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Mr. Joe Preston

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• (1100)

[English]

The Chair (Mr. Joe Preston (Elgin—Middlesex—London, CPC)): Good morning, all. Thank you for attending committee this morning. It's great to have you here.

We're still in our study of Bill C-21, An Act to amend the Canada Elections Act (accountability with respect to political loans), and at the request of the committee, we've asked the Canadian Bankers Association to come here today and talk to us.

Mr. Wrobel is going to start today. Please, go ahead with your opening statement and then the members will have time for questions.

Mr. Wrobel.

Mr. Marion Wrobel (Vice-President, Policy and Operations, Canadian Bankers Association): Thank you, Mr. Chairman. My name is Marion Wrobel and I'm the vice-president of policy and operations at the Canadian Bankers Association. I'm joined by my colleague, Anthony Polci, the CBA's vice-president of government relations.

We're pleased to be here today at the committee's invitation, as part of your review of Bill C-21, Political Loans Accountability Act, to provide the committee with the banking industry's perspective and to answer members' questions.

The CBA works on behalf of 54 domestic banks, foreign bank subsidiaries, and foreign bank branches operating in Canada, and their 274,000 employees. The CBA advocates for effective public policies that contribute to a sound, successful banking system that benefits Canadians and Canada's economy. The association also promotes financial literacy to help Canadians make informed financial decisions, and works with banks and law enforcement to help protect customers against financial crime and to promote fraud awareness.

Canada's banking industry supports objectives to strengthen accountability and enhance confidence in the integrity of political institutions, and we recognize that the proposals contained in Bill C-21 are aimed at achieving higher standards of transparency and accountability in political financing. Canada's banks have a long history of supporting the political process by providing financing to political parties and candidates, assessing individual loan applications on their own merit. Banks will continue to assess applications for political loans in the same way as any other loans. Decisions on whether to lend funds and the appropriate terms and conditions will

be based on prudent risk management considerations, including repaymentability of the potential borrower.

As you know, Canadian banks are well-managed, well-capitalized institutions operating in a competitive market and within effective and efficient federal-provincial prudential and consumer regulatory oversight. That was the case prior to the global financial crisis and it is the case today. A strong and healthy banking system is a cornerstone in helping Canadians buy homes and save for retirement, helping small businesses grow and thrive, and promoting Canada's brand internationally. Canada's banks have always employed a prudent approach when it comes to lending. This is one of the key reasons why our banks have largely avoided the problems that have plagued banks elsewhere. Such a prudent approach is vital because a healthy financial sector is important for a well-functioning economy, and Canada's banking system is widely recognized as being one of the soundest and strongest in the world.

While we cannot be certain about the practical aspects of this bill's impact in the absence of actual loan applications, under this new proposed regime, banks will continue to operate within the framework of sound prudentially focused management and a robust regulatory regime. It's within this context that we are pleased to offer the industry's perspective based on our understanding of the legislation. I should note that banks are not the only financial institutions that would be authorized under this bill to make political loans. Other financial institutions such as credit unions and caisses populaires would also be authorized to make such loans available. While the CBA can only offer the perspective of our member banks, the committee may also be interested in hearing from representatives of these financial institutions.

We would be pleased to answer questions from members of the committee. Thank you very much.

• (1105)

The Chair: Thank you very much for your opening statement.

Members, I think we'll do a seven-minute round first.

Mr. Albrecht.

Mr. Harold Albrecht (Kitchener—Conestoga, CPC): Thank you, Mr. Chair. I'm not sure I'll need my entire seven minutes, Mr. Chair.

Thank you for being here today.

First of all, are you aware of any political loans criteria that exist at financial institutions? One of the concerns that our committee has had as we've begun looking at Bill C-21 involves some of the factors included in the draft of Bill C-21. Would it be difficult for banks or other institutions to provide up-front loans for a candidate who may not have the wherewithal, the collateral, to guarantee the loan?

Mr. Marion Wrobel: As I said in my opening remarks, banks are going to make loans and consider risks under this legislation the way they consider the risks of other kinds of loans, whether they be consumer loans or business loans. They will assess risk. They will consider how they might mitigate risk. They will determine the terms that are associated with the loan. The primary consideration will be an assessment of the ability to repay the loan. It's within that context that banks will decide whether to make the loans or not.

Mr. Harold Albrecht: Could the point that the EDA, the Electoral District Association, or the political party act as a guarantor have any impact on whether or not a financial institution would consider guaranteeing that?

Mr. Marion Wrobel: Banks will take into account collateral. They will take into account guarantees when making the loan. Within that context, they will also have to assess the viability of the institution or the individual making the guarantee.

Mr. Harold Albrecht: Again, my big concern in looking at the bill is that we have heard some criticism that this will actually make it more difficult for a candidate who doesn't have any means or collateral.

Do you feel that's a fair criticism of the bill in its current form? Do you have concerns about the bill in its current form, in terms of allowing the average Canadian to enter the House of Commons? It's called the House of Commons because common people, without means, without a lot of background, might be able to apply and run in a nomination, an election, or even in a leadership contest.

Are there factors in this bill that would make it more difficult in terms of the financing part of it?

Mr. Anthony Polci (Vice-President, Government Relations, Canadian Bankers Association): One of the aspects that you mentioned in your question was collateral. One of the things this bill does is it ties guarantees to the contribution limit to political parties or political candidates. I believe the intention of the bill is so that someone can't self-finance or guarantee their own loan. What's the practicality of a guarantee structure like that? Can a bank, for a loan of \$25,000 or \$50,000, have multiple guarantors? That's an administratively complex proposition that may prove difficult.

On that particular aspect, that would be something that banks would have to assess. Is it something that's a viable option in order to structure a loan in that way?

Collateral, yes, is an element, but according to the terms of this bill, it is tied to the \$1,200 contribution limit. That's the maximum you would be looking at for an individual.

Mr. Harold Albrecht: But because of that administrative additional load—and I know you can't forecast accurately how individual institutions would react—do you think that's a negative possibility?

Mr. Anthony Polci: I think it presents a problem potentially to financial institutions. It would depend on the individual loan application. There are a number of factors that go into assessing a loan, as Mr. Wrobel has commented on, so it is one element of it. That's why it's difficult, in the absence of certainty about what the application is, to say definitively one way or another.

• (1110)

Mr. Harold Albrecht: Mr. Chair, those are all the questions I have right now.

The Chair: We'll go to Mr. Scott, unless anyone on this side would like to finish Mr. Albrecht's time? There are three minutes left.

Mr. Scott, seven minutes for you.

Mr. Craig Scott (Toronto—Danforth, NDP): Are you sure I can't have 10?

The Chair: I think I'll be a little flexible today, Craig.

Mr. Craig Scott: Thank you so much.

And thank you for coming.

I actually won't go too much further on the last line of questioning. I think it was an important question, and your answer was pretty clear. It does suggest that the multiple guarantors issue is at best open and at worst going to be a bit of a challenge. If I've mis-summarized, let me know.

One of the provisions in the bill allows for the Chief Electoral Officer to rule on whether certain exceptions apply to whether it alone becomes a deemed contribution. One of them is if the loan has been written off. Another is if there's a binding agreement to pay—it doesn't say written, but let's assume a written, binding agreement to pay.

I have two questions on these. First, do you foresee writing off loans quite soon after the expiry of the three-year period in this piece of legislation, or would you see financial institutions entering into agreements to repay as almost a continuation of the loan?

Mr. Marion Wrobel: The business of banking is one in which loans are made under the expectation that they will be repaid in a reasonable period of time and that they will be profitable. We expect the loan to be repaid and we expect the administrative cost to be such that the bank can make a profit. There is a binding requirement to repay. There are instances where banks make loans that are written off because they cannot be repaid, and ultimately they are not. Banks do try if there's collateral, if there's a guarantee. They will apply that to try to get the funds back. Banks always make loans on the expectation that they will be repaid.

Mr. Anthony Polci: The other element of this is the three-year term that's outlined in the legislation. I think the going-in position would be, as a starting point—and then after that, again, it's difficult to say in the absence of an actual example—that the term of the loan would be certainly no more than three years.

Mr. Craig Scott: Right, although the provision allows for a new agreement to pay. That's one of the concerns, the potential for a semi-indefinite extension of the loan, which is not good, but at least the bank is continuing to try to get its money. At the same time, candidates or associations are going well past the period that they should have repaid, so it's a bit of a problem.

Mr. Anthony Polci: Part of the consideration of all of this.... On the part of the candidate, the candidate, I'm sure, does not want to have a loan longer than a certain period. There's a cycle in elections. It's a certain fixed time. I'm sure they want to dispense with the last loan before they get into the next cycle. I think both parties would enter into a loan agreement under the same understanding, because it would be debt perpetuating debt.

But to your specific point, again, it's difficult in the absence of an actual case.

Mr. Craig Scott: The Chief Electoral Officer, with respect to these exceptions or these conditions he has to pass judgment on, indicated there's an absence in the bill of a requirement to provide, but he can ask for documentation, require documentation. He even suggested that he might want the "power to examine" in order to know whether something has been written off correctly, in accordance with the normal accounting practices of the bank, and that a binding agreement to pay isn't being used as just a constant way to kick something down into the future.

One would have thought this would be extraordinarily rare for the reasons that you're giving. Would you have any objections to the Chief Electoral Officer being given powers, written into the bill, to actually require documentation or to even examine?

Mr. Marion Wrobel: One of the things you have to remember about banks is that they are highly regulated financial institutions. We have a regulator, the Superintendent of Financial Institutions, who regularly supervises and inspects banks, and takes great care in examining the books and looking at, for example, assets that are written off.

I can't speak to whether that is needed, but you should understand that there is that oversight by the regulator.

Perhaps that requirement is redundant. I'll let Anthony answer that.

• (1115)

Mr. Anthony Polci: The only more general comment I would make is that certainly one of the intentions of the legislation is greater transparency in political financing. There's already an understanding that this is going to be done somewhat in the public domain.

The requirement for candidates to file with Elections Canada and so forth would be disclosed, regardless.

Mr. Craig Scott: Right. What I hear is that "regulatorily"—if that's a word—you're already in a position to be able to help the Chief Electoral Officer. So having a requirement to actually produce documentation shouldn't be a huge extra burden.

Mr. Marion Wrobel: What I was suggesting was not quite that, Mr. Chair. I was suggesting that if an institution were effectively making a contribution by writing off loans, it would effectively have to answer to the superintendent. The superintendent will always

consider the steps an institution has taken to make sure it recovers on its loans.

Mr. Craig Scott: It would seem that we would, at minimum, need some kind of coordination between the two, the collection officer and the superintendent, if that's the preferred route. It's something we would need to discuss.

One of the forms of collateral that was mentioned by the minister is what is known as a "rebate" to local campaigns or to the national level. One concern we've heard is that this gets banks into the business of projecting or predicting outcomes, because there's a threshold before rebates are payable—I think it's 10% at the moment—in terms of the electoral result.

Is this the kind of predicting that banks are going to be capable of doing? Will they accept rebates as collateral? Do they already in some circumstances?

Mr. Anthony Polci: I believe it really becomes a question of the viability of the campaign itself, as opposed to.... It may sound odd to say there doesn't have to be a connection between the viability of the campaign and the electoral outcome, but it is a question.... There is a range of factors in assessing a loan, and that would be the case in political financing as well.

Is the campaign viable? It comes down to asking if it can generate revenue through fundraising in order to repay its debt.

The rebate is absolutely an element, as you've pointed out. If that's going to come into the discussion for the terms of the loan, then assessing whether a rebate is a potential would have to be part of the equation

It's a combination of factors. A campaign's financial viability on its own merits is something a bank would be interested in.

The Chair: Thank you, Mr. Scott.

Mr. Gameau, seven minutes.

Mr. Marc Gameau (Westmount—Ville-Marie, Lib.): Thank you, Mr. Chair.

My questions are similar to Mr. Albrecht's and Mr. Scott's. I guess the first one is a very general one. Are you comfortable with this legislation, or do you think you're being handed a bit of a hot potato?

Mr. Anthony Polci: The industry doesn't have a position on the bill for or against it. We haven't come at it from that angle, and banks operate within the laws of Canada. As Mr. Wrobel noted, banks are federally regulated, so we're used to that sort of oversight.

I think, though, the one concern I would state is that we watched very carefully the discussion around this legislation in the House of Commons and at committee, and the allegations or the charge that perhaps banks would be controlling access to the political process concerns us. The banks will make decisions based on lending decisions. They will look at the financial viability of a campaign, as I've said, and their ability to repay. It's not a question of anything other than that. This is what banks do.

So the idea that banks could be accused of favouring one candidate over another or one party over another is a cause for concern for the industry, but if Parliament sees fit to have political financing conducted in the way that it's proposed in Bill C-21, the banks would absolutely comply with the law.

Mr. Marc Garneau: Thank you.

They are very public events, elections or leadership races, and those kinds of things. There's a public element to it.

Getting back to a point that Mr. Scott brought up, as part of your decision as to whether you will provide a loan, the issue of the rebate can be a central part of that. As he pointed out, rebates are not given unless you get at least 10% of the vote. Are you ready to get into the process of entering into that analysis about that particular candidate, whether you think that candidate may get 10% of the vote, because if they don't the rebate will not be there? Are you comfortable with doing that?

• (1120)

Mr. Marion Wrobel: First of all, Mr. Chair, remember that when banks make loans—let's say they're making business loans—they are effectively making a judgment about the viability of the business. Sometimes they have security, sometimes they have a business plan, and sometimes they have a track record they can look at, but they are making some kind of an assessment about the risk associated with that, and that is an assessment about the success of the business.

The same kind of techniques will be brought to bear here. Banks currently do make political loans. They are making risk assessments in some way, and they will continue to do so. What changes under this bill are some of the parameters, the things that can be considered in making the loan. But in terms of just analyzing risk, assessing risk, mitigating risk—those are all tools that banks already have at their disposal.

Mr. Marc Garneau: Very good, because it does require a bit of a crystal ball sometimes.

What about the other side? The collateral we just talked about is an example. Obviously the credit history of the person is an important factor in whether you will make a loan. If the person who comes to you is somebody who doesn't have a credit history, a very young person, somebody who has not really had the occasion to borrow very much previously, but they are perhaps even a very public candidate in a particular election, you're going to look at credit history, and in some cases you're going to say, "Well, we don't have sufficient credit history on which to make a decision and therefore we will turn down the loan." Are you ready for that part of it? That could be very political as well.

Mr. Anthony Polci: At the end of the day, the bank is not lending to the individual, so the personal credit history is not the relevant feature; it's their ability to have a campaign that is, as I said, a viable campaign. You're not collecting from the individual; you're collecting from the campaign in terms of repayment of the loan. It is that entity that matters. You have to assess, can they fundraise? Is the rebate part of the equation?

So the personal credit history, the way Bill C-21 is structured, is not a part of that assessment.

Mr. Marc Garneau: The perfect storm is a 20-year-old who is going to be in an election; they don't have a credit history, and it's questionable whether they're going to get that 10%. You're ready for that situation?

Mr. Marion Wrobel: I would say, Mr. Chair, that again, if you look at the business and the household context, the analogy.... Banks do lend at times to individuals in businesses who don't have much of a credit history. That poses a risk. To offset that risk, they have to do other things, so they will ask, for example, for guarantees, they will seek collateral, that sort of thing. Every risk has another element that can offset it.

The member is right, Mr. Chair. That makes it a riskier endeavour. That does not mean that a bank or another financial institution will not lend under that situation, but it will have to mitigate the risk in some other way.

Mr. Marc Garneau: Thank you very much.

The Chair: Thank you, Mr. Garneau.

Mr. Lukiwski, you have four minutes, please.

Mr. Tom Lukiwski (Regina—Lumsden—Lake Centre, CPC): Thank you both for being here.

I'm going to divert a little bit from the actual elements of Bill C-21. I don't know how germane my questions will be to the examination of Bill C-21, but I am going to ask the questions anyway.

I would like to hear from you, as an industry, as to what you feel your obligations may be to assist and participate in the democratic process. I want to give you a specific example. Back in the late nineties, there was a political party—I'm not talking about candidates now, but a political party—in Saskatchewan. It was called the Saskatchewan Party. I was very involved with it at the time. Now, of course, it's the current government of Saskatchewan. At the time, it was fledgling. It had just started. About a year and a half after the party was formed, there was a general provincial election. I was one of those who was tasked with negotiating with financial institutions to try to secure a bank loan. Of course, there are slightly different determinants in provincial elections as opposed to federal elections in terms of rebates. You need 15% of the popular vote, both as a candidate and as a party, to get any kind of a rebate. Nonetheless, we didn't really have much of a political history to assure the banks that we would in fact be able to get over and above 15% of the popular vote and then trigger a rebate.

We were able to secure a loan. One of the determinants was that the banker in question said that he believed, and his bank believed—I won't give you the name of the bank—there was an obligation on their behalf to participate in the democratic process. It really was part of their decision-making process to assist in the political process. Having said that, I don't think they would consider it if there was a million dollar loan request from the Rhinoceros Party of Saskatchewan. But given the fact that this was a fairly legitimate political entity, that factored in to their determination of whether or not the loan should be granted.

Is that common in the industry, both at the candidate level and at the political party level, or does it have any bearing whatsoever?

• (1125)

Mr. Marion Wrobel: That's how hard that question is.

Mr. Anthony Polci: A more general statement in response—I would say banks take their responsibilities quite seriously. How banks conduct themselves in political financing, whether it's under the regime proposed in Bill C-21 or in provincial financing regimes, is ultimately a bank decision, an individual institution decision. We have a competitive marketplace. They are competitors with one another. They will take a number of factors into consideration in their approach.

In terms of the public duty aspect—if that's the question—the political process can be widely defined in terms of the participants. You use an example of a couple of parties. There's a good, proper understanding of the main parties that are involved in the political process and their viability and their staying power, if you will. If there's a suggestion perhaps that banks should be providing loans under any circumstances to any political party, there ultimately becomes a conflict with the prudential regulation because banks do lend to get the money back. We are regulated by the Office of the Superintendent of Financial Institutions. The lending that is undertaken by banks is lending that Mr. Wrobel has referred to. It is undertaken consistently to assess and manage risk, and to ensure repayment. That ultimately has to be the final decision.

That's probably the perspective that banks come at this from. For that public duty aspect, you have to look at how broad this can become in terms of an equation.

Mr. Tom Lukiwski: That's probably four minutes.

The Chair: It was exactly, thank you.

Madame Turmel.

[*Translation*]

Ms. Nycole Turmel (Hull—Aylmer, NDP): Thank you, Mr. Chairman.

Thank you for being here. Your presence is really helpful to us in our study of this bill.

I would like to go back to a point you discussed with Mr. Garneau, which was the risks implicit in any campaign. You say that this activity is in fact our business and that you must consider it from that perspective. How then do you determine whether a campaign is viable or not? What criteria do you use? Do you depend on the polls? As we know, the NDP was not even in the cards when the last election was called.

The second part of my question has to do with collateral. Will that be added to the criteria? We know that political parties will not receive funding from the government in the next election. Will you take that into account in your assessments?

[*English*]

Mr. Marion Wrobel: In answer to the question, Mr. Chair, every institution works under a broad risk management framework that's set by the Superintendent of Financial Institutions, but how they actually do that internally is up to the institution.

I keep making analogies to business and households. There are a variety of different sectors of the economy, some for which it's very easy to assess risks, some for which it's more difficult. In some instances, we have new and emerging industries and sectors where there's very little history. Banks and other financial institutions have to assess risk within that context.

If they are unsure of the risks, they tend to require collateral and other forms of guarantee. Do events occur that are unexpected? Yes. Do institutions learn from events that occurred that were unexpected? Yes.

In answer to the question, in the same way that banks do not want to lend to individuals, businesses, or campaigns where they will lose money, similarly they do not want to avoid lending to individuals, businesses, or campaigns that would be viable and that would be profitable.

They try to make sure their risk assessment is accurate so that on the one hand they do not lose funds, but on the other hand they still make a profit.

• (1130)

Mr. Craig Scott: How much time do we have, Mr. Chair?

The Chair: Two minutes.

Mr. Craig Scott: I will follow up on that. One concern is that we're discussing this partly in a vacuum, by talking about how we can't really know how it works until it works. If I'm not mistaken, there is some experience at the provincial level, in provincial campaigns.

Do you have anything you can share with us with respect, for example, to the experience of political lending in Ontario? Is there anything we should know that suggests it's viable or not viable?

Mr. Anthony Polci: I've heard in discussion, certainly, in the committee's deliberations to date, about comparisons with the Ontario regime. And there are some similarities, but there are also some differences. For example, the guarantee limit does not exist in Ontario, so an individual can guarantee a loan up to.... I don't think there's a maximum set.

Mr. Craig Scott: It's a big difference.

Mr. Anthony Polci: This is a big difference because then personal credit histories and things become very relevant.

I think it is important to understand the differences when you're assessing the two regimes, because these differences do matter.

Mr. Craig Scott: This could take us back to multiple guarantors. There's a paperwork issue and diminishing profitability.

On this theme of the public duty, Mr. Lukiwski put it really well with a really vibrant example. There are some sectors of bank lending that have slightly different criteria, if I'm not mistaken. There are some banks, anyway, that approach non-profit organizations and lending to non-profit organizations in a different way. Broadly speaking, there's a public duty reasoning I think behind that. I'm not sure if I'm correct in that.

Is there anything we should be thinking about on how lending occurs with respect to non-profit organizations and this public duty discussion we're starting to have?

Mr. Marion Wrobel: Banks do lend to non-profit organizations and they do have within their organizations individuals who specialize. A part of their business is to lend to non-profit organizations.

I think they recognize the differences in a non-profit organization versus a profit-making organization, but at the same time, when they're making loans, they are largely making loans, again, with the expectation to have it repaid.

Banks do believe very much in corporate social responsibility and they have numerous activities: they give money to charities, they support foundations, they support the arts, they support financial literacy. In those instances, those are expenditures where they do not expect to make money, and they understand that is an expenditure. But when they are making loans, the expectation, at the very least, is that they get the money back.

I think as they develop that corporate culture, as they manage risk, they treat activities associated with corporate social responsibility differently from lending. The culture of prudential lending I think applies to all lending on the part of banks.

The Chair: Thank you.

Mr. Reid.

Mr. Scott Reid (Lanark—Frontenac—Lennox and Addington, CPC): Thank you, Mr. Chair.

I have no trouble believing that banks would make every effort to use the normal criteria when making political loans, in part because it's good business sense and in part because of course you face extra scrutiny when dealing with electoral events. Perhaps there's a certain unfair bias against your institutions that you would compensate for by being particularly strong in your attempts to be objective.

What worries me, however, is that the Canadian party system is extraordinarily volatile compared to, for example, our neighbours to the south, where red states are particularly red states and blue states are particularly blue. Ultimately, that's why we watch Ohio and Florida every single election.

Here we see dramatic changes and people coming out of nowhere. I just pulled out some examples of people who nobody thought would win, who wound up winning elections. A large number of NDP candidates in Quebec in the last election won, including two members of this committee, one of whom, Madame Turmel, had a long history as a prominent person. The other, Madame Latendresse, who was actually, in my view, one of the best performing members of Parliament when this Parliament was completely unknown, I think ran because nobody else was dumb enough to take the nomination in a riding nobody thought they could win—I think that's a fair assessment. And then she unexpectedly won.

• (1135)

The Chair: I think there could have been a more gracious way to put it.

Mr. Scott Reid: Similarly, when the Bloc Québécois emerged, and when the Reform Party, to which I belonged, emerged in 1993, it would have been very hard, based on either history or predicted outcomes, to determine that these people would even win their 10% of the vote back. Yet they wound up winning. Sometimes you win with less than 50% of the vote. I first won with 38% of the vote. So things like that can occur.

The whole purpose of the new regime we're attempting to introduce, and it's part, of course, of the regime that started under Chrétien and continues today, is to take the money, or the special access some people have to money, out of politics so as not to advantage some over others. It seems to me that the nature of the unexpected, and the nature of the volatility of the system, may mean that inevitably, as we restrict access, we can wind up, once again, privileging those who have parties with established records. That is a very grave concern.

In Madame Latendresse's case, I think you won with almost no expenditures at all, or pretty close.

When you borrow money, it's with the expectation that the things you do with the money will actually cause you to win. There may be other seats where people would actually have lost because they couldn't have access to a competitive financial environment.

I throw all these things out as problems that occur to me. I'm looking to see if you have any insight as to whether they are real problems or whether you have solutions to them.

Mr. Anthony Polci: To cut right to the chase, are there going to be instances when banks will say no to candidates or parties? I think the answer to that question is probably yes.

It goes back to a question I answered earlier about the sensitivity on the part of banking institutions to being seen as supporting one party over another through financing. It comes back to what we've talked about a great deal in terms of risk management. If Parliament deems that this is the regime that should be in place for political financing, which we will abide by, does it extend to putting aside risk management consideration? Right now, we are still bound by our prudential considerations. Those have to be front and centre in our minds.

I guess one only knows, in some instances, the viability after the fact. In your question you referred to being able to win with less than 50% and so forth. It goes back to a comment I made a minute ago that I didn't expand on very well. It is about the campaign's viability, which doesn't always necessarily mean its electoral success, because a campaign can be a successful financial entity without translating into electoral success. That is part of the perspective of the banking industry.

The Chair: Thank you Mr. Reid.

Can I ask one question, Mr. Scott, before we go?

I want to lay out a scenario here. We've all heard about candidates who won who weren't supposed to, but in a normal election—I'll take my own riding as an example. If I needed to borrow money to run an election, it would probably be in the \$25,000 to \$30,000 range. That would be some one-third of the spending limit or so in my area.

By this bill, it is suggested that I walk into my local branch manager with 25 people to borrow \$30,000, or at least suggest a list of 25 people. I can only guarantee by \$1,200 at a go. Certainly knowing my bank manager well enough, I know he would say to just go get the money from them. He doesn't need to do all this paperwork for a loan with 25 people guaranteeing \$1,200 a time. If you already know them and they already know you, why don't you just get them to give you the \$1,200, instead of guaranteeing the loan? I almost can't see a scenario where someone would guarantee a \$30,000 loan with 25 people, or where a bank would not try to find another way around that.

What are your thoughts on that?

• (1140)

Mr. Marion Wrobel: That's the whole essence, Mr. Chair, of the issue around the guarantors. These are relatively small loans; they are over a very short period of time. The costs associated with that up front are quite high, which would then be passed on to the borrower.

It's more than just giving the names of 25 people for the guarantee to be meaningful for the bank.

The Chair: You need more security than that? I can't believe it.

Voices: Oh, oh!

The Chair: I understand.

Mr. Armstrong.

Mr. Scott Armstrong (Cumberland—Colchester—Musquodoboit Valley, CPC): As I see it, there are three different events where people may come to you for political financing. One is individual

riding nominations, one is the actual election campaigns, and the third is, of course, leadership campaigns.

I am going to focus just briefly on individual riding nominations for a moment.

The cap on it is currently about 20% of what the expense limit is for a general campaign to participate in a nomination. That means to spend the limit...I guess how they calculate it is that you are looking at anywhere between \$12,000 and \$20,000, depending on the size of the riding geographically by population.

Those are relatively small loans. Are banks going to entertain those if someone comes and wants a \$5,000 loan to participate in the nomination? Is that something the banks are going to spend their time dealing with?

Mr. Marion Wrobel: I think that's a good question. These are relatively small loans. A small loan can be a profitable loan. It depends on the administrative costs associated with it. It depends on the ease with which the institution can assess risk and the ability to charge the appropriate interest rate that covers the cost and that reflects the risk.

Mr. Scott Armstrong: So you don't see any scenario where an institution is going to say that those are just not worth it for them to entertain? There is some risk in nominations. More people lose nominations than lose general elections. Maybe they won't be able to pay it back. Is it worth the time for institutions to assess every one of these people? There might be 12 people who contest a nomination, who all come to the bank and each ask for \$5,000. Is that going to increase the chances that institutions are going to say they aren't interested in that?

Mr. Marion Wrobel: You're right, it's a small loan. The administrative costs of small loans are relatively high. It's up to each institution within its own context to determine whether or not that is a loan that can be viable.

Mr. Scott Armstrong: Some institutions would say they're not going to do anybody. They might make that business choice for their institution.

Mr. Marion Wrobel: Some may.

Mr. Scott Armstrong: Leadership campaigns are large, expensive campaigns—more expensive than most individual riding campaigns during a general election. But there is also no rebate back from money spent on leadership campaigns.

What do you see is the effect of this legislation on funding and financing for leaderships, from a financial perspective?

Mr. Anthony Polci: Just looking at the legislation, it is very clear that nomination contests and leadership races have fewer tools at their disposal. The rebate does not exist. Therefore, they become inherently more risky in terms of the options available. I think it is just a feature of what the legislation is outlining.

Mr. Scott Armstrong: So if someone was well-established and had a lot more business contacts and could actually get a whole lot of people to come for a \$1,200 guarantee, they're probably more likely to get a loan from institutions than someone who is coming from outside and doesn't have a lot of experience—when you do a risk assessment.

Mr. Anthony Polci: As it translates into their ability to pull together a successful, viable campaign.

I don't have a commentary on what this type of person might look like. Look at the diversity in the House of Commons. It's more a question of that simple fact—it's the campaign itself that matters.

Mr. Scott Armstrong: So you'd not only look at the actual participants in the leadership campaign; you'd look at the people around them who are supporting them and working with them. Would that be part of the assessment you would do?

Mr. Anthony Polci: Yes, it's a campaign that you're looking at as opposed to the individual.

Mr. Scott Armstrong: Thank you.

The Chair: Madame Latendresse.

It's your time to say something nice about Mr. Reid.

Voices: Oh, oh!

Mr. Scott Reid: The word I was looking for was “dedicated”, by the way. We'll correct the record to reflect that.

The Chair: Go ahead.

[*Translation*]

Ms. Alexandrine Latendresse (Louis-Saint-Laurent, NDP): Thank you very much, we appreciate that.

Thank you for having come here to testify.

You explained earlier that loans always involve risk management. Consequently, you are aware of the risk that a candidate may not be able to reimburse a bank loan after a campaign. In the context of Bill C-21, however, that becomes a presumed contribution to the campaign.

What consequences could this have? As we know, banks cannot fund either candidates or campaigns.

• (1145)

[*English*]

Mr. Marion Wrobel: My understanding is that when there is an obligation to repay, which is the case when financial institutions make a loan, should that default, it is not a deemed contribution.

Is that correct?

Mr. Anthony Polci: Yes. In our initial read of the legislation... many years ago, in a previous version, that was something we looked at a little more carefully. It seems that the way it is structured—a loan agreement is an obligation to pay, that sort of thing—it's been designed not to have a lending institution find itself suddenly having made a contribution. It's to protect against that.

[*Translation*]

Ms. Alexandrine Latendresse: The purpose is not to criminalize certain things, but indeed to take money out of politics.

That is basically what I wanted to find out.

I am going to yield the rest of my speaking time to Mr. Scott.

[*English*]

Mr. Craig Scott: This has been an extremely useful period already. It also indicates why it could be really important to hear from some individual financial institutions, including some co-ops and the caisse populaires, just to dig down a bit deeper into how individual banks would think about this in their lending decisions. I'll just put that on the record for our own purposes.

Something else to put on the record is that in my own experience in the NDP, our limit for nomination races is a little bit lower than that. I just want to make sure not everybody thinks that people are running for \$12,000 to \$20,000. It was \$5,000 for my by-election.

You said something very interesting, Mr. Wrobel. You said “at least getting the money back”. That's a slightly different concept from making a significant profit. If the banks were to know that on balance they're not going to lose money, that begins to sound a bit like a public duty point of view. I'm wondering if that's what you intended.

Mr. Marion Wrobel: We were talking about lending to the non-profit sector. It's up to an individual institution to determine what interest rate it charges to individual customers and non-profits.

Financial institutions, banks, make loans to those they expect can repay them. The question was referring to “on balance”. Loans are not made to sectors. They're not made to the political process. They're made to individuals, whether households, businesses, or campaigns, with the expectation that each time a loan is made, it will be repaid, not that it works out on balance. The expectation is that each loan is repaid and profitable.

Mr. Craig Scott: If the committee has any written questions after we've studied your testimony, would you be willing to assist us in that respect?

Mr. Marion Wrobel: Of course.

The Chair: I have no one else left on my list.

Mr. Gameau, by all means.

Mr. Marc Gameau: I just wanted your impression with respect to somebody who may be an independent when they run. We met with the Chief Electoral Officer. When that question came up... If you're running as an independent, the bill basically said it's going to be tough.

What is your feeling with respect to an independent who doesn't have the backing, of course, of an association or even a party? Would you agree that that person, all other things being equal, is at a bit of a disadvantage?

Mr. Anthony Polci: There was the question I answered earlier about nomination contestants and leadership campaigns, where there are fewer tools available in terms of rebates and things. I think the same would apply in that instance. They don't have a rebate through a party backing or a riding association backing, which would be a factor in assessing a loan. It doesn't mean an independent candidate wouldn't necessarily be eligible for a loan, because there have been independents in the House of Commons who have been elected as an independent. Again, it comes down to their ability to pull together a successful and viable campaign.

• (1150)

Mr. Marc Garneau: Thank you.

The Chair: I'll go to Mr. Gill while I wait for Mr. Williamson to go back to his seat.

Mr. Parm Gill (Brampton—Springdale, CPC): Thank you, Mr. Chair.

I'm just trying to understand the whole thing, as I guess all the other members are on this. My question is if somebody is able to get 20 people to sign a \$1,200 guarantee each and walks into the bank and says, "Here, I have 20 people who are signing up for a \$25,000 loan"... If it's not necessarily worthwhile for the bank or the institution, they may still say, "No, sorry, we are not interested because of all this paperwork that we have to do." Is that the understanding I have?

Mr. Marion Wrobel: Or a response might be "This is administratively cumbersome. It is expensive. The cost of that will be reflected in the cost of the loan." Ultimately the borrower will pay for that. There are couple of ways an institution can react to that.

Mr. Parm Gill: But there is a possibility that they may still turn it down. Even after, let's say hypothetically, the candidate decides to pay that extra cost, the institution can still easily say, "Sorry, it's not really worth our while."

Mr. Marion Wrobel: We can't predict what an individual institution will do in a particular circumstance. As I said before, institutions do not want to lose money on loans. At the same time, they do not want to pass up the opportunity to make money on loans. If there are ways in which they can recover their costs, presumably they would do that. But I can't guarantee what bank A will do or what bank B will do.

Mr. Parm Gill: Right. Even though \$1,200 isn't necessarily a huge amount, how long would you say the bank may take to evaluate the 20 guarantors in terms of their worthiness of guaranteeing that loan? I walk into the bank today and say, "Okay, here are the 20 people willing to guarantee my loan. It's \$1,200 each. I need this loan as soon as possible." Can you give us some sort of a timeframe on—

Mr. Marion Wrobel: You are asking a very specific question about how the process would work in a bank, and we're not qualified to answer the details of that question.

Mr. Anthony Polci: But I would say that your question is legitimate given the concerns we have raised. It does speak to the administrative complexity. This is the whole point. Why does a guarantor exist? It's to backstop the loan so that ultimately if there is a default from the principal person, you would go to that source for funding. This is where you ask if it's practical. I can't pull a number

out of the air where the practicality stops. That is the question that a bank will have to consider. Can an institution go to 20, 30, or 40 guarantors to collect on the loan that is in default? That puts into question, from our perspective, the practicality of it.

Mr. Parm Gill: How would a bank really assess, say, the viability of a candidate or a campaign?

The Chair: I'm trying to get as many in. You have gone over, if you don't mind.

Mr. Parm Gill: Okay. It's all right.

The Chair: We have Mr. Williamson for a quick one or two questions, and then I have a couple of one-off questions, and then we'll dismiss our witnesses.

Mr. John Williamson (New Brunswick Southwest, CPC): I have three questions actually, but they go in a row.

Why would you want to be in this business?

The Chair: Do you mean our business or theirs?

Voices: Oh, oh!

Mr. John Williamson: I mean their business of administering this and being, frankly, the only lender, and lender of last resort.

Mr. Anthony Polci: Banks already have historically provided political loans and I'm sure will continue, but they will do so within a context that they can. That's really the answer.

Mr. John Williamson: That means geared towards making a profit.

Mr. Anthony Polci: That's correct, and with proper risk management in place.

Mr. John Williamson: Okay.

Would you agree to an environment in the marketplace in which an entrepreneur's only source of capital is through a bank, a co-op, or a credit union? These are rather philosophical questions, but...

Mr. Marion Wrobel: If you look at the options available to businesses, they extend far beyond that right now.

• (1155)

Mr. John Williamson: Do you think that's desirable?

Mr. Marion Wrobel: I think that more competition in the business lending environment is a good thing.

Mr. John Williamson: All right.

I often consider myself a political entrepreneur in the work that has to be done day to day, with the election, re-election. My last question is not meant to sound harsh, but I think it has to be asked. If we're looking for fairness and a level playing field—and by level playing field I don't mean in terms of the valuations, but of getting people to the plate so that they can be a candidate and have access to resources—we're looking in the wrong direction by looking to banks, aren't we?

If it's fairness and access to capital, so that individual candidates, from the governing Conservatives to the Green Party, are able to....

Mr. Anthony Polci: I think the answer to the question is that banks will bring an objective perspective to it. It is about assessing the viability of a campaign. That's what banks do—they lend. But they will do so on the principles we've talked about a great deal in the last hour. It is done objectively; it's done based on those criteria. It's not meant to favour one over another; it's simply done through what banks are mandated to do.

There is a prudential regulatory structure that governs this industry, which this industry takes very seriously.

Mr. John Williamson: I suppose my last question is, over the last several campaigns—

The Chair: I have to stop you. You had your three, and I had given you one.

Mr. John Williamson: That's fair enough.

The Chair: You're a good politician.

Mr. Martin. Welcome again, Pat.

Mr. Pat Martin (Winnipeg Centre, NDP): Thank you, Mr. Chair, for the opportunity.

I've been following this with interest right from day one, when it was first put forward years ago. It strikes me that if you're guided only by your fiduciary or prudential obligations or guidelines, then the amount of interest you're going to have to charge for a small loan is going to be crowding the Criminal Code's usury provisions.

As to the fairness thing, I appreciate John's comments. We're not creating a level playing field by this. In fact, some people might be able to get a reasonable rate of interest at a bank because of their party's reputation, while somebody else is going to be down at the Money Mart or at a loan shark with a ridiculous rate to borrow that loan.

We had to put our house up to run the first time, back when it was a long shot. We're not allowed to do that any more. So in the interest of taking big money out of politics, we might in fact be creating an unlevel playing field that will diminish the fabric of our democracy by limiting the number of types of people who can take part. It's a real concern.

Mr. Marion Wrobel: To address the first part of that question, we lend billions of dollars to small business and medium-sized businesses at interest rates that are very competitive. We have authorized approximately \$80 billion to SMEs in Canada. In fact, banks are notorious for lending within a range of prime rate to prime plus 3%.

Mr. Pat Martin: You were making the point that you were after cost recovery plus profit. For doing the due diligence on 20 people in order to lend \$15,000 or \$20,000, you have to be charging a really big rate of return.

So without some public financing, I'm going to suggest that maybe the government should be offsetting your costs for doing the research on the loans as their way of public participation. Maybe the lending institution should be looking for some support so that you can enable the democratic process in a “corporate social responsibility” or “public duty” way. Maybe this is something the committee should be looking at.

The Chair: I'll leave it at that. The government supporting the banks now. Great.

Thank you very much for your openness and your answers to our questions today. It's been great having you here. Maybe you've created more questions than you've answered, but that tends to happen with a lot of our witnesses.

We will suspend for a moment and then go in camera for some committee business.

[Proceedings continue in camera]

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