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—
Chair

The Honourable Wayne Easter

Standing Committee on Finance

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• (1100)

[English]

The Chair (Hon. Wayne Easter (Malpeque, Lib.)): I call the meeting to order.

Pursuant to Standing Order 108(2), this is a study on the subject matter of the main estimates 2019-20: votes 1, 5, 10, 15 and 20 under Department of Finance; votes 1 and 5 under Financial Transactions and Reports Analysis Centre of Canada; and vote 1 under Office of the Superintendent of Financial Institutions.

Witnesses at the table include Darlene Bess, chief financial officer, and Andrew Marsland, senior assistant deputy minister, tax policy branch. Both are with the Department of Finance Canada.

There are quite a number of other officials in the room, including those responsible for some of the agencies, such as FINTRAC and OSFI. If there are any questions on these, we can bring people up to the table and move ahead.

Please go ahead, Ms. Bess.

Ms. Darlene Bess (Chief Financial Officer, Department of Finance): Good morning, Mr. Chair, and members of the committee.

Thank you for the opportunity to present the main estimates for the 2019-20 fiscal year on behalf of the Department of Finance.

With me today, as you mentioned, are departmental officials to assist in providing you with a more in-depth perspective on the rationale and policy supporting the numbers within our estimates.

[Translation]

As you know, the Department of Finance's mandate is to assist the government in developing and implementing strong and sustainable economic, fiscal, tax, social, security, international and financial sector policies and programs with the goal of creating a healthy economy for all Canadians.

[English]

This year's main estimates reflect a departmental budgetary spending of \$99 billion, which is composed of \$99.4 million in voted expenditures, \$1.4 million in budget implementation vote items, and \$98.9 billion in statutory expenditures. These main estimates reflect a net increase of \$5 billion in departmental budgetary expenditures, stemming from forecasted increases of \$4.2 million in vote 1 program expenditures and an increase in statutory spending of \$5 billion.

The increase of \$4.2 million in vote 1 program expenditures in this year's main estimates is due to increased activity under the following initiatives: \$1.6 million for a carbon pollution pricing system, \$1.5 million for tax competitiveness monitoring, \$1.2 million to enhance capacity for indigenous policy, \$0.8 million for an open banking review, and \$0.6 million to increase trade dispute resources. This increase is partially offset by sunsetter funding that the department received for the G7 summit.

• (1105)

[Translation]

The 2019-20 main estimates also include \$1.4 million of new budget implementation votes for each spending measure announced in budget 2019. Funding for these initiatives will be allocated to the department through Treasury Board submissions.

[English]

The 2019 budget implementation vote items are made up of \$0.8 million to strengthen Canada's anti-money laundering and anti-terrorist financing regime, \$0.4 million to introduce a Financial Consumer Agency of Canada governance council, and \$0.2 million to protect Canadians' pensions.

The 2019-20 anticipated statutory spending is based on the most recent official estimates from budget 2019, released by the Department of Finance on March 19, 2019. Statutory expenditures are not included in the appropriation bill, as they have already been approved by Parliament through enabling legislation. They are included for information in the estimates documents.

As identified in the statutory forecast, the main contributing factors to the \$5-billion increase are an accumulation of the following: \$2.1 billion due to increased interest on unmatured debt, \$1.8 billion due to an increase in the Canada health transfer, and \$0.9 billion due to an increase in fiscal equalization payments.

Mr. Chair, this concludes my overview of the main estimates for the department.

[Translation]

We would be pleased to answer any questions the committee members may have.

Thank you.

[English]

The Chair: Thank you very much, Ms. Bess.

We will start with Mr. Fragiskatos. We'll have seven-minute rounds for the first four.

Mr. Peter Fragiskatos (London North Centre, Lib.): Thank you very much, Mr. Chair.

Thank you to the officials for appearing this morning.

I see that on the first page, you allocate \$1.5 million for tax competitiveness monitoring. In what ways are we going to be doing that? Could you be more specific?

Mr. Andrew Marsland (Senior Assistant Deputy Minister, Tax Policy Branch, Department of Finance): Thank you for the question.

As all members are aware, in 2017 the United States implemented a comprehensive tax reform that eroded much of the tax advantage that Canada enjoyed for many years. In the fall economic statement, the government took initial steps to respond to that, in terms of the accelerated investment initiative.

The U.S. tax reform was a comprehensive reform and extremely complex, touching many areas. The purpose of this additional funding is to bolster the government's ability to assess the impact of that tax reform, which is not a single event. It rolls out over a number of years and presents further challenges down the road. It's to bolster our ability to model the impacts on the Canadian economy and our tax system, develop appropriate responses and provide advice to the government, in respect of the—

Mr. Peter Fragiskatos: I don't mean to interrupt you, Mr. Marsland, but when you say assess and model, could you give examples?

Mr. Andrew Marsland: For example, the United States implemented restrictions on interest deductibility. Those have an initial impact, which we then attempt to understand, in terms of the propensity of corporations to shift interest expense to Canada in response to that measure. I believe that in 2022, those restrictions in the U.S. become more concentrated on U.S. corporations, so we want to understand and monitor the impact on our tax base. To do that requires building complicated models, looking at the tax data and modelling the impacts, both present and future, on Canadian corporations and the tax system more generally.

Mr. Peter Fragiskatos: Thank you very much.

I was also interested in how you allocated for “trade dispute resources”. Compared to other funding pools, it is only \$0.6 million, but it's still sizeable. Could you go into that? What do we mean by that?

●(1110)

Ms. Darlene Bess: Thank you for your question. I could answer it at a high level, and perhaps my colleagues from International Trade and Finance will join me at the table.

This really supports the international trade policies division. It's to assist with safeguard and trade remedy issues, such as tariff issues, including remission requests for free trade agreement negotiations and Global Affairs Canada's challenge function. The funding we have here is to hire people to assist in this trade-related policy work.

I have my colleague here, Paul Samson, who can provide more details.

Mr. Paul Samson (Associate Assistant Deputy Minister, International Trade and Finance Branch, Department of Finance): Thank you very much.

To add to that, this amount relates to five new people who would be hired specifically due to all the action related to new tariffs and monitoring and acting on those tariffs. It was specifically for that reason. Over a period of several years, we expect this to continue in some form or another. Even though the tariffs have now been lifted in the case of steel and aluminum, it's still a very active space.

Mr. Peter Fragiskatos: It's very good to be proactive and prepared, so thank you for that explanation.

I'm also interested in item 3 here, at the bottom of the page. It mentions \$1.2 million, to enhance capacity for indigenous policy.

By “enhanced capacity”, what do we mean there?

Ms. Darlene Bess: We're really looking at dedicating resources to deal with the policy and costing for indigenous policies. It's looking at dedicating resources beyond what we have, to address the increased volume and complexity of budget and cabinet proposals related to indigenous issues.

This additional capacity would help the department advance and implement new fiscal relationships with indigenous peoples and contribute to longer-term program reforms. It would also provide strategic advice on the management of the indigenous policy agenda.

Mr. Peter Fragiskatos: I was also interested in how you talked about an open banking review. I hope I'm not taking a question away from my colleague to my left—I know this is a great passion of his—but I do want to ask it, because I am interested in it. This is something the committee has—

The Chair: Then you might as well just stay at the table. There likely will be more for you too. As we add, we'll tell you to stay.

Mr. Peter Fragiskatos: Open banking and a review of it is what's being contemplated here. How does that compare to what other countries are doing? Would you be able to comment on that? Where is Canada in terms of considering open banking, and what are the implications of it for financial systems? I know you want to commence a review here, but are we behind? Are we ahead? Where are we?

Ms. Darlene Bess: I'll let my colleague Leah Anderson respond to that. Thank you.

Ms. Leah Anderson (Assistant Deputy Minister, Financial Sector Policy Branch, Department of Finance): We're in a perfect position as a fast follower, I would say.

It was first implemented in the U.K. They've rolled out an open banking framework. Australia, another country with a banking system very similar to Canada's and the U.K.'s, is also moving forward on an open banking model. We have had the privilege of learning from their successes and their challenges in operationalizing their frameworks.

We did launch a review. In fact, the first phase of the review is nearing completion. The first phase was really considering whether this was appropriate for Canada. Then, should that be meritorious and appropriate for Canada, we will move into implementation. It looked at things like benefits to consumers and businesses in being able to control their data and access a wider range of services from a range of different service providers, while at the same time looking at whether issues like privacy risks, cyber-risks, or risks to financial stability can be appropriately mitigated.

We had consultations led by an expert panel across the country. We had tremendous feedback from a diverse range of stakeholders on those fronts, and very good information to help guide us in this initiative going forward.

Mr. Peter Fragiskatos: Very good. Thank you, Mr. Chair.

The Chair: Thank you all.

Mr. Kmiec is next.

Mr. Tom Kmiec (Calgary Shepard, CPC): Thank you, Mr. Chair.

I'm going to talk about non-budgetary items here, starting with the Asian Infrastructure Investment Bank and the purchase of shares, because in the main estimates I see \$51,400,000.

Can somebody please tell me how much has been spent to date in cash terms, and how much will be spent in the following fiscal year and the year after, if you have those numbers already, if they're preset?

•(1115)

The Chair: Go ahead, Mr. Samson.

Mr. Paul Samson: The total amount to be paid to the Asian Infrastructure Investment Bank is \$199.1 million U.S. dollars, which translates approximately, depending on the exchange rate, to \$256.3 million Canadian. It will be paid in five equal instalments, which would translate into \$39.8 million U.S., or approximately \$52.3 million Canadian, starting in 2017-18 with the first payment. There would be five equal payments of that amount over a five-year period.

Mr. Tom Kmiec: That will be at the beginning of the year? Is there a fixed time of the year when it's paid out?

Mr. Paul Samson: I believe it typically goes out in the first quarter of the year, but my CFO colleague might be able to confirm otherwise.

Ms. Darlene Bess: I'm sorry, but I don't know at this time.

Mr. Tom Kmiec: Could you provide that information to the committee later?

Mr. Paul Samson: Certainly. The last ones did go out in the first quarter, but we'll verify whether that is a requirement.

Mr. Tom Kmiec: The last one was 2017-18 in Q1?

Mr. Paul Samson: That was for the last two years. We've made two payments to date.

Mr. Tom Kmiec: Okay.

My next question is going to be just on one of the budgetary line items here. It says, "other interest costs". What is "other interest costs"? That's a significant amount of money, and it's actually decreasing year over year. I know what "interest on unmatured debt" is, but as for "other interest costs", what is that?

Ms. Darlene Bess: That's the interest on the public sector pensions, and it's based on a 20-year average long-term bond rate, which is decreasing.

Mr. Tom Kmiec: My next question, then, is this. On the back side there is authorization being sought for additional monies for ministers' salaries and motor car allowances, for \$87,700. What is that for, exactly? Is that a new minister's salary boost and car allowance?

Ms. Darlene Bess: I think that shouldn't be anything unusual. It should be typical of the costs we typically have, so I don't think there's anything new there.

Mr. Tom Kmiec: Okay.

Ms. Darlene Bess: If there is, maybe it's refurbishment for a new car.

Mr. Tom Kmiec: Okay.

The rest of my questions are for OSFI.

The Chair: Can somebody answer for OSFI here? I believe there is someone. We will hold your time.

Mr. Tom Kmiec: You won't dock my time?

The Chair: It's Ms. Bridges.

Go ahead, Tom.

Mr. Tom Kmiec: My questions are general to OSFI's program domestically for the D-SIBs. That's the acronym for the domestic systemically important banks. One of the capital requirements went from 1.75% to 2%. I want to know why that was.

For the D-SIBs, one of the capital requirements has gone up 0.25% to 2%. I want to get more information from you on why that was, and why that was being done.

Ms. Michele Bridges (Managing Director, Finance and Corporate Planning, Office of the Superintendent of Financial Institutions): Could you refer me to where in the main estimates?

Mr. Tom Kmiec: It's program expenditures. It's all the work that OSFI is responsible for.

Ms. Leah Anderson: Would you be referring to the domestic stability buffer increase recently announced?

Mr. Tom Kmiec: Is that the correct acronym for it? There are tons of acronyms on OSFI's website.

Ms. Leah Anderson: There are a lot of acronyms.

Mr. Tom Kmiec: Yes.

Ms. Leah Anderson: I wouldn't think that would be an item for the main estimates, but just on the domestic stability buffer, it is a buffer that the superintendent puts in place to help domestically support systemically important banks and to deal with the range of vulnerabilities in the economy, such as high household indebtedness, for example.

Mr. Tom Kmiec: Is there a particular reason that the increase happened now, as opposed to just a few years ago?

• (1120)

Ms. Leah Anderson: It's a function of the observation of vulnerabilities in the economy.

Mr. Tom Kmiec: Is there anything particularly different that has happened over the past four years that's warranted an increase? I can quote tons of numbers on the residential debt having gone up, such as homeowner debt. Other debts have gone down as a proportion of it. Is there still something in particular?

Ms. Leah Anderson: I think that as it's an item not directly linked to the main estimates, I would suggest that we ask OSFI to follow up by providing you with more information on that, on the rationale.

Mr. Tom Kmiec: Sure. If OSFI can provide it to the committee through the clerk, that would be great.

Moving on from there, on OSFI again, again this is program expenditures, so it's everything that OSFI does. I just see it as we're being asked to pass the budget for salaries and the program operations of this regulator.

On B-20—and it's not going to be a surprise to any member on this committee that I'm going to bring up B-20, because I think it's one of the major policy tools that has come out—is there a reason for a discrepancy between the reasons OSFI has given for the strictness with which B-20 is being applied since its implementation? One given is the stability of the banking system, and that's fine. That's OSFI's mandate. Then there are the political press releases that have gone out that say it's about reducing consumer indebtedness. There's been a discrepancy between the two, and it's a discrepancy I've seen between the Department of Finance, the regulator, and the political leadership.

You can't comment on the political leadership, but is there a discrepancy on why OSFI is offside?

Ms. Michele Bridges: Again, this would not be an item that would appear in the main estimates. It would be something on which I could come back to the committee with responses from the department, but these are not items that end up reflected in our main estimates.

Mr. Tom Kmiec: I would disagree with you, because program expenditures, the entire operations of OSFI, depend on our passing these estimates for different programs that you have, so how can you not have answers for those questions?

I'm being asked to approve it as a parliamentarian and then confirm that I'm okay with the policy direction, the administration of the money and how it will be spent and when it will be spent, but

what is the money that is being sought supposed to achieve? It's integral to the estimates process.

Ms. Leah Anderson: I can offer a comment on the difference between the stress tests. There's a stress test that is applicable for mortgages in the insured space. That has been in place for a number of years.

Mr. Tom Kmiec: Since 2016.

Ms. Leah Anderson: It really is to ensure that when economic circumstances change, homebuyers can still afford the homes they are in. It's another type of a buffer to support household affordability and prudence in both the lending decisions and the buying decisions of households.

B-20 is a stress test applied in the uninsured space, and it is strictly under the purview of the superintendent of financial institutions, whose focus entirely is on the prudential supervision of financial institutions. The calibration of that test is such that it would prudently affect the lending standards of the financial institutions that are under the superintendent's purview.

Mr. Tom Kmiec: In OSFI's opinion, has the B-20 stress test achieved what OSFI wanted to achieve in the marketplace?

Ms. Michele Bridges: I would need to go back to my organization and pose that question to the regulation leaders. My role is chief financial officer for the organization, and I wouldn't be able to speak to these matters.

Mr. Marc Desautels (Chief Financial Officer, Office of the Superintendent of Financial Institutions): I can jump in a little. In regard to B-20 and the intended impact and the consequences of the guideline, we did publish something on our website last week, if I'm not mistaken. That highlighted results and observations following our monitoring subsequent to the implementation of the revised guideline.

As indicated in that release, we think we have achieved the intended consequences so far, but we will keep monitoring the situation. Hopefully there is some information that the committee members can find useful in what was released last week.

Mr. Tom Kmiec: I have it here with me, so I'm glad you mentioned it. One thing I noticed is that three charts are being used. There really should have been a fourth chart, because there has been an increase in the largest markets—the greater Toronto area, the greater Vancouver area—in terms of B-lending. A lot of people have moved into the B-lending market, which is outside the purview of OSFI. I would have thought that in looking at the systemic risks to the financial system and the banking system, a sudden prolonged move—and it's significant, because in the GTA it is 6%—would be of concern to OSFI.

I notice there is no mention of that in what was posted on the website in the residential mortgage underwriting practices and procedures guidelines. It was updated with these three charts here, which have the revised B-20 cited in them. I'd like to know why that wasn't mentioned here either as an area to look at further or as an area of concern, as an unforeseen consequence of the way B-20 was revised.

• (1125)

Mr. Marc Desautels: I can speak to that in very broad terms.

We try to monitor what is flowing outside the regulated space. It is difficult to get very accurate data, but we continue to monitor it in looking at the broader systemic impacts. There has obviously been a little or some migration to that space, but as I said, it's very difficult to quantify in a very precise fashion.

That said, we continue to monitor and try to assess those types of impacts and consequences as best we can.

The Chair: With that we're considerably over time, but you were on a line of questioning and I didn't think it was fair to cut you off.

Mr. Dusseault is next.

[*Translation*]

Mr. Pierre-Luc Dusseault (Sherbrooke, NDP): Thank you, Mr. Chair.

I'll ask another question, which may increase the number of witnesses at the table.

I must first say that I'm very disappointed that the Minister of Finance isn't here today and that he doesn't deign to come to the committee to defend his department's main estimates. The Minister of National Revenue also wasn't here last week.

I want to ask about a widely discussed topic in British Columbia, namely, money laundering in casinos and in the real estate market. The British Columbia government has launched a public inquiry, which shows the significance of the issue in that province. Many people, including the government, are concerned about the issue.

In the main estimates, the Department of Finance is requesting \$819,555 under vote 20 to strengthen the anti-money laundering and anti-terrorist financing regime. I want to know more about that amount and whether the Department of Finance's only solution is to spend \$819,555.

[*English*]

The Chair: I believe Ms. Hemmings is ready to respond.

Ms. Lynn Hemmings (Acting Director General, Financial Systems Division, Financial Sector Policy Branch, Department of Finance): There have been a number of reviews of Canada's anti-money laundering and anti-terrorist financing regime. We had the FINA committee looking at our regime. They made some recommendations. Peter German has issued two reports identifying a number of gaps in the regime, gaps in terms of coverage—the unregulated mortgage lending sector, for example.

We just brought in virtual currency, so there are some gaps in the regime in terms of who is caught and who has to file reports with FINTRAC. We're improving investigations and prosecutions as well, and improving outreach to various sectors.

This \$800,000 supports the policy work that needs to be done to support these new initiatives and to respond to the reports.

[*Translation*]

Mr. Pierre-Luc Dusseault: As part of the development of a new policy, some reporting entities could be added to the system to fill in the gaps.

[*English*]

Ms. Lynn Hemmings: In terms of the gaps, there have been various gaps identified, such as dealers of luxury goods. We've seen in B.C. that there are luxury vehicles that are potentially being purchased by organized crime. While we catch real estate agents, we do not catch at this time the unregulated mortgage sector, and there is a fair bit of lending going on in that area. Those are two examples of the gaps.

• (1130)

[*Translation*]

Mr. Pierre-Luc Dusseault: One identified gap concerns the oversight, mandate and resources given to the RCMP, particularly in British Columbia. I know that you're representing the Department of Finance, but I think that this matter is part of the discussion. That's why I want to point out that hardly anyone was conducting audits or investigations that would lead to charges in this area.

Has this issue also been addressed by the Department of Finance and, ultimately, by the RCMP?

[*English*]

Ms. Lynn Hemmings: As part of budget 2019, \$68.9 million was allotted over five years to strengthen federal policing capacity within the RCMP. Last week there was a finance ministers meeting in Vancouver, and an additional \$10 million was announced for the RCMP to build data capacity and analytical capacity of that big data to assist in investigations into money laundering.

[*Translation*]

Mr. Pierre-Luc Dusseault: Was the \$10 million included in the 2019-20 main estimates, or will it be requested in a subsequent budget?

[*English*]

Ms. Lynn Hemmings: It was an off-cycle funding request, so it's not part of this budget. It was announced last week.

[*Translation*]

Mr. Pierre-Luc Dusseault: FINTRAC plays an important role in this issue. We're asking for \$3.6 million for a new FINTRAC initiative.

Can you elaborate on this initiative and on the \$3.6 million requested for FINTRAC in the main estimates?

[English]

Ms. Lynn Hemmings: There are a number of measures that were announced in the budget for FINTRAC, one of which is to improve outreach to the casino sector and the real estate sector, with a focus on B.C.

In addition, we have added two new disclosure recipients, one being the Competition Bureau to address issues around fraud and seniors fraud, for example, and Revenu Québec for tax investigations.

The Chair: Mr. Veilleux may be able to add more to that too, Pierre.

Go ahead, Mr. Veilleux. You're in FINTRAC.

Mr. Christopher Veilleux (Manager, Finance and Administration, Financial Transactions and Reports Analysis Centre of Canada): Just to expand on that, again, as part of the \$3.6 million that was allotted through budget measures in 2019 for FINTRAC, there was the implementation of regulations component. There's the strengthening of the compliance and outreach, which was spoken to, and expanding the public-private partnerships, which was also alluded to in the response, as well as the disclosure recipients. Beyond that, we do have the trade fraud and trade-based money laundering component that was added.

Those are the primary pillars of the FINTRAC component of the AML/ATF regime changes through budget 2019.

[Translation]

Mr. Pierre-Luc Dusseault: Okay, thank you.

I would like an update on another topic.

Last year, the budget implementation bill provided some flexibility for fintechs. The bill provided some regulatory powers to clarify how fintechs could operate in the sector, and it was expected that regulations would follow. Is the work still ongoing? When will these regulations be published in Part I of the *Canada Gazette*?

[English]

Ms. Leah Anderson: Mr. Chair, I can take that one.

As part of our review of the financial sector statutes that we do every five years, we did a comprehensive review. One of our priority areas of recommendation was to provide greater flexibility for banks and FINTRAC to partner, either through outsourcing or having FINTRAC business activities in-house. We had the opportunity to engage with industry over the spring on how we would operationalize this added flexibility. We are well advanced in the policy development, and we are currently in the process of working on drafting that and would be in a position to bring it forward, this fall.

• (1135)

The Chair: If nobody else has anything to add, we'll turn to Mr. Sorbara.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Thank you, Mr. Chair. Welcome, everyone.

The first question deals with the alignment in terms of the process.

When you have the privilege of being elected as a member of Parliament and then coming to this committee, in general you learn there are two processes in place. One is the budgeting process and the second is the estimates process. Can you comment on alignment?

I am asking because from what I understand, we've tried to align the two so parliamentarians can get a better understanding of how the two work.

I use the analogy that it's much like a company. When I worked in the private sector, I would go to a company's investor day and they would lay out a budget for the year, and that would be their investor day. Then through the year, they would produce results and have filings. Those were the actual official monies that were spent or invested. I'd like to hear someone comment in terms of where we are for parliamentarians and how we analyze the estimates versus the budgeting.

Ms. Darlene Bess: I can speak to that at a very high level.

In the past, items that were announced in the budget often weren't included in the main estimates, so there was a misalignment in the numbers. Since last year, these items have been now included in the budget implementation vote. As you can see, we have three items in there that were announced in the budget. The main estimates process now includes any items that were announced in the budget that we subsequently will seek funding for later in the year. There's a better alignment there.

Mr. Francesco Sorbara: Is there anyone else who wishes to comment on that?

On the second question, in terms of the \$98.9 billion in statutory expenditures, can you give a brief description on those expenditures? The Canadian budget is about \$320 billion or so. This is one-third of that budget. We are here to represent taxpayers and ensure that all spending is done appropriately, wisely and with transparency. Can you just describe the government's \$98.9 billion in statutory expenditures? What are the major components, please?

Ms. Darlene Bess: Sure.

There are a lot of transfer payments to the provinces. I would say a big part of that is the Canada health transfer, which accounts for \$40 billion. Fiscal equalization to make the provinces similar in terms of economies is about \$19.8 billion. Interest on unmatured debt is about \$18.6 billion. There are other interest costs, which we talked about earlier, of \$6 billion. Territorial financing is \$3.9 billion. Payments to the International Development Association are \$441 million. Domestic coinage is \$88 million. Debt payments on behalf of poor countries to international organizations are \$48 million. There are some statutory subsidies of \$42 million. We have contributions to employee benefit plans of \$12 million, and an additional fiscal equalization offset payment of \$8.2 million.

They're mostly transfer payments, I would say, to the provinces through our Federal-Provincial Fiscal Arrangements Act. That's the bulk of it, and obviously there's a large portion on the unmatured debt.

I hope that helps.

Mr. Francesco Sorbara: Just for my inquisitive purposes, the items are considered what I would call “non-discretionary” spending. It just happens. It's built in.

For items like old age security and GIS, which are paid through government tax revenues, unlike CPP, would they go through the estimates process as well? This is just a point of clarification. I want to understand that better.

Ms. Darlene Bess: Yes, they would, but they are probably part of Employment and Social Development Canada's statutory payments as well, so similarly to ours, they're not voted items; they're statutory items.

Mr. Francesco Sorbara: They're statutory items.

Chair, those are my two questions for this morning. Thank you.

The Chair: We'll go over to Mr. Poilievre, then. We're into five-minute rounds.

• (1140)

Hon. Pierre Poilievre (Carleton, CPC): You listed the statutory transfers—the Canada Health Act and the equalization program—but you didn't mention the Canada social transfer. Was there a reason for that?

Ms. Darlene Bess: That was just an oversight on my part. I skipped the line. I'm sorry.

Hon. Pierre Poilievre: What is the amount?

Ms. Darlene Bess: The amount is \$14.5 billion for the social transfer.

Hon. Pierre Poilievre: All right. That's the normal amount, which increases 3% a year, on average, I think.

Ms. Darlene Bess: Yes, that's correct. It's a 3% annual increase.

Hon. Pierre Poilievre: Excellent. Okay.

The next question I have is this: What will be the fiscal impact of today's announcement with respect to approving the Trans Mountain pipeline?

The Chair: Go ahead, Ms. Bess.

Ms. Darlene Bess: I'm sorry, but I can't speak to that because I think it's still being debated in cabinet. I don't have an estimate.

Those numbers aren't included in the main estimates that are being studied here today.

Hon. Pierre Poilievre: Okay.

We're obviously disappointed that we don't have either minister here. Both ministers are in hiding, and I frankly don't blame them, but it would have been nice to have them here in person. It's really unfortunate that they would put the burden of defending some of these decisions and political incompetence on the backs of hard-working, diligent public servants, who are not to blame for the failures of the government.

With that on the record, Mr. Chair, I will ask this question. Over the last three years, what has been the annualized increase in program spending for the government in percentage terms?

The Chair: Can you dig into that, Ms. Bess, or do you need more clarification?

Ms. Darlene Bess: I'm here to discuss the Department of Finance's main estimates. For the whole of government, I wouldn't have that information handy unless we were discussing that at the public accounts committee.

Hon. Pierre Poilievre: Right.

Does anyone else want to add anything to that?

The next question, then, is this. The government yesterday introduced a ways and means motion to create a new corporate deduction for stock options and to remove the deduction from the recipient of those options—in other words, to move the stock option deduction from the employee to the corporation issuing it. Why was that not included in the Budget Implementation Act?

The Chair: Andrew, can you...?

Mr. Andrew Marsland: Sure. I can't speak to decisions about what is included and not included in the Budget Implementation Act, but budget 2019 announced the government's intention to move this forward, with details to be released before the summer. Yesterday's tabling of the ways and means motion was the next step in that regard.

Hon. Pierre Poilievre: Right.

The government has mentioned that it's going to consult. It's creating a bunch of new loopholes from the new change, one of which is that employees of publicly traded companies that the government considers innovative and fast-growing will continue to get the stock option deduction, rather than the company itself getting it.

Have you received any submissions so far from those wishing to offer input on who should qualify for that particular carve-out?

Mr. Andrew Marsland: We only tabled the ways and means motion yesterday, and we issued the press release asking for input by September 16, I believe. We would expect input on what those prescribed conditions are and what the regulations would lay out in terms of the non-application of the \$200,000 cap for emerging, fast-growing, scaling-up corporations.

Hon. Pierre Poilievre: Right, but as you correctly pointed out, the budget announced that this was the intention of the government, and it specifically said in the budget book that there would be a carve-out for fast-growing start-ups.

Has the government received any input on how to define a fast-growing start-up from industry since that budgetary announcement?

• (1145)

Mr. Andrew Marsland: I'd have to check whether we received representations. There was certainly media coverage in terms of those criteria.

Hon. Pierre Poilievre: But you don't know if you received any input at all.

Mr. Andrew Marsland: I think there may have been some commentary. I would have to check as to whether there was specific input.

The Chair: You're out of time.

Just on this aspect, is there a specific consultation taking place between now and September on this, or is it just feedback on the website or directly to Finance Canada?

Mr. Andrew Marsland: The announcement yesterday, Mr. Chair, was that the government had tabled a notice of ways and means motion—

The Chair: Yes.

Mr. Andrew Marsland: —laying out new rules governing stock options. There was a provision there for regulations that would deal with the criteria that would define fast-emerging scale-up corporations. The government sought input from Canadians on what those criteria should be until September 16.

The Chair: What I'm wondering is how that comes in. Does it come in through Finance Canada's website? Where is the target?

Mr. Andrew Marsland: There was a link to provide those comments to the Department of Finance.

The Chair: All right.

Ms. Bendayan is next.

Ms. Rachel Bendayan (Outremont, Lib.): Thank you.

First I want to ask a question for clarification. My colleague spoke about the statutory expenditures in the main estimates. You were kind enough to provide a breakdown of those.

I did not hear the exact breakdown for transfer payments regarding health care. Could you perhaps let us know, if you have that information, how much the federal government is providing to each of the provinces and territories for health care?

Ms. Darlene Bess: Someone from federal-provincial relations can speak to that. Unfortunately, I don't have the breakdown myself.

Ms. Rachel Bendayan: That's fine.

The Chair: We still have three chairs empty. We might fill them all yet. You never know.

Ms. McDonald, did you hear the question, or do you want it repeated?

Ms. Suzy McDonald (Assistant Deputy Minister, Opioid Response Team, Department of Health): I did hear the question. Thank you very much.

I don't have the breakdown by province, but I can talk to you a little bit about how it works. I'll just note that this is the Canada health transfer for which the main estimates has over \$40 billion estimated.

Essentially, this program grows in line with a growth track. We do a three-year moving average on the gross domestic product, with funding to increase by a guaranteed amount of 3% every year. For 2019-20, that growth is 4.6%, which is in line with that growth track.

This funding is flexible. It goes to the provinces and territories. It's block funding; they can use it as they want, although we do have conditions associated with it, and it is allocated on a per capita basis.

In addition to this amount—and it might be what you're referring to as well—there is funding that is provided through Health Canada that in a previous year came through Finance Canada's budget as a one-time payment, but the funding for home care services and mental health services is included in Health Canada's budgeting process.

Ms. Rachel Bendayan: Thank you very much.

Budget 2019 also proposed a series of new measures to strengthen anti-money-laundering and anti-terrorist financing. I note there is a significant amount of funding that relates to these new measures. I was wondering if somebody could explain what programs might be initiated with this additional funding.

Ms. Lynn Hemmings: Two key programs I should highlight are what we call the ACE team: our anti-money laundering action, coordination and enforcement team. That's going to bring together dedicated experts from across intelligence and law enforcement—it will bring someone from CBSA, CRA, RCMP and forensic accountants—to do the analysis on information, including big data, and send leads to law enforcement. That was for \$24 million over five years.

The other program that is new is a trade fraud and trade-based money laundering centre of expertise. That identified \$28.6 million for the Canada Border Services Agency to strengthen capacity—and FINTRAC also got a bit of money there too—to target these growing crimes.

• (1150)

Ms. Rachel Bendayan: Thank you.

Again, to pick up on an earlier conversation with respect to the open banking review, I'm pleased to hear that the consultations went so well. When can we expect action on this front? Is there anything in the pipeline that you can talk to us about?

What we've heard is that we're moving in the right direction, that we have great examples with Australia and the United Kingdom. When do you expect Canada to jump in?

Ms. Leah Anderson: The expert panel that I referred to earlier is preparing a report to the minister. Actually, as we speak, that's in the process of being delivered. The minister will receive that report and determine next steps.

Ms. Rachel Bendayan: Okay. Thank you.

Thank you, Mr. Chair.

The Chair: We'll go back to Mr. Kmiec, then over to Ms. Rudd, and then back to you, Mr. Dusseault.

Mr. Tom Kmiec: Mr. Chair, is this a five-minute round?

The Chair: It's a five-minute round.

Mr. Tom Kmiec: Thank you.

I'll just go back to equalization for a moment, because I might have missed a portion of the feedback given there.

Do you have any projections for the next three years in terms of the shares of equalization payments, and specifically a breakdown by province?

I'm thinking of the big provinces here—B.C., Quebec and Ontario—and their share of the total amount. There's quite a bit of a jump there in terms of the amounts they will be receiving.

Is the total projected to increase in the next three years? Is the share expected to stay the same?

Quebec gets just over 50% now. Alberta gets zero.

Ms. Suzy McDonald: We make that information available on our website as we do the calculations.

As you know, the calculations are based on a three-year rate. Right now, they are growing year to year. The increase of \$879 million that you see this year is again based on, as I just described, that three-year multiplying of our 2018-19 amounts by the 4.64% increase.

In terms of the amounts by province and territory, as a forward calculation, we do those calculations on a regular basis and we make them public as the calculations are done. I don't have projections for you on what that looks like moving into the future.

Mr. Tom Kmiec: Okay.

I thought it was a three-year rolling average, so it was possible for numbers to actually go down at a certain point.

Is there any expectation of it going down, or is it simply going to keep going up?

Ms. Suzy McDonald: We continue to look at the calculations, at the inputs of what that equalization looks like moving forward, from all of the inputs that we use to do that. We don't have calculations that are publicly available on where that is going.

You're right that it is a three-year rolling average. As we're bringing that information in, we do make that publicly available as soon as those calculations are completed. We'll have another round of calculations done.

Mr. Tom Kmiec: I know the formula was put into an omnibus budget bill about two years ago, or it might have been three years ago. It was basically the same formula as previously. There were no changes in it whatsoever, despite a totally different economic condition.

Going forward, when is the next so-called renewal date?

Ms. Suzy McDonald: Indeed, it was in 2018 that it received royal assent, and we do updates every five years, so the current period of renewal goes from 2019-20 to 2023-24. We have ongoing conversations on equalization through those discussions and we have input from the provinces and territories on what that looks like.

Mr. Tom Kmiec: Is any of that input made public?

Ms. Suzy McDonald: When we do the renewal of that equalization and we have new formulas or new information put forth, that becomes public. The conversations we have with the provinces and territories on how we're doing that work goes into discussions until we reach a final conclusion.

Mr. Tom Kmiec: Okay.

I want to go back to OSFI now. I wish the minister had been here so I could ask him a question that I think he might have an answer to, because it's based on the consultation that was done.

At the time that the original draft of the B-20 guideline was put out in October, bankers had identified a problem with the pre-final draft, the finalized version that OSFI was comfortable with before they put out their final version. There was a loophole identified, in that amortizations were not being dealt with inside the B-20 guideline.

Because you could change the length of amortizations used in the qualifying calculation, that percentage basically could be changed. Then you would be paying less for housing, so you'd qualify for a bigger mortgage. Extended amortization would reduce it, and basically you could extend it 25, 30 or 35 years. Your payments would be lower and you'd be able to pass the stress test much more easily. That was basically being left up to the chartered banks to decide.

I'm assuming it was unintentional. Do you know whether that loophole has been closed since then?

• (1155)

Mr. Marc Desautels: We don't prescribe a maximum amortization period, but we do monitor trends in regard to amortization periods, because what we would not have wanted to see was an extension of amortization periods to accommodate the stress test.

Referring back to what we released on our website last week, we haven't seen any noticeable movements in amortization periods since the implementation of the guideline.

Mr. Tom Kmiec: Right. That was left alone because you don't prescribe for the uninsured market.

Mr. Marc Desautels: Yes.

Mr. Tom Kmiec: You just left it alone, so banks can still do that. If you have 20% down, you can basically go and change the amortization just to make sure your client passes the stress test.

Mr. Marc Desautels: As I mentioned, we do monitor practices in regard to amortization periods, so it is something we focus on. It is not something that is prescribed as to the maximum, but we've been monitoring developments in that regard, and we haven't seen any meaningful shifts since the implementation of the guideline.

Mr. Tom Kmiec: Okay.

I know that the creditworthiness of those with a credit report score of 750 or more before the B-20 stress test was introduced was already going up. For over 50% of all mortgages put out there, credit ratings were at that level. That's according to CIBC Economics Insights by Benjamin Tal.

Since then, does OSFI have any numbers on what that looks like in the marketplace?

Mr. Marc Desautels: We can speak to the regulated space. We get a lot of data from our regulated institutions in regard to mortgage originations. I wouldn't be able to speak to specific data. I would have to bring in people who deal with that data on a more granular basis to respond more accurately, but in broad strokes, the credit profile of origination since implementation of the guideline has improved. There's a variety of metrics we look at in that regard, but overall, the profiler risk of new origination since implementation of the guideline has trended positively.

Mr. Tom Kmiec: But they were already trending positively before B-20 was introduced—[*Inaudible—Editor*]

Mr. Marc Desautels: I'm not the expert on all of the data and the trends in all of the vintages, so I would have to get back to you to talk in more detailed fashion in regard to the pre-B-20 or the—

Mr. Tom Kmiec: Would you be able to ask your colleagues to provide it to the clerk for the whole committee?

Mr. Marc Desautels: We can, yes.

The Chair: If you could, that would be great.

We'll go to Ms. Rudd, and then back to Mr. Dusseault.

Ms. Kim Rudd (Northumberland—Peterborough South, Lib.): Thank you, Mr. Chair.

Thank you to the growing number of you who are here with us today.

On that point, I had the pleasure of being at a presentation by the deputy chief economist of the TD Bank on the B-20, which my colleague has referred to. In fact, he said their position was that it was the right thing to do. It has done what it needed to do. It of course needs to be constantly re-evaluated. It is something that's often brought up at this table, and I think it's important to point out that there are opinions on that that differ from my colleague's opinion.

I have two quick questions. On the governance council for the Financial Consumer Agency of Canada, can you tell us a little bit

about what putting that council in place is providing in terms of the return on the investment, if you will?

Ms. Leah Anderson: I'll speak to that.

A year ago, we passed legislation with a very broad new consumer protection framework. That did three main things.

One was to strengthen the internal practices of banks themselves in dealing with consumer protection issues—for example, requiring them to better track complaints and then feeding that up to a special dedicated committee of the board of directors to talk about those complaints and broader consumer protection issues.

We also put in place more targeted consumer protection measures in terms of transparency and disclosure for our consumers, and alerts, for example, when you're going into an overdraft situation.

Importantly, we put in a number of new enforcement supervision powers for the commissioner of the Financial Consumer Agency to oversee this broad, comprehensive framework. These include things like the power to administer meaningful administrative monetary penalties when the consumer protection legislation is breached and a requirement to publicly name the institutions receiving these monetary penalties. We sharpened their mandate, and because of the broad new responsibilities applicable to the internal operations of banks and a wider range of consumer protection powers, they have a much greater supervisory responsibility overall to ensure appropriate compliance with the legislation.

Given that this is quite a transformation—and just given the transformation, quite frankly, in the overall complexity and number of products in the marketplace—they have quite a responsibility to bring forward and execute on their mandate. The budget announcement was really to establish a council to help the commissioner in the execution of this business transformation process and to provide advice not too dissimilar to, say, what a board of directors provides to help guide their operational supervisory responsibilities.

• (1200)

Ms. Kim Rudd: Thank you very much. Certainly it's something that this committee has heard a lot about. It has been very well received, especially by consumers. I have a lot of seniors in my riding, and they were very happy to see some of the work we're doing around this issue.

On pensions, I think it's around \$197,000 to continue to protect Canada pensions. It's not a huge amount of money, but what exactly is that? What further steps are happening?

Ms. Lynn Hemmings: It's actually \$150,000.

Ms. Kim Rudd: Okay.

Ms. Lynn Hemmings: It's \$50,000 each year for three years, and it's going to an organization called the National Pension Hub, which is tied to the Global Risk Institute. We will become a member of that group, and we'll have a say in the nature of academic research that's being done to inform our policy process as we try to improve retirement outcomes for Canadians.

Ms. Kim Rudd: Oh, what a great forward-thinking opportunity for us. Thank you.

The Chair: Okay. Is that it?

Ms. Kim Rudd: I'm good.

The Chair: We'll hear from Mr. Dusseault and then Mr. McLeod and then Mr. Poilievre.

[Translation]

Mr. Pierre-Luc Dusseault: I had the same question, but I didn't hear which group will receive the \$50,000 over three years.

[English]

Ms. Lynn Hemmings: It's the Global Risk Institute that's getting it.

[Translation]

Mr. Pierre-Luc Dusseault: Is it an organization—

[English]

Ms. Lynn Hemmings: Yes. They're based out of Toronto.

[Translation]

Mr. Pierre-Luc Dusseault: So it's a Canadian organization.

[English]

Ms. Lynn Hemmings: Yes.

[Translation]

Mr. Pierre-Luc Dusseault: Okay, thank you.

My other questions concern transfers to the provinces, particularly health transfers.

You'll recall that the Liberals heavily criticized the Conservatives for changing the percentage increase in health transfers, year after year. Yet, once in power, the Liberals kept the same scale for health transfer increases.

A \$40.3-billion transfer is being proposed for 2019-20, compared to \$38.5 billion in 2018-19 and \$37.1 billion in 2017-18. Can you give us an idea of the annual percentage increase? Does it reflect the agreement made with the provinces?

Ms. Suzy McDonald: Thank you for the question.

There was a 3.9% increase in 2018-19, and a 4.6% increase in 2019-20.

Mr. Pierre-Luc Dusseault: Does this honour the agreement made with the provinces a few years ago?

Ms. Suzy McDonald: Yes.

[English]

We use a three-year moving average of the nominal gross domestic product. That was what was agreed to, and that's how we make the calculation.

[Translation]

This is how the calculations are done every year. That's why the health transfer increase is similar to the increase in other programs, such as the equalization program.

• (1205)

Mr. Pierre-Luc Dusseault: Okay, thank you.

I have a question about a negative amount.

[English]

It's listed as "Youth Allowances Recovery".

[Translation]

This negative amount still totals \$932 million. The budget item was established under the Federal-Provincial Fiscal Revision Act, 1964.

Could someone explain this negative amount to me?

Ms. Suzy McDonald: I'll be the one answering again. There's a long history behind this.

[English]

Back in the 1960s, provinces and territories had the ability to use opt-out arrangements. Quebec had an opt-out arrangement for a funding program for which they had already provided funding for 16- and 17-year-olds. Essentially, when the government introduced a similar program, they then allowed Quebec to use tax points to fund that program instead.

The program has evolved. Quebec makes annual payments to the Government of Canada, because when we expended the program to include all Canadian youth, Quebec allowed the feds to make the transfers directly. Essentially it's just a recovery that happens every year. The amount is collected from Quebec in two instalments. The first 50% is estimated in the first working day—typically April 1 of the fiscal year—and the second installment happens before the next April 1 of the next year.

[Translation]

Mr. Pierre-Luc Dusseault: That's interesting.

Do I have any time left, Mr. Chair?

[English]

The Chair: You're out of time, but I see you have one more, so go ahead.

[Translation]

Mr. Pierre-Luc Dusseault: I have a question about stock options.

Mr. Marsland, we've seen the ways and means motion. As a result of this motion, can we expect a bill to be tabled by the end of the week?

[English]

Mr. Andrew Marsland: You'll appreciate, Mr. Chair, that I don't make decisions on the tabling of legislation. I really can't comment on that. That's a decision for the government.

[Translation]

Mr. Pierre-Luc Dusseault: If the minister had been here, perhaps we could have obtained an answer to that question.

[English]

The Chair: We will go on, but feedback is coming in on that question, as he answered earlier, Pierre.

Next is Mr. McLeod, and then it's over to Mr. Poilievre.

Mr. Michael McLeod (Northwest Territories, Lib.): Thank you, Mr. Chair, and thank you to everyone who is presenting here today.

I'm looking at the program expenditures, and I find some of them relatively small in light of some of the concerns that have surfaced, especially in the indigenous policy.

I represent a riding in the Northwest Territories that is over half indigenous, and we have a real challenge in achieving a healthy economy. We need to tackle several big issues to do that. We need more transportation infrastructure to lower the costs. Industry is telling us that, and the chamber of commerce is telling us that.

We also all know that we need to sort out land tenure and self-governance issues with the indigenous governments. Some of them have been going on for a long time.

During the time the Liberal government was in place, they weren't very kind to the indigenous population. They gutted the regulatory process, and we're trying to put it back together. The indigenous government support funding was certainly cut, to a point where it was almost impossible for the band councils to function.

It didn't stop there. The departments were also cut severely, in terms of having a reduction in their negotiators, so we ended up negotiating maybe one day a month, if that. Pretty much every negotiating table for land claims and every negotiating table for self-government came to a halt. In 2015, when I was campaigning, we had zero tables working.

I see that changing now, but the need for.... Reinvestment seems to be slow. You talked about an increase in volume when we talk about the capacity for indigenous policy.

I'm just curious where this money is going. Is it going to the department, for resources within the department, or is it going to indigenous governments to help them bolster their resources and try to get resolution at some of these tables?

• (1210)

The Chair: While they're thinking up their answer, I believe you started your statement by saying "the Liberal government", and I'm not sure if that's exactly what you meant. You might not want to be quoted on the record on that point.

Mr. Michael McLeod: Oh, no. I thought I said the Conservative government, but I—

Hon. Pierre Poilievre: You accidentally told the truth there.

Mr. Michael McLeod: I'll clarify that. I meant the 10 years that the Conservative government—

The Chair: Okay.

Go ahead, Ms. Bess.

Ms. Darlene Bess: As you know, there are many proposals being brought forward to cabinet that relate to indigenous issues. The amount in our main estimates is for our department and for work we do with other departments on proposals related to indigenous issues. It spans many areas, including federal-provincial, tax policy and financial sector policy, etc.

Suzy can speak to you about some of the work she's doing on the federal-provincial side for indigenous policies.

Ms. Suzy McDonald: I just wanted to clarify that it's the funding that comes to us, and not the funding that's going out to the various groups.

As you can imagine, there are quite a number of negotiation tables at the moment across Canada, with many different groups. Those agreements are under way, and mandated.

While we are not the lead for those, a tremendous amount of data comes in to us for the work we do on that. It helps to support the work we are doing to support Indigenous Services Canada, CIRNAC and others in the work they do. My colleague and his team in tax policy do some additional work on taxation matters with indigenous groups across the country.

Darlene already made the point I was making, which is not to confuse this with funding that goes directly out or with self-governance funding.

Mr. Michael McLeod: Well, that explains the small number, then. I think we're now, in the NWT alone, up to 14 tables of negotiation.

I do have one more question on the carbon pollution pricing system. It's under consideration in the Northwest Territories. The Northwest Territories has its own carbon pricing plan. We're probably the only jurisdiction where members of the government are pushing back, because they don't feel the plan put forward by the cabinet of the government of the Northwest Territories is strong enough. They want to bolster it. I don't know of anybody else who's doing that.

I was curious about the \$1.6 million, because throughout our discussions, I assumed everything was supposed to be cost-neutral, yet we have a cost. Maybe somebody could explain it.

Mr. Andrew Marsland: Perhaps I can speak to that.

It is funding for the department for the function we perform with respect to the pan-Canadian climate framework.

Effectively, there are a number of aspects to that. One aspect is that in jurisdictions where the federal backstop applies, we have to account for those funds, because as you mentioned, it's done on a cost-neutral basis for the federal government. Those funds are returned to households in the four provinces where that applies at the moment, so those amounts are paid to households through the climate action incentive. Other amounts are paid to small and medium-sized enterprises, and so on. However, at the end of the day, all amounts go back to the province, so we have a function to perform in relation to the management of that system.

That's part of it. Part of it is the overall work that the department does in respect to pollution pricing, in terms of modelling, and so on. It's to build the capacity within the department to manage that work.

The Chair: It's understandable that there is some confusion in terms of the estimates, because the budget, which comes through the Department of Finance and through the Budget Implementation Act, covers all the spending in all the departments. Then when we get into the narrow focus of the estimates that apply to the Department of Finance, it's only the Department of Finance, so it's rather confusing.

Mr. Poilievre is next, and then I don't know if there's anybody on this side. I know Mr. Poilievre wouldn't want to have the last word, so maybe there's somebody more to come.

Go ahead, Mr. Poilievre.

• (1215)

Hon. Pierre Poilievre: Perish the thought.

How much will yesterday's ways and means motion increase or decrease revenues in each of the next five years?

Mr. Andrew Marsland: We would not expect a significant impact, because the proposal is that the measure apply to options granted on a go-forward basis. Because of that, because they tend to have a certain duration, you would not expect much of an impact for several years, until the system is fully mature and is dealing with options that have been granted in an exercise subject to the new regime.

Hon. Pierre Poilievre: Even then, the measure creates a new stock option deduction for the employer.

Mr. Andrew Marsland: Effectively, in respect of options to which it applies, the measure treats them as equivalent to regular compensation, fully included in income and deductible to the employer.

Hon. Pierre Poilievre: Right.

Mr. Andrew Marsland: On the face of it—

Hon. Pierre Poilievre: You're shifting a deduction away from the employee to the employer.

Mr. Andrew Marsland: Yes. We would expect an impact, because they don't perfectly match.

Hon. Pierre Poilievre: Right, but I would point out that the corporate tax rate in most provinces is roughly 26%, whereas the value of the stock option deduction is about 26%. It's about half the highest marginal tax rates, so you're basically shifting a 26% deduction from the employee to the employer.

I realize that it won't necessarily neutralize as cleanly as that. As you know, nothing is clean in tax policy, but—

Mr. Andrew Marsland: We try.

Hon. Pierre Poilievre: We try.

It's an exceptional measure, because it's full of exceptions. Private corporations are exempted; previously granted stock options are exempted; all stock options under \$200,000 a year are exempted; and even for large publicly controlled corporations with employees who receive more than \$200,000 in stock options, they might also be exempted if the government deems them start-ups. There are all kinds of exemptions, and you've confirmed that there won't be much of a revenue impact.

Mr. Andrew Marsland: Perhaps I could comment on that.

Hon. Pierre Poilievre: Please.

Mr. Andrew Marsland: We would expect that there would be an impact, because the two don't match in this sense.

Hon. Pierre Poilievre: Right.

Mr. Andrew Marsland: Where the option is subject to the cap, the intent is to treat it as—

Hon. Pierre Poilievre: What is the impact, then? Do you know? If you don't know, we can move on, but what is the financial impact of the measure in each of the next five years? Maybe you could come back to us with that by the end of the day.

Mr. Andrew Marsland: Sure.

Hon. Pierre Poilievre: Will it be by the end of the day?

The Chair: There may be somebody in the back of the room who hasn't answered. They can think about it, and you can go to Ms. McDonald while that's happening.

Mr. Andrew Marsland: I'll commit, Mr. Chair. We'll come back with that by the end of the day.

Hon. Pierre Poilievre: Ms. McDonald, you were talking about the constant review of the inputs to measure fiscal capacity of various provinces for the purposes of calculating the constitutional obligation of providing comparable services, of comparable tax rates. Is the list of inputs into that calculation defined in law, or are they done by some sort of executive order?

Ms. Suzy McDonald: I don't know the answer to that question. I'd need one of my experts here.

There is a lot of information on what is legislated and regulated on equalization that lays out how the calculations move forward. I think your question is whether or not every single input is in legislation and regulation. Is that correct?

Hon. Pierre Poilievre: Yes. You said in your earlier testimony that the government constantly reviews economic inputs to calculate the fiscal capacity of each province and the national average. I just want to know if that's done in legislation or if it's done by an executive order.

Ms. Suzy McDonald: Let me clarify.

When I was talking about the various inputs, there are two kinds of inputs we are looking at. The first kind of input is information, really, around the legislated piece in terms of updated data for the population, provincial revenues, tax bases and other information. The second piece that I maybe referred to in passing is that because it grows based on the GDP data, we also continually update and look at what the GDP growth track looks like in order to create our overall estimates.

As to your question on OIC, orders in council, I don't know if a colleague here can answer it, but I do need to confirm that with the six people in Canada who truly understand equalization.

• (1220)

Hon. Pierre Poilievre: You said six people. We have—what, 36 million Canadians?—and six of them understand equalization.

Voices: Oh, oh!

Hon. Pierre Poilievre: Can we have the names of those six people? We don't want to give out their phone numbers publicly, but....

Ms. Suzy McDonald: They're top secret.

Voices: Oh, oh!

Hon. Pierre Poilievre: They're top secret. Okay. Thank you.

The Chair: Pierre, we have Mr. Leblanc coming up here now. We'll see if we can put a little clarity around the ways and means stock option question you had. Then we'll go to Mr. Sorbara.

Mr. Pierre Leblanc (Director, Personal Income Tax Division, Tax Policy Branch, Department of Finance): Thank you.

On your question on the revenue impact, if you look at the current fiscal planning period, you will see that the last year is 2023-24. As Andrew explained, since this is something that would apply on a go-forward basis, you're looking at a net revenue increase at the federal level in the range of \$10 million in the fiscal year 2023-24. It's something that would go up over time to some extent, but as Andrew explained, it will have a fairly modest revenue impact.

Hon. Pierre Poilievre: Ten million dollars is about the amount of money the government has spent during the time I've asked my questions here.

Mr. Kmiec had some more questions, so I'll hand over the rest of my time to him.

The Chair: Your time is substantially over. When you get on a roll, I know you lose track of time.

We'll go to Mr. Sorbara and then we'll come back to Mr. Kmiec.

Mr. Francesco Sorbara: Thank you, Mr. Chair.

Thank you, Pierre, for joining the table.

With regard to the ways and means motion, obviously the issue is about making the tax system fair, which is something our government has done since day one with the introduction of the middle-class tax cuts and asking the 1% of wealthiest Canadians, the highest income earners, to pay a little bit more.

With regard to the consultations on stock options, fundamentally we would be removing a tax-advantaged method of granting

compensation to individuals in what are called "mature firms" on a go-forward basis. Is that correct?

Mr. Andrew Marsland: That is correct, yes.

Mr. Francesco Sorbara: Then when we talk about deductibility—going back to accounting days—the deductibilities would therefore change from the employee to the employer, because we would anticipate that the compensation would then just be made in terms of salary, or else the tax treatment of those stock options would be treated as regular income.

Mr. Andrew Marsland: I think if you look at the effect of this measure and model it out, if the corporation wished to have the same after-tax cost of compensation and adjusted the number of stock options it granted to the employee, then there would be an impact on the employee's after-tax compensation. It depends very much on the circumstances in the province, etc., but it probably would be in the order of 10%, I believe, or somewhere in that region. Again, it depends on which province it is.

If, on the other hand, they wanted to keep the employee whole, the after-tax costs to the corporation would go up. That equalizes the cost. It would be the equivalent of paying a cash bonus, essentially, so it removes that advantage. To the earlier question, that represents essentially the difference in cost.

Mr. Francesco Sorbara: Right now, you're being taxed on stock options, and by removing the idea of strike and effective prices and all that kind of stuff when it's granted, you just be enjoying the capital gains rate.

Mr. Andrew Marsland: Well, yes, but the corporation—

Mr. Francesco Sorbara: That's from the employee side.

Mr. Andrew Marsland: From the corporation's perspective, the corporation isn't getting a tax reduction—

Mr. Francesco Sorbara: Exactly.

Mr. Andrew Marsland:—so it's not simply that the employee's stock option benefit is getting a stock option deduction; there's also an impact on the corporation.

Overall, it's tax preference now, and the effect of the provision will be to move that tax preference for those affected corporations in the way I described. The corporation would be indifferent as to whether or not it paid in cash compensation or as a stock option.

Mr. Francesco Sorbara: That's effectively.... Please, Pierre, correct me if I'm wrong on this. In terms of the tax expenditures associated with this ways and means motion, it's effectively why you don't recapture.... I don't know if that's the word, but because of the way the tax code works, you don't actually see a large bump in government revenues.

•(1225)

Mr. Pierre Leblanc: That's an important consideration. The other important consideration is that the one number I could give for the end of this fiscal planning period for 2023-24 is not a mature cost estimate, because it will basically take time. This is only for options granted on or after January 1, 2020.

The Chair: Mr. Kmiec, you get to wrap it up. You have about four minutes to do it.

Mr. Tom Kmiec: That's super. I think I can do it in four minutes.

On something that was mentioned before, that TD report is the same TD report that the CEO of CMHC criticized. It did call for "tweaking" and making the stress test flexible. It's in the report. You can search for the word "flexible", and it's in there.

One thing that caught my eye on OSFI was that the Office of the Chief Actuary provides "actuarial valuation and advisory services" to a bunch of listed organizations. I was wondering about the advisory services you provide on the CPP. What are those advisory services?

Ms. Michele Bridges: It's with regard to funding levels in order to maintain the viability of the CPP and its long-term horizon. It's actuarial advice to the board that oversees the CPP program.

Mr. Tom Kmiec: Okay, but actuarial valuation would be different from advisory services. I understand the actuarial component, but what advisory services do you provide?

The CPPIB came here before the committee. They're moving towards a more active investment model and they've hired over a thousand people over the past however many years. I'm wondering what other advisory services outside of actuarial advice you are giving them.

Ms. Michele Bridges: It would only be actuarial advisory services.

Mr. Tom Kmiec: Okay. The way this is written, then, is not entirely clear.

My only other question was about the capital internal services. There's \$2 million for new capital spending. I wanted to know what that was for.

Ms. Michele Bridges: OSFI invests in a variety of information management and information technology systems in order to support the work we do. We also invest in leasehold improvements, for example, in any of our space accommodations. Other capital expenditures would include furniture and fixtures. There are a variety of investments, but the majority are in the information management and information technology area.

Mr. Tom Kmiec: What's the breakdown of the \$2 million?

Ms. Michele Bridges: In terms of the...?

Mr. Tom Kmiec: Those three categories you just mentioned.

Ms. Michele Bridges: I do not have that information with me.

Mr. Tom Kmiec: Would you be able to provide it to the committee through the clerk?

Ms. Michele Bridges: Yes.

The Chair: There is some information that is going to be forwarded back to the clerk for further clarification on a couple of points.

With that, I'm not sure whether we will be meeting on Thursday. If Parliament is still sitting, we will be. If Parliament is not, we won't. We don't know whether or not Parliament is going to be sitting for sure on Thursday and Friday.

Go ahead, Mr. Dusseault.

Mr. Pierre-Luc Dusseault: On a point of information, Mr. Chair, we adopted a motion last week to invite the Minister of National Revenue. I'm wondering if you have an update for us on a date.

The Chair: I don't, but the clerk may have.

Go ahead.

The Clerk of the Committee (Mr. David Gagnon): I haven't had an answer.

The Chair: We have the Parliamentary Budget Officer scheduled for Thursday, but there has been no response from the Minister of National Revenue on our request as yet.

Mr. Pierre-Luc Dusseault: We sent her an invitation last week—

The Chair: Yes, we did.

Mr. Pierre-Luc Dusseault: —and no answer came forward.

A voice: Did you tweet her?

The Chair: I didn't tweet her. I try not to use tweets too much.

Mr. Tom Kmiec: It might work.

The Chair: Just in case this is the last meeting, on behalf of the committee I certainly want to thank the clerk, the analysts from the Library of Parliament and all committee members for their efforts over the last year. This committee meets on average four times more often than a normal committee meets, and it takes a lot of effort on behalf of all members, all our staff, and also the Library of Parliament and the clerk.

Thank you to the now near-full table from the Department of Finance and other agencies for your appearance on behalf of the estimates.

With that, the meeting is adjourned.

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