appeal. An example that comes to mind is a determination of a loss carried forward, where a taxpayer may want to know for certainty now the determination of a loss for any given taxation year that may be claimed in a future taxation year. Those types of exemptions are introduced from time to time as it becomes apparent that they're necessary.

The registered disability savings plan is a relatively new plan. This particular issue hasn't come to our attention before. It has now and we've briefed our minister, and the minister has indicated to the committee what he plans to do about it.

The Chair: Okay.

Monsieur Carrier, *pour cinq minutes*.

[Translation]

Mr. Robert Carrier: Thank you, Mr. Chair.

Good afternoon, ladies and gentlemen.

Earlier I asked the minister a policy question about tax shelters, and I got a policy-based answer. I brought up Barbados, specifically, where, according to my figures, Canadians have invested \$41 billion. As you know, pursuant to legislation passed under the Liberal government, money invested in Barbados is exempt from Canadian taxes.

Now I want an answer based on fact. If you consider just that \$41 billion invested in Barbados, how much tax income would we recover if that amount had been invested in Canada?

Can you explain your arguments in favour of that policy? Is there a net benefit for Canada in allowing these tax-exempt investments? It is beyond me. Could you tell me what the benefits are of giving companies that kind of tax exemption?

I am not sure which of you is familiar with those files, but surely one or two of you would know the answers.

[English]

Mr. Gérard Lalonde: Your question stems in large part from Canada's historical position on tax treaties and how Canada taxes the

income of foreign affiliates of Canadian corporations that carry on active businesses in foreign countries.

I started with the department in 1982, so for at least some 28 years the policy of the department has been that Canada does not tax the dividends paid out of the active business income of foreign affiliates of Canadian corporations that carry on active businesses in jurisdictions with which Canada has a tax treaty. It recognizes that the income in the foreign jurisdiction is earned by a corporation resident in the foreign jurisdiction, and it's up to the foreign jurisdiction to tax that corporation. If there were no tax treaty, the income would be taxable by Canada, but a foreign tax credit would be allowed.

Some were of the view years ago that the policy behind the tax exemption for exempt surplus paid from offshore jurisdictions to the Canadian parent companies was to implement a simplified foreign tax credit. As Canada and other countries reduced their income tax rates, there were many circumstances where other countries, either at the time we negotiated the treaties or subsequently, had lower tax rates than Canada. So it became apparent that we could not look to that as being an underlying policy for our exempt surplus or the ability of foreign affiliates of Canadian corporations to pay tax-free dividends to their Canadian parents.

That policy became very clear in the lead-up to the 2007 budget. As the minister indicated, the key to this isn't so much about telling other countries how much they should tax corporations that carry on business in their jurisdictions and are resident in their jurisdictions, but rather about ensuring that if you are going to provide exempt surplus for dividends paid by those corporations, we should extract a quid pro quo from the countries in which they operate.

That is the essence behind the tax information exchange agreement policy I described earlier that was introduced in 2007. The government indicated that if a country enters into a tax information exchange agreement with Canada, we will provide exempt surplus to the foreign affiliates of Canadian corporations that carry on active businesses in those countries. If after having been invited to enter into a TIEA a country refuses to do so, not only will the exempt surplus not be provided, but we will tax those corporations on an accrual basis.

● (1330)

[Translation]

The Chair: Do you have another question?

Mr. Robert Carrier: I will keep it brief.

Essentially, the problem, as I see it, crops up when those affiliates transfer their profits back to Canada, because they are not taxed. That is the problem, in my view.

[English]

Mr. Gérard Lalonde: Well, the policy recognizes that it is within the domain of the other jurisdiction to tax corporations that carry on business inside their borders in the same way that it is up to Canada to impose taxation or not on subsidiaries of foreign parent companies that are resident in and carry on business in Canada.

For example, if you had a subsidiary of a foreign corporation that carried on business in Canada, and that corporation was resident in Canada, then Canada would have first ability to tax that corporation. We regard the same thing bilaterally with our tax treaty partners and also with our TIEA partners.

The Chair: Mr. Wallace, please.

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

We don't have, really, any questions of the officials. I would like to move to clause-by-clause, if that's okay with my colleagues. If not, you can come back to me and I can move the clause-by-clause piece.

The Chair: We can actually go to clause-by-clause consideration but continue with questions, if members desire that.

Mr. Mike Wallace: My concept was to move clauses 2 to 199. I know it will pass on division, so that's not really an issue. There are no amendments, but if there are certain clauses people have questions on, I'm happy to continue on.

The Chair: I have Mr. Pacetti.

Are there any other members who have questions? Mr. Mulcair and Mr. Szabo.

Mr. Pacetti.

Mr. Massimo Pacetti: Thank you, Mr. Chair. I have just two quick questions.

I don't remember getting an answer to a previous question. When does the department expect to make the change for being allowed to appeal zero assessments?

Mr. Gérard Lalonde: The department, of course, wouldn't be in a position to make such a change. Parliament has to do that, so we'll prepare the legislation for the minister and it's up to the minister to include it in a bill.

Mr. Massimo Pacetti: How long would it take to prepare that type of legislation?

Mr. Gérard Lalonde: That type of legislation ought not to take that long to do, but within the parliamentary process and when the minister decides to introduce that bill, that's within ministerial responsibilities.

• (1335)

Mr. Massimo Pacetti: Can we apply retroactively?

Mr. Gérard Lalonde: There are some wrinkles with respect to taxpayers who have already instituted a case and had a decision from the tax board. In fact, we're aware of only one. We're looking at that. With respect to retroactivity, generally, if somebody hasn't appealed yet, then it should be okay.

Mr. Massimo Pacetti: Just a quick question in terms of the air travellers security charge. Are you making an amendment to the previous implementation act? Basically, you're adding certain crown agents to be protected from civil liability claims. Why does it take 13 clauses to do so?

Mr. Pierre Mercille (Senior Legislative Chief, Sales Tax Division, GST Legislation, Department of Finance): Actually, it only takes one clause. The other amendments to the air travellers security charge deal with online notices and paper burden, I assume.

Mr. Massimo Pacetti: My next question is on the charitable disbursement quota to reduce the paperwork. How is that going to work? Because of the stories we hear with non-profit or charity organizations that have been running into trouble, shouldn't we have more surveillance instead of giving them an easier time?

Mr. Tim Wach: The changes to the disbursement quota are not intended to affect the ability of the CRA, Canada Revenue Agency, to oversee the activities of the charitable sector. In fact, the changes in Bill C-47 introduce some stronger anti-avoidance rules that are intended to address some transactions that we had become aware of whereby charities were engaging in some activities that might be viewed as contrary to the disbursement quota rules as they stand.

Mr. Massimo Pacetti: I didn't see that part. All I saw was that you were going to reduce the paperwork or the regulatory burden on the disbursement quota.

Mr. Tim Wach: The elimination of the disbursement quota as a function of charitable receipts clearly will make it easier for charities because they will have a disbursement quota that they no longer have to worry about, or at least one that used to be in place. And raising the threshold of the disbursement quota that is a function of assets that are not used in charitable activities from the \$25,000 to the \$100,000 threshold will also eliminate, for some of the smaller charities, filing requirements. They'll still have to file with the CRA. They'll still be subject to CRA supervision. And as I mentioned, there are within Bill C-47 anti-avoidance rules that were introduced, and they were announced in the budget as well. The intention to introduce these rules—

Mr. Massimo Pacetti: Sorry, I don't mean to interrupt. Just for that question, where has that anti-avoidance gone? That's all I'm asking.

Mr. Tim Wach: I would have to pull out—

Mr. Massimo Pacetti: Pull it out for me sometime.

Mr. Tim Wach: Okay. I will do that.

The Chair: Thank you.

Mr. Mulcair.

[Translation]

Mr. Thomas Mulcair: It is fine. It was in response to Mr. Wallace's request that we start. To help you determine how we are going to proceed, I just wanted to let you know that we are going to vote against Bill C-47 and its various clauses, and I will ask for a recorded division on each clause.

[English]

The Chair: Thank you.

Mr. Szabo, please.

Mr. Paul Szabo: It's a good thing question period is coming.

Gentlemen, I had the opportunity to attend the briefing that officials gave when Bill C-47 first came out. As far as I recall, there were very few questions, and that I think was a credit to the work that was done by the officials, to be there, to be prepared, and to answer whatever questions there were.

On the TFSA, the tax-free savings accounts—and you may know that I asked the minister about that—this is a very straightforward, understandable intent, to be able to set up an account in which the income from that will not be subject to taxation, subject to certain limits per year. But the number of amendments, the scope of the amendments that have been proposed in Bill C-47 with regard to over-contributions, prohibited investments, attributed income, non-qualifying investments, etc.... It's a fair bit, and it strikes me that when you see all of these things...this was a very sloppy job, in my opinion.

I would have thought that any program worth its salt would have had a rigorous review, due diligence, and a sign-off by everybody who touches this thing. Did that happen?

•(1340)

Mr. Gérard Lalonde: You're looking into some older history, and that's why Mr. Wach is not responding, but I was at the department at the time when that was being developed.

It was a difficult balance to be presented. We had some existing registered plans, for example, the RRSP, the RDSP—registered disability savings plan. We also had deferred profit savings plans and other plans of that sort. In general, there are a series of qualified investments for those measures, and there was a policy decision made to extend the same list of qualified investments to the RDSP.

Now, it became apparent after the TFSA was put in place that some fairly aggressive transactions were being proposed to try to maximize the amount of income showing up in the TFSA. As the minister indicated in the press release that introduced the measures, the government will still be taking a close look at some of these transactions under the general anti-avoidance rule. So no, I wouldn't say it was a sloppy attempt at it. I think it was surprising, the reaction that the tax community responded with in terms of trying to squeeze the most possible out of the TFSA, and the government reacted quickly when it became apparent that some Canadians were willing to do so.

Mr. Paul Szabo: The minister said, and I think you basically repeated it, that whenever you bring out a tax law, people look for ways, they always look for ways—it always happens—to get around it or milk it for its benefit, in case the government may have forgotten something, which seems to have been the case.

I ask the question again. Was there a proper review, due diligence, and sign-off by everybody involved in this TFSA before it was introduced?

Mr. Gérard Lalonde: The department developed the parameters of the program in conjunction with the minister's office, and the result was what was included in the bill and approved by Parliament. Was there a proper review all the way through? Yes. It was reviewed by the department, it was reviewed in the minister's office, it was reviewed by the government writ large, and it was reviewed by Parliament.

Mr. Paul Szabo: Were the drafters of the plan involved in a process of due diligence, and did they sign off that they had done a rigorous review?

Mr. Gérard Lalonde: The process for drafting legislation within the Department of Finance is one that involves several levels of review and checks and balances, up to and including my level. And

of course that needs to be signed off by the minister before it's recommended to Parliament and included in a bill. Once it's in a bill, of course, there is review not only by Parliament writ large but by this committee and also by the committee in the Senate.

Mr. Tim Wach: Mr. Szabo, I might add that the legislation went through the usual review—

Mr. Paul Szabo: Am I the last speaker? I want another round.

Sorry.

Mr. Tim Wach:—tax legislation goes through in the committee I chair, which includes representatives from the Department of Justice and the Canada Revenue Agency. They would also have been involved in the drafting and review of all of the TFSA legislation.

Mr. Paul Szabo: In my corporate life, being a chartered accountant, we always used to have anticipated questions and what ifs. Right now, what you're telling me is that we've had several levels of the finance department go through this thing and sign up all along the way. They didn't consider over-contributions. They didn't consider prohibited investments. They didn't consider non-qualifying investments. They didn't consider swap transactions.

The list is pretty long relative to the program itself. I don't think I need any more answers. My view is that this was poorly executed and poorly drafted, and it's one of the problems we have. Why our Income Tax Act is so complex is because rather than doing it right at the start, we have to keep fixing things.

Let me move on to the Bank Act, Mr. Chair, if I can, because I'd like another round.

•(1345)

The Chair: Mr. Lalonde would like to respond.

Mr. Gérard Lalonde: It's not quite accurate to say that prohibited investments, over-contributions, and non-qualified investments were not contemplated. If you look at the act as it sits right now, before the amendments proposed here, you will find that all of those concepts are represented in the act, and all of those concepts have penalties associated with them.

What we found, surprisingly enough, was that those penalties were not sufficient to overcome the over-exuberance in tax planning we discovered, tax planning that may or may not have been effective. It would be better, in the context of a new program, to nip it in the bud, to use the vernacular, rather than to deal with these issues through the courts and the application of the general anti-avoidance rule. That's why the minister and the government introduced these amendments to tighten up the penalties for those concepts that were already there.

Mr. Paul Szabo: Okay, let's leave it at us tightening up something.

On the Bank Act and the Financial Consumer Agency of Canada Act, we're going to create a new external complaints body for financial institutions. We already have others, and it could be argued that maybe we have too many people involved in this. But that's not my concern.

My concern is that we have matters such as Internet spam. It costs \$130 billion a year around the world. Canada is ranked number five in total spam occurrences. There are about nine billion spams a day. We're ranked number five, so we have a big number there. The government is probably looking for ways in which we might be able to tighten up there as well.

Since we have this act, we can deal with domestic things. A big part of the problem is due to international sources that are beyond the reach of our legislation. Having said that, we also have tax treaties and information-sharing agreements with over 90 countries around the world. Was it ever considered that if we're going to have a new complaints commission for banks—because a lot of this stuff has to do with people representing themselves as banks and trying to fish and harvest—that it would have a mandate to go beyond simply consumer complaints against financial institutions, which have basically told consumers that there is nothing they can do, and that we really have to leave it at that?

Mrs. Diane Lafleur: I'll just try to clarify the nature of these amendments, and my colleague can jump in if she wants to.

We're not proposing to set up a new agency through these amendments. Banks are currently required to be members of a third-party dispute-resolution mechanism. Over time it has happened that different banks are members of different third-party outside dispute-resolution mechanisms that have different features and that offer different levels of service, if you will.

What we are proposing to do here is to have essentially a process whereby the existing Financial Consumer Agency of Canada would assess these third-party dispute-resolution mechanisms and make recommendations to the minister as to whether or not they should qualify as acceptable under the Bank Act. So it's not that there is a new agency being created. What we're trying to do is ensure that consumers, regardless of which bank they are banking with, will have access to the same quality of third-party recourse if they have a dispute with their institution.

• (1350)

Mr. Paul Szabo: I have to apologize, then, because I'm a victim of detrimental reliance. The committee members were circulated a document prepared by the Library of Parliament that says:

Part 4 would create a new external complaints body for financial institutions. Banks would be required to belong to an approved third-party dispute-handling body. The Governor in Council would make regulations outlining the process under which an incorporated external complaints body could receive approval.

I guess that's not the case.

Mrs. Diane Lafleur: The key inaccuracy there is that the act does not create a new third-party dispute-resolution system. There are already some bodies that do that in the private sector. And the issue, as I said, is having some uniformity of service for the institutions, regardless of which body they decide to affiliate themselves with.

Mr. Paul Szabo: I have more questions, but I do want to raise that the member for Mississauga East—Cooksville has a bill with regard to charities, Bill C-470. I suspect somebody on the panel is aware of it. No? Wow.

The Chair: The officials are not here to comment on that.

Mr. Paul Szabo: Okay. Under Bill C-47, with regard to the disbursement quotas for registered charities, this all has to do with a

private member's bill that is currently before the finance committee, in which the member has expressed some concerns about the amount of money related to the charity that's not getting down and hitting the ground to help people but is being absorbed by expenses and in other ways. In fact, it touches on disbursement quotas.

This seems to be going in the opposite direction, so that it's opening up the ability of charities, in fact, to spend more money on operating expenses and capital expenditures with less money hitting the ground to assist the targets of the charity. Is that the fact?

Mr. Tim Wach: It is the fact that disbursement quota rules will be amended and will in certain aspects be eliminated. In terms of oversight of charitable activities and amounts that they spend, that's not something the disbursement quota would directly impact in any case.

The Chair: Thank you, Mr. Szabo.

We will move to clause-by-clause consideration, pursuant to Standing Order 75(1).

Consideration of clause 1 was postponed; therefore I will call clause 2.

I've been asked for a recorded vote on clause 2.

(Clause 2 agreed to: yeas 10; nays 2)

The Chair: Monsieur Mulcair.

[*Translation*]

Mr. Thomas Mulcair: If you agree, and so do the other members of our parliamentary committee, I would suggest this. Along the same lines as what happens in the House, when a vote has just been taken and is then repeated, if the others agree and if we firmly commit to ensuring that the record clearly reflects the same votes by clause and by individual, I am willing to resume the study without repeating my request for all the other clauses.

[*English*]

The Chair: Yes. If the committee agrees by unanimous consent, we can apply this recorded vote to all of the clauses up to clause 199, and it will be shown in the record.

Agreed? *D'accord?*

Some hon. members: Agreed.

The Chair: Thank you.

(Clauses 3 to 199 inclusive agreed to [See *Minutes of Proceedings*])

The Chair: Shall the short title carry?

Some hon. members: Agreed.

Some hon. members: On division.

The Chair: Shall the title carry?

Some hon. members: Agreed.

Some hon. members: On division.

The Chair: Shall the chair report the bill to the House?

Some hon. members: Agreed.

Some hon. members: On division.

The Chair: *Merci*, colleagues.

I want to thank the officials very much for being with us here today. Thank you for your time.

If you have anything further for the committee, please submit it to the chair. I will ensure all members get it.

Thank you. The meeting is adjourned.

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