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## **Standing Committee on Public Accounts**

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**EVIDENCE**

**Wednesday, May 28, 2014**

**Chair**

**Mr. David Christopherson**



## Standing Committee on Public Accounts

Wednesday, May 28, 2014

•(1615)

[English]

**The Chair (Mr. David Christopherson (Hamilton Centre, NDP)):** I now declare this 29th meeting committee of the Standing Committee on Public Accounts in order.

Colleagues, I'll mention two quick things before we begin. One, because of the votes that we had at 3 o'clock, we're a little late starting. But you will recall that as a result of the membership change we don't have as many members, and that if it follows the normal rotation—notwithstanding that we have quite a number of presentations—we may only be off the mark by minutes. At that point the committee can decide whether they've dealt sufficiently with this chapter or whether those few minutes matter, in which case we can have motions to reconvene. My hope is that we'll be able to consider this a full hearing, as this is not an unusual circumstance. It's not the best, but it's not unusual. So hopefully with that we can proceed in the usual fashion.

The only other thing I wanted to mention was that I got back from Ukraine less than 24 hours ago and I'm one of those who suffers badly from jet lag. So could you just give me a little bit of leeway today, as I'm pretty fogged up.

**Mr. Malcolm Allen (Welland, NDP):** I thought it was a Hamilton issue.

**The Chair:** This is on top of that.

Colleagues, I appreciate the cooperation. I also want to thank my vice-chair for stepping in while I was in Ukraine and chairing one of the report writing sessions.

Colleagues, with that if there are no further interventions we'll turn to our guests. We have a full house today.

To our guests, you're offered five minutes a presentation. If there's any chance to shorten that without losing anything it would be helpful, but if you need to give your full complement....

The only one I will mention is Mr. Watson from the Treasury Board Secretariat. I understand that yours tended to be a little lengthy. You've already agreed to shorten it. With the agreement of the committee, I would suggest that we append his full remarks so that we still have them for the record and they would be considered part of our deliberations. That way, Mr. Watson, you don't need to worry as much about things that you're trying to get in during that shortened period of time. So I think we're good.

All right, hearing no interventions, I'm going to ask each of you—you've already agreed on the order of presentations—to introduce your delegations.

Ms. Cheng, you are stepping in today for Mr. Ferguson as the Assistant Auditor General. Welcome, Madam. We're pleased to have you here again. You now have the floor.

[Translation]

**Ms. Nancy Cheng (Assistant Auditor General, Office of the Auditor General of Canada):** Thank you, Mr. Chair.

Thank you for this opportunity to meet with your committee today to discuss the chapter on public sector pension plans from our 2014 Spring Report. Joining me at the table is Richard Domingue, Principal, who was responsible for this audit.

Public sector pension plans have a large impact on the government's financial position. The net liability relating to these plans exceeds \$150 billion. Pension plans are now operating in an environment where interest rates are low, and plan members are living longer. It is therefore important that the plans be designed and managed in a way that not only considers present circumstances, but that also protects the interests of current and future employees and taxpayers.

[English]

The audit focused on the three main public sector pension plans, those of the public service, the Canadian Forces, and the RCMP. The audit objective was to determine whether the Treasury Board of Canada Secretariat, the RCMP, National Defence, and the Department of Finance Canada carried out selected key aspects of their governance and management responsibilities with regard to the public sector pension plans.

Although we found that the entities we audited had carried out their responsibilities under the law, no one is responsible for the regular, systematic assessment of whether these pension plans are sustainable over the long term. It would be reasonable to expect that the plans be designed to be sustainable and affordable. We recommended that the secretariat, in collaboration with the RCMP and National Defence, periodically assess the pension plans' sustainability. If deemed appropriate they should recommend changes to plan designs so that they are up to date, affordable, and fair to current and future generations.

We also found that the legislative framework that governs the pension plans disperses responsibilities among a number of entities and does not include a funding policy. So far the Public Sector Pension Investment Board has assumed that the funding risks required to meet the rate of return on assets set by the actuary are acceptable to the government. Funding decisions related to the plans could have an impact on the government's budgetary framework. We recommended that the secretariat, in collaboration with the other supporting entities, finalize a funding policy for all three plans on a timely basis.

• (1620)

[Translation]

Clear and complete information on the pension plans and good reporting on the budgetary impact of government liabilities are essential to allow for better transparency and accountability.

We found that information in public sector pension plans and liabilities is not user-friendly. We recommended that the Treasury Board of Canada Secretariat, with the collaboration of the RCMP and National Defence, prepare a proposal for a consolidated report with clear and understandable information on the public sector pension plans for consideration by the President of the Treasury Board.

The Treasury Board Secretariat is in agreement with all three recommendations. In particular, it has committed to work with the RCMP, National Defence, and Finance Canada to implement a funding policy and propose a consolidated report for the three pension plans.

We found that the Department of Finance Canada monitors the budgetary impact of the pension plans. However, it has not concluded on the merit of funding the pre-2000 pension liabilities. The government needs to assess the benefits and risks, and determine if it would fund the liabilities. The Department of Finance has agreed with our recommendation and has committed to assess this issue in the 2014-2015 fiscal year.

[English]

Mr. Chair, that concludes my opening remarks. We would be pleased to answer any questions the committee may have.

**The Chair:** That's excellent. Thank you.

Now we're moving to Treasury Board Secretariat.

Mr. Watson, you have the floor.

**Mr. Daniel Watson (Chief Human Resources Officer, Treasury Board Secretariat):** Thank you, Mr. Chair; I'll be as brief as I can.

I'm pleased to provide the government's response to chapter 1 of the Auditor General's 2014 spring report, specifically how we'll act on the report's recommendations. I have with me today Kim Gowing, who is a director in the pensions branch, and also I have Bayla Kolk, the assistant deputy minister responsible for pensions and benefits.

[Translation]

The Auditor General's 2014 Spring Report audited the three main public sector pension plans. These plans cover substantially all of the employees in the public service of Canada, the Canadian Armed

Forces and the RCMP, as well as employees of certain public service corporations.

The government agrees with the Auditor General's findings and recommendations. We are pleased that the report confirms that the Treasury Board Secretariat, National Defence and the RCMP are meeting their legislative obligations and assuming their responsibilities.

[English]

With respect to the Auditor General's first recommendation concerning the periodic assessment of these plans, we recently reviewed them and have taken steps to help ensure their long-term sustainability. We have increased the employee contribution rates for the public service to reach a 50-50 employer-employee cost-sharing ratio for public servants with comparable increases for the Canadian Armed Forces and the RCMP. We've also raised the normal age of retirement from 60 to 65 for employees who joined the public service after January 1, 2013. These reforms are expected to provide \$2.6 billion in savings by the fiscal year 2017-18, and more than \$900 million in annual savings after that.

In addition to helping ensure the sustainability of plans, these actions will contribute to the ongoing stability of our pension costs as a percentage of pensionable payroll. To further strengthen collaboration on sustainability among departments, this year the secretariat will establish an interdepartmental committee at the assistant deputy minister level that includes the Department of Finance, the RCMP, and National Defence. This committee will manage pension-related issues across departments and coordinate work across departments on the government's response to the Auditor General's report.

Regarding the Auditor General's second recommendation, the secretariat will continue to work in collaboration with its partners to complete the development of the funding policy for all three plans. This policy will clearly identify the funding and financial preferences of the plan sponsor, establish parameters for monitoring and evaluating funding risks, and develop benchmarks for evaluating plan sustainability.

• (1625)

[Translation]

The third recommendation calls for a consolidated report.

In this area, the secretariat will collaborate with National Defence and the RCMP to develop a proposal for a new consolidated report for the sponsor's consideration. If the proposal is accepted, the goal is to introduce this report for 2015-2016.

The fourth recommendation focuses on reviewing our governance practices.

Again, the secretariat will collaborate with its partners to review the governance practices for these plans, and make recommendations to the plan sponsor. This work will serve to help strengthen the governance framework of the public sector plans, and help ensure they remain affordable and sustainable.

The fifth recommendation calls for assessing the cost of funding pre-2000 pension liabilities.

The Department of Finance is better positioned to speak to this recommendation. However, the secretariat has committed to supporting the Department of Finance in concluding the assessment of their obligations.

[English]

Mr. Chair, we place great importance on the financial integrity of these plans, and present detailed information on the plans and their liabilities through the public accounts in accordance with the standards prescribed by the Public Sector Accounting Board.

Finally, while the Auditor General did not examine the sustainability of the plans, we will continue to support efforts to ensure their affordability and sustainability in a way that is fair to both taxpayers and employees.

**The Chair:** Thank you.

Now we go over to the Department of National Defence, Major-General David Millar.

Sir, you have the floor.

[Translation]

**Major-General David Millar (Chief of Military Personnel, Department of National Defence):** Mr. Chair and members of the committee, good afternoon.

It is a great pleasure for me to be here today to represent the Canadian Armed Forces. I am joined today by Mr. David Grand-maison.

[English]

Of course, the Canadian Armed Forces' pension plans are very important to forces members, both as an incentive program but also as a safety net for retirement. For this reason, we welcome the OAG report on behalf of all members who want to ensure their pension entitlements are safe and being administered properly. It is reassuring to have the objective opinion of the OAG that these responsibilities have been met by the Department of National Defence.

To this end, the Canadian Armed Forces' members who are looking for information with regard to the status of their pension plans may avail themselves of many resources, in particular the online detailed explanation of the provisions of the plans and access to the call centre staffed by knowledgeable and experienced personnel.

In light of the recommendations in the OAG's report and the action plan, we look forward to continuing our very close collaboration with our colleagues to improve the Canadian Forces' pension plans to ensure that our members see that the plans are adding value as part of their military careers, but also, importantly, upon their retirement so that they're confident that the pension plans will assist them in their transition to life beyond the military.

Thank you very much.

**The Chair:** Thank you very much, Major-General.

I appreciate the brevity.

Moving now to the RCMP, we have Assistant Commissioner Gilles Moreau.

Sir, you have the floor.

**Assistant Commissioner Gilles Moreau (Director General, Workforce Programs and Services, Royal Canadian Mounted Police):** Thank you, Mr. Chairman and members of the committee.

I would like to thank you for the opportunity to respond on behalf of the RCMP to the recommendations of chapter 1 of the Auditor General's 2014 spring report.

I have with me Ms. Chantal Pethick, former director general of national compensation

[Translation]

and Ms. Geneviève Tremblay, Director of Pension Services.

[English]

The RCMP is pleased that the OAG's report confirmed that the RCMP has carried out its responsibilities appropriately. As highlighted by examples in the audit, the RCMP, through its ongoing efforts, reviews plan provisions to minimize costs to the plan.

The RCMP pension plan is an invaluable tool to attract and retain a competent workforce, whose main goal is to provide the safety and security of Canadians.

[Translation]

For this reason, the RCMP agrees with the findings and recommendations of the Auditor General, and recognizes the need for increased measures to ensure a sustainable and financially responsible plan for our members and for Canadian taxpayers, now and in the future.

In response to the recommendations put forward by the Auditor General, the RCMP is committed to supporting the Treasury Board Secretariat's action plan. We will look for their guidance and direction as we continue to collaborate with all government stakeholders in making informed recommendations to the plan sponsor.

Thank you again, Mr. Chairman and members of the committee for the opportunity. I look forward to answering any questions you may have.

● (1630)

[English]

**The Chair:** Very good.

[Translation]

Thank you.

[English]

We'll now move over to the Office of the Superintendent of Financial Institutions Canada, and our chief actuary of Canada, Jean-Claude Ménard.

Sir, you have the floor.

[*Translation*]

**Mr. Jean-Claude Ménard (Chief Actuary, Office of the Chief Actuary, Office of the Superintendent of Financial Institutions):** Good afternoon, Mr. Chairperson, honourable members of the committee. Thank you for the opportunity to appear before you today.

The Office of the Chief Actuary is an independent unit within the Office of the Superintendent of Financial Institutions. It offers a range of actuarial valuation and advisory services to the Government of Canada. While I report to the Superintendent of Financial Institutions, I am solely responsible for the content and actuarial opinions reflected in the reports prepared by my office.

As part of its mandate, my office conducts statutory actuarial valuations on the pension plans covering the federal public service, the Canadian Armed Forces, the Royal Canadian Mounted Police, federally appointed judges, and your own pension plan, the plan for members of Parliament.

These actuarial valuations are conducted every three years, or whenever an amendment is made that has a significant impact on the financial status of a plan. The purpose of these actuarial valuations is to determine the financial position of the plans and to assist the President of the Treasury Board in making informed decisions regarding the financing of the government's pension benefit obligations. The actuarial assumptions used in the actuarial valuations are determined independently by the office and they represent the office's best estimate.

The assumptions are revised every time a new valuation is performed based on economic trends and demographic experience. The actuarial valuations are conducted in accordance with accepted actuarial practice in Canada.

[*English*]

We had seen remarkable gains in life expectancy. Back in 1965, the average life expectancy at age 65 was another 15 years, so people were expected to live until 80, with women living slightly longer than men. Today retirees at age 65 can expect to live for another 20 years on average, again with women living slightly longer.

If we project into the future, taking into account future assumed mortality improvements, that is, further future gains in life expectancies due to decreasing mortality rates, we could expect an additional three- to four-year gain in life expectancy at age 65. These expected future mortality improvements are embedded in our actuarial evaluations of these pension plans. If the future improvements in mortality were not taken into account, the total actuarial liability of the three largest public sector pension plans—the public service, the Canadian Forces, and the RCMP—as of March 31, 2013 would be reduced by \$7.7 billion, or 3.4%. In other words, in the liabilities already in the reports there's a provision of \$7.7 billion for future mortality improvements.

In closing, I am pleased to quote the 2014 spring report of the Auditor General of Canada:

We found that the Secretariat, National Defence, and the RCMP respected the independence of the Chief Actuary.

Thank you for the opportunity to appear before this committee. I would be very pleased to answer any questions you might have.

[*Translation*]

**The Chair:** Thank you, Mr. Ménard.

[*English*]

Thank you for your presentation.

To close off our presentations we have the Public Sector Pension Investment Board and the executive vice-president, chief operating officer and chief financial officer, Mr. John Valentini.

You have the floor, sir.

[*Translation*]

**Mr. John Valentini (Executive Vice President, Chief Operating Officer and Chief Financial Officer, Public Sector Pension Investment Board):** Good afternoon.

My colleague Martin Leroux and I are pleased to appear before the committee today as you examine chapter 1 of the recent Auditor General's report.

The activities of PSP Investments, more formally known as the Public Sector Pension Investment Board, were not within the scope of the Auditor General's report but we appreciate this opportunity to answer any questions you may have on our activities.

I will keep my remarks brief to leave us as much time as possible for your questions.

[*English*]

PSP Investments is an arm's-length crown corporation that was established in 2000 to invest the amounts transferred by the Government of Canada for the funding of the post-2000 obligations of the pension plans of the Public Service of Canada, the Canadian Forces, the RCMP, and since March 1, 2007, the Reserve Force Pension Plan.

PSP Investments' statutory mandate is to manage the funds in the best interest of the contributors and beneficiaries and to maximize investment returns without undue risk of loss, having regard to the funding, policies, and requirements of the plans and their ability to meet their financial obligations. More simply stated this means that PSP Investments' mandate is to ensure that given the current level of contributions, we earn sufficient returns so that there will be enough assets to cover pension benefits.

It is important to note, however, that factors other than investment performance can affect the funding status of the plans. For example, an increase in life expectancy, as mentioned by Jean-Claude, will increase the liabilities of the plans.

Currently the Chief Actuary has determined that this requires achieving a 4.1% rate of return after inflation over the long term. One can appreciate that achieving such a return objective is not risk free. In fiscal year 2004 we adopted a portfolio diversification strategy that goes beyond public assets like stocks and bonds to include less-liquid private asset classes such as real estate, private equity, infrastructure, and renewable resources. We are able to invest in less liquid assets because we are currently receiving between \$4 billion and \$5 billion every year, and it is projected that PSP will not be required to pay pension benefits until the year 2030. We can therefore have a long-term view.

Of course, we expect to be rewarded for doing so by achieving some excess returns of illiquidity premiums, which investors typically demand for taking on illiquidity risk. Our overall strategy is expected to provide for better returns and a higher likelihood of achieving the target actuarial rate of return.

So how does our performance so far compare to the actuarial rate of return? For the 10-year period since the adoption of our diversification strategy, from April 1, 2003 to March 31, 2013, PSP Investments has recorded a compound rate of return of 6.1% after expenses and inflation. This compares to the 4.1% actuarial rate of return. In other words, on an annualized basis we have exceeded the objective by 2% per year over 10 years.

• (1635)

[Translation]

This concludes my remarks today. We look forward to your questions.

Thank you.

[English]

**The Chair:** Excellent, thank you. That's impressive.

Beginning the rotation, we'll start with Mr. Carmichael.

You now have the floor, sir.

**Mr. John Carmichael (Don Valley West, CPC):** Thank you, Chair,

Welcome to all of our guests. We have a big crowd today.

To keep it simple, I'm going to direct my question to Ms. Cheng, and you can certainly draw in some of your colleagues as need be.

Ms. Cheng, I must admit that I came in here with some questions. Obviously we've already met with the Auditor General, and he put many of my concerns at ease. I have to admit that after listening to some of these reports today, particularly Mr. Valentini at the end, I feel much better about what I'm going to ask you about, and that is sustainability.

Major-General Millar talked about how he and the Canadian Forces welcomed the OAG report "on behalf of all members who want to ensure their pension entitlements are safe and being administered properly". Absolutely. "It is reassuring to have the objective opinion of the OAG that these responsibilities have been appropriately performed at National Defence."

Ms. Cheng, you went on to talk about one of your recommendations to simplify the process, consolidating the statements, which I

think is a very wise idea. I come from a business background, and to see it in a more simplified consolidated form, I think, makes a lot of sense.

As we talk about sustainability, one of the concerns that came out after the report was issued is that members of the media and the opposition were reporting that the audit had concluded that the public sector pension plans were not sustainable. In today's reports, in the OAG report, under the scope of the actual audit, you talk about the fact that you didn't audit sustainability. In fact, your reference to that is the following:

The audit did not assess the sustainability of the pension plans. The audit did not examine the administrative processes, investment practices, and actuarial methods for valuation calculations.

I'm confused. The media and the opposition have one opinion on the sustainability of these very important programs—these plans. We want to see these plans sustainable for the long term, and Mr. Valentini, with a compounded return of some 6% plus annually, gives me good reason to believe we've achieved that.

I wonder if you could explain where I'm missing it. How does the non-sustainability square with sustainability, when I'm hearing these reports today?

• (1640)

**Ms. Nancy Cheng:** Thank you, Mr. Chair.

It would be useful to confirm the scope of the audit. As the member has pointed out, we have not audited the plans and concluded that the plans are not sustainable. The concern and the issue we raised was that there weren't any systematic and regular assessments of the sustainability of the plans, as opposed to our concluding that the plans themselves are not sustainable.

In the report, we also highlighted some factors that could bear on the sustainability, which could actually have adverse impact on the actuarial obligations, determined obligations, of the pension plans.

We spoke to economic conditions, but one of the factors that the chief actuary Mr. Ménard has pointed out is indeed the improved longevity. If I may point to the report, Mr. Chair, I would like to point to the table 1.2, on page 8. There you will see that back in 1970, on average Canadians worked about three years to collect one year of pension. Fast forward 40 years later, in collecting one year of pension, the Canadian worker would have worked only about 1.7 years.

Mr. Ménard pointed out that the impact on the actuarial assumption on longevity actually amounted to \$7.7 billion. That's a big number. We also did some sensitivity analyses, and if I could point to another table in the report, on page 13, exhibit 1.3, you will see the actuarial assumption being increased by either one year, two years, or three years. The numbers are \$4 billion, \$8 billion, and \$11 billion, so they're in the billions of dollars. That's why it's important that we emphasize that it needs to be assessed on a regular basis.

The issue today is not that the plans are currently not sustainable. The issue is that we need to make sure that we keep an eye on it, continue to do regular assessments to indeed make sure that they are sustainable.

Thank you, Mr. Chair.

**The Chair:** Thank you.

Mr. Carmichael, we're down to 10 seconds, which you've taken.

**Mr. John Carmichael:** Thank you.

**The Chair:** Colleagues, I'm sorry, but I have to interject again. I'm advised that a vote is coming in the House. We are expecting bells within the half-hour. What I would seek is your consent to take us until 5:20, say, and at that point we would adjourn. We can decide at that time quickly that we're good with this, or we can do it at a business meeting. Just so everybody understands, it takes unanimous consent for the committee to continue to meet while bells are being rung, but since we're just down the hall, I do propose that we're good until 5:20. I'm in the hands of the committee.

Mr. Albas.

**Mr. Dan Albas (Okanagan—Coquihalla, CPC):** Thank you, Mr. Chair.

I'm concerned that due to our obligations to the House for different votes and whatnot we have already seen quite a bit of the time today exhausted on previous votes. I'm just concerned that we may not get the full two hours so that we can conduct a draft report. Maybe we can see how far we can get and then at that point determine whether or not we need to invite our guests back again.

**The Chair:** Sure.

**Mr. Dan Albas:** I'm sure many of the committee members have questions, like I do. We certainly want to get through the issues.

**The Chair:** Sure. I think that's fair.

How about this? Let's say that at about 5:18 I'll conclude the proceedings and quickly go to the committee, and we'll make a quick determination as to whether we feel that we've adequately dealt with this chapter or we need to consider it under business for another meeting.

**Mr. Dan Albas:** Okay. Just to clarify further, Mr. Chair, you said there was also some business you needed to do at the end of this meeting?

**The Chair:** No. I was saying that the business will be what do we do with this, that we either decide now or decide at a business meeting, but your suggestion is that we do it now, so I'm good with that. At 5:18, then, if everybody agrees, I'll bring us to the issue of whether we consider ourselves to have heard enough so that we can write a report, or if there is a need for a further hearing, recognizing how many people we're bringing on deck every time we have one of these. Why don't we do that? Is everybody in agreement? Do I have unanimous consent?

**Some hon. members:** Agreed.

**The Chair:** I seem to have. Very good. We will continue.

We concluded with Mr. Carmichael. Now we'll go over to Monsieur Giguère.

You have the floor, sir.

•(1645)

[*Translation*]

**Mr. Alain Giguère (Marc-Aurèle-Fortin, NDP):** Thank you, Mr. Chair.

I would like to thank the witnesses for being here today.

Ms. Cheng, my first question concerns the dates of your audit. They are relatively important given that there was a considerable improvement in the performance of the pension funds in the final months of the year 2013.

Does this major performance improvement in 2013 appear in your audit report?

[*English*]

**Ms. Nancy Cheng:** Thank you, Mr. Chair.

The audit relates to and describes the period under examination. The period that we did examine has to do with April 1, 2011 up to March 2013. That is the period under examination.

It wasn't so much that it was an actual problem in terms of the current-day issue. Of course, these economic conditions do change from time to time. If you roll back the clock a little further to the days of the economic crisis, with respect to 2008 onward, the dynamics were a little different. Economic conditions do change from time to time, and that further supports the point we wanted to make, which is that there is a need for a regular assessment of the plan's sustainability.

The audit did not conclude that at a particular point in time the plan was sustainable or not, but rather begs for the case to make sure there's regular assessment.

[*Translation*]

**Mr. Alain Giguère:** You might be able to provide me with some guidance on a point that I did not see in your documents.

I have seen a decision of the Supreme Court of Canada on an actuarial surplus of \$19 billion. That was attributed to the federal government. This figure of \$19 billion is purely a book-keeping exercise.

When I see a government accumulating budgetary surpluses during a time of deficit, it reminds me a little bit of the grasshopper who spent the summer singing while the ant was working.

When the government operates this way, what are the long-term impacts? Was this evaluated by the government before the \$19 billion were attributed?

[*English*]

**Ms. Nancy Cheng:** Thank you, Mr. Chair.

The issue about the Supreme Court decision really has to do with an account that is called the "public sector superannuation account". That account indeed is just a tracking account. It is not funded by assets, and the decision was made by the Supreme Court justices. In terms of further comments on that, I don't know if our colleagues from Treasury Board would want to add any specific comments.

[*Translation*]

**Mr. Daniel Watson:** In this respect, the government is the plan's proponent and remains responsible for the deficit. Given the imminent Supreme Court decision, we are very aware that we are responsible for surpluses and deficit issues.



We currently have an actuarial deficit. The financial and actuarial valuation that was done dates from March 31, 2011. That was not long after the second biggest crisis in the financial markets in two generations. It is not more recent than that. The new valuation will be done soon and will be led by the Chief Actuary, starting from the current year.

**Mr. Alain Giguère:** Thank you.

In subsection 1.42 of the Auditor General's report, it says that you did not have access to all of the secretariat's documentation for the preparation of different working assumptions. One of these assumptions was a move from a defined-benefit plan to a defined-contribution plan. Could the representatives of the government, National Defence, and the Royal Canadian Mounted Police please tell us how this change will affect their staff management probabilities? Will it be possible to incite staff to continue working for these organizations if they lose the guarantee of receiving a set pension, which would be replaced by a requirement to pay into a pension fund without a guaranteed return?

[English]

**The Chair:** Were you directing that specifically to someone, monsieur?

[Translation]

**Mr. Alain Giguère:** Could the representatives of the Department of National Defence and the Royal Canadian Mounted Police please tell us how they will move from a defined-benefit plan to a defined-contribution plan?

• (1650)

[English]

**The Chair:** Okay.

Go ahead, Major-General. You can go first, sir.

**MGen David Millar:** Thank you, Mr. Chair.

As far as the Canadian Forces are concerned, we are not assessing defined contributions at all. We are very pleased that it is a defined-benefits package, and as far as we are concerned, that is the way our pension plan is going to continue. Therefore, we will not make and have not made such an assessment, because as far as we're concerned, it is not on the horizon.

[Translation]

**A/Commr Gilles Moreau:** I tend to agree. This is not a change that the RCMP has looked at so far.

[English]

**The Chair:** Mr. Watson wants a chance if you want to hear from him.

Go ahead, Mr. Watson.

[Translation]

**Mr. Daniel Watson:** I would add briefly that, recently, the President of the Treasury Board was very clear when he told the media that he was not considering such a plan for the time being. In his 21<sup>st</sup> report on the public service, the Clerk of the Privy Council indicated that we had already established the necessary changes. I will repeat what my colleagues have said. We are not talking about

moving into a defined-contribution plan, as you have described. We are not even thinking about it.

[English]

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

Sorry, but the time's up. It goes quickly.

Mr. Woodworth, you have the floor, sir.

**Mr. Stephen Woodworth (Kitchener Centre, CPC):** Thank you, Mr. Chair.

Thank you to all of you for being here with us today, and apologies for the fact that our time has been a bit shortened because of votes.

I'm going to direct my questions primarily to you, Mr. Watson, although I may get to some of the others. I'm going to focus on the question of assessing the sustainability of the plans. I'm going to start by referring you, Mr. Watson, to a statement on page 27 of the Auditor General's report in paragraph 1.83, which says, "First, the plan sponsor does not address the sustainability of the plans." I will also refer you to the recommendation at paragraph 1.46, which says:

To support the plan sponsor—represented by the President of the Treasury Board—the Treasury Board of Canada Secretariat, with the collaboration of the RCMP and National Defence, should assess periodically the pension plans' sustainability. If deemed appropriate, the entities should recommend changes to plan designs so that they are up to date, affordable, and fair to current and future generations.

So when I see the Auditor General saying, "First, the plan sponsor does not address the sustainability of the plans", I then look to your evidence today, which says that you have recently reviewed the plans and taken steps to help ensure their long-term sustainability. You mentioned a few things about ratios and retirement age, and I wonder if your steps to do that were taken in response to the Auditor General's recommendation or they were taken before the Auditor General's recommendation.

**Mr. Daniel Watson:** Thank you very much for the question.

The changes were brought into force for January 1, 2013, so the work was ongoing well before this audit began.

In terms of the sustainability, we have looked at the contribution ratios. This involves serious thinking, as any prudent person would do, about what the models might be. We have reached conclusions based on the model we have, which is defined benefits. We work very closely with the Office of the Chief Actuary. We work closely with all the colleagues who are here today, which is why there are so many of us. We work closely with the pension advisory boards, including bargaining agent representatives, for example, who are very interested in the question of the long-term sustainability of the programs.

Without wanting to embarrass my colleague the chief actuary, I suspect that there will be very few people in this country understand the possible fluctuations and their impacts on plans' longevity and other related issues as my colleague here does.

So we work very closely on these issues. We accept the point the Auditor General has made that we can do better on that front, and we can be more systematic about it. We'll do so through the creation of a committee that will be involving Finance, RCMP, the Canadian Forces, and ourselves to make sure that these issues at no time drop out of sight.

• (1655)

**Mr. Stephen Woodworth:** When the Auditor General said that the plan sponsor does not address the sustainability of the plans, and your evidence today said you had recently reviewed the plans and taken steps to help ensure their long-term sustainability, I wondered if that meant you were just doing that for your little corner of the world and not doing it for all the other plans.

Is that the case?

**Mr. Daniel Watson:** We work very closely with all plans together, and as Mr. Valentini pointed out in his remarks, they invest all the funds for these three plans: RCMP, Canadian Forces, and ourselves.

**Mr. Stephen Woodworth:** Then your work did address the issue of sustainability of all the plans we're speaking about today?

**Mr. Daniel Watson:** Yes, it did, and in fairness to the Auditor General's comments, we shared over 400 documents and three Treasury Board submissions. We held 13 meetings lasting 19 hours; 32 of our staff engaged with them over time. There would have been hundreds if not thousands of phone calls and e-mails on this front, but there are some things under the orders in council from 1985 and 2006 that we are not able to share because they are cabinet confidences.

Another number I think is important is the number zero, which is the number of disputes we had over whether or not relevant documents were inappropriately withheld.

**The Chair:** I'm sorry, your time has expired, and Ms. Cheng wants in.

If it's very brief, given that you're Acting Auditor General, please go ahead.

**Ms. Nancy Cheng:** I'll be very brief, just to address and clarify the observation we're raising.

The reason we raised the issues of sustainability and there being no systematic regular assessment is that they weren't legislated in any way. In our conversations with the various stakeholders around the table, they felt that their duties are particularly restricted to what is laid out in legislation.

It was important to get to the ownership of the issue, and that's why we raised it because it was said that it's not a stated responsibility by statute, and therefore that they don't have a role in conducting that sustainability.

I thought I'd clarify that, Mr. Chair.

**The Chair:** That's very good. Thank you very much. I appreciate that.

We'll go back to Monsieur Giguère and then Mr. Albas.

You have the floor, monsieur.

[Translation]

**Mr. Alain Giguère:** The last time I spoke I was not able to get an answer from the Auditor General on this issue. My question was on subsection 1.42, concerning certain assumptions prepared and considered by the secretariat.

Could you please give us more information on this subject? It is clear that they work on the assumption of a defined-contribution plan.

[English]

**Ms. Nancy Cheng:** Thank you, Mr. Chair.

Paragraph 142 referred to the situation where we asked the secretariat to share with us whether they had done certain analyses relating to sustainability.

As Mr. Watson pointed out, there was due diligence on their part to decide what they were and weren't able to share with us.

There were no specific analyses that helped us understand how they might have looked at different hybrid plans and things alike. I think they mentioned that some analyses were done, but we weren't able to see evidence of that. Audits are evidence-based, and without the evidence we could not conclude they had done so.

This was something Treasury Board explained to us that they have undertaken, without forwarding sufficient evidence for us to support that.

[Translation]

**Mr. Alain Giguère:** There is a essential question here.

You say that these pension plans and their evaluation must be constantly monitored. However, if we cannot verify whether or not there are alternate assumptions, it is a little bit difficult to evaluate the long term sustainability of these plans and the quality of the analyses that have been done.

I am specifically referring to what is done by the central banks of certain foreign countries. Several governments have repurchased the actuarial debt associated with their pension plans, capitalized it and excluded it from interest-bearing debt. Has this kind of analysis and monitoring been done in Canada?

Perhaps Mr. Watson would be able to answer this question.

• (1700)

**Mr. Daniel Watson:** If we are talking about the way that we evaluate our risks and the actuarial impact on the funds, I would say that this work is done by the Chief Actuary. He works closely with us over each three-year valuation period.

As for the question on the period before 2000, when we did not have a fund as we did for the period after 2000, my colleague from the Department of Finance would best be able to speak to the government's approach.

However, I can guarantee that a very detailed evaluation of actuarial risks is undertaken by my colleague, the Chief Actuary, who might have a little bit more to tell you.

**Mr. Jean-Claude Ménard:** Mr. Chair, concerning the repurchasing of debt, I am not a specialist. That having been said, for several years now we have been doing what follows in the actuarial report. As you know, since 2000, pensionable years of service are capitalized and the funds are invested with the PSPIBR.

In the actuarial report that was tabled in Parliament, you can see how the debt will gradually be moved to the financial markets. As of March 31, 2013, we were looking at a debt of \$151 billion, as was mentioned in the Auditor General's report.

Today, roughly 33% of all pension-related debt is invested with the PSPIBR, while the other two thirds are still on the government books. These funds will gradually be transferred as people get older. In fact, in 2040, for example, roughly 90% of the liabilities will be supported by tangible assets.

**Mr. Alain Giguère:** I would like to hear the representative of the Department of Finance on this subject.

[*English*]

**Mr. Nicholas Leswick (Director, Fiscal Policy Division, Department of Finance):** If I understand the member's question correctly, as well as in terms of the accounting process that the Government of Canada respects, it is very much a leader in the context of the OECD in the sense that we fully recognize the liability associated with these plans, whether funded or unfunded, on our balance sheet in the Public Accounts of Canada. When you compare us with Italy, France, and some of our G-7 and larger OECD community partners, we are vanguard, we are out in front, in terms of a clear recognition that these liabilities exist and their presentation in the Public Accounts of Canada.

With respect to the fact that, as the Chief Actuary said, in part, some of these are funded and others are unfunded, our commitment in the context of this audit was to continue or to finalize the assessment of whether or not the unfunded portion should indeed be funded—that the Government of Canada should go and raise \$150 billion on capital markets and hand it to the PSPIB for effectively funding and creating an asset pool for those currently unfunded liabilities.

That's part two, but part one, make no mistake, is that these liabilities are recognized in the Public Accounts of Canada.

**The Chair:** The time has expired. Thank you.

I'm sure nobody is deliberately trying to confuse me, but Mr. Albas, I understand that you are going to move your time down and that we're now going to Mr. Woodworth.

Is that correct? Okay. Very good.

Mr. Woodworth, you have the floor again, sir.

**Mr. Stephen Woodworth:** Thank you very much, Mr. Chair and Mr. Albas.

I'll address my question to you, Mr. Watson. I just need to pursue the exchange we had a few minutes ago.

What Ms. Cheng said is that the reason the Auditor General's report stated that “the plan sponsor does not address the sustainability of the plans” is that there is no statutory onus on the plan sponsor to do that. As I understood her comments, there was

some reluctance for anyone to take ownership of that because it wasn't statutory.

But am I correct in understanding that your department, which I understand to be Treasury Board Secretariat, in fact did take ownership for it and did in fact review the plans and take steps to help ensure their long-term sustainability? Is that correct?

**Mr. Daniel Watson:** Absolutely.

The entire reason for moving to 50-50, and to changing the terms of the plan to change the retirement age to 65, was exactly to ensure their sustainability going forward.

**Mr. Stephen Woodworth:** I assume that you were comfortable in taking ownership of that without the necessity of having a specifically stated statutory onus to do so, or else you wouldn't have done it.

• (1705)

**Mr. Daniel Watson:** We were quite comfortable doing that.

Having said that, there's always room for improvement in something as important as this. But we did it, and we did it quite willingly.

**Mr. Stephen Woodworth:** Do I understand that you are intending to duplicate the same process going forward, in some way, shape or form, regardless of whether or not there is a statutory onus to do so?

**Mr. Daniel Watson:** Absolutely yes, and we'll set up a committee to work on that.

**Mr. Stephen Woodworth:** That was going to be my next question.

Can we expect to hear about a plan in the not too distant future to address what I expect would be another concern of the Auditor General, that it needs to be a systematic and written process going forward? Can we expect to see that coming out of the committee that you mentioned?

**Mr. Daniel Watson:** Absolutely.

We'll be able to do that. We hope to have our first meeting this summer.

**Mr. Stephen Woodworth:** It may be premature for you to answer this question, but do you have any expectation of a timetable to come up with that systematic duplication of what you've already done going forward? Is there a timetable in mind?

**Mr. Daniel Watson:** One of the key things is looking at governance. Later this fiscal year, or at the beginning of the next fiscal year, we want to make sure we've done a good benchmarking study. We want to look at other similar players around the world to see what the best practices are in governance. From there, we hope to have a plan that we're able to have considered and approved in the following fiscal year.

**Mr. Stephen Woodworth:** I won't try to push any further on that. I will expect that you'll come up with a first-rate plan and that it will duplicate the success you already had as a result of the 2012....

With that, Mr. Chair, if I have any time remaining, I will defer back to Mr. Albas.

**The Chair:** Good.

You have just under two minutes, Mr. Albas.

**Mr. Dan Albas:** Thank you.

I hope to have an opportunity to do a more full-time round because I do have a number of questions.

I'm going to start with Mr. Leswick.

On page 5 of the report, it says, "Public sector pension plan liabilities are part of the non-market debt of the Government of Canada's interest-bearing debt."

I have a quick and simple question for you. It's obviously interest bearing because on the next page there's talk of that. Is this an actual line item, or some sort of internal loan that the government does? Could you explain that a little further?

**Mr. Nicholas Leswick:** Again, there's the funded portion and the unfunded portion. In the context of the unfunded portion, this liability is credited with an interest charge that we discount at a rate that is equivalent to a methodology, as applied by the OCG, of a 20-year weighted average of the government's long-term bond rate.

Effectively, even though it's unfunded, the interest charges accrued against the account are in that amount against that procedure.

**Mr. Dan Albas:** Are you registering this as an internal line item to say that in the future we do have to do this; we have to carry that so it's in the public accounts. Or is there actual money set aside?

**Mr. Nicholas Leswick:** There is no actual money; it's an unfunded obligation. But it is a line item, in the sense that we bring that interest expense into the government's income statement on an annual basis.

**Mr. Dan Albas:** Obviously the next logical part, then, is regarding the interest off that. That's not a cash payment. Again, that's also the same kind of methodology.

Correct?

**Mr. Nicholas Leswick:** Correct.

**Mr. Dan Albas:** That's very good. Thank you very much.

I'll go to Mr. Watson.

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

**Mr. Dan Albas:** I will hopefully get another round at some point, Mr. Chair.

**The Chair:** You will.

**Mr. Dan Albas:** Thank you all for coming today.

**The Chair:** Thanks, Mr. Albas. I appreciate the cooperation.

Madam Jones, you have the floor, ma'am.

**Ms. Yvonne Jones (Labrador, Lib.):** Thank you, Mr. Chair.

Thank you to our guests today for your presentations.

I've been listening to questions from my colleagues, and I'm going to refer to paragraph 1.49. The question is for you, Mr. Watson.

It was noted in the report that the secretariat's pension and benefits sector started a draft funding policy for public service pensions in

2010. I know you have talked a bit about it already, but let's fast forward to 2014.

Can you give me an update? Is the policy still in draft form and why has it been so long, or why has so little changed with regard to this commitment that goes back four years?

**Mr. Daniel Watson:** Thank you very much for the question.

Under the existing legislation, there is already a requirement that the plan be invested in a way that it works towards the goals that are set by the chief actuary—in this case, 4.1%—in a way that doesn't bring undue risk to the fund.

We recognize that we need to go beyond that and do a funding plan. We've begun work on that. When we did the significant changes related to sustainability, in 2012, that was a considerable amount of work to make sure that we got that right for what is probably the biggest, or at least one of the biggest, pension plans in the country. The funding plan work has not advanced as quickly as it would have had we not done that, but we continue to work on that, and we expect to have that done sometime in the next fiscal year.

• (1710)

**Ms. Yvonne Jones:** Okay.

I don't know, Madam, if you would like to add to that comment in any way.

**Ms. Nancy Cheng:** I have no real comments to add.

**Ms. Yvonne Jones:** Okay, thank you.

My next question, again, is related to paragraph 1.42, and I know that my colleague Mr. Giguère has already raised some pieces around this, but what I found in the report that stuck with me was that you indicated that the secretariat officials stated to you in their audit that they had conducted some analyses on other pension designs, but at the same time they were not prepared to share any of the analyses, any of the information, and any of the evidence to support the design of the plan and the steps that they had taken. This causes me grave concern, because we're dealing with thousands of Canadians who are very dependent upon what happens and on how these plans are being managed to ensure the sustainability of it is there for them and for their families.

I think all of us in this room as well as everyone else who's in a position in Parliament want to ensure that those guarantees are there for Canadians. I have great difficulty always when I am asked to take someone's word that they've looked at something and that this is the best possible option. I'm looking at it from the view of people who work in the RCMP, the Canadian Forces, and the public service, and I'm saying to myself, "Is this acceptable?"

So my question would be to the Auditor General. How can you properly do the analysis that you need to do if you don't have the information and the evidence to support the audits that you're working on?

And I would say to Mr. Watson, why would you not want to share this information to verify that the Government of Canada has made the best decisions possible in the interest of Canadians?

**Ms. Nancy Cheng:** Go ahead.

**Mr. Daniel Watson:** I would just say I think it's important to differentiate between the evidence around the decisions we did make and the decisions we didn't make. The assumptions that support the decisions that we did make are assumptions largely based on the work of the Chief Actuary, and those actuarial assumptions are available in various reports. They are quite detailed, and I'm happy to talk about those in a briefing. What's being talked about in the section that you referred to are the decisions we decided not to proceed with.

In terms of understanding what we use as assumptions, including things such as the \$7.7 billion that is set aside to deal with longevity issues that might change, those are all very public parts of our decision.

**Ms. Nancy Cheng:** Mr. Chair, perhaps I could add our perspective. As the member pointed out, access to information is essential and crucial to the nature of our work. We would not be able to accept a representation by management and government and then conclude that work is acceptable without seeing adequate evidence. That being said, in this particular case we were concerned about whether there are ways and means of assessing sustainability on an ongoing basis.

So when the government indicated that in leading up to the budget 2012 there were certain provisions made, there were a number of analyses done, we basically wanted to know if that due diligence had been sufficiently carried out. When the evidence wasn't presented to us, we just could not reach a conclusion based on that and give them the benefit of the doubt. But that did not stop us from coming to the conclusion that really there needs to be an upfront acknowledgement that they would do this on a systematic and periodic basis. There have been a number of conversations over the course of the audit to ask if Treasury Board would be doing this, or another entity, and whether somebody has the responsibility to carry out the assessment of sustainability on a regular basis. That was never made clear all through the audit, leading right up to the conclusion of the audit. Hence we made that recommendation, and there's receptiveness on the part of the government to actually take that on.

Coming back to the question of access, it is fundamental, but in this particular case it did not prevent us from coming to a major observation and recommendation that we wanted to get to, and that's why we just basically noted it for information and did not go further with that.

• (1715)

**The Chair:** Very good.

Thank you so much.

We'll go over to Mr. Albas.

**Mr. Dan Albas:** Thank you, Mr. Chair.

Going back to Mr. Watson, under page 8, speaking of budget 2012, the changes that the government did make, it says here that "... will result in cumulative savings of over \$2 billion for Canadian taxpayers by the 2017–18 fiscal year".

So just as a very quick question, that's about \$400 million a year. Is that correct?

**Mr. Daniel Watson:** It's \$2.6 billion. That's what we've calculated for four years, 2017-18, and \$900 million-a-year after that. So it's \$2.6 billion divided by four.

**Mr. Dan Albas:** It says \$2 billion for taxpayers, so \$2.6 billion is the estimated amount?

**Mr. Daniel Watson:** That's the amount that I work with.

**Mr. Dan Albas:** So well over \$400 million-a-year then.

**Mr. Daniel Watson:** Right.

**Mr. Dan Albas:** That's a very good thing to have.

Ms. Cheng, I just want to give you a compliment. I've been in municipal circles—and, obviously, here for close to three years—and no one has really defined sustainability in the fiscal sense, so it's just very nice to read a document that actually defines it. Full kudos to your office for doing that.

I did have another question for Mr. Watson.

If you go to page 17, my question arises here, at the very top: "At the time we were completing this audit, the Secretariat (Pension and Benefits Sector) was still not fully staffed". I think that goes back to the ongoing capacity need.

Can you just give us an update on where that is now?

**Mr. Daniel Watson:** These are highly specialized staff, as you can imagine, unlike say, staffing or classification, whom you'd find in every department across government. These are very specialized people.

We have just recently made some significant hires and continue to do so, but it is one of the areas in the economy where people who are this good at this type of issue are in high demand.

**Mr. Dan Albas:** Now, again, Finance is involved to give an overall idea of the economy. That happens on a regular basis. The Treasury Board Secretariat constantly checks, along with the Office of the Chief Actuary, to make sure that the formulas are being applied. I know we've heard from the PSPIB before, and in some cases the government has had to top up because the actuary's numbers weren't quite on.

In your opinion, there is an ongoing, continual check to make sure that the assumptions that the government is operating under are correct, and that from time to time accommodations are made for changes in either the formulas that are used or the general performance of the economy.

Would you say that happens?

**Mr. Daniel Watson:** It's ongoing and constant with all the players around this table. I doubt there's a single week, and maybe even a single day of the year, where there isn't at least one conversation amongst those of us around the table.

**Mr. Dan Albas:** With these new hires, would you say that the ability of Treasury Board Secretariat to carry out its role has been enhanced to ensure that everyone is steering in the correct direction and that everyone is sharing information so that you can make better decisions more appropriate to what Ms. Cheng and the Auditor General's office has recommended.

Is that correct?

**Mr. Daniel Watson:** One of the things that's happened in my 25 years of public service is that pensions have suddenly become cool, and attracting people to work in pensions is way easier than it was before.

**Mr. Dan Albas:** That's very good.

How much time do I have, Mr. Chair?

**The Chair:** Well, I was going to take us to 18 and we're pretty close to that now.

**Mr. Dan Albas:** We'll just move into our business.

But I do thank our witnesses today and, hopefully, we'll get a better opportunity, because I did have some questions for some of the other witnesses.

Thank you.

**The Chair:** It is my understanding that there have been some discussion among the caucus leaders and we're going to look at another hour. Am I correct?

**Mr. Dan Albas:** Actually, we were betting on who was going to win the next hockey game, but no.

Yes, Mr. Chair, I believe that if you seek it, you'll find unanimous consent to stop the meeting now and then to invite the witnesses we had today for another round—I think an hour or less would be appropriate—and possibly taper it to a business meeting where maybe we're doing report writing, etc.

But it's at your discretion, Mr. Chair.

**The Chair:** Sure, fine. I'll try to see if we can do this really quickly. If not we'll have a discussion out of committee, but June 4 is open right now. My sense is that's when we could or would have

been doing report writing. We could easily slot in the final hour of this hearing and then go into committee business. For availability, quickly look at your schedules, please. I know it's short notice.

Mr. Albas.

**Mr. Dan Albas:** If I could just intervene, could we leave it at your discretion? I'm fine with that date, but I do want to have some of the guests here because I do know that other members may have specific questions, and some of the ones—

• (1720)

**The Chair:** No, I was talking about the guests.

**Mr. Dan Albas:** Yes, but you and the clerk could maybe arrange that because we do have a vote.

**The Chair:** We do, but I'm going to tentatively ask all of you—I see some heads nodding now—because this is important. I appreciate that. That's why I want to grab people now.

I see some heads nodding, so at this stage right now we are tentatively—you'll hear confirmation from our clerk—looking at June 4. I think we'll do the public hearing in the first hour, and then we'll slip into committee business.

So that's where we are. It is tentative subject to me finalizing it, but we are looking at June 4 for one more hour, and then we'll go into committee business and finish off the report that Vice-Chair Carmichael led at the last meeting.

With that, colleagues, we shall go to the House and vote.

To our guests, thank you very much.

We'll see you on the fourth. We stand adjourned.

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