MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE
2010 GENERAL RATE APPLICATION

Before Board Panel:

Graham Lane - Board Chairman
Eric Jorgensen - Board Member
Len Evans - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
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Pages 376 to 572

APPEARANCES

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Raymond Oakes	)CMMG
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Jerry Kruk	)
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UNDERTAKINGS

--- Upon commencing at 9:04 a.m.

THE CHAIRPERSON: Okay. Good morning, everyone. When we left off Ms. Everard was pursuing a line of thought. Do you want to begin again.

MS. CANDACE EVERARD: Thank you, Mr. Chairman. I have a few questions for the panel about the allocation of -- pardon me, Ms. Kalinowsky mentioned to me prior to starting that she had something to say and I've already forgotten so thank you for reminding me.

MS. KATHY KALINOWSKY: Good morning. I just wanted to -- I've been examining the transcript last night. Mr. Palmer misspoke himself briefly with a word and we just want to correct that on the record if he could. It's located on page 203 of the transcript from yesterday.

MR. DONALD PALMER: On page 203 of the transcript lines 10 to 14 -- and I'll direct -- the direct quote is:

> "There is some subjectivity to the probability of any of those plausible scenarios occurring but through both historical data and through more -- some more anecdotal data, we have determined those -- all those scenarios

to be plausible."

The --

THE CHAIRPERSON: I would dare any normal human to understand this.

MR. DONALD PALMER: The -- the word that I wanted to put some context around was the "anecdotal data" and that's more in the context of field data. We've talked, at some length, about the claims forecast committee bringing forth field data to make sure that all the analysis that we're doing were within the current context, some of the current events that we're seeing and -- and that's really that same context within the DCAT committee, that field experience, that management judgment within the members of the DCAT committee. So that -- that is really the context around that word "anecdotal."

THE CHAIRPERSON: Thank you, Mr. Palmer, that helps.

MS. CANDACE EVERARD: Thank you, Mr. Chairman.

MPI PANEL:

MARILYN MCLAREN, Resumes

DONALD PALMER, Resumes

OTTMAR KRAMER, Resumes

CONTINUED CROSS-EXAMINATION BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: I'd ask the panel to turn to Tab 35 of our book of documents which is the question and answer posed by the Board in the Second Round number 7. I'm particularly looking at the attachment.

What I'd ask you to do, probably Mr. Palmer but maybe Mr. Kramer, I don't know is to give us a description of the components that make up this methodology by which the portion of investment income is allocated to Basic.

MR. OTTMAR KRAMER: I'll -- I'll take that on.

As shown in the attachment to the response 2-7, what -- what basically -- at a real high level what we -- we do is we break up the balance sheet to ascertain what the investment portion related to that line of business would be and, so, we take the assets and liability excluding investment assets and -- and split it by line of business.

And what we've shown there is that 99 or more percent of the calculation is attributed based on direct basis. So, we take, let's say, the unearned premiums, those are direct between Basic and other lines of business, the unpaid claims, those are direct between lines of business and we take all the assets and liabilities, excluding the investment assets, to determine which assets and liabilities are attributable to each line of business and then we use that ratio to allocate the investment income.

MS. CANDACE EVERARD: And it would appear from this document that for the '08/'09 fiscal year the percentage of the investment income being allocated to Basic was just over 86 percent?

MR. OTTMAR KRAMER: Yes, eighty-six point five (86.5) on that attachment.

THE CHAIRPERSON: Do the other lines include the pension?

MR. OTTMAR KRAMER: No, the other lines of business are SRE, Extension lines of business. Pension would be included in that -- that category allocated to line of business. The allocated portion, that's where -- that -- that is not direct to each line of business, that's indirect.

THE CHAIRPERSON: The amount attributable to the pension is deducted off the investment income before you start this; is that right?

MR. OTTMAR KRAMER: Yes.

THE CHAIRPERSON: Thank you.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Mr. Kramer, it would appear from the narrative portion of this answer on the -- the preceding page that for the '08/'09 year the -- Basic's 86 percent calculated out to about 3.7 million; is that correct?

MR. OTTMAR KRAMER: Yes, that's correct.

MS. CANDACE EVERARD: Now, going back to the table or the chart that we were looking at, I note that there's a retained earnings line which is the third line item on the chart which reflects 147 million, I believe, for Basic and a hundred and forty-eight (148) for the other lines.

But I'd ask you to just keep your finger on that and look back at TI.14 which is at Tab 8 of the book of documents. I'm just hoping that you can tie in for us the retained earnings figures on 2-7 with the retained earnings number on TI-14?

(BRIEF PAUSE)

MR. DONALD PALMER: Is that in the tab of book of documents TI.14?

MS. CANDACE EVERARD: Yes, it's at Tab 8.

MR. DONALD PALMER: Thank you.

(BRIEF PAUSE)

MR. OTTMAR KRAMER: The -- the TI.14 is as at February or our year end February 28th/29th year end whereas this is a weighted average throughout the year. Throughout the year our -- our -- you know, we have -- we have earnings throughout the year and especially in the first six (6) months we actually have positive earnings and in the winter months we have -- we have losses.

So, this is an average throughout the year and -- and that's how it's calculated and that's why it doesn't tie in to the as-at balance.

MS. CANDACE EVERARD: So is it fair to say then that the -- the figure reflected at 2-7 is more accurate than the one in TI-14?

MR. OTTMAR KRAMER: For allocation purposes the -- the one in TI-14 -- or -- yeah, TI-14 is -- is an as-at balance, whereas this is an -- an average throughout the year. So, for different purposes each is correct, but it's just used for -- for different purposes.

MS. CANDACE EVERARD: Okay. Thank you. Looking a little bit further at the attachment to 2-7, I note that there's a note at the bottom of the table, which refers to the second last line item, and it reads:

"SRE directly attributable investment income and gains on foreign exchange for US fronting deposits."

Does this note tell us that there's a separate investment portfolio for SRE?

MR. OTTMAR KRAMER: It's not a separate investment portfolio. There is a deposit that we have for the SRE line of business, and that attracts certain income and foreign exchange and that is direct for SRE because it's a -- it's a deposit for that SRE line of business, and it's a -- it's a separate investment just for that particular piece. And so, we directly attribute that to the SRE line of business.

MS. CANDACE EVERARD: But SRE has other -- or has a -- a portion of the remainder of the portfolio as well?

MR. OTTMAR KRAMER: Yes, absolutely. And -- and that's included in the other lines. We have nothing else that is directly attributed to any other line of business other than that, because it is a deposit specifically for that line of business.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So how did that particular deposit come about that is a bit different in its characterization from the rest of the portfolio? In other words, why?

MR. DONALD PALMER: We have a fronting arrangement with a US carrier for trucks that go down into the States and -- and require a deposit for proof of insurance purposes.

MS. CANDACE EVERARD: Okay. Now we've spoken a little bit about the allocation percentage that's shown in 2-7, the 86 percent. And I just have another question that relates to that.

If you go back to Tab 15 of the book of documents, which we spent some time on yesterday and, in particular, page 5 of the answer to number 7, in the First Round. It -- it would appear that on the -- the first and second chart, I'm looking at 1-7(c), it's reflected that the percentage total to Basic is 79.7.

So how do we -- and I thought we were looking at the '08/'09 year end for both. So how did we get from 86 to 79? Can you help us with that?

MR. OTTMAR KRAMER: The -- the 86 percent is based on the -- the investment income, excluding that fronting piece. Once you roll that fronting piece in, the calculation then reduces to the 79.7 or 79.8.

MS. CANDACE EVERARD: Thank you. And while we're looking at this piece in 1-7, I note for -- in the middle table the 7- -- or 7(c)(2), we've got for the actual '08/'09 year end, the 79.8 percent that you pointed out, and the forecast for the current year is about -- is back to 86 percent.

Why, or what would be driving that expected increase?

MR. OTTMAR KRAMER: The '08/'09 investment income was very low, as we've discussed previously, at $4.6 million. That -- that fronting deposit investment income piece, then it ends up being a large percentage of the total investment income.

In the future years as our investment income is forecasted to be $84 million, that -- that fronting piece is a very minimal portion of it, and does not impact the calculation to any great extent. And so the overall average then increases again to a little over 86 percent, which is the -- the average -- or the -- the amount -- very close to the amount that we've shown in -- in PUB 2-7 before the SRE impact.

MS. CANDACE EVERARD: Thank you. I'm going to turn then to some questions about unrealized gains and accumulated other comprehensive income or AOCI. So for that purpose, I'd ask you to turn to Tab 17 of the

Board's book of documents which is the answer -- question and answer at 1-11 in the First Round, and we will come to this in some detail.

Now, it's -- it's our understanding that unrealized gains are now recognized on the equity portfolio and bond portfolio in AOCI based on the fair market value of those assets as of the balance sheet dates; is that correct?

MR. OTTMAR KRAMER: Yes, yes, that would be correct. Unrealized gains and losses on any available-for- sale assets whether they be equity or debt are -- are realized through -- are -- are recorded in OCI and accumulated in AOCI.

MS. CANDACE EVERARD: Now, if we look at the attachments to this answer at number 11 on pages 1 and 2 where we have a series of tables by quarter, it would appear that it's the third column in each table that reflects the balance of -- of AOCI that will -- or, sorry, that the third column reflects the realized gains or losses as the case may be?

MR. OTTMAR KRAMER: Yes, those -- those are the gains or losses that have been -- that are realized and transferred into the -- into net income or that would be also in -- at year end if there was any impairments, that would also flow through there, so, realized and impairment write-downs.

MS. CANDACE EVERARD: And we do have some questions about those write-downs which I'll come to in a couple of minutes.

So -- so just to be clear, the -- the balance of AOCI will be recognized in income when securities are disposed of or sold; that's correct?

MR. OTTMAR KRAMER: Disposed, sold, or impaired.

MS. CANDACE EVERARD: And it would be at that point that the gains or losses flow through to the statement of operations for the Corporation?

MR. OTTMAR KRAMER: Yes, that's correct.

MS. CANDACE EVERARD: Now, does the Corporation track its unrealized gains or losses on its available-for-sale investments in its statement of AOCI?

MR. OTTMAR KRAMER: Inherently, that's what the statement of -- of -- other comprehensive income tracks the gains or losses and AOCI accumulates those gains or losses that are unrealized.

MS. CANDACE EVERARD: And then they're transferred over to net income once sold or written off or disposed of?

MR. OTTMAR KRAMER: Correct.

MS. CANDACE EVERARD: Okay. If we focus

for a moment on page 2 of this attachment and we start by looking at the second table which is the quarter from June 1st to August 31st of '08, it would appear - if we're reading this correctly - that the opening balance in AOCI at that quarter was some 50.8 million.

Looking at the first column there were unrealized losses of eighteen point two (18.2), realized gains of six point four (6.4), which left a closing balance in AOCI as of the end of August '08 of some 26.1 million; is that correct?

MR. OTTMAR KRAMER: Yes, that is correct.

MS. CANDACE EVERARD: And in the next quarter from September 1st through November 30th, there was that opening balance of positive AOCI of twenty-six point one (26.1). There were unrealized losses because, of course, this was when the fan was hit in the market of a hundred seventy-eight point four (178.4) in unrealized losses -- further realized losses of nineteen point three (19.3) which left a closing negative balance in AOCI in that quarter of a hundred and thirty-two point nine (132.9); is that correct?

MR. OTTMAR KRAMER: Yes, that's correct.

MS. CANDACE EVERARD: And if we look at the last table on the -- this sheet for the next quarter, that being from December 1st of '08 to the year end at

February 28th of '09, we have that opening balance of negative AOCI of one thirty-two point nine (132.9), unrealized losses of twenty-five point eight (25.8), realized losses of forty point eight (40.8) which left a closing balance in AOCI for the year end of a hundred seventeen point nine (117.9) or almost a 118 million in the negative; is that correct?

MR. OTTMAR KRAMER: Yes, that is correct.

MS. CANDACE EVERARD: So if we look back at the last two (2) quarters, so the September through November quarter and the December through February quarter, in that third column refle -- reflecting realized losses, there was about 60 million in realized losses over those two (2) quarters.

I'm adding the nineteen point three (19.3) and the forty point eight (40.8) to get me to roughly sixty (60)?

MR. OTTMAR KRAMER: Yes, that's correct. Those -- those realized losses, again, are actual disposals and impairments.

MS. CANDACE EVERARD: And that -- that was going to be my next question. That includes the 24 million and the write-down of impaired investments that was done?

MR. OTTMAR KRAMER: Yes, that's correct.

MS. CANDACE EVERARD: And in terms of the details of the realized losses, if we -- if -- if of that sixty (60), 24 million was the -- the write-down in impaired investments, that leaves about 35 or 36 million in realized losses.

And I'd just like to -- to have you look at, for a moment, the question and answer proposed by CAC at 1-80, because that contains a breakdown of that thirty-five (35) or thirty-six (36). And I'm looking, in particular, at the answer at sub (b).

(BRIEF PAUSE)

MS. CANDACE EVERARD: So if you're there, am I right, that the -- the table at 1-80(b) reflects a breakdown of the realized losses that are brought forward in 1-11?

MR. OTTMAR KRAMER: I think you've confused the amounts because you're look -- the -- the discussion we've been having on 1-11 are for two (2) quarters, and we've got the 60 million less the $24 million -- twenty-four (24)/ twenty-five (25) that we're talking that were written down. That -- that the -- the res -- the -- the number excluding the write-downs is $35/$36 million, but that is for two (2) quarters including bonds also.

This PUB -- or this response to the CAC 1-80 is for the entire year and include -- is -- is only equities, doesn't include the -- the debt instruments at all.

MS. CANDACE EVERARD: So it's 35 million, but it's not the same 35 million?

MR. OTTMAR KRAMER: Correct?

MS. CANDACE EVERARD: Okay. Now we know that the -- the Corporation, just sticking with the CAC answer for a moment, did have realized losses of about thirty-five and a half million in the '08/'09 year, and as has been mentioned, there was also the 24 million and a bit in write-downs.

If -- if I understand the documents correctly, those two components are two of three components that make up the $80 million equity loss that we've been talking about over the last couple of days?

MR. OTTMAR KRAMER: Yes, that is correct.

MS. CANDACE EVERARD: And the third component of that 80 million is about a $20 million hedging loss which arose from the Corporation's hedging strategy on US equities, is that correct?

MR. OTTMAR KRAMER: It -- it is a -- a loss on hedging that flows through the income statement.

I -- I don't want to call it just an overall loss because it is the loss on hedging that flows through the income statement. The other side of that hedging loss is -- is -- is equal and offsetting in AOCI or in OCI where we record the foreign exchange hedging loss through the P&L or through net income and the opposite side of that, the -- if there's a -- a loss on the income statement there is a gain in -- an unrealized gain in OCI.

So it's -- it is an accounting issue that we have to record the hedging loss through the P&L and OCI and AOCI gets the offsetting benefit. If there's a loss, AOCI then has a gain, all things being equal.

MS. CANDACE EVERARD: So if I understand you correctly, an offsetting gain in -- in accumulated other comprehensive income is not shown through net income?

MR. OTTMAR KRAMER: That's correct. It -- it -- it flows through OCI and accumulates in AOCI.

(BRIEF PAUSE)

THE CHAIRPERSON: While Ms. Everard is pondering her other question, just something that leaps to mind, and perhaps she's going to ask this question, but relating back to a response I think of yesterday related to improvements in the bond situation. I notice in the quarter ended November 2008 the unreleased gains or losses for bonds deteriorated by apparently 53 million.

If I recall properly, that was a point in time in which interest rates were literally plunging for government bonds. How would a loss of that nature, unrealized granted, develop in a situation like that?

MR. DONALD PALMER: I can handle that one. Although government bonds, the highest quality bonds were -- were going down, the spreads for provincial bonds and for corporate bonds were going up.

We saw spreads -- on corporate bonds, for instance, that normally are in a 2 percent range, those spreads went up to 4, 4 1/2 percent during the credit crisis, so that really caused a big loss in any provincial bonds or for corporate bonds.

THE CHAIRPERSON: Thank you for reminding us of that. From another proceeding we're familiar with the changes in the spreads, so, the narrowing in the spreads presumably is helping at this point in time.

MR. DONALD PALMER: Yes.

THE CHAIRPERSON: Thank you.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: If we look at Tab 17 a little further and the answer at 1-11, as we spoke about a moment ago, as of the end of the '08/'09 year there was a negative balance in AOCI of some 117 -- almost 118 million.

If we turn over the page, we have an update with respect to the first quarter of the current fiscal year, which reflects that, as of the end of that quarter, of the end of May of '09, the negative balance had improved from 117 or close to 118 to about 38.7, still negative, but considerably better, is that correct?

MR. OTTMAR KRAMER: Yes, that is correct.

MS. CANDACE EVERARD: And this improvement was due to unrealized gains of about 73.2 million, as well as realized losses of about 6 million?

MR. OTTMAR KRAMER: Yes, that would be correct.

MS. CANDACE EVERARD: And we were wondering if it would be possible for the Corporation to provide us with an update. Now I know evidence has been given that the second report will be coming probably on the 14th and an update on this will be included there.

MR. DONALD PALMER: An update, the AOCI is included in the statement, and that will be pro -- provided on or before the 14th.

MS. CANDACE EVERARD: Will the report include the update in this level of detail that we're looking at at 1-11, and if not, would you be able to provide the same table, just updated for the second quarter of the current year?

MR. DONALD PALMER: The quarterly will not have this level of detail, but we can provide that, yes.

MS. CANDACE EVERARD: Thank you.

--- UNDERTAKING NO. 5: Provide same table as 1-11, just updated for the second quarter of the current year

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Okay, Mr. Palmer, you gave some evidence yesterday to Mr. Saranchuk that it's the view of the Corporation that AOCI should be taken into account when looking at the RSR balance because it does relate to the overall strength of the Corporation.

THE CHAIRPERSON: Ms. Everard, if I could just interrupt for a second before you go in that direction just one other -- and I apologize if somehow or other I missed reading something.

But, in looking at this particular schedule, at a period of time from September 1st to February 28th that's, I think fair to say, the depth of the equity collapse was experienced. I think the low actually happened on March the 6th, though February 28th is pretty close to it.

But in that period of time you actually realized, by the looks of it, some $66 million of gains in equities.

Now, presumably these would have been stocks that you've held for some time; am I correct in that?

MR. DONALD PALMER: I don't believe so, Mr. Chairman. Where are you getting that 66 million from?

THE CHAIRPERSON: Well, I'm looking at -- it says:

> "realized gains or losses transferred to income November 30th, 2008, Canadian equities 13.3 million realized gains/losses transferred income February 28th, 2009, Canadian equities 28 million."

MR. DONALD PALMER: When they're transferred out of AOCI if they're a gains it shows -- a gain shows as a negative because it's -- it's getting transferred out of AOCI into net income. So the fact that those numbers don't have brackets around then actually indicate a realized loss.

THE CHAIRPERSON: I'm not very sharp this morning, thanks.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Okay, so I was asking about your evidence yesterday, Mr. Palmer, that it's the Corporation's view that AOCI should be taken into account for setting the RSR but we understand it's the Corporation's position that it should not be taken into account for rate setting.

And there is an IR on this where the Corporation put forward its position, so, I'd ask you to go there, it's 1-6 and it's not in the book but there is quite a long answer that I'm going to ask you to tell us about.

(BRIEF PAUSE)

MR. DONALD PALMER: Just to clarify, we did not say that the AOCI was part of the RSR calculation. The AOCI is part of the MCT calculation.

So, that AOCI is part of the equity of the Corporation per se, but not -- RSR is stated before the deduction or addition of AOCI.

MS. CANDACE EVERARD: I was just reading that back to you based on my own note from listening. If I wrote it down incorrectly, then -- then I apologize but the -- the transcript will reflect, obviously, what -- what was said. So if -- if there was that nuance that I missed, then -- then, as I say, maybe I just wrote it down incorrectly but I thought that's what I heard you say.

In any event, let's look at 1-6 where the question was asked at (b) for the Corporation's position on whether this Board should consider the results of comprehensive income in the determination of rates. And then the Corporation gave us an answer and narrative.

So, if you can speak to us about it, we'd appreciate it.

MR. DONALD PALMER: I'm sorry, Ms. -- Ms. Everard, was -- was there a specific question?

MS. CANDACE EVERARD: Whether you want to read this in or just talk to us about it, I just want to get some evidence on the record with respect to this answer at 1-6 and the Corporation's view of using AOCI to set rates.

MR. DONALD PALMER: Okay, I'll -- I'll go ahead and read it in. To part B:

"This is a complex question that requires an answer from a number of perspectives and context. From a conceptual and policy perspective, the Corporation's position is that the PUB should not consider the results of other compre -- of comprehensive income in the determination of rates. This is because, by definition, other comprehensive income [in quotes] 'is not' [quote] 'real' [unquote] or has not been [quote] 'recognized as real' by being brought into net income. By the time it would be recognized as real, it may grow, reduce, or fully disappear and in the case of bonds, the [quote] 'other comprehensive income' [unquote] value can be particularly less meaningful to the point of being irrelevant because there is no recognition that the bonds have a guaranteed rate of return should they be held to maturity. Changes in the value of bonds is a reflection of changes in their relative market value which may or may not have any real impact on the Corporation's financial position or ultimate investment income. This matter becomes more complex through the consideration of the fundamental purpose of investments; that being, to fully offset the liability of the Corporation. And, according to GAAP, changes in the value of liabilities must be reflected in net income without regard to the fact individual claims reserves, the liabilities, last for many years and, therefore, their value will change many times, increasing and decreasing based on changing market conditions, interest rates and inflation. The changing value of the claims reserves must be, [quote] 'recognized as real' [unquote] by virtue of the inclusion in net income, but are no more [quote] 'real' [unquote] than the value of assets reflected in other comprehensive income, because the changes in the value of claims reserves will also grow and reduce through time. This GAAP requirement introduces significant volatility in annual net income if it's not offset by changes in asset value. The single approach available to the Corp -- Corporation to mitigate this volatility is to match the liabilities with the investments in the income statements; that is, classifying bonds as held for trading. Once sufficient bonds of similar durations are thus classified, net income volatility will be minimized to the extent possible. The value of other investments classified as available for sale will cause other comprehensive income to fluctuate through time. And consistent with the Corporation's conceptual and policy perspective should not be considered in the determination of rates. If however, this approach was not available to the Corporation, and only liabilities were reflected in the income statement, and all investments were reflected in other comprehensive income, serious consideration would have to be given to considering total comprehensive income in the determination of rates to mitigate shorter term volatility. Otherwise, for example, interest rate changes could drive the need to increase or decrease net income, increase or decrease rates. Net income could swing wil -- quite wildly from one (1) year to the next and, therefore, so too could rates. But while this would mitigate shorter term volatility, it would introduce the risk of longer term volatility for the same reasons that from a conceptual and policy perspective, the Corporation's position is that the PUB should not consider the results of comprehensive income in the determination of rates."

MS. CANDACE EVERARD: Thank you. Mr. Palmer, I just want to back up a minute to the question that I asked about your evidence from yesterday, about taking AOCI into account for the RSR. We found the transcript reference that I was referring to. It's -- it's page 239 of yesterday's transcript.

Mr. Saranchuk said -- there -- there had been a discussion going on about AOCI. And he said:

"Just for the record, at a high level, what is AOCI?

[And you said] Accumulated Other Comprehensive Income is the unrealized capital gain or capital loss in your available for sale assets.

[He said] And the Corp -- is the Corporation inclined to agree that AOCI should be taken into account in calculating RSR target levels or not.

[And then you said] In calculation of the RSR targets, it's certainly part of the overall financial strength of the Corporation. So yes, in terms of the RSR, and all the risks that are -- the Corporation faces, that should be considered as one (1) of the risks to the Corporation. That's really part of the financial strengths."

So that would have been what I noted, and what I thought I was reading back to you accurately. So -- just so that the record's clear, can you just try to reconcile or explain a bit further that answer, together with the additional evidence that you gave this morning, just so we all know where you sit?

MR. DONALD PALMER: It's probably best explained in the context of the three (3) methods of the -- that we were looking at in the calculation of the RSR, and -- and the comparison of those methods.

And all of those, to an extent, would be a -- and -- a measure and an evaluation of financial strengths -- strength. There are differences within the MCT. For instance, AOCI is explicitly part of the calculation.

So as we compare and contrast all of those various methodologies, you certainly have to make adjustments.

Within this quote, I didn't specifically say that the AOCI was part of the calculation of the RSR target, I said it's part of the overall financial strength of the Corporation. So if that helps you, Ms. Everard.

MS. CANDACE EVERARD: So you're saying it's not a part of the calculation, but it's a part of the consideration. It's a factor.

MR. DONALD PALMER: Yes.

THE CHAIRPERSON: Ms. Everard, if you don't mind, I'd like to go back to my question now that Mr. Palmer's corrected me. And thank you very much for that because my question was actually one that was leading to the question I really had in my mind, but I do thank you for getting rid of my misperception of this.

In that particular period, these transfers into realized gains or losses represent the sale definitely of equities. But the question I was trying to get at was, because it again goes back to an answer the other day:

Was the money that resulted from these sales reinvested back into equities?

MR. DONALD PALMER: A lot of that, probably about half of it, was impairments, so, the investments were not actually sold, still -- still held. In other cases, as any investment manager will -- will buy and sell equities, would sell one (1) equity to purchase another.

So, from that standpoint, this would like -- the proceeds from those sales would likely have been used to purchase different equities at the discretion of the manager, not -- not to buy the same equities. This is not a case of just selling, realizing the loss, and buying the same thing; that -- that's not what's happening here.

THE CHAIRPERSON: No. And also, your answer confirms something you said yesterday. It wasn't part of the, I don't know what you'd call it, the resetting of the asset allocation then?

MR. DONALD PALMER: No. And one (1) of the things that we -- we hire our investment managers to do is to -- to sell -- to sell at the top and buy at the bottom, so --

THE CHAIRPERSON: Pretty tough during that six (6) months.

MR. DONALD PALMER: Absolutely, but sell before it goes deeper, I suppose.

THE CHAIRPERSON: Ms. Everard...?

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you. Mr. Palmer, just one (1) further point to clarify on this issue of the calculation in your evidence from a moment ago that, at present, while AOCI is a factor, it's not part of the calculation.

It is the case, though, that when the Corporation was relying or -- or wanting to rely on MCT to set the RSR, that AOCI was part of the calculation at that point in time.

MR. DONALD PALMER: Yes. And I will also say, within that context of the calculation, I think we saw the DMCT ratio drop from about 70 percent at the end of the '07/'08 year to 7 percent at the end of the '08/'09 year.

MS. CANDACE EVERARD: And I do have some questions on that, whi -- which I'll get to a little bit later. I just want to finish this stream on investments.

So it's my understanding that, at this point in time and since June of '08, any new purchases of long-term bonds lead to a designation of held for trading, is that correct?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: And because of that designation as held for trading, those financial instruments and any realized or unrealized gains on them are recorded in that income, is that right?

MR. DONALD PALMER: Yes. And just to slightly correct the record, it's marketable bonds that are purchased, not MUSH bonds. MUSH bonds are still designated -- or classified as held to maturity.

MS. CANDACE EVERARD: So for the bonds that are characterized as held for trading, it would be fair to say that gains or losses on them due to interest rate changes or market yields would offset the financial impact of market yields on claims' liabilities.

MR. DONALD PALMER: That's the purpose, yes.

MS. CANDACE EVERARD: Is it the case that the Corporation's goal is to match the movement in claims' liabilities with investment income as an immunization strategy?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And how successful would the Corporation say this strategy has been to this point?

MR. DONALD PALMER: We're on our way because we can't reclassify our total portfolio. We're -- we're getting there slowly. We do have some turnover on our bond portfolio, so, to the extent that we have realized those -- those gains, especially this year as interest rates have been falling, there has been an offsetting. It's certainly not a full offset.

MS. CANDACE EVERARD: Let's just have a look at the numbers for a moment.

MR. DONALD PALMER: So -- so -- and just to clarify it, it's been completely successful in terms of what our strategy was, it's just not completed yet.

MS. CANDACE EVERARD: Okay. If we look

at 1-6 which you were reading from a moment ago, the long answer about AOCI -- and this is not in the book -- there is an attachment to that answer that follows on the narrative.

Do you have that?

MR. DONALD PALMER: I have it.

MS. CANDACE EVERARD: And it would appear that pursuant to the policy that we've just been discussing the Corporation recorded unrealized losses of about 5 1/2 million in '08/'09 and then from March to June of the current year recorded about a $5.7 million gain on the bonds?

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE EVERARD: So I think you may have already answered this, but, can you confirm that the corresponding impact on the change in claims' liabilities during those same periods was not much as in -- as in there was not much of an impact? Maybe I misunderstood your earlier answer but --

MR. DONALD PALMER: No, no, there was a very large impact actually on the change in -- in our calculation of liabilities. This five point seven (5.7) is an offset to that -- that loss but not a complete offset.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Can you give us an idea of what the mismatch would have been for each of those periods, that is, '08/'09 and then the first quarter of this year?

MR. DONALD PALMER: We can give you an estimate of that number. There are other factors within the calculation of liabilities.

Certainly, it would be a lot greater than this number. The exact quantum I'd have to get back to you.

MS. CANDACE EVERARD: Can you give us a ballpark?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Mr. Chairman, if I can, just a further point of clarification to your question earlier about the $66 million, all of that was either impairments that had to be brought into net income or independent activity of the managers and, so, all of that money stayed in their hands and they did as they saw fit with it.

THE CHAIRPERSON: Yeah, we appreciate

that, it clears up a question. Thank you.

MR. DONALD PALMER: It'll -- for the question on the mismatch between liabilities, it'll take us a few minutes but we'll get to you very shortly.

MS. CANDACE EVERARD: Thank you. And I do have, as you I'm sure would imagine, a section on IFRS questions or the International Financial Reporting Standards, but just at this point in time, is it the case that the changeover to IFRS will allow the Corporation to reclassify its long-term bonds?

MR. DONALD PALMER: So we -- our current understanding is yes.

MS. CANDACE EVERARD: Is it possible to early adopt, in otherwise -- in other words, take on that piece of IFRS earlier than you need to?

MR. DONALD PALMER: You -- you can't adopt pieces as you see fit. So -- so we -- there could be an option to early adopt. We're absolutely not taking that option. In fact, for private insurance companies they've been instructed by OSSFI not to take that option. So -- so no, it's -- we will not be an early adopter of IFRS.

MS. CANDACE EVERARD: Do you know why OSSFI is recommending not to early adopt?

MR. DONALD PALMER: Not specifically.

MS. CANDACE EVERARD: Okay. We've been speaking in passing about the $24 million in investment write-downs. So I just want to get into a little bit more detail on that. If we look at -- back at Tab 15 of the Board's book of documents, that's the answer at 1-7, and 1-7(f) has some detail on this.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So as reflected in this schedule, the total amount of the write-downs was about 24.6 million?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: And we know from one of the answers given to CAC/MSOS, their question 80(d) that the Corporation has a write-down policy. You can go to it if you want.

But I just want an explanation on the record, in general terms, of how the Corporation determines an impairment?

MR. DONALD PALMER: The key words are "If the loss of value are other than temporary." So if it's the belief that the value of the security, either equity or bond, will not come back to the -- the book value then it's impaired.

MS. CANDACE EVERARD: What had the Corporation's impairment write-downs been like for the last number of years. I know we have '08/'09 in front of us but what about, say, the four (4) years previous to that.

Do you have a sense of that?

MR. DONALD PALMER: A lot less. I think they were sort of in the $8 to $10 million range.

MS. CANDACE EVERARD: Would you be able to give us something, a number for each of the four (4) years preceding '08/'09?

MR. DONALD PALMER: We can do that.

MS. CANDACE EVERARD: Yeah, ju -- just the total. We don't need the breakdown.

MR. DONALD PALMER: In our annual report, because we have comparative years, I can right now give you, the '07/'08 number was 9 -- 9.01 million.

MS. CANDACE EVERARD: And -- and so you'll -- you'll undertake to get us the total numbers for the three (3) years preceding that? And then we'll have a total of five (5)?

MR. DONALD PALMER: Yes, that's -- that's correct. And that came page 63 of the annual report.

MS. CANDACE EVERARD: Thank you.

--- UNDERTAKING NO. 6: Provide Corporation's impairment write-downs for the four (4) years previous to '08/'09

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Now looking back at 1-7(f), which sets out the 24.6 million, it's the case, as I understand it, that these investments that were written down were designated as available for sale? Is that correct?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: And it's also my understanding that any losses that had been incurred, if not for the write-down, would have been recognized in AOCI?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: So with the impairment write-down having been done, the losses come out of AOCI and are recognized in net income?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: Now, I just want to draw to your attention a few of the specific write-downs on the list. Looking under the US Equities heading, there is American Express, Bank of America, JC Penny, Lowes, Xerox.

Can you comment on those? Because I -- I appreciate your evidence about where the loss is a value of something other than temporary, but those seem like large businesses that are certainly still operating and -- and that kind of thing.

So can you -- can you help us with why those would've been written down?

MR. DONALD PALMER: We did a complete analysis of a number of companies. And certainly the -- the financial meltdown, some of these are -- are financial stocks, American Express -- Express, Bank of America, with such an extreme loss in value, and it was just felt that the long-term prospects were that it was not going to come back to book value.

MS. MARILYN MCLAREN: Specifically, the stock price was not going to come back to book value, right? I mean the companies may last forever. The companies may be getting, you know, healthy, and strong, and so on, but will the stock price recover to where it was, the -- the decision from an accounting perspective in terms of the Corporation's auditors and -- and our own staff and finance, that was the decision as it was going to recover -- the stock price was not going to recover to that level.

MR. DONALD PALMER: Impaired value does not mean bankrupt by any stretch of the imagination.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So is it the case that any future increases in the value of these assets is tracked or are accounted for?

MR. OTTMAR KRAMER: Yes, we do also track any increases. So for a stock that we write down, it's written down, the loss is recorded through the income statement. Any future realizations, if -- if the stock were to increase based on Section 3855, the mark -- to market process, the -- that increase in the fair value is -- is recorded on the balance sheet, but that reversal of -- of the -- the loss or the writedown, that does not go through the -- the income statement, it continues to remain in OCI or AOCI.

So it is tracked, it is recorded, but the impairment reversal will not go through the income statement until that security is sold, as per the handbook section.

MS. CANDACE EVERARD: Does the Corporation have information on what the -- the current market value of these impaired investments is?

MR. OTTMAR KRAMER: The Corporation does. I personally don't have that in front of me right now.

MS. CANDACE EVERARD: Would you be able to provide it through an undertaking?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: Which ones are you looking for, what exactly?

MS. CANDACE EVERARD: The whole -- the whole list.

MR. OTTMAR KRAMER: The whole list. We -- we could provide that. It will -- it'll take a little bit of time to just accumulate. We do have that information, but we could do it as of the end of Q2, August 31st.

MS. CANDACE EVERARD: Yeah, that would be fine. Thank you.

MR. OTTMAR KRAMER: Some of those investments, we -- we might have actually liquidated and sold those, but we'll -- we'll provide you what we do have on hand.

MS. CANDACE EVERARD: Thank you.

--- UNDERTAKING NO. 7: Provide the current market value of impaired investments

MS. CANDACE EVERARD: Mr. Chairman, we've been sitting for about an hour. I know it's a little earlier than we'd normally take our break, but just given where I'm at with this and a little bit of review that needs to be done, I'd ask that we take the break now.

And then, when we come back I'll have a line of questions, and then I'll move into a completely new area.

THE CHAIRPERSON: Very good. Thank you. Okay, we'll come back at 10:15.

--- Upon recessing at 10:01 a.m.

--- Upon resuming at 10:25 a.m.

THE CHAIRPERSON: Okay. The players are all in the room. We're basically ready to go. Ms. Everard...?

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you, Mr. Chairman.

I just have one (1) follow-up question on investments before we move away from that. There's been evidence given, I believe by you, Mr. Palmer, with respect to real estate opportunities, and infrastructure opportunities, or maybe it was Ms. McLaren who said that the intention would be to find something local that -- that that would be expected, that it would be a Manitoba type thing.

And obviously, we have evidence about the Corporation's investments in MUSH, which are local. When it comes to equities, though, I just want to confirm that the instructions that are given to the managers don't relate to purchasing on the basis of geography, but rather simply purchasing on the merits of a particular stock.

In other words, Manitoba isn't a -- a factor when we're talking about which invest -- equities to invest in. Is that fair to say?

MS. MARILYN MCLAREN: Definitely. So let me clarify as well for the record. There's no direction to be local, i.e., Winnipeg or Manitoba on any of the inves -- investments that you mentioned. The -- the decision has been taken that the Corporation's real estate investments will be limited to Canada; that's as local as we're talking for real estate.

And while we have not established sort of the boundaries or -- or policy with respect to infrastructure, I suspect you will not see us investing in an infrastructure project on the other side of the world; that will likely be closer to home as well. I -- I, in no way, suggested we are limiting either of those to an emphasis at all on -- as local as Winnipeg or Manitoba.

And with respect to equities, they are Canadian equities, and they are US equities, and the managers, you know, within the contract that we have with them, which talks about, you know, not being too concentrated in any one (1) sector or anything like that, there -- there is no emphasis and no suggestion about what exactly they should buy, or where it should be located.

MS. CANDACE EVERARD: Thank you. Now I want to go to another area that will have some cross-over with some of the things that Mr. Saranchuk has examined on.

We have evidence on the record, and it's in the filing, that the Corporation -- if the RSR was in a different position, may have applied for a rate decrease in this application of 2.4 percent, but that was not requested because of the Corporation's view that the RSR balance is too low. You are with me on that?

MS. MARILYN MCLAREN: We're with you on

that. But certainly also, you know, the Corporation took -- took seriously, and gave consideration to, the Board's comments about uncertainties related to investment markets and IFRS and things like that.

MS. CANDACE EVERARD: Now, I want to have a look at the results for '08/'09, and we'll -- we'll come to a -- a document that I'm going to provide. But would it be fair to say, taking into account AOCI, as well as the dedication of some retained earnings for the Extension Development Fund, and the Immobilizer Incentive Fund, that MPI's financial position deteriorated, for lack of a better word, in '08/'09 over what had been experienced in the previous year?

MR. DONALD PALMER: In terms of overall financial strength measured as at February 29th, because of the decrease in the market value of our equities, I would agree with that.

MS. MARILYN MCLAREN: That -- that's really the only reason that -- that the Corporation's financial strength would have deteriorated is because of the -- the investment, the impact of investments.

MS. CANDACE EVERARD: And that would be the eighty (80) million that we've speaking of --

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: -- and we know what the three (3) components are into that. We went through that already today.

Okay. So I'd like to have the panel have a look at the -- at some figures. Mr. Gaudreau has a one (1) page document that we'd like you to look at. Take a moment, and then we'll go through it.

THE CHAIRPERSON: Do we have that exhibit number for it?

MS. CANDACE EVERARD: We will. I think it would be 10 -- Board Exhibit 10.

THE CHAIRPERSON: Very good.

--- EXHIBIT NO. PUB-10: MPI Overall Net Financial Position as of February 08, 2009

(BRIEF PAUSE)

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Definitely want to give you a -- a moment to look this over but just for clarity, the change column, which is the far right, relates to the two (2) columns before it, so, February of '08 and February of '09, that's where we get the change column. The March 1st, '09 column is just a standalone column but it's connected.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Ready?

MR. DONALD PALMER: I think we understand what's -- what's here and --

MS. CANDACE EVERARD: Okay, and -- and we'll go through it and make sure that -- that everyone's on the same page.

MR. DONALD PALMER: And again, we have not checked any of these numbers so we'll take these as presented but, again, subject to check.

MS. CANDACE EVERARD: For sure. Okay, so the first line item is the Basic RSR balance, it's reflected here on March 1st of '09 and February 28th of '09 to be 135 million compared with 127 million the year before, the close of '07/'08 for a change between the two (2) year ends of 8 million. You're with me on that?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And then we have some information on the next line with respect to the competitive lines that the balance in their respective RSRs or the total of their reserves, retained earnings -- and I'll go to the February '09 column first was 92 million and then if we back up to March the 1st, it's reduced to seventy-one (71) on the basis that there was a transfer into the EDF on March 1st of '09?

MR. DONALD PALMER: Yes, just one (1) minor thing. In the competitive lines comment, that seventy-one (71) we think is seventy-two (72) but other than that we're good.

MS. CANDACE EVERARD: Sure, okay. I'll definitely make a note of that.

So the comparison then from the year end of '09 to the year end of '08, the ninety-two (92) to the one-o-four (104) was a reduction of 12 million and that's shown in the change column?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: Okay. So the third line would be a -- a subtotal of the figures that we see.

So, in the first column for March 1st of '09 it's two-o-six (206) based on what you said that it maybe should be seventy-two (72), it could be two-o-seven (207) instead of two-o-six (206)?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And for February 28th of '09 the total or the subtotal in retained earnings was 227 million compared with 231 million the year before, so, a change of 4 million?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And then we have an AOCI line item which reflects a negative balance for both March 1st of '09 and February 28th of '09 of some 118 million?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And that is compared with a positive balance of 23 million as of the year end of '07/'08, so, for a change of a hundred and forty-one (141) and there should obviously be a closed bracket beside the one forty-one (141), that was just a small oversight?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: So if we offset the subtotal of retained earnings in each column by the AOCI at the material time, we end up with the row that's entitled "Net Free" which would be the remaining balance.

So, under the March 1st, '09 column if we take two-o-six (206), or to use your number, two-o-seven (207), and we subtract the one hundred and eighteen (118) negative balance in AOCI, we end up with eighty-eight (88) or eighty-nine (89).

Are you with me?

MR. DONALD PALMER: Yes, we're -- we're there. We were just talking about the terminology of --

of "net free." We would probably say "unreserved equity."

MS. CANDACE EVERARD: Sure. And that's -- we're fine with that.

In the next column, the February 28th, '09 column, if we do the -- the same calculation, taking out of the two hundred and twenty-seven (227) in retained earnings, the one hundred and eighteen (118) in negative AOCI, we end up with 109, 109 million, compared with 254 million for the previous year, is a negative change or a reduction of about 145 million?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And the next part, or the -- the little table there that's underneath just reflects the balances in the EDF and the IIF on the various dates and it's fairly self-explanatory, unless you have any questions for us of it.

MR. DONALD PALMER: I think we're good with that.

MS. CANDACE EVERARD: So, what I'd ask you to do, keeping our eyes on the chart that we've provided as Exhibit 10, is have a look at Tab 12 of the Board's book of documents, which is the MCT, minimum capital test document that you would have, I believe, looked at with Mr. Saranchuk.

MR. DONALD PALMER: Just -- and I'm not quite sure what your questions will be, but the chart in Tab 12 is Basic only, and the chart that you've just handed out as PUB-10 is corporate wide, so with --

MS. CANDACE EVERARD: Yep, I agree.

MR. DONALD PALMER: -- with that, we're good.

MS. CANDACE EVERARD: Okay. Now we've heard evidence with respect to the PIPP enhancements and the number of $90 million being committed retroactively together with another 7 million per year going forward.

And so my first question about the document at Tab 12 is to confirm that, if we look at line 2, which is entitled "Total equity less AOCI," and it reflects a balance of 136.9 million, that dollar figure, and that would be for the current year, takes into account the $90 million that's been committed for the PIPP enhancements; is that right?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: So, in other words, if the PIPP enhancement reduction was not included, that number would be 226.9 million.

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: So it would be fair to say that if the $90 million PIPP enhancement had not occurred, the retained earnings of the Corporation would be $90 million higher than they are?

MR. DONALD PALMER: I think the number was 90.8, but, sure.

MS. CANDACE EVERARD: Okay, sure, 90.8. So one of the -- the details that we're looking at and trying to understand is, and I'm going to take you back, Ms. McLaren, actually, to some evidence that was given yesterday.

When Mr. Saranchuk was asking questions about the 90 million and the PIPP enhancements, and this is at page 212 of the transcript, if you'd like to go there, evidence was given, and this is at line 21 of page 212, that the $90 million did not hurt the financial strength of the Corporation.

And so, I just would like you to have that -- or have that explained a little bit further. And -- and be -- be -- or understand that the question is not intended in any way to criticize the merits of the benefits for catastrophic accident victims, but simply to understand a little bit further the accounting relating to that item.

MS. MARILYN MCLAREN: Clearly, as evidenced in the last few minutes and -- and obvious through the financial information, the Corporation's financial situation is, if you will, weaker, to the tune of $90 million. No doubt about it. That -- that was -- I guess I misspoke myself yesterday too.

So I guess I would -- what I was trying to get at is that I don't believe that these PIPP enhancements have impaired the Corporation's financial position, okay. It is in good financial shape, people have referenced that. The Basic plan is strong. So the decision to fund the benefits retroactively did not impair the financial condition. That's what I was trying to get at.

MS. CANDACE EVERARD: So if I understand your evidence correctly, even though as a result of the enhancements the $90 million is walking out the door, so to speak, or being spent for that purpose, you feel that the -- the overall position of the Corporation is still a good one, even though it's $90 million less?

MS. MARILYN MCLAREN: Definitely. You know, and I think we're -- we're here arguing for a higher RSR target. But -- but, you know, that doesn't mean we think we're in some sort of financial crisis at the moment.

The context of the -- I -- I don't know if affordability is the right word or -- or even certainly not the Corporation's place to -- to comment on -- on --

on appropriateness of -- of the Government's decisions, but in light of the fact that the PIPP liabilities were significantly reduced far in excess of the $90 million, I think those, you know, that the -- the -- the circumstance, you know, the situational perspective of reducing the amount expected to be paid on, you know, some of the longest term and most severe PIPP claims, and to use part of that redundancy to fund enhanced benefits is the situation we find ourselves in, which is imminently, I guess, affordable and appropriate from the Government's perspective, at least.

MS. CANDACE EVERARD: So would it be fair to say then that that would've been part of the thinking at the time with respect to the enhancements that the other claims, we have this hundred and forty-nine (149) and it would be meritorious or of benefit to catastrophic accident victims to have these benefits take the place, if you will, in part, of that other pool?

MS. MARILYN MCLAREN: I -- I'm not in a position to talk about the Government's thinking. But, you know, the in -- the information that is available here, the information that was in the annual report was information available to them.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So would it be fair to -- oh, sorry.

Okay. So if -- if I understand your evidence correctly and your statement that you just made about what's disclosed in the public record in the annual report, that would include the -- the one forty-nine (149) additional funds being available, that that would have been known prior to the details of the PIPP enhancement coming down?

MS. MARILYN MCLAREN: Dollar value, I don't know that I can speak to that. But a -- a significant redundancy, the fact that there had been several years prior with -- similar that -- that the Corporation had to recognize this as -- as we've talked about in the material before this Board, that -- whereas last year we were telling you that we -- we expected we may very well decide that we're looking at a trend. We knew that we had to do that and that, you know, there was a -- a large redundancy coming.

MS. CANDACE EVERARD: Okay. So just looking back at Exhibit 10 for a moment -- oh, I just see Mr. Palmer's turning around, I'll just wait for him.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Are you back?

MR. DONALD PALMER: I'm sorry. I'm back.

MS. CANDACE EVERARD: No worries. No worries. Okay, so just turning back to Exhibit 10 for a moment. If we look at the February 28th, 2009 column where we have the -- the last line item, which we've entitled "net fee" but, Mr. Palmer, to use your phrase, it would be unreserved equity of about 109 million, if we back out of that number or subtract from that number the $92 million in the competitive lines that's indicated on this table, we'd be left with about 17 million, is that correct?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And it would appear that that figure ties in with one (1) of the numbers at Tab 12, and I'm looking at line 19, which is entitled "total capital available." That's shown as a 16.6.

Are you with me on that consistency?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: So, we know that the Corporation in previous years was proposing that the RSR range be set using the minimum capital test, or the MCT test, and it's reflected in a number of places, but TI.14 being one (1) of them, that the Corporation's proposed range for last year, '08/'09, was 107, between

107 and 214 million.

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: Can you comment on whether -- if the Board had accepted that range and if that was the RSR range of the Corporation, whether the PIPP benefit enhancements to the -- the extent of the 90 million would have been implemented?

MR. DONALD PALMER: I can't comment on that specu -- speculation, no.

MS. CANDACE EVERARD: Now, looking back at Tab 12 for a moment and the last line on the table, line 90, and, Mr. Palmer, you had commented on -- commented on this earlier this morning, about the ratio as of the end of '07/'08 being almost 71 percent, and then it having dropped to just over 7 percent in '08/'09.

Is it the case that if the favourable claims experience or that -- that 149 million in positive claims experience was not there, that the Corporation would have actually dropped even further in terms of this MCT ratio calculation?

MR. DONALD PALMER: Sure, the equity would have been less and, hence, that percentage would have been less.

MS. CANDACE EVERARD: And it probably would have been a negative number given the magnitude of the amount?

MR. DONALD PALMER: Slightly negative, yes.

MS. CANDACE EVERARD: And just a question dealing with a going-forward notion.

Would it, in the Corporation's view, allow for more transparency if when changes to the Basic plan are contemplated, and that is within the knowledge of the Corporation, that there be some discussion or consultation with the Board as to how that would affect rates going forward rather than, as unfolded with respect to these PIPP enhancements, that the decision was made, and then came to the Board afterward?

Can -- can you comment on the Corporation's position on that idea?

MS. MARILYN MCLAREN: I -- I'm -- I'm not sure. You know, there's some new concepts that -- that have been -- for us anyway, you know, comments about -- from -- from the Chairman in terms of sharing certain information with the Board confidentially.

I'm not sure that in the broader sense that that does much for transparency. And I'm not trying to put too fine a point on it but, sure, the more information that more people have, the more transparency you have.

What exactly is appropriate in this process, you know, given the legislation that we have to work with, you'd have all kinds of transparency if, you know, cabinet meetings were public.

I mean I -- I -- you know, you can take that in a lot of directions, but -- so I think we have to sort of figure out and -- and talk about what kinds of legitimate options, with the framework we have to work within, are available.

MS. CANDACE EVERARD: And while transparency is, of course, always a concern for the Board, in -- in the question that I asked, we -- maybe we don't need to focus solely on transparency, and I appreciate your point about information coming in that's confidential.

It'll assist the Board, but doesn't necessarily make the -- the public process more transparent, but, you would agree with me that if the Board had some information about changes to the coverage that were being contemplated, that would have an effect on rates if it knew prior to the -- the rubber hitting the road, so to speak, it would be in a position to consider the financial effect and, hence, the effect on rates paid by the public?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Sure, more information would be better for the Board, no argument.

MS. CANDACE EVERARD: Okay. I'm going to move then into some other areas. I think that's your cop -- that's your copy.

We've spoken a little bit about claims experience. It's just been touched on in passing, but I'm going to get into a little bit about that, and then I'm going to get into some actuarial things before Mr. Pelly makes his trip back east.

So, if I can ask you to have a look at Tab 1 of the Book of Documents, which is TI.4 from the filing.

(BRIEF PAUSE)

MS. CANDACE EVERARD: We see if we look at the forecast for the current year, the '08/'09 year, it would appear that the Corporation is forecasting an increase of about $50 million in PIPP costs, and I'm looking at the PIPP line from that over the previous year.

Is that correct?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And with respect to the collision line, the next line down, the forecast for the current year is about $13.8 million more than the previous year?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And for comprehensive, again, a line down, the forecast is about $7.2 million over last year?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: Now if we go to Tab 21 of the Book of Documents, which is the question and answer at 21 in the First Round posed by the Board, we have a breakdown of the distribution of PIPP costs over a period of years.

And, Mr. Palmer, I think this was touched on very briefly by you on the first day of the Hearing. If we look firstly at the death benefits line, and I'm looking at 2009, so the very last line, far right little table there, it would appear that the death benefits paid in '09 -- or the year ending in '09 comprised 10.2 percent of direct claims incurred.

Is that correct?

MR. DONALD PALMER: This is the reported PIPP, yes. The -- the death benefits would have been

10.2 percent of the total, yes.

MS. CANDACE EVERARD: And that appears to be for death benefits, the highest percentage that's on this page. So in other words, since 1995, the death benefits have not been higher than that in terms of a percentage?

MR. DONALD PALMER: In terms of a percentage, I would agree with -- with you. I think that could be somewhat misleading, if you look at the absolute value of the death benefits, they're in fact down from the previous year.

MS. CANDACE EVERARD: So it's simply the ratio, if you will. It's not the absolute that has increased?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And probably tied into that is the line above which relates to income replacement. For 2009 income replacement was 30.2 percent of the overall, which was the lowest, on my read, since 1999, and was a drop from about fifty-nine and a half million (59 1/2) to 28.3, from '08 to '09?

(BRIEF PAUSE)

MR. DONALD PALMER: Yes, that's -- that's true. And, again, this would be talking more -- re -- referring more to the change in re -- reserves for past years than it would specifically for current year claims.

MS. CANDACE EVERARD: The other line that I wanted to look at under 2009 was the third line, which relates to permanent impairment reflecting that percentage, again, relative to the other types of benefits at 18.7 percent, which appears also to be the highest for all of the years reflected here, is that correct?

MR. DONALD PALMER: Looks to be the case, yes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Did the figures on this table, the -- the actual dollar amounts, include anything for the new PIPP enhancements, under permanent impairment, for example?

MR. DONALD PALMER: No, the numbers on this page are recorded case reserve only, do not include any IBNR, do not include any other fi -- financial provisions. And because the PIPP enhancements was all contained in financial provisions, they would be excluded from this particular document.

MS. CANDACE EVERARD: So next year will some of these numbers have changed, ha -- the retroactive benefits having been taken into account?

MR. DONALD PALMER: Yes. The plan -- assuming that the -- the Bill is proclaimed, that there will be adjustments both from -- in the payments in the reser -- case reserves.

MS. CANDACE EVERARD: And that would include the permanent impairment line?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: Okay. I'd ask you to go then briefly to 1-23 asked by the Board, which is not in the book.

(BRIEF PAUSE)

MS. CANDACE EVERARD: The attachment, or the schedules that go with this answer -- are you there, Mr. Palmer?

MR. DONALD PALMER: PUB-1-23, I'm there.

MS. CANDACE EVERARD: Excellent. If we look at specifically the brain damage line, and I'm looking at the top table, the number of claims, it does appear that, for the year ending February 2009, there was quite a reduction in the number of claims for brain damage over every year prior to -- or every year subsequent to 1999, is that correct?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: And is there a particular explanation for that favourable result, say, for driving or is it just the -- the luck of the draw or un -- the unluck of the draw, as the case may be?

MR. DONALD PALMER: No, there's -- these numbers are fairly small. It's forty-four (44) out of some seventeen thousand (17,000) claims. There is a real fluctuation.

You'll see we have been as high as ninety-seven (97), as low as twenty-nine (29) on this particular table. They will flop around. Unfortunately, the indications for this year are that those numbers are back up to sort of for more historical levels, so, to attribute it to good driving or good luck, it's somewhere in-between those.

MS. CANDACE EVERARD: As you've indicated and as we've heard with respect to these kinds of -- of situations, there are probably a lot of factors that play into the results and the number of -- of accidents and serious accidents that are occurring out there.

Would you agree that increased traffic enforcement may be, theoretically, a factor that could play into that kind of thing?

MR. DONALD PALMER: If you look at, really, the -- the severe losses with those small numbers, I don't know that you could tie that to traffic enforcement per se. If there was a real trend in the total numbers, that may be a better indicator and we've used the explanation before that for looking at -- frequencies might be a better indicator of -- of some of those traffic enforcement issues or -- or gas price issues that was something that we talked about last year as a possible reason for a decrease in -- in claims' activity.

So -- so I think if you look at the frequency of -- of claims whether somebody slides through a stop sign and hits something, that's the act that we would necessarily be looking at as a frequency. Whether that car hit another car or a child riding a bike makes a huge difference in the severity and -- and in the reporting of this claim and maybe a minor whiplash in the former case or it may be a brain damage claim in the -- in the latter case that I said.

So from that standpoint, I don't know that there's too much conclusion you can make by just looking at the severe accidents.

MS. CANDACE EVERARD: Now, I know that

the Corporation has stated previously with respect to the new driver safety rating system that it hopes that there will be a -- a corresponding reduction in claims but doesn't know what the future will hold.

Is that still the case today?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: Would it be fair to say that the positive results that the Corporation has seen with respect to its anti-theft initiatives could be a contributing factor to the -- the drop in -- in serious claims and a reduction in claims overall?

MR. DONALD PALMER: There may be some of that. We -- we did have a few serious accidents that were a result of car theft, a few fatals. I don't have the exact numbers but I know that we did quote those at -- at some point in time.

Again, relatively low numbers in terms of -- in comparison to the seventeen thousand (17,000) or so claims that we have on an annual basis.

(BRIEF PAUSE)

MS. CANDACE EVERARD: While we're looking at this attachment and the -- the upper table dealing with the number of claims, the first line item is chronic pain and we note that there has been a significant decline in the number of claims if we look from the right-hand side of the table to the left-hand side.

Can you explain, I guess, what type of claims those would be that would fall under that category and if the Corporation has some reasons or explanations as to why there's been such a positive result in the last few years?

(BRIEF PAUSE)

MR. DONALD PALMER: These are by year reported. Now we're -- and there are a number of ways in which to report claims' activity.

We're -- we are checking on this particular report, if this is at the time that it is initially reported to us, in which case this would indicate there would be a change in reporting to the Board, because generally you don't know that a case is chronic for many years afterwards.

So generally this could be, for instance, whiplash claims that don't recover the way that most whiplash claims do, so become chronic pain. In terms of how that recording has changed over time, we're unsure of that right now, but we will check right away.

MS. CANDACE EVERARD: Thank you. So we -- we've spoken about a few potential factors that can play into the number of claims, including DSR, traffic enforcement, drop in auto theft, and there would certainly be other things that one (1) could -- could think of, like graduated licencing, that kind of thing that --

MR. DONALD PALMER: Gas prices is one (1) that I mentioned.

MS. CANDACE EVERARD: Sure, that -- yeah, that was another one (1) that you mentioned.

When the Corporation is considering and developing its claims incurred forecasts, does it take these kinds of things into account?

MR. DONALD PALMER: Yes, to some degree. And dependent -- and -- and that's some of the field knowledge that I -- that I talked about. Behavioural change, as you would see with graduated driver licence, with the knowledge of -- of increased traffic enforcement, that would be gradual over time.

And so that would manifest itself in the actual reported claims. We do use trends of our -- our current claims costs, and claims frequencies to trend into the future, so that would be reflected.

Something like theft initiatives where

maybe not so much on the injury side, but certainly on the comprehensive side, the cost of auto theft.

We were virtually certain that the Immobilizer Program would cause a precipitous decrease in total theft claims, because if a car can't be stolen, then it won't be stolen. So from that standpoint, we had an estimate of -- of what we thought that that decrease would be that we incorporated into our forecasts. And as it turned out, we were in fact a little light in our estimates, that they decreased more than they -- even more than we thought they were going to.

So there are some assumptions that -- for that type of thing that are included, but on the more behavioural -- change of behaviour, some of these other factors that we had talked about, that's more as the actual claims' experience emerges over time.

MS. CANDACE EVERARD: Thank you. Is the Corporation in a position to provide us with an update of the status of any pre-PIPP claims that are still out there?

MS. MARILYN MCLAREN: In terms of the old Part II benefits, or are you talking about how many tort claims do we have left that we're dealing with from pre-PIPP days?

MS. CANDACE EVERARD: Pre PIPP.

MS. MARILYN MCLAREN: Tort Claims.

MS. CANDACE EVERARD: Yes.

MS. MARILYN MCLAREN: We have nine (9).

MS. CANDACE EVERARD: Down to single digits.

MS. MARILYN MCLAREN: We're -- we're quite confident that the reserves will be adequate.

MS. CANDACE EVERARD: Thank you.

Okay. We're going to turn then to some questions dealing with the claims runoff, and I'd ask you then to turn to Tab 5 of the Book of Documents, which is TI.11.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Now, we've been speaking about the $90.8 million in PIPP benefit enhancements that are going to be retroactive.

Is it the case that this exhibit is affected by those changes?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: Now, there was some discussion with Mr. Saranchuk on this exhibit back on Monday, but just to review the net claims incurred line a little bit further, it would appear that the actual net claims incurred for '08/'09 were about $83.9 million below the forecast that was provided at last year's GRA; is that correct?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: So, is it the case that each of the components of coverage turned out to be over estimated? And that the breakdown is, I believe, at Schedule 1.

MR. DONALD PALMER: I'm not going to use the term "over estimated." I will say that the actuals were less than what we had forecasted them to be, yes.

MS. CANDACE EVERARD: Sure, I'm fine with that.

It would appear, if we look at the PIPP line on this schedule, that is Schedule 1 to TI.11, that there is about 53.2 million less that was actually incurred, which forms part of the eighty-three point nine (83.9) overall difference?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And this would be a difference between the forecast and the actual of about 22 percent.

What are the characteristics of the PIPP coverage that make it difficult to forecast?

MR. DONALD PALMER: The long-term nature

of the -- those claims. Also with the -- the frequency of large claims being -- being lower, a severe catastrophic injury can be reserved at multiple millions of dollars. If your -- have a few less or a few more than -- than normal of that kind of claim, purely on a random basis, your -- there will be a significant variance in -- in what your forecast was.

In terms of the reserve adjustments, we hold something over a billion dollars of claims' reserves. And those -- the total runoff, total lifetime of -- of all claims is probably in the sixty (60) year time frame. We're looking at doing a forecast of how those runoff with fifteen (15) years of experience. So, there is certainly some volatility in the estimates.

If we change one (1) of the factors, what -- what we call tail factors, for instance, sort of many years out from the time that the claim was incurred. It not only affects our current year's estimates, but reflects all prior years as well.

So if we -- for round numbers, if we expect to incur $100 million in claims costs per year and we change a factor that changes that ultimate cost by 5 percent or $5 million a year, which would be reflected in our rate requirement for next year, so one (1) $5 million.

But on a retroactive basis, that $5 million could affect 15 loss years, so there would be an adjustment of $75 million that shows up in the financial statements and in these claims incurred. So -- so there is the multiple effect of prior years' adjustments.

MS. CANDACE EVERARD: Thank you. If we look at the comprehensive line on this schedule, the difference between the forecast and the actual was about 18 million, which is a 27.3 percent difference.

Can you comment on comprehensive coverage and what makes that difficult to forecast, if there any differences, and there probably are, between the information you just gave us with respect to PIPP?

MR. DONALD PALMER: In terms of the difficulty, and there's two (2) components of this -- this one, a program like the Immobilizers, that that would be the reason for this particular decrease. We knew that there was going to be a significant decrease in -- in claims' costs.

We didn't know how good the program was going to be, so -- so we did underestimate the savings, and that's reflected here.

The other difficulty with comprehensive claim costs would be weather related, specifically hail. And I'm thinking next year, when we're having this same discussion, that you are going to ask me why we so badly underestimated the comprehensive costs, and it's because we had the large hailstorm.

So on a net basis, that -- that one (1) storm would increase our forecast probably by about -- between 5 and $10 million. We do anticipate some hail every year that is built into the forecast, but certainly not to a catastrophic event like where this past hailstorm has a net claim effect of $13.33 million.

So that -- that certainly is going to be a cause for some variation between the forecast numbers and the actual.

MS. MARILYN MCLAREN: In particular, with respect to hail, this speaks to some of the increasing volatility that Mr. Palmer talked about, we put about $8 million into our forecast for a typical hail year.

Years ago, we put about $5 million in and tended to spend $5 million, whether it was ten (10) different storms, or two (2) or three (3), or -- or whatever.

Last year I don't think we had a hail claim, almost none, so, that amounts to almost half of this underestimation this year that we had last year. I think I just misspoke myself. I said underestimation. Sorry, Mr. Palmer.

MS. CANDACE EVERARD: It was -- it was overestimation that he didn't like. That's okay, I -- I can -- I can ask the questions without using that word.

MR. DONALD PALMER: And just for -- for further reference, to benefit the Board, many of these factors were included in PUB-1-22.

MS. CANDACE EVERARD: Thank you. I'm going to ask you then to turn to Tab 18 of our Book of Documents, which is the question and answer at 14 posed by the Board in the First Round and, in particular, it's the answer to (c), which is one (1) of the schedules.

If we look at -- you've got (c), 14(c)? If we look at the '08/'09 year this is a -- a comparison of the original projection to the revised forecast to the actual incurred. It would appear that there was a difference between the original projection and the revised forecast for '08/'09.

So I'm looking at the sixteen (16) -- or, pardon me, the 615.8 million to the six-o-three point four (603.4). There's a difference there of about 12.4 million, that is, between the original projection and the revised forecast.

Are you with me?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And if we're

correct, this $12.4 million difference is additional and over and above the $83.9 million difference that we looked at on the other document a moment ago.

So in other words, when the Board approved -- or when the Board first considered the original projections for '08/'09, it was a six-fifteen point eight (615.8) which is actually about $103 million different from what the actual result was for that year?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: Okay. We'll leave that IR then for the moment and go to Tab 20 of the Book of Documents which is -- has as couple of IRs 1-18 but I also -- or actually want you to look at 2-10 for the moment which is the very last sheet or last page at that tab.

This exhibit is entitled, "Comparison of Actual Experience with Expected Experience in Previous Year End Valuations" so this exhibit shows runoff; is that correct?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And it is total Basic?

(BRIEF PAUSE)

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE EVERARD: And these figures are net of re-insurance; is that correct?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And this document also encompasses insurance years going back three (3) years prior to the implementation of PIPP, so '92 -- 1992 through 1994; is that correct?

MR. DONALD PALMER: Yes, those are the fiscal year ending of -- of that so the -- what's shown as 1992 would be the '91/'92 year, yes.

MS. CANDACE EVERARD: Okay. How is the effect of the indexation of PIPP benefits handled in this exhibit?

MR. DONALD PALMER: We bring them all up to current benefit levels.

MS. CANDACE EVERARD: So the prior year's valuation results are adjusted to current benefit levels for comparison purposes?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And how is this exhibit, if at all, affected by the PIPP enhancements, the $90.8 million in retroactive benefits?

MR. DONALD PALMER: Those are -- those numbers are baked into the February '09 valuation numbers.

MS. CANDACE EVERARD: But not the prior columns or the prior year's columns; is that correct?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: So the runoff for the year ending February '09 and prior years is inclusive of the PIPP enhancements?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: Now, still keeping with the same exhibit, it would appear that there is about $134.6 million in favourable runoff to the benefit of the 2008/2009 fiscal year incurred claims?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And this favourable runoff is spread -- spread over all of these insurance years except two (2), which would be 1991/'92 and 1998/'99 because those years had offsetting adverse runoff of about 1.7 million in total?

MR. DONALD PALMER: Subject to check, yes.

MS. CANDACE EVERARD: Now, again, from this exhibit, it's derivable that there has been about 240.2 million of favourable runoff since the end of fiscal '03/'04 for the insurance years of '03/'04 and prior?

MR. DONALD PALMER: Again, subject to check, but taking off the right rows, yes, we would likely get something to that -- close to that number, yes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Now, we've spoken about the 150 or the 149 million in favourable claims' results compared with the 134.6 million that we spoke of a moment ago.

Can you just explain the difference, where that difference arises between the two (2) figures?

MR. DONALD PALMER: Likely it's current year claims, if I remember what we had talked about. So our estimate of what happened, accidents occurring in the 2008/'09 period would have been less than -- than forecast as well, and that speaks to that lower incidence of catastrophic injuries that we also talked about.

MS. CANDACE EVERARD: Thank you. Still with reference to this exhibit at 2-10, can you describe the sources of the 2008/2009 fiscal year favourable runoff?

MR. DONALD PALMER: Most if it would've been in the adjustment of the tail factors that I had talked about with regard to the PIPP evaluation. So, for the physical damage lines there isn't much IBNR. The claim is made and we pay most of it and it -- and it quickly goes away as opposed to injury claims that take -- are -- are paid over a large number of years.

So as we adjust the factors, and that was that multiplicative effect that I talked about previously, that we took a look at what the actual runoff was for each year compared to what we expected and -- and the actuals didn't emerge, so, we have adjusted those factors accordingly.

MS. CANDACE EVERARD: And if you look at the narrative portion, for a moment, of the answer at 1-18, which is the tab that we're at, Tab 20, and in particular the narrative answer to (b), these would be examples of the concepts that you've just been speaking about?

MR. DONALD PALMER: Yes, and -- and the paid tail factor rev -- revision from two (2) to one point nine five (1.95), which is about a 2 1/2 percent reduction on that particular factor, again, it doesn't sound like much. But when you take 2 1/2 percent on something like a billion dol -- for weekly indemnity, probably half a billion dollars of -- of claims' reserves, it's a significant amount of money.

MS. CANDACE EVERARD: Mr. Palmer, can you comment on whether any of these sources or favourable runoff are repeated from last year -- from the explanation for the runoff last year?

MR. DONALD PALMER: Some would be although in previous years we didn't completely recognize that favourable runoff. We -- we took the -- the favourable runoff for each individual year but, essentially, made the assumption that that wasn't going to be repeated, that we would revert to the -- the past factors that we have changed.

So, there was some release but certainly not on a going-forward release. So this year we have been after I think about four (4) years of -- of looking at that favourable development we said, yes, this is a trend, this is -- this is real, this is what we can expect in the future and we have adjusted those figures on a going-forward basis and that's why the release was larger this year than we have seen in the past and also the reason that it carries forward into our rate setting as well.

MS. CANDACE EVERARD: So can you give us an idea at this point of what we should expect for the current year, for example; favourable, adverse, or can you give us any indication?

MR. DONALD PALMER: We're very cautious not to go too far with these cuts in loss development factors. I would say that we're still on the slightly conservative side. I think I've used the term "prudently conservative" in the past.

So I certainly wouldn't anticipate there to be large -- the large releases that we've seen in the past. There might be some small releases but certainly not to the same effect that we've seen this year.

And again, just as a -- a bit of a caveat to that, these runoffs are shown on an undiscounted basis, so, claims at current dollars not discounted for time value of money. So from -- from that -- so I stand by what I said in terms of the conservative estimates from the -- on the loss development factors.

Discount rates also have a very large effect on -- on the current -- on the value of the unpaid claims liabilities, so, we could have releases from a whole dollar perspective by looking at this runoff but have to put out more IBNR if we were dropping interest rates.

So -- so by saying that we're conservative and then, again, having a -- a drop in interest rates that could very well wipe out all of that conservatism, we could in fact have to incur more dollars and put out more reserves just because of the interest rates.

MS. CANDACE EVERARD: Thank you. There was a response given by the Corporation and to CAC/MSOS in one (1) of its questions, it's 2-14. You can go there if you want, I'm not -- not sure that you need to but it's completely up to you. That answer -- I'll -- I'll just wait for you to get there, 2-14.

MR. DONALD PALMER: I'm there.

MS. CANDACE EVERARD: Okay. The answer reads in part, quote:

"The Corporation expects but cannot guarantee that future redundancies in claims' liabilities will be smaller than those observed in recent years."

End quote.

So my question is: Are the expected redundancies limited to the release of PFAD or the Provision for Adverse Deviation if the provision is not needed?

(BRIEF PAUSE)

MR. DONALD PALMER: With regard to the -- the PFAD, and -- and again, the runoff exhibit that we had referenced was exclusive of PFADs. So there are

PFADs that will be released for old years, to the extent that they're not needed, absolutely. There are also a new PFAD that's put out for the current year.

So there will be some netting effect of the -- of those two (2) values.

MS. CANDACE EVERARD: The -- the answer -- or the portion of the answer that I read out to 2-14 of CAC/MSOS, seems to indicate that the Corporation is expecting further redundancies; that is the language used. It says:

"expects but cannot guarantee that further -- future redundancies, pardon me, in claims will be smaller."

So it does seem that there are redundancies expected. And if -- if that's not the case then tell us, but if it is, we're just wondering why the Corporation is expecting further redundancies?

MR. DONALD PALMER: I think the further redundancy could be zero (0), in which case zero (0) is smaller than the -- than what we've observed. And -- and the actuarial evaluation is a best estimate; that's -- that's what we've booked. So the -- the real expectation is that they will be zero (0), knowing that some of that emerging experiences we've taken some averaging of -- of lost development factors.

Maybe there -- there has continued to be a slight trend downwards. We probably have taken it -- an average, rather than recognizing the trend. So -- so it's -- it's a best estimate that we have posted in the evaluation of actuarial liabilities.

And actually may I correct that, it's not 'our' best estimate, it is the best estimate of our appointed actuary.

MS. CANDACE EVERARD: So could there be adverse runoff?

MR. DONALD PALMER: Yes, there could be.

MS. CANDACE EVERARD: Now, Mr. Palmer, you've spoken about best estimate, and the best estimate of the appointed auditor for the Corporation -- or sorry, appointed --

MR. DONALD PALMER: Actuary.

MS. CANDACE EVERARD: -- actuary. My -- my mistake. What does an actuary mean by the phrase "best estimate"?

(BRIEF PAUSE)

MR. DONALD PALMER: There's a -- a range of possible -- a distribution of possible answers. So, we are estimating the mean of that distribution. So -- I know it sounds a little technical, but that's the unbiased estimate of the mean of future outcomes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Is it the mean or the median?

(BRIEF PAUSE)

MR. DONALD PALMER: Mean.

MS. CANDACE EVERARD: So -- so, Mr. Palmer, just to -- to clarify, how does the Corporation tie in the concept of prudent conservatism that you spoke about with the best estimate of the actuary?

(BRIEF PAUSE)

MR. DONALD PALMER: We have moved to -- loss development factors to observable averages. And, again, to -- a simple example, if we had loss development factors over the last five (5) years of five (5), four (4), three (3), two (2), and one (1), we would take an average of those five (5) observations rather than looking at them and saying, we've got to trend down there, and taking the next one which would be zero.

So from that estimate, again, it's looking at the past history without giving any weight to more current years.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. Mr. Palmer, we've spoken a little bit about the provision for adverse deviation or the PFAD, and I just want to get into a few more details of it.

Can you explain, for the record, what the three (3) component parts of -- are -- are of the PFAD?

MR. DONALD PALMER: Three (3) components are claims development margin, which is the actual amount of the -- the dollars that will be expected to pay -- be paid out. There's the interest rate margin, that's the discount rate that's used to discount the liabilities, and a reinsurance margin, which is a margin for reinsurance that you expect but may not collect.

MS. CANDACE EVERARD: And can you explain how each of these three (3) PFAD components are computed, just at a high level in general terms?

MR. DONALD PALMER: The claims development margin is a percent of unpaid claims based on

-- and there's a number of factors that are outlined in the Canadian Institute of Actuaries Standards of Practice, so, the margins depend on the relative certainty of how you expect those claims to run off.

So, something like physical damage claims that you really -- you're pretty sure what's going to happen with open claims that you currently have, there isn't a lot of variability in your case estimates, will have a very low margin.

Something like a PIPP claim, where there's -- especially where we're uncertain, we have limited experience, fifteen (15) years of experience to determine a sixty (60) year runoff, there is more uncertainty.

We're fifteen (15) years into the program, but there's -- there still is a certain degree of uncertainty. We did increase our margin a few years ago when we changed some of our case reserving practices.

That's one (1) of those things that can add uncertainty into your total estimates and expi -- explicitly outlined in the Standard of Practice.

For the interest rate margin, it's a percent on your discount rate. So if we're discounting claims reserves at 3 percent and you put a 1 percent margin, the total would be the difference between the value of discounting at 3 percent and discounting at 2 percent.

(BRIEF PAUSE)

MR. DONALD PALMER: And the re-insurance margin is a percent of the ceded liability.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Thank you. For the 2008/2009 year end, what was the total amount of the basic PFAD?

MR. DONALD PALMER: Do you have a reference handy? I don't have it right on the top of my head.

MS. CANDACE EVERARD: I think so.

MR. DONALD PALMER: If not, we can find it quickly.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Yeah. No, don't have one at my fingertips. Sorry. If you want to take a couple of minutes and just give us the answer in a little bit that would be fine. That works better.

MR. DONALD PALMER: It'll be momentarily but we'll -- we'll give it to you soon.

MS. CANDACE EVERARD: I will ask you to turn to Tab 19 of the book of documents, which is the question and answer at 1-17 put forward by the Board in the First Round. The attachment to 1-17 and in particular the lower table relates to the claims development PFAD and it would appear that that component for 2009, by adding -- oh, I'm sorry, Mr. Palmer, you're not there?

MR. DONALD PALMER: I need the reference again, sorry, Ms. Everard.

MS. CANDACE EVERARD: That's okay, it's 1-17 posed by the Board in the First Round. It's Tab 19 of the book of documents.

MR. DONALD PALMER: And I'm -- I'm sorry, Ms. Everard, I have so many books open I just opened the wrong one.

MS. CANDACE EVERARD: No worries. Okay. So the attachment at 1-17, the lower chart on the page is entitled "Claims Development PFAD" and I would like you to confirm, if you would, the line item for 2009, which would be the '08/'09 fiscal year, that the claims development PFAD as reflected on that line is about 134 million. And we've come up with that number by adding up all of the numbers in that row.

MR. DONALD PALMER: Just a quick scan and it looks reasonable.

MS. CANDACE EVERARD: And it would be fair to say that the biggest concentration would be in the PIPP or, sorry, would be mostly concentrated in the PIPP accident benefits?

MR. DONALD PALMER: Yes, and -- and again that's because that's the largest liability and also the most uncertain.

MS. CANDACE EVERARD: Now, can you give us a breakdown of the remainder of the PFAD, that is between the investment return rate piece and the recovery from re-insurance ceded piece for the '08/'09 year? This will probably tie in with the other number you're looking for.

MR. DONALD PALMER: We -- we can but not right at this instant.

--- UNDERTAKING NO. 8: MPI to provide breakdown of the remainder of the PFAD, that is between the investment return rate piece and the recovery from re-insurance ceded piece for the

'08/'09 year

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you. In general, what is it that gives rise to a change in a selected PFAD margin assumption?

MR. DONALD PALMER: Generally, a change in circumstances, a change in environment, additional uncertainty and -- and an example that I just gave is with regard to reserving practices, case reserving practices, that would add to uncertainty.

MS. CANDACE EVERARD: In certain circumstances though, there could be more certainty as opposed to always moving towards uncertainty?

MR. DONALD PALMER: Sure.

MS. CANDACE EVERARD: Okay, and staying with 1-17, in general, can you give us an idea of the reasons for the changes that have been made to the claims development PFAD since '99/2000, since that fiscal year end? In other words, explain, if you would, the answer to the IR?

MR. DONALD PALMER: The -- the changes are outlined in the narrative to the IR in answer to 1-17A. We decreased the PFAD for the pre-PIPP bodily injury in 2002 from 15 percent to twelve and a half (12

1/2). We had experienced in older years some real volatility in those reserves.

There was a real surge in those tort reserves when we went to the PIPP, an increase in -- in demands from -- from those tort claims. So we had bumped it up to 15 percent. That volatility was disappearing, so we went back to the 12 1/2 percent.

In -- for accident benefits, IRI, the increase that we made in 2006 was from 12 1/2 percent to fifteen (15), and -- and that was the new reserving calculator that I've alluded to a couple of times. Again, with the accident benefits other, we had increased that to 12 1/2 percent -- from 12 1/2 percent to fifteen (15) in 2004, because we had lots of volatility with personal care reserves specifically.

The non-indexed benefits we decreased in 2004 from twelve (12) and a half to 10 percent, because of lower volatility of that particular coverage.

(BRIEF PAUSE)

MR. DONALD PALMER: And that was also a -- a change in our methodology coming from what actually happened in 2002 when we split accident benefits other into those indexed and non-indexed components. So we saw not as much volatility in the non-indexed, and that's why we decreased to 10 percent.

We increased from 2000 -- in 2002, from five (5) to seven and a half (7 1/2), and that was a change made by the appointed actuary just to get us to the middle of the range of claims development margins.

MS. CANDACE EVERARD: Thank you. Given the Corporation's recent history of redundancies and claims liabilities, and the current low inflation environment, do these circumstances in any way call for a reduction in the PFAD?

(BRIEF PAUSE)

MR. DONALD PALMER: And -- and let me again say first that these selection of PFAD margins are those of the appointed actuary, and not -- not of either Mr. Johnston or -- or myself. So it certainly -- we do review those PFADs margins every year. So as we get more -- I don't know that it's the redundancies necessarily that would -- would indicate those, but the certainty of estimates that -- with the reserving calculator, for instance, as it -- its use becomes more mature, there could be some consideration for a -- a lower claims development margin, yes.

MS. CANDACE EVERARD: Thank you for that. Looking back at 1-17A, which you just explained a moment ago, why is it that all of the PFAD margins for claims development fall within a range between 5 percent and 15 percent?

MR. DONALD PALMER: That's the range that is recommended under the Standards of Practice of the Canadian Institute of Actuaries.

MS. CANDACE EVERARD: Now if the current proposal from the Canadian Institute of Actuaries should be approved to increase the high margin for claims development PFAD from 15 percent to 20 percent, do you expect that there would be changes for the lines of business already set at the current high margin assumption?

MR. DONALD PALMER: And -- and again with the previous caveat of it's not my decision it's -- it's that of Jim or -- or Mr. Christie, I would not expect those margins to change. These are our best estimates of the -- based on the environment that we currently see ourselves in.

The Standards of Practice has that recommended range. It's not an absolute requirement. If you have a -- a PFAD that you want to pick of higher than 15 percent, that's allowed under the Standard of

Practice. The -- the justification becomes maybe a little more onerous in terms of -- of the reasons that you need higher than the 15 percent.

But we haven't done that. If -- if we wanted a higher claims development margin we could have chosen one. We have -- or, Mr. Christie has chosen not to do that. So as we go to a higher recommendation I wouldn't anticipate at this stage, especially given that we are having or our -- our claims development or -- is -- our reserves are more mature that we would increase that to the 20 percent.

MS. CANDACE EVERARD: Have you had any discussions with Mr. Christie on the subject?

MR. DONALD PALMER: No, I have not.

MS. CANDACE EVERARD: Now apart from the fact that the PFAD is included in the Basic claims liabilities as a financial provision what else distinguishes PFAD from the RSR in terms of its real purpose?

(BRIEF PAUSE)

MR. DONALD PALMER: The -- the PFADs are a requirement of the unpaid claims reserve under the Standards of Practice so they're not in addition to the claims liabilities, so they would be separate and apart from any RSR.

MS. CANDACE EVERARD: And I appreciate your comments with respect to the accounting treatment of the two (2) but what about the fundamental purpose of each, the RSR and the PFAD?

(BRIEF PAUSE)

MR. DONALD PALMER: We're -- we're just going to pull out the Standard of Practice in terms that we do get the -- the precise definition just for -- for preciseness, for precision.

MS. CANDACE EVERARD: Do you -- one (1) moment.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Mr. Palmer, just while that is being looked at, an additional question that I have is whether there's any difference to the treatment of PFAD under IFRS, the International Financial -- Financial Reporting Standards?

MR. DONALD PALMER: I'll give you a definite maybe on that one. The -- that's certainly under review, will not be part of when IFRS is adopted in 2011. That will be part of Phase 2 of IFRS 4 that will be adopted in two thousand and (UNREPORTABLE SOUND). We'll -- we'll let -- the transcript will deal with that.

It's unknown exactly when that will be adopted, 2013, '14, '15. We're -- we're unsure at this point in time when that specific provision will be adopted. So the margins are -- are under review now for inclusion in IFRS 4 but -- our Phase 2 of IFRS 4 but as to exactly what those provisions will be is uncertain right now.

THE CHAIRPERSON: Just while they're conferring, a sort of related question I don't think we've ever asked before but with a private insurer does the PFAD, is it allowable for tax deduction purposes as a deduction from taxable income?

MR. DONALD PALMER: Not being an accountant for the -- a private insurance company I don't necessarily want to answer that question. It is part of the liability so my speculation would be yes, it is tax deductible because it is included as a -- as part of the unpaid claims liabilities and policy liabilities but I don't -- I can't say that with 100 percent certainty.

THE CHAIRPERSON: Okay, we'll ponder that. Thank you.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Mr. Palmer, just one (1) more question before we take the lunch break. The uncertainty that you spoke of with respect to the implementation of Phase 2 of IFRS, that's an issue completely external to the Corporation? It has -- that -- that timing is not set by the Corporation in any way, shape or form?

MR. DONALD PALMER: Not at all, no. We -- we will be bound by whatever timing comes out from the IAS, the International Accounting Standards Board and the Canadian Standards Board.

MS. CANDACE EVERARD: Thank you.

Mr. Chairman, if it's appropriate we could take the lunch break now.

THE CHAIRPERSON: Ms. McLaren...?

MS. MARILYN MCLAREN: With respect to impaired investments we have the numbers on the last five (5) years of write-down of investments at year end. As already on the record, '08/'09 was 24.6 million, '07/'08 on the record is 9.01 million, '06/'07 was 1.058 million, '05/'06 was 3.025 million, and '04/'05 was 3.439 million.

MS. CANDACE EVERARD: Thank you.

THE CHAIRPERSON: Thanks. We'll have the

break then. We'll be back at 1:15.

--- Upon recessing at 12:03 p.m.
--- Upon resuming at 1:17 p.m.

THE CHAIRPERSON: Anytime you're ready, Ms. Everard.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Okay. Mr. Palmer, I'd ask you to have a look at Tab 18 of the book of documents, which is question 14. We looked at this briefly earlier. We have three (3) tables at A, B, and C, and those are the three (3) that I'd like you to have a look at.

Can you, as a starter, just indicate for the record the information that's reflected in each of A, B, and C? In other words, what -- what do we have here?

(BRIEF PAUSE)

MR. DONALD PALMER: I'm just debating, as -- as before we get there, we did talk briefly about our provision for adverse deviation, and -- and I'm wondering if you'd like me to clear that particular issue up before we go ahead with it.

MS. CANDACE EVERARD: Sure. If you're ready, absolutely.

MR. DONALD PALMER: I thought for -- for precision I would actually quote from the Standards of Practice of the Canadian Institute of Actuaries. And with relation to the provision for adverse deviation:

> "The amount of that provision should take account of the effect of the uncertainty of the assumptions and data for the calculation on the financial security of those affected by the calculation, not take account of the possibility of a catastrophe or other major adverse deviation which is implausible in usual operations, except when the calculation specifically addresses that possibility, and in the case of a provision in respect of uncertainty of assumptions, result from selection of assumptions that are more conservative than best estimate assumptions."

MS. CANDACE EVERARD: Thank you. And actually, when you mentioned that you had an item to follow upon, it reminded me that I do too. So just before I move on, the court reporter and I had a conversation over the lunch hour, and it's apparent that some of the exhibits that I entered on Monday morning on behalf of the Board were recorded as MPI exhibits in the transcript, so that's going to be corrected such that the record will reflect that all of the Board exhibits were, in fact, Board exhibits and not MPI exhibits.

Anyways, moving on to Tab 18. My question, Mr. Palmer, with respect to the first three (3) tables was just if you can explain to us what -- what we have here in tables A, B, and C, at the answer to 14.

MR. DONALD PALMER: Sure. The first table is a comparison of the claims cover counts for revised forecast or original projected, the forecast and the actual, and that cover count is not quite a claims count by coverage but it's a close proxy for that. So it's the number of -- of each of those types of claims, more or less.

The second table is the severity, so the average cost of each of those covers. And the third one, the claims incurred, that's the total dollars of each one of those coverages.

(BRIEF PAUSE)

MR. DONALD PALMER: And with regard to that cover versus claim issue, that's certainly true for collision comp., probably property damage. It's less true for PIPP claims. There's probably an average of about five (5) coverages for every PIPP claim. So that would relate to income replacement would be a cover, impairment benefits would be a cover, death benefits and certain medical expenses, as well.

MS. CANDACE EVERARD: And the years reflected on each of these tables are the fiscal years or the insurance years?

MR. DONALD PALMER: They would be the reported fiscal years, so the amount that would be reported during each one of those years, not the amount that would be based on accidents occurring in those years.

MS. CANDACE EVERARD: And the column in each of the tables entitled "Original Projected" would be the first estimate for that particular year made at the GRA?

MR. DONALD PALMER: I wouldn't say the first estimate. We do have five (5) year projections that -- that we do and present but this would be applicable for that year's GRA. So the original projected for '09/'10 would be what was presented for the

'09 GRA.

MS. CANDACE EVERARD: And then the revised forecast column for that same year to use that example would be the update to this year's GRA, so in other words the second GRA number?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: And how is this exhibit or these series of tables affected by the $90.8 million in PIPP benefit enhancements that we've been speaking about for the '08/'09 year?

MR. DONALD PALMER: They would not be included in the cover count estimates because in each one of those we would have had covers. So, for instance, in an enhancement to income replacement we would have had already counted an income replacement coverage. So this would not be included in -- in the count numbers. It would be included in the severity numbers and in the total claims incurred.

MS. CANDACE EVERARD: Now if we focus for the moment on the table at Sub A, the claims counts, or claims -- yeah, claims cover count, can you, with reference to each of the coverages, indicate whether there are any observations that the Corporation may have with respect to systemic bias in forecasting?

(BRIEF PAUSE)

MR. DONALD PALMER: In terms of systemic bias over the last four (4) or five (5) years we have been -- we have overestimated or the actuals have come in less than what the forecasts were. So looking backwards with the 20/20 hindsight I guess we could say that for those four (4) years there was a systemic bias. We did report on that last year. We thought that we were going to likely revise our estimates downwards. We did that, and, hence, the substantial release of reserves that was reported this year.

At the time, did we think there was a bias? No. Probably the third year we had a little bit of a suspected bias, and then last year, of course, enough that we were -- we informed the Board of -- of that.

But I also remember that, going back into '03/'04 and possibly the year before that, we had, in fact, underestimated the claims, so -- so at -- at -- depending on the time period you look at, a longer period of -- of time would indicate that we don't have a systemic bias.

Our processes are not biassed. Overall, it was just we had a claims runoff change in 2004, and that was what perpetuated the overestimate of claims.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Thank you, Mr. Palmer. If we turn to the schedule C attachment, 1-14(c) -- oh, one moment.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Yes, it is (c). Can you confirm as at what date the current forecasts here are based for 2009/'10, the year of the -- or, sorry, the current year?

MR. DONALD PALMER: The original estimate would have been based on data up to and including February 28th of 2008. The revised forecast would have been based on data as at February 28th, 2009.

MS. CANDACE EVERARD: Now are you able to provide us with any sense of whether the current fiscal year-to-date experience is tending to narrow or widen the gaps between the original projected and revised forecast claims incurred by coverage for this fiscal year?

MR. DONALD PALMER: Once the Q2 statement is released, we'll be able to shed some light on that.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. We will come back to a couple of questions relating to forecasting, but I just want to go away from that for a moment and ask a few questions following up on the discussions we had this morning about the PIPP enhancements, the 90.8 and the -- the new benefit coverage.

And as we've discussed and as the record reflects, these benefits are to have a retroactive effect in that, at least my understanding is, individuals who are deemed under the proposed regulation to be catastrophic accident victims will receive funds that they would have otherwise received many years ago if these changes had been implemented?

MR. DONALD PALMER: Not quite. And it's probably best to give an example. One (1) of the enhancements is that catastrophically injured will receive a minium IRI payment equal to the industrial average wage. Some of those claimants may have had a benefit that is based on minimum wage. So starting with this year those benefits would be increased to be based on industrial average wage but what they received last year wouldn't be given a retroactive adjustment.

MS. CANDACE EVERARD: And --and maybe my question was too broad. I guess what I had in my mind was, if I understand that permanent impairment coverage correctly, that one (1) time payment is going up from a hundred thousand to two hundred and fifteen thousand (215,000) and individuals that, even though their claim arose perhaps years ago and they received a hundred thousand at that time, would now get the additional a hundred and fifteen thousand (115,000) or am I incorrect in that understanding?

MR. DONALD PALMER: Current open claims.

MS. CANDACE EVERARD: So as long as their claim is ongoing, even if their injury happened in 1996 for example, they would still be entitled to that difference on the permanent impairment award?

MR. DONALD PALMER: Yes.

THE CHAIRPERSON: If they had unfortunately died would the money go to the estate?

MR. DONALD PALMER: No.

MS. MARILYN MCLAREN: So there are a hundred -- approximately a hundred and twenty (120) people with open active PIPP claims who were injured sometime on or after the 1st of March 1994 whose files have been reviewed and we believe would qualify for the proposed -- the legislative definition of catastrophic injury.

(BRIEF PAUSE)

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: With respect to the income replacement improvements that you mentioned, Mr. Palmer, given that the regulation has not yet taken effect, would there be any aspect of -- of retroactivity with respect to those back to, say, the beginning of the current fiscal year, back to March 1st?

MS. MARILYN MCLAREN: The -- the changes will become law when the Act changes become law and we would not be changing someone's IRI back to an earlier point in time. It -- it will be effective when the changes become law.

MS. CANDACE EVERARD: And then we'll just go forward from there?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: While we're speaking about some of the -- a couple of the details of the enhanced coverage, we talked about the IRI, Mr. Palmer, you mentioned that and we've also spoken, Ms. McLaren, about the permanent impairment enhancement, what are the other components or what are the other pieces of improvement that we have under this proposed bill?

MS. MARILYN MCLAREN: We'll find the reference, it is in the application, but I can talk to a number of them from memory. The -- you've mentioned two (2). There's also an eight hundred dollar ($800) per month increase in the maximum payable for personal care assistance to people who meet the definition of catastrophic injury. There's also a provision for -- okay, seven (7) includes the aspect of defining catastrophic injury so we've covered four (4) now.

There's also provision to reimburse an expense up to a lifetime limit of a million dollars for catastrophically injured clients with a legitimate need for reimbursement created by unusual circumstances. One (1) of the things that's always been a very important foundational principle of the PIPP program is that it does not stand alone, it works with other universally available provincial programs like Child and Family Services, Manitoba Health's home care program, things like that.

So this Bill clarifies our responsibility to assist claimants and working collaboratively with these other agencies.

And in a situation where we have a reasonable belief that they will be entitled to funding from another program, we can provide bridge funding. We can also pay beyond what would otherwise be a limit of expense under the Act if we believe that there is an expectation that our cost will be reduced, in sort of a business case, or we can pay something that is really not even covered with the Act as long as we believe it would reduce another expense that is provided for in the Act.

MS. CANDACE EVERARD: Where are you reading from, just so I have that reference?

MS. MARILYN MCLAREN: I'm reading from SM.2 in Volume I of the 2010 rate application. And there's two (2) other changes that are -- that are more broadly applicable, not necessarily to people would meet a definition of catastrophic injury.

First of all, because some people may live for quite some time after they sustain the injuries, but would ultimately pass away because of their injuries, the bill clarifies that the funeral expense entitlement is based on the amount in force when they pass away, and not back when they were injured, which could be quite some time.

And today, the bill -- the Act includes a provision where, if someone receives a permanent impairment payment, and then a death payment, they're netted out, and that will no longer be true either for people who live in excess of ninety (90) days after the injury.

MS. CANDACE EVERARD: Okay. Now in terms of the costs associated with the enhancement, we've spoken about the 90.8 million that was recorded in the '08/'09 year, and I believe the evidence reflects that the ongoing costs are about 7 million a year, is that correct?

MS. MARILYN MCLAREN: Yes, that's right. Those are the numbers that were used in the news release that the government issued when -- when the bill was announced.

MS. CANDACE EVERARD: And are you able to provide us with a breakdown of the dollar amounts that go with each of the improvements, each of the seven (7) improvements listed in SM.2?

MS. MARILYN MCLAREN: For sure. And also in more simple terms, we can tell you that $14 million is expected to be paid very shortly after the bill becomes law, which is almost entirely the top-up for the permanent impairment that we discussed.

We believe we will require and -- and have booked about another $35 million to cover the increased benefits available to the hundred and twenty (120) people that we have identified to this point, and likely another

30 million or so for people who may very -- who we will expect to become catastrophically injured under the new definition but have not yet been -- been injured more recently and their -- the scope and magnitude of their injuries have not yet been specified.

So there's a hundred and twenty (120) people that, for the most part, we expect to booking about $50 million for and another thirty (30) or 40 million for people who have been injured but we're not sure which ones will meet that definition and exactly what their needs will be.

MR. DONALD PALMER: In terms of the costing of the -- the breakdown of the $90.8 million, those calculations were detailed in the actuarial report at AI.17 part B, but I'll give you the -- the results of that.

The income replacement, the increase to the industrial average wage was $25.7 million. The increase to the permanent impairment benefits was $33.8 million. The personal care assistance increase was $16.7 million. And the increased death benefits were $14.6 million.

MS. CANDACE EVERARD: Thank you.

THE CHAIRPERSON: But the increase in the IRR, for instance, it's not retroactive, it just becomes in effect when the Act is proclaimed?

MR. DONALD PALMER: Yes.

THE CHAIRPERSON: I'm sure we'll study it to look to try and figure out what the retro 90 million is composed of, but the items that you've mentioned is how the ninety (90) is developed?

MR. DONALD PALMER: Yes.

THE CHAIRPERSON: Because when you talk about people under the definition will now be defined as being catastrophic, they'd already be claimants presumably, and presumably you'd have reserves set up for them now, wouldn't you?

MR. DONALD PALMER: Yes, this is -- this is additional to what the reserves currently have.

MS. MARILYN MCLAREN: I think we included this in my pre-filed testimony but, you know, the concept that these changes are very targeted, very specific changes is not a huge overhaul of the system. On a per claimant basis for the hundred and twenty (120) people that we've taken a close look at -- at their file up till now, it represents about a 20 percent increase in the total incurred that we would have for them.

So, each claim is worth about 20 percent more than it was before these enhancements. We had an IRI reserve based on minimum wage for many of them and this is the topup to reserve it at the industrial average wage, yes.

MS. CANDACE EVERARD: Mr. Palmer, we note at AI.17, which you read from a moment ago with the breakdown, there is Appendix J which is on Ernst & Young letterhead but it's entitled "MPI Report on PIPP Enhancements."

I'm sure you're familiar with that appendix?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And it was prepared by MPI and then reviewed by Mr. Christie, is that what happened?

MR. DONALD PALMER: We wrote the description and in the preamble to the report, he has stated that he has relied on our -- on our descriptions.

(BRIEF PAUSE)

MR. DONALD PALMER: I'll just quote from Mr. Christie's report where he says:

"We have relied on MPI actuaries to quantify the proposed PIPP enhancements. We have reviewed their analysis for reasonableness."

MS. CANDACE EVERARD: So the underlying analysis was prepared by MPI?

MR. DONALD PALMER: Yes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So if I understand the evidence correctly with respect to the retroactivity of the benefit enhancements, there is some element of retroactivity there even if not in -- in all of the components.

And -- and what I'm getting at is on the permanent impairment side, there's an element of retroactivity whereas for the IRI enhancements it's a going- forward enhancement?

MS. MARILYN MCLAREN: That's right, and -- and when the word "retroactivity" was used, it was primarily intended to indicate that it would not -- the changes would not only apply to new claimants going forward.

MS. CANDACE EVERARD: And that's what I mean when I'm using that word. I'm not attributing any more technical a meaning to it than that but simply that claimants who didn't receive that amount in the past will now receive it and I'm specifically talking about the one fifteen (115) or the hundred and fifteen thousand (115,000) additional permanent impairment award.

MS. MARILYN MCLAREN: Yeah, the permanent impairment is the only one that is going back in time looking at what someone was paid and topping them up to the new levels, that's right.

MS. CANDACE EVERARD: And would you agree that that's kind of an unusual step for an insurance company?

MS. MARILYN MCLAREN: It's highly unusual. I think the word "unprecedented" has been used on occasion.

Certainly, if you're not talking public sector insurance companies any of this is highly, highly unusual, doesn't happen but within the public sector, what -- what MPI -- what -- what had happened with the MPIC Act historically before PIPP and as I understand what happened when Saskatchewan made many very similar changes as these a few years ago, particularly, the income replacement indemnity would -- would always apply to new claimants who would quality.

Back in the old days when we had our -- our Part 2 accident benefits if the weekly indemnity was increased and someone would qualify, an existing claimant would qualify for the higher payment, they would get it, but in the old Part 2 accident benefit world if the medical expense went up from twenty thousand (20,0000) to a hundred thousand dollars ($100,000), we didn't just give eighty thousand dollars ($80,000) more coverage so that's not what the Legislature did in those cases.

I understand Saskatchewan made many of these same changes and they applied them the same way, except for the permanent impairment was not retroactive the way it is under the Bill that's in front of the Legislature right now. So, it is -- that aspect of it is unprecedented. All the other retroactive aspects are very consistent with what public insurers have done historically.

THE CHAIRPERSON: When MPI brought in the Retirement Income Benefit, the -- the RIB, that was retroactive too, was it not?

MS. MARILYN MCLAREN: It applied to all claim -- open existing PIPP claims, yes.

THE CHAIRPERSON: So if a person was being claimed for on -- claimed for ten (10) years, they would have got credit for it going back.

So it's -- there's some similarity with this approach?

MS. MARILYN MCLAREN: Yes, absolutely. If someone had an IRI, the -- the new rules would apply to them, even if they had an open medical expense claim, and -- and now would qualify for the RIB as it was passed into law, they would have been included as well, yes.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: And I -- I take it that it would be fair to say that in -- certainly in the private sector and -- and possibly in -- in the public sector as well, to an extent, the reason why you wouldn't have retroactive benefits paid like this would be because there are no corresponding premiums being collected.

Would -- is -- is that a fair statement, or would you disagree with that?

MS. MARILYN MCLAREN: No, I think that's absolutely why the private sector wouldn't do it for sure. You know, there's a -- a much more direct relationship between coverage, premiums, benefits. But historically, because of the broader public policy considerations of public auto insurance schemes -- and, honestly, I don't know enough to speak about anything other than public auto -- auto insurance.

The concepts like weekly indemnity for people who qualified for more, but there was a legislative cap, and they're still injured and still needing a compensation if a new cap comes in, they've always been compensated at the new higher levels.

MS. CANDACE EVERARD: Ms. McLaren, a moment ago you mentioned some of what the coverages in -- in place in Saskatchewan.

Are you aware of whether there was a review conducted with respect to MPI's benefit enhancements in terms of what is done in other jurisdictions, whether it's private or public, or did that not occur?

MS. MARILYN MCLAREN: I'm not sure if you're talking about did -- did someone review what MPI has done, or -- or does the Corporation review?

MS. CANDACE EVERARD: Either way, whe -- whether -- do you know whether the Corporation, or I suppose the only other would be the government, reviewed what is done in other jurisdictions with respect to these kind of benefits to look at as some kind of a guideline, or starting point for what may be done here?

MS. MARILYN MCLAREN: Okay. I understand. I thought you might be asking if other jurisdictions had looked at us; that's -- that's what I wasn't clear on. But MPI has a -- has a responsibility to review programs similar to ours and do, you know -- you know, contrasting compare and so on, so absolutely, we have done some of that work.

We know that most, not all, and not exactly the way it was tabled by the government in Manitoba, but these -- the concept of a special category of catastrophically injured claimants, and for those who -- who meet that definition to receive higher entitlements really was -- was modelled on Saskatchewan, and Transport Accident Commission in the state of Victoria and Australia as well have -- have very similar programs in law for their automobile injury compensation systems.

MS. CANDACE EVERARD: That was going to be my next question is how the new approach compares with what is done in -- in other jurisdictions, private or public. So you said it's quite similar in the end to Saskatchewan and the -- the one (1) province in Australia?

MS. MARILYN MCLAREN: Yes.

THE CHAIRPERSON: Is it similar to SAAQ in Quebec?

MS. MARILYN MCLAREN: They -- they haven't done this, no. They've -- they've made some other changes through time to enhance certain benefits, but they haven't taken this specific approach.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Ms. McLaren, you said a moment ago that the Corporation...you said a moment ago that the Corporation compares or -- or reviews what it's doing, or its benefits with that of -- of other insurers.

Is that something that is -- is written in a -- are there conclusions that are written that -- that could be provided to the Board, or is it -- is there not such a document?

MS. MARILYN MCLAREN: I'm not sure that we have something that formal, no.

MS. CANDACE EVERARD: Can you have a look see if you're not 100 percent sure?

MS. MARILYN MCLAREN: Yes.

--- UNDERTAKING NO. 9: MPI to review and advise if they have anything in a formal way re: Corporation compares or reviews what it's doing, or its benefits with that of other insurers.

MS. MARILYN MCLAREN: One (1) of the things that we refer to, that is readily available is the IPC comparison of mandatory injury coverages across the country, so, the SGI provisions would be articulated there, and the SAAQ, as well as the private sector jurisdictions.

And, you know, there's -- we can find the link on the website on that one, but within Canada, we refer to that regularly in terms of a straight-up comparison of the mandatory Acts and benefits across the country.

THE CHAIRPERSON: We were just reflecting hearing this discussion, taking us back to the past GRA, and you don't have to answer this, it's up to you.

But we were speculating amongst ourselves that a significant amount of work would have to go in to identify all the files to come to a calculation as to what the retroactive effect would be.

And I was taking us back to the time when we were considering the outcome of the last GRA, in which one (1) of the questions before the Board was that the RSR was well above the Board's range, okay.

And one (1) of the issues at that particular time was whether or not another rebate would flow. The Board decided against a rebate, in part, because of the ongoing discussion, if you want, on the adequacy of the RSR and, in part, because of the CLEAR market situations and the uncertainties that surrounded about it.

And I'm not going to go through all that because it's on the public record, but I'm just making a point for the point of illustration, that it would have made for an interesting situation if the Board had declared a dividend at the last GRA without knowing that the Corporation or the Board were deliberating on a major benefit enhancement that would have a retroactive effect.

It's just a comment with respect to knowledge and transparency.

MS. MARILYN MCLAREN: Understood. But with respect, the $90 million cost of the retroactive aspect didn't draw down the RSR that was in place at that time. It was a portion of a large claims liability reduction.

THE CHAIRPERSON: No, I understand that, and just in the benefit of exchanging information, all I'm saying, at that time, when this Board and this panel actually was considering the last GRA, okay, we were not aware of the hundred and forty-nine dollars ($149) that were going to be taken out of the unpaid claims then back in.

We were also similarly unaware of the ninety (90). But we did have a situation at that time when the RSR was well above the target range sent by the

Board. And one (1) of the outcomes that could have come out of that GRA, absent our concern about this RSR debate, and too, and even looming larger was the economic uncertainty with the stock market collapse, and who knows what was going to go on, but we could have found ourselves in a bit of a difficult situation with respect to having declared a dividend and what that would have done to the RSR, combined with the new retroactive benefit if you follow what I'm getting at.

It was possible for the Board to -- to have directed a rebate be paid. And if a rebate had been paid because, at that time, the RSR was well above our range, okay, it would have challenged MPI's financial position, now knowing what we now know.

MS. MARILYN MCLAREN: Okay. I -- I guess -- I -- I understand exactly what you're saying, and -- and I think we have to find ways to, you know, reasonably and appropriately come -- come to terms on issues like this, but -- but --

THE CHAIRPERSON: I'm just speaking in the public interest. I'm not criticizing you. I'm just simply --

MS. MARILYN MCLAREN: Understood.

THE CHAIRPERSON: -- reflecting on what could have happened absent some other circumstances that have nothing to do with what you ended up doing.

MS. MARILYN MCLAREN: I appreciate that, but -- but I think I still need to make the point though that, all else being equal, if this Board had ordered a rebate or not, the Corporation's financial position is still, what, $60 million stronger, which is the net of the hundred and forty-nine (149) and the eighty (80).

THE CHAIRPERSON: That we undoubtedly will reflect on.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Just one (1) more question, I think, Ms. McLaren, before I move back to forecasting, and that is that I -- I would gather that the Corporation would agree, as a general principle, that benefit design in terms of coverages and what's available is a major determinant when one is looking at premium levels.

And I -- I appreciate investment income is a big piece for the Corporation but coverage would be another significant factor.

MS. MARILYN MCLAREN: Coverage is probably the biggest for sure, absolutely.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. So going back to forecasting just briefly, what, if any, changes have been incorporated in the current GRA which the Corporation expects will improve forecasting accuracy?

(BRIEF PAUSE)

MR. DONALD PALMER: Our process, our claims forecasting process, is largely the same as it has been in -- in previous years. In terms of on a going-forward basis because we have adjusted all the previous PIPP ultimate claims downwards those, of course, project forward into our forecast and our rate requirement so because we have made that single one (1) time adjustment, we would expect that to roll forward and again, to -- to reflect what we've seen over the past few years.

We're certainly -- now that we're completed our immobilizer program, we're in a better position to -- to forecast what claims are going -- going to be on a go-forward basis now that we have immobilized completely that MaR 2 list that we talked about last year.

Again, that -- neither of those are necessarily changes to the process but they are observations that we've made that have been incorporated into the process.

MS. CANDACE EVERARD: What about forecasting beyond claims in terms of premiums, investment income?

MR. DONALD PALMER: Again, we have a revenue forecast committee that has been established for several years; that process is continuing as it has been. Anytime you have a new program that is introduced, there is some uncertainty into the forecasts. Driver safety rating is the major component of that.

We have expectations of -- of what is going to happen but, again, those are -- we've got simulations based on what would have happened in the past without any allowance for different behaviours whether it be different claiming behaviours, people not -- not making claims to protect their DSR rating or having behaviour that improves because they want to protect their -- their DSR rating. So -- so those are maybe some inherent challenges within the claims -- claims forecast.

As far as interest rates again, our -- our revenue forecast committee does include people from our investment department. Our economist that's on staff and uses any number of external interest rate forecasts to -- to come to an interest rate forecast, that process hasn't changed.

MS. CANDACE EVERARD: Thank you, Mr. Palmer. I'd ask you then to turn to question 29 posed by CAC in the First Round. It's not in our book but let's have a look at that.

(BRIEF PAUSE)

MR. DONALD PALMER: Yes?

MS. CANDACE EVERARD: This IR relates to forecasting, and sets out an analysis.

Can you explain, sort of, at a high level just in general terms what the analysis provides and what conclusions can be drawn from it?

(BRIEF PAUSE)

MR. DONALD PALMER: In this particular question, the Consumers Association had asked us to produce several statistics comparing our forecast with the actual that was observed.

There's a -- a number of statistics that are -- that are there. We've got several tables, with regard to the variation, root mean squared error, mean absolute percentage error, and -- and a few others. We -- we prepared their -- these specifically in response to their -- their question that was asked.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Mr. Palmer, why don't we break it down a little bit and go through the attachments at A.

It looks like the first attachment relates to motor vehicles premiums Earned. And if I understand this answer correctly, each of these charts relates to a different line on the income statement, is that correct?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: If we look at the first table, Mr. Palmer, the one that relates to premiums earned, can you explain to us what conclusions can be drawn from the statistical measures that are set out here, et cetera?

(BRIEF PAUSE)

MR. DONALD PALMER: Yes, the one (1) observation is that the revisions are better than the original forecast that was done at the time that the rate was applied for.

I don't know what -- really what the

significance of -- of each one of these in isolation is because there are real correlations between our claims and our volume, our earned premiums.

So -- and for many years, and I don't know specifically, but we didn't include any volume increase in our statistics, so -- or in our projections, knowing that it was self-correcting, that if you have a higher volume coming in, you'll have a corresponding increase in claims as well.

So, in terms of these particular measures, I don't know if there's any -- other than the fact that the revision -- the closer you get to a time period, the better, general -- in general, the better your estimate is going to be.

So, I don't know what else you would like me to say beyond that.

MS. CANDACE EVERARD: So, would you say that there is any evidence of systemic bias in the forecasting that arises from this analysis for any of the component exhibits?

(BRIEF PAUSE)

MR. DONALD PALMER: There would be a bias in -- in our early forecasts on the -- on the premiums side because we didn't include a volume increase, so, that would -- would have had a bias but, again, it's a bias that would have been corrected so to speak.

That would also introduce a bias in the early estimation of the claims forecast as well again because we didn't have a volume increase.

In terms of the -- the later forecasts, as we have stated using 20/20 hindsight the last four (4) or five (5) years, there was a bias that -- that was there that we've corrected for and don't anticipate that same level of bias to be in our forecasts going forward.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. Thank you, Mr. Palmer, for that. We appreciate it.

While we're looking at CAC's questions in the First Round, I'm going to ask you to go to number 39 with -- which has a reference to TI.2 and, in particular, ask the Corporation to -- for the financial forecast method, compare the overall column values last year to that which we have this year and explain the differences.

If you could just take us through the significant differences that the Corporation has highlighted in its answer, we would appreciate it.

MR. DONALD PALMER: Sure, and -- and this is with regard to the comparison from the 2009 GRA. So, the 2009 rates for 2010 rates which are different forecasts will include some inflation, different upgrade factors, and so on.

That said, our road safety component will be nearly 20 percent lower and that's because of the significant reduction in -- in costs to the Immobilizer Incentive Program. We're -- as I just mentioned with our immobilization of the MaR 2 vehicles substantially done that -- those expenses do not carry forward at the same level as they have in the -- in the past year.

Our commission rate as a result of the new commission schedule and new streamlined renewal -- in -- in concert with the streamlined renewal process, the commission rate for next year is reduced from an average of 5.6 percent to 5.2 percent. Those are inclusive of flat fees and the fact that we do not clawback commissions when policies are -- are cancelled; that's why it's higher than the 5 percent or the -- or the 4 percent going forward.

We have higher projected reinsurance costs in the -- in the 2010 GRA and those are the reasons of -- that I mentioned yesterday with regard to our increased rates mainly because of the increased hail activity.

Our fleet rebates are higher by just under 18 percent and that's due to the increase in the number of fleets that we currently have, as well as the increase in the average fleet size. Even though that's a large percentage increase, it's fairly small in terms of the actual dollars involved in that.

(BRIEF PAUSE)

MR. DONALD PALMER: In terms of the merit discount, we have a new line incorporated into the -- the model this year, and that's actually included in TI.19 section 2.2.4, and that's the -- the reduction based on the DSR to ensure revenue neutrality. So, an explanation is -- is at 2.2. -- 2.2.4.

Our anti-theft discount is -- is lower and, again, that's as a result of the Immobilizer Program and -- and the rolling forward of that.

Service fees are 16.75 percent lower; that's mainly because of the lower interest rates. Our financing fees are based on prime plus 2 percent. Since the prime rate is so much lower, our financing -- expected financing charges are lower as well.

Our investment income, projected investment income is lower by 6 percent and that's, again, as a result of our lower interest environment that we see ourselves in. That's for both investment income earned and vehicle premium, as well as driver premium, a corresponding lower number there.

MS. CANDACE EVERARD: Thank you, Mr. Palmer. I'll ask you turn then to AI.16, and we'll have a few questions about rate design.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Yeah, it's Tab 11 of the Book of Documents. Sorry, I probably should have said that about thirty (30) seconds ago.

MR. DONALD PALMER: I -- I have it.

MS. CANDACE EVERARD: Thank you. If we look at page 1, we see that the first sentence refers to the fact that the Corporation uses rate groups provided by the Insurance Bureau of Canada, or IBC, as the basis for creating its private passenger and light truck rate groups.

Can you explain for the Board how the Corporation currently determines those rate group assignments from the rate group information that's provided by IBC?

MR. DONALD PALMER: Sure. We -- we have

a combined rate -- rate group for all coverages in the Basic Autopac Program, which includes coverage for collision, comprehensive and, of course, PIPP accident benefits.

The rate tables that are published by the Insurance Bureau of Canada through CLEAR, Canadian Loss Experience Automobile Rating, are separate rate groups for collision, comprehensive and accident benefits.

So we designed an algorithm several years ago to combine their rate groups into a combined rating that is used by MPI. So, it's a weighted average of the collision rate group and the comprehensive rate group that we get from IBC, and those weights are based on our own distribution of claims, and then adjust that by what used to be the rate group for accident benefits.

Formerly, CLEAR had rate groups, accident benefits 1 to 5. So if the rate group was a 3, we wouldn't adjust the weighted average of the collision and comp. If it was a 2, we would bring down our rate group by one (1).

And if we -- the CLEAR rate group was a 1, we would bring down the weighted average by two (2). Similarly, for rate groups of 4 and 5, we would increase the rate group from the weighted average by one (1) rate group or two (2) rate groups, respectively.

MS. CANDACE EVERARD: Thank you, Mr. Palmer. If we turn to page 2 of the same document, AI.16, can you describe how IBC is changing the CLEAR rate group table including the first phase of those changes?

MR. DONALD PALMER: They have upgraded the statistical model in a couple of ways and really making that model more comparable to the models that they have built for collision and comp.

Previously, the rate groups were only based on accident benefit frequency without any consideration to the severity of the accident benefits that were paid. In addition, there was no differentiation by model year. So a Ford Focus would get the same accident benefit rate regardless if it was a 2002 model Ford Focus or a 2009 Ford Focus.

Of course, with new cars coming in with added safety features that type of -- having those same rate groups for different model years, really, isn't indicative of the risk that's presented by those vehicles, so, they have updated that model to include both severity and frequency and to have a differentiation between model years.

There -- previously the rate groups were set as one (1) to five (5). The plans are with this more sophisticated model that they will be up to fifty (50) rate groups in the first -- first generation as they're implementing those rate groups. They only have rate groups of twenty-seven (27) to forty (40).

(BRIEF PAUSE)

MS. CANDACE EVERARD: So just to be clear...

(BRIEF PAUSE)

MR. DONALD PALMER: I'm ready.

MS. CANDACE EVERARD: So just to be clear, Mr. Palmer, what do you expect the benefits to be from the new system? You talked about more particular rate groups but how -- how does that translate into a benefit?

MR. DONALD PALMER: With the recognition of both frequency and severity and the differentiation of model year it was really a better reflection of the risk that's presented by any particular vehicle with regard to accident benefits.

MS. CANDACE EVERARD: Still looking at AI.16 I'd ask you now to turn your attention to page 3 and the upper table on that page. Can you explain to the Board in -- in rough terms what's set out here and how that ties back to the changes that you've been speaking about?

MR. DONALD PALMER: Again, we'll have to translate those new rate groups into the MPI rate groups. In terms of our first phase, and -- and with any -- as we've seen over the history of -- of these proceedings anytime that we get a change there is a phase-in period of -- so that there isn't great rate dislocation caused by any particular change and going back when we originally went to clear again we had a phased-in approach for those rate groups. So this is essentially the same as that.

We have translated those rate groups 27 to 40 that I mentioned into rate groups 1 to 5 and as an intermediate step and then again used our former algorithm to -- to get completely into our own rate groups.

What this chart shows is the number of vehicles from the IBC database that were in the 2007 former CLEAR rate groups and how they are placed into the 2008 CLEAR accident benefit rate groups.

This -- this is a retrospective analysis that happened in 2008, that's why those model -- those years are 2007 and 2008.

So in -- so for the rate group number 1, of which there is two million seven hundred and seventy six thousand two hundred and ten (2,776,210) vehicles, those are distributed, that one million five hundred and seventy-five thousand one hundred and fifteen (1,575,115) were put into rate group 27, a hundred and twelve thousand five hundred and thirty-three (112,533) were put in rate group 28, and so on.

MS. CANDACE EVERARD: Thank you. With reference to the lower table on the same page, page 3, can you explain the Corporation's plan for implementing the first phase of the new tables?

MR. DONALD PALMER: Any vehicles that are in rate group 27 and 28 would be put into Manitoba accident benefit rate group 1 to apply to our algorithm, as I had prevly -- previously explained.

Any vehicles in rate groups 29 to 31 would be placed into rate group 2, 32 to 34 in rate group 3, 35 to 37 in rate group 4, and 38 to 40 in rate group 5. And then the same algorithm we had before would apply.

MS. CANDACE EVERARD: Thank you. I'm moving to the next page, page 4 of AI.16.

Can you interpret for us the table which summarizes the expected changes in MPI's assigned accident benefits rate groups?

MR. DONALD PALMER: Once we go through the complete algorithm with the collision rate groups, the comp. rate groups, and the adjusted accident benefit rate groups, there will be changes from last year's rate group table into the -- the new rate group table.

This particular table shows how many vehicles will be moving down rate groups or moving up rate groups. We have always had a capping rule that we move all the way down, meaning, regardless of how many rate groups down a vehicle will go, we will -- we will use that number.

So if there is a vehicle that goes down from rate group 15 to rate group 10, just blindly using the algorithm, we will assign rate group 10. So we will go all the way down, but cap one (1) rate group up.

So, for this particular case, in the vehicles that we have, two hundred and twenty-nine thousand five hundred and eighteen (229,518) vehicles in our rate model would go up rate groups. We have capped all of those at one (1) rate group up.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Just to clarify

that answer, Mr. Palmer, this chart on page 4 relates to the AB rate groups, right? That's what the explanatory paragraph reflects?

So we're -- we're just wondering about, if there are only five (5) AB rate groups, then how do you -- or how does one move up to five (5) --

MR. DONALD PALMER: The --

MS. CANDACE EVERARD: -- rate groups on the scale?

MR. DONALD PALMER: This table is actually everything. The biggest impact was the accident benefits, but this is running all of those adjustments through to -- to get this net result, so this particular table is everything.

MS. CANDACE EVERARD: Meaning the final rate group?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: If you can refer back to the table, the upper table on -- on page 3, can you explain how any vehicle can experience a change greater than one (1) rate group?

(BRIEF PAUSE)

MR. DONALD PALMER: There -- there's two

(2) -- two (2) ways. So something with a current rate group of 2, there's seven hundred and eighty nine thousand six hundred and seventy three (789,673) vehicles in Canada that would go to a rate group of 35, which would translate into a rate group 4 using the Manitoba experience.

So that would be two (2) rate groups of for looking only at the accident benefit portion of the rate group.

MS. CANDACE EVERARD: So how does a vehicle move five (5) rate groups down?

MR. DONALD PALMER: Because there would be collision and comp. changes, as well, that are incorporated into this table.

MS. CANDACE EVERARD: Now just one (1) additional question with respect to page 4. The last sentence in the narrative --

MR. DONALD PALMER: I apologise. I'm ready.

MS. CANDACE EVERARD: No worries. Page 4, the last sentence of narrative before the chart reads:

> "The adjustments were completed on a revenue neutral basis."

Can you explain the means of implementation and how that's the case?

MR. DONALD PALMER: Once we applied the new rate groups into our rate model, our distribution of vehicles is different than the cross-Canada distribution of vehicles. So there would be some implicit rate change on an average basis different between insurance use and territory. We use classification offsets to undo any of that rate level change.

So on -- so, for instance, after we only applied all the rate group changes, re-ran the model, if there -- if our average rate for any insurance use territory increased by 1 percent, then we would apply a 1 percent offset downwards in that so we would get revenue neutrality.

MS. CANDACE EVERARD: Thank you. I would ask you to turn then to Tab 31, in the book of documents, which is the question and answer at Number 74, posed by the Board in the first round.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Are you with me?

MR. DONALD PALMER: Now I am.

MS. CANDACE EVERARD: Okay. So Tab 31 of the book of documents, question 1-74, posed by the Board, the answer at Tab A, in the first few lines reads:

"The CLEAR tables were published with caveat on April 30th, 2009. The tables, including the new accident benefits rate groups, are currently being reviewed by the Financial Services Commission of Ontario, or FSCO, and are expected to receive final approval in the near future."

Are you in a position to give us an update as to that approval process of the -- the new CLEAR tables in Ontario?

MR. DONALD PALMER: The new CLEAR tables have not yet been approved by the -- by FSCO.

MS. CANDACE EVERARD: And do you have knowledge of why that has not been done yet? What's the problem? What's the source of the delay?

MR. DONALD PALMER: The automobile insurance industry in Ontario, as I understand it and my knowledge is purely from news reports but, is in a state of flux, a dire state of flux.

So there are other issues. There are many companies that are looking at fairly significant required rate increases. My understanding is that FSCO is reluctant to institute a new set of rate tables in combination with those possible large rate increases, that there could be a combined effect.

So if someone was applying for a 10 percent rate increase without consideration of rate group changes and then there was another rate increase indicated because of a rate group dislocation, there could be a substantial impact on any particular consumer. So that's my -- again, my understanding of the reason that they currently have not been -- yet been approved.

MS. CANDACE EVERARD: Does the Corporation accept that FSCO is the only regulator that reviews these tables and that other competitive jurisdictions tend to rely on their review?

MR. DONALD PALMER: We are aware of that, yes.

MS. CANDACE EVERARD: Do you know then why it is that IBC released the tables to members before the regulatory approval had been received?

MR. DONALD PALMER: Because they -- they could be used in other jurisdictions possibly and -- and I don't know if they currently are, but they have been published. So other than that I don't know why the decision was made to publish them.

MS. CANDACE EVERARD: Can you tell us -- sorry.

MR. DONALD PALMER: And I -- and really,

we're -- as participants who -- who use these tables, CLEAR, IBC knows that we use them. In fact, Mr. Johnston sits on the technical committee of -- of CLEAR. We're in a somewhat different position than some of the other insurers because we basically need them a year in advance for these proceedings. Certainly, that's one (1) consideration in -- in the release of these tables is that so we could actually use them.

There's a real danger if we don't have updated tables that we would be two (2) years behind and then cause more dislocation if we didn't keep up-to-date on a year-by-year basis.

FSCO, at least as of last week, had not only not approved the accident benefits tables, they hadn't approved the collision or comp. tables either. So it wasn't a question of even partially, it was there was no tables.

We were very concerned that if we didn't incorporate the new tables that we would have to redo all our rate group assignments. And given now that still there aren't FSCO-approved tables that we'd be -- be in a situation now that looking at outdated tables and next year to have a two (2) year dislocation would really cause us an issue.

I will also say that this is not without precedent. We were faced with a similar situation a few years ago where there were Canada-wide tables that had not been approved by FSCO. We went ahead and -- and used the updated tables, as well. So this -- this is not something that we haven't done in the past.

MS. CANDACE EVERARD: And to the best of your knowledge is there a risk that the content of the tables will change before they are approved?

MR. DONALD PALMER: There is very little risk that their collision and comprehensive tables will change. They have not been -- the model with regard to collision and comp. hasn't changed, so the expectation is that possibly those tables might be approved before the accident benefit tables are.

And -- and, again, I am going on hearsay only because we have someone who sits on the technical committee. So that's certainly a fairly strong possibility that that would happen.

As far as the accident benefit tables, we're not sure. In terms of the risk, again this is a fairly small component of the rate groups as we assign them, so I don't see a major risk in terms of materiality by utilizing the tables now.

I'm absolutely thrilled that we have tables that incorporate frequency and severity and model year. I think it's a vast improvement on what we had before.

MS. CANDACE EVERARD: Thank you. Just one (1) more question.

MR. DONALD PALMER: And --

MS. CANDACE EVERARD: Oh.

MR. DONALD PALMER: And just one (1) more addition to that. Because they have been published by the Insurance Bureau of Canada, they will also be maintained because they were -- are formally published, so it's not a risk that they will publish them now and -- now, and then not maintain them as new model years come -- come on. So in terms of an ongoing risk, I don't see any.

MS. CANDACE EVERARD: Okay. Looking at the -- the next page of this IR response number 74 at Tab 31 that I had directed you to, if you can just look at the graph on page 2.

If I understand this correctly, the red line, which is significantly different than the other lines, represents Manitoba, if you will, is -- is that correct?

MR. DONALD PALMER: Red is IBC and the blue is -- the blue is MPI but with losses capped and -- and after a PIPP cost allocation, the loss transfer.

MS. CANDACE EVERARD: So -- so what is it that explains the significant difference between the patterns on the -- the red line, which, as you said, is IBC, and the black and the blue, which are more consistent?

MR. DONALD PALMER: It's -- there's a few differences. Difference in benefits, of course, is a consideration. The capping of the accident benefits is a consideration.

And then, of course, the -- the cost allocation into the 50/50 split does take -- take away much difference between the -- so if a car with a high accident benefit relativity hits a larger car with low, then you combine the cost and divide by two (2), so there is some flattening there.

MS. CANDACE EVERARD: Thank you.

Mr. Chairman, I'd be moving to another area, and it appears Mr. Pelly is leaving us, so perhaps this is a time for the break.

THE CHAIRPERSON: We will have quick break so we can say --

MS. CANDACE EVERARD: Thanks.

THE CHAIRPERSON: -- goodbye to Mr. Pelly, among other things. But just before we go, just a question.

When the transition to the IBC new tables is complete, all the way through, everything's been worked through and they're up to their fifty (50) groups and everything's all through, there'll be potentially significant changes, right, to premium levels for vehicles in Manitoba.

Do you have any idea at this point in time what the range of change would be at completion? And I'm wondering whether or not, if you had possession of those things, whether it would be as part of your consumer education with respect to car purchasers?

In other words, if there's a significant change coming in time where the Firefly's premium is going to double and the Mack truck is going to half, are consumers going to be made aware of that ahead of time?

MR. DONALD PALMER: With -- with the PIPP cost allocation as ordered by this Board, that likely won't happen just as indicated by this graph, that there isn't a huge difference between the low end and the high end.

So to the extent that there is some change, then certainly we would -- we would do some notification on that. We do publish on our website the -- the rate groups and people can -- with our rate calculator so they could see that.

But the way that currently costs are allocated there likely won't be that kind of dislocation.

THE CHAIRPERSON: Would it be plus or minus 5 percent? I'll leave that with you and we'll take our break, thanks.

MS. CANDACE EVERARD: Mr. Chairman, sorry, just before we go, Ms. Kalinowsky has what I think is the second quarter report and a couple of other things.

So maybe it would just be better if that was entered onto the record before the break and then people can have a look at the documents on the break?

THE CHAIRPERSON: I was only thinking of the fact that we'll lose Mr. Pelly if we don't stop right now.

So we'll take the break now, if you don't mind, Ms. Kalinowsky, and we'll come back to you.

--- Upon recessing at 2:42 p.m.

--- Upon resuming at 3:06 p.m.

THE CHAIRPERSON: Okay. Welcome back everyone. Sorry, Ms. Kalinowsky, I didn't mean to interrupt you there. We just had a few words we wanted to have with Mr. Pelly before he left.

So you have news for us.

MS. KATHY KALINOWSKY: Absolutely. I'm ready to hand out a number of exhibits. There's four (4) of them in total.

They relate to the quarterly financial report for the second quarter of six (6) months ending August 31st, 2009, and a number of undertakings that we were provided I believe today with -- maybe yesterday with respect to information that flowed out of that.

So I can hand that out right now with maybe the help of the Board secretary, Mr. Gaudreau. But I would ask that the quarterly financial report, second quarter, six (6) months ending August 31st, 2009, be marked as MPI Exhibit Number 13.

THE CHAIRPERSON: Very good.

--- EXHIBIT NO. MPI-13: Quarterly Financial Report, Second Quarter, Six (6) Months ending August 31, 2009.

MS. KATHY KALINOWSKY: And the forecast update which is the statement of operations including second quarter results, that be marked as Exhibit Number 14.

--- EXHIBIT NO. MPI-14: Forecast Update

MS. KATHY KALINOWSKY: The write-down of impaired investments 2008/2009 up to August 31st, 2009 be marked as MPI Exhibit Number 15.

--- EXHIBIT NO. MPI-15: Write-down of Impaired Investments 2008/2009 up to August 31, 2009

MS. KATHY KALINOWSKY: And MPI Exhibit Number 16 is to be the Accumulated other comprehensive income unrealized gains or losses on available for sale assets update to August 31st, 2009.

THE CHAIRPERSON: Thank you.

--- EXHIBIT NO. MPI-16: Accumulated Other Comprehensive Income Unrealized Gains or Losses on Available for Sale Assets Update to August 31st, 2009

(BRIEF PAUSE)

THE CHAIRPERSON: Without rushing to

judgment, there seems to be some improvement noted here.

(BRIEF PAUSE)

THE CHAIRPERSON: Ms. Kalinowksy, just to check, so the quarterly financial report you said was thirteen (13)?

MS. KATHY KALINOWSKY: According to my record, yes, that would be thirteen (13).

THE CHAIRPERSON: And then the statement of operations is fourteen (14); is that right?

MS. KATHY KALINOWSKY: Correct.

THE CHAIRPERSON: Total Corporate is fifteen (15) or is it the other way around? Is the write-down fifteen (15)?

MS. KATHY KALINOWSKY: Number 15 is the write-down of impaired investments.

THE CHAIRPERSON: Okay.

MS. KATHY KALINOWSKY: And number 16 is the Accumulated Other Comprehensive Income.

THE CHAIRPERSON: Thank you.

Ms. Everard...?

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you, Mr.

Chairman.

Mr. Palmer or Mr. Kramer, I'm not sure who, we're going to talk about IFRS, the International Financial Reporting Standards.

MR. DONALD PALMER: The fun just keeps coming and coming.

MS. CANDACE EVERARD: I know, I know. So it's our understanding that compliance with IFRS is a requirement for fiscal years beginning on or after January 1st of 2011 with comparative results for 2010; is that correct?

MR. OTTMAR KRAMER: We're a little strange or unusual with our fiscal year so bear with me. We will have comparatives for the year '10/'11 and it'll be effective '11/'12.

MS. CANDACE EVERARD: Yes.

MR. OTTMAR KRAMER: So I don't know if that's what you -- exactly what you said, but, you know, just because of our February year end.

MS. CANDACE EVERARD: I was actually going to go there so you just saved me a question.

So the point being for the year of the application, the 2010/'11 year we're looking at comparative figures and then the actual implementation of IFRS will affect the next fiscal year of MPI which is the

'11/'12 year, right?

MR. OTTMAR KRAMER: That's correct.

MS. CANDACE EVERARD: Okay. I'd ask you to turn to Tab 27 in the Board's book of documents. This is the question and answer at 57 put by the Board in the First Round and attached to the IR response is the Deloitte IFRS report.

If I could ask you to turn to page 3 of the report, in the first paragraph I believe is -- is a reflection of the -- the details that we've just been discussing, that as of March 1st of 2010, MPI will need to prepare an IFRS compliant balance sheet and then be in a position to produce both IFRS and GAAP financial statements for the following fiscal year.

What -- what they call the 2011 fiscal year would be the 2011/'12 fiscal year?

MR. OTTMAR KRAMER: I believe they're referring to the -- the '10/'11 year is where we'll need both GAAP and IFRS statements.

MS. CANDACE EVERARD: So those are the comparative results that we spoke about a moment ago?

MR. OTTMAR KRAMER: Correct.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Now is it the case that the opening numbers, if you will, for the March 1st, 2010, comparative figures need to show or reflect as if the corporation has been using IFRS historically?

MR. OTTMAR KRAMER: Yes, that is correct.

MS. CANDACE EVERARD: So, the Corporation needs to know what it's accounting policies will be prior to that date in order to have those comparative results reflect the -- the IFRS numbers?

MR. OTTMAR KRAMER: Not necessarily.

(BRIEF PAUSE)

MR. OTTMAR KRAMER: Do -- do you want me to explain my "not necessarily" answer?

MS. CANDACE EVERARD: Sure.

MR. OTTMAR KRAMER: Yes, we need to have an opening balance sheet, but we don't have to have the opening balance sheet and all the policies adopted March 1st because the IFRS compliance statements will not be published until Q1, May 31st, 2011. That will be the first time that IFRS compliance statements will be released.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Just on this point, just so that we ensure that we understand the evidence, if you can turn over the page to Page 5 of the Deloitte Report, there's a bit of a diagram that might help us in this discussion.

The preamble before the graph at the bottom of the page reads:

"The time line below outlies -- outlines [pardon me] MPI's required steps in preparing fully compliant IFRS financial statements."

So there is the March 1st, 2010 date indicated where there will be an opening balancing sheet under IFRS. The next point in time listed is February 28th, 2011, for full year comparatives. And then the third date listed is February 29th of 2012, which is the first full year IFRS compliant financial statements.

Is that correct?

MR. OTTMAR KRAMER: Yes, and those are all as-at. And you have to disclose the information that is the -- the opening balance sheet as at March 1st, 2010, but you don't have to disclose it at March 2001st -- or March 1st, 2010.

Once you do disclose it, which will be the first time you'll see IFRS compliance statements, which will be Q1, 2011/'12, the May statements, they will have to be IFRS compliant.

There will be a reconciliation showing from GAAP to IFRS, but that will be the first time that those statements will be released and that's when you have to be finished.

Now just reading a lot of the information on Europe's transition and other -- other places in this world that as they've transition to IFRS, the plan is to -- to make a lot of the policy decisions and to become IFRS compliant and understand what the differences are as much as possible ahead of time.

But there is still a lot of times when the -- the corporations that are adopting IFRS for the first time will have to back-cast and make book paper adjustments to go from GAAP back to IFRS.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So if I understand your evidence correctly, Mr. Kramer, and what we've been discussing over the last few minute, it is the case that the Corporation will have to have two (2) sets of books, if we can call them that, one (1) IFRS and one (1) in GAP, as of March 1st of 2010.

However, some of the accounting policy decisions that may be included there can be made later and then backward adjustments being made?

MR. OTTMAR KRAMER: Back-cast.

MS. CANDACE EVERARD: What you call back-casting?

MR. OTTMAR KRAMER: Yes, yes.

MS. CANDACE EVERARD: Okay, thank you. I think we're clear on that. I'd ask you now to go to Tab 26 of the book of documents which is just the one (1) tab prior to the one (1) that we're looking at.

This is the question and answer posed by the Board at Number 55 in the First Round. And the question at sub (a) was asking that the Corporation provide a listing of the transitional elections that it will be required to make under IFRS.

And the Corporation's answer was that Deloitte has not yet completed the detailed assessment of IFRS impact on the Corporation. And this is obviously as of the beginning of August of this year.

Now that we're a couple of months hence, has that assessment been completed?

MR. OTTMAR KRAMER: No, it -- it's not been fully completed yet.

MS. CANDACE EVERARD: When you say it's

not fully completed, is -- is it partially done or how -- how close is it?

MR. DONALD PALMER: We have been doing a series of -- of papers and whatnot. Those -- the impacts are not fully -- fully understood. We have not disclosed any of those transition adjustments to the Board as yet. That will be done over the next number of months and then -- and then policy decisions made sometime after that.

MS. CANDACE EVERARD: Do you mean this Board or the MPI Board of Directors?

MR. DONALD PALMER: The MPI Board.

MS. CANDACE EVERARD: Okay. So your evidence is over the next number of months the elections will be disclosed to the Corporation's Board of Directors and then decisions made thereafter? That -- that's the current plan?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: Now it's my understanding, and there may have been a question on this already but since we're on the IFRS topic, it's our understanding that the forecasts presented in this GRA do not reflect the impact of IFRS?

Is that correct?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: And we know that

the impact of IFRS will be included in the next GRA that will come in June of 2010 for the '11/'12 insurance year?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: Now at that point in time, by the filing of the next GRA in June of 2010, the Corporation will have already reported or issued its annual report for the current year, the '09/'10 insurance year?

MR. DONALD PALMER: Yes. It will be part of our application as it has been in the past.

MS. CANDACE EVERARD: I'm going to ask you to go to AI.21 which is in the book of documents at Tab 13. This is -- was part of the original filing relating to IFRS on the part of the Corporation.

And it's reflected on the first page of AI.21. Are you with me?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: As indicated, with respect to the annual report, that there are some matters that will be required to be reported on in the '09/'10 annual report and the Corporation -- I'm looking at the bottom of page 1 -- has identified five (5) issues as the most significant to the Corporation with respect to IFRS.

So can you go through for the Board one (1) by one (1), these five (5) issues and just explain and elaborate a little bit on what each issue is?

MR. OTTMAR KRAMER: Sure, I -- I can do that. The -- the first issue or first item that -- on this -- on this list of most significant issues is the insurance product classification. The IFRS required all the insurance contracts to be reviewed to ensure that the -- the accounting was following the IFRS guidelines to ensure that they were actual contracts versus non-insurance contracts.

The -- the preliminary review that was done at that point in time as indicated in this -- this handout, it is currently anticipated all insurance -- all contracts that MPI now counts for as insurance arrangements will be continued to treat -- be treated this way. So although it was a significant issue, as of currently we don't see any changes coming out about -- due to this section.

MS. CANDACE EVERARD: Is there a financial effect that would be anticipated arising from this issue?

MR. OTTMAR KRAMER: As far as we know right now, no.

MS. CANDACE EVERARD: And I note that this is an issue that it says here will be a requirement under IFRS 4 and as we've already heard evidence from Mr.

Palmer, the time frame on IFRS 4 is a bit unknown at this point?

MR. OTTMAR KRAMER: Correct. There -- there will be -- there may be some significant changes to IFRS 4. The Accounting Standards Board for IFRS are -- are looking at the IFRS 4 and we've got anticipated changes anticipating 2012 to 2014. Some of the estimated time frame that I've heard now is probably fourteen (14), not even twelve (12) or thirteen (13) but 2014/'15 but that's a -- that's a moving target also.

MS. CANDACE EVERARD: Thank you. Can you tell us a little bit about issue number 2 the financial instruments?

MR. OTTMAR KRAMER: Financial instruments? You all recall two (2) years ago when we adopted Section 3855 which was the process as getting Canadian GAAP to be lined up more with IFRS. So as indicated here that Canadian GAAP is virtually the same as IFRS, however, there's a do-all-over opportunity and that's what we've already discussed, the -- the available for sale marketable bonds that we have that we are -- we are looking at and -- and currently exploring the opportunity to have a do-over and treat those as held for trading.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Thank you. And with respect to the third issue, employee future benefits?

MR. OTTMAR KRAMER: As indicated here that IFRS further extends the accrual of earned -- some of the earned employee future benefits that exist under GAP, we're -- we're currently looking at that. Some preliminary discussions that we've had are -- relate to some discounting that has to be had to some of the banked vacation and various other employee benefits. We're still in the process of looking at that right now but we don't see significant adjustments coming out of that.

MS. CANDACE EVERARD: And number 4 is property, plant and equipment?

MR. OTTMAR KRAMER: The -- the significant issue in property, plant and equipment relates to fair value. IFRS is -- is -- examines the balance sheet and attempts to fair value the balance sheet.

And one (1) of the items that can be fair valued is property, plant and equipment. So with the property, plant and equipment there's -- there's two (2) issues, is on the date of transition you can elect to fair value all your PP&E and -- and go up to -- up to fair value; that's the first issue.

The second issue related to PP&E is -- is in the future you can elect to value your property, plant and equipment every year at a fair value basis. If you don't elect to value at a fair value basis you have to disclose it. So the disclosure is there and those are the -- the main two (2) issues with -- related to property, plant and equipment.

MS. CANDACE EVERARD: Thank you. And Issue 5 on the list relates to intangible assets. Can you tell us a little bit about that?

MR. OTTMAR KRAMER: Intangible assets is on this list but, as indicated here, the Canadian GAAP is converging with IFRS and there was -- there's new GAAP standards with regards to intangible assets and so that we don't see the transition to IFRS will have any impacts on our intangible assets.

MS. CANDACE EVERARD: Thank you. There's a topic discussed in the Deloitte report which is back at Tab 27 of the book of documents, this is question 57, and I'm looking in particular at page 38 of that report.

Page 38 contains a discussion with respect to IAS 37 or International Accounting Standard 37. And under the heading of "Accounting Differences" states that:

"International Accounting Standard 37 applies to provisions, onerous contracts, and restructuring arrangements."

Now I appreciate that onerous contracts were not one (1) of the five (5) issues that we just looked at in the other IR. In other words, that has not been identified by the Corporation as an issue.

But from the Corporation's perspective, is there a minor issue related to onerous contracts or -- or any issue that relates to onerous contracts from the Corporation's perspective?

MR. OTTMAR KRAMER: Currently, we don't see the -- the onerous contract provision impacting us as from a position right now for -- for the Basic line of business.

MS. CANDACE EVERARD: Your evidence was that there's no impact to Basic. What about the Corporation, arising from onerous contracts?

MR. DONALD PALMER: We're currently studying all the provisions and that's one (1) of the ones that's included that we don't have a definitive answer on that yet.

MS. MARILYN MCLAREN: I would just draw

your attention to the fact though that this Deloitte document is about the Corporation and that did not make the five (5) that were identified as you pointed out a few minutes ago.

MS. CANDACE EVERARD: Is there anything that's being prepared by Deloitte to date, aside from what we have here in terms of a -- a paper or report relating to onerous contracts?

In other words, is there anything beyond what we have here relating to that issue?

(BRIEF PAUSE)

MR. DONALD PALMER: That's one (1) of the issues that's currently under consideration.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Ms. Everard, we're in a bit of a difficult position here. We have no corporate policy with respect to any of these issues. We have not completed the due diligence. There is -- there are no decisions that have been made, but you know, I mean I think -- and -- and things can change, for sure, but with -- with respect to the work that's been done to date and -- and what we've learned, in the absence of any decisions, what we've learned, the possible concern that was expressed a year ago by KPMG has not surfaced as a concern through the work that we've done with Deloitte.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Has Deloitte prepared any kind of a paper or a report on this issue to this point?

MS. MARILYN MCLAREN: They've done work for us, for sure, but in terms of talking about a paper that is -- would be anything other than draft preparation of materials that are still in flux and not complete? No, we don't have anything in that regard.

MS. CANDACE EVERARD: Thank you. Now we've spoken about the list of five (5) issues that are identified in AI.21. We've spoken about onerous contracts.

Are there any other issues that the Corporation sees as significant, that either arose after the list of five (5) was prepared, or that it would wish to comment on at this point?

MR. DONALD PALMER: I guess the -- the one (1) effect that we will see, and it's not a financial effect, is just the -- the whole issue of disclosure, will have a significant effect on the work that is being done.

But in terms of financial impact, no, it's -- so it is an effect on the Corporation and it certainly will affect the amount of work that we have to do. It will affect the number of pages in our annual report.

But -- so it -- it does have an effect, but not a financial effect, per se.

MS. MARILYN MCLAREN: To the extent that some of the other companies that we've learned a little bit about in Europe and elsewhere who've implemented IFRS, split their annual report.

You know, they -- they have the -- the document that we -- is basically, you know, the corporate information, the pictures, the stories. And every bit is larger. Now you're talking about, like, doubling or more of the notes. It -- it's hugely more voluminous in terms of the notes to the financial statements in particular. So it's more than double, probably, by the time we get there.

MS. CANDACE EVERARD: Just speaking about -- just speaking about the work that Deloitte is -- is doing that's obviously ongoing, there was an answer put forward by the Corporation to one (1) of the IRs posed by

CAC/MSOS. It's numbered 45 in the Second Round.

You can go there if you want but basically -- and I'll just wait for you to get there.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So 2-45 posed by CAC.

(BRIEF PAUSE)

MR. DONALD PALMER: Yes, I have it.

MS. CANDACE EVERARD: The -- the answer reflects that a number of accounting standard discussion papers will need to be prepared to decide the various accounting policy choices, and that the papers are being prepared by Deloitte.

I take it that these would be the -- the same pieces of work that we've been speaking about?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: So, would any of these discussion papers have been completed to this point in time, or are they all still in a -- a state of flux, as Ms. Mclaren described?

MR. DONALD PALMER: They're -- they're

all in draft currently.

(BRIEF PAUSE)

MS. CANDACE EVERARD: I appreciate that the reports are at the draft stage. I know that the report that we have at Tab 27 is actually marked "Draft" on its face.

Can you tell us whether any of the discussion papers that we've been speaking about are drafts in the sense that there are still changes being made to them, or are there any that are sort of at a final draft stage even if they haven't been officially signed off on by the Deloitte personnel?

MS. MARILYN MCLAREN: We're still working through changes on them. Just a little bit of more context on that is -- is, generally speaking, the Corporation's audit committee, the Board of Directors makes accounting policies in January, at its January meeting.

We would expect to have, you know, some of -- at least some of this work available to them. It might not be all of it. It may not, you know, be ready to finalize every -- every decision at that point, but that's generally where the Corporation's audit committee of the Board makes accounting policy.

MS. CANDACE EVERARD: Is it the case then that the Corporation has Deloitte's work product and it's at the point where it needs to respond and then have something put together to go to the Corporation's Board?

MS. MARILYN MCLAREN: Deloitte's work itself is not final either though.

THE CHAIRPERSON: The Board has a preliminary concern in this matter for a very practical reason.

The IFRS may or may not have a number of different optional routes to take. It would seem inefficient at the end of the day to have the Corporation produce one (1) set of financial statements and have the Board take a different view and use regulatory accounting. The Board's not driven for rate setting purposes to use the financial policies of the Corporation itself.

Now PUB is a member of CAMPUT. You may or may not know that CAMPUT, which is an association of Boards like this one (1) across Canada including the NEB, wrote IFRS, the governing body and as an argument basically for the continuation of rate regulation type of policies that would allow for the deferral of certain costs amortized over periods of time longer than the original IFRS seem to suggest with respect to intangible assets.

We don't know the outcome of all of that but we have some indications that IFRS may permit where assets to be carried on a utility or a balance sheet, if you like, where the regulator allows them to be deferred for rate setting purposes.

I can give you an example and it has got nothing to do with Manitoba Hydro. There's a Freudian slip. But you could have a situation where you have an asset that has no intrinsic value, okay, but it has -- but for the purposes of setting rates for consumers, may be amortized over a significant length of time.

A perfect example would be in the case of a gas utility where you get into energy efficiency and you run up a lot of costs, okay? The gas utility itself cannot be said to benefit from that expenditure because it simply passes the cost of gas onto the consumers. There's no benefit for those expenditures at all. And under IFRS under normal practices they would have them written it off in the year of occurrence.

Now the difficulty there is, of course, is you could have a rate shock for consumers. So the argument put forward by CAMPUT would be -- would allow the utility to carry on its audited financial statements that rate deferred asset.

And as an analogy I guess this is what I'm getting at. This is what our concerns are, is to, if possible, avoid two (2) sets of books, not that necessarily two (2) sets of books would arise.

But if MPI's Board decides on accounting policies and we don't know what your options are, and those types of considerations could potentially develop.

And I leave it with you to think about it at this time but that's what the Board's interest is, is we wonder whether it's in the public interest to have two (2) sets of books.

It might be a little bit different in MPI than say, for example, in Manitoba Hydro because Manitoba Hydro borrows money and there's lenders and credit rating agencies and things like that, and they're very, very much interested in having accounting policies in one (1) set of books. In your case you invest rather than borrow.

But that's the background when it comes into accounting policies. This isn't an issue of saying the Board's wanting to set the Corporation's accounting policies in some sort of a silly turf battle over the right of MPI Board to set it.

It's basically a suggestion for some

collaboration to try and get around this problem and what is in the best interest of, in MPI's case it would be the ratepayers whereas in the gas utility, it's their customers.

But I don't know if it helps you but that's the context of our interest when it comes to IFRS matters and the setting of accounting policies.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Thank you, that's very informative and -- and helpful and we certainly would ponder and consider it for sure.

MS. CANDACE EVERARD: Thank you. Just for the record, Mr. Chairman, you mentioned CAMPUT and I'll just confirm that that stands for the Canadian Association of Members of Public Utilities Tribunals.

Okay, so -- okay. So back to discussion of IFRS. The Board had posed a question in the Second Round of IRs number 36 and it's not in the Book of Documents. You can go to it if you want, it's really brief.

The question was: Please indicate whether the Corporation has prepared a gap analysis, a small-case gap analysis, not a GAAP analysis. If a gap analysis has been prepared, please file. And the response from the Corporation was the gap analysis has not yet been prepared but will be presented in the 2009/'10 annual report.

So my question is: When will the GAAP analysis be prepared and -- and for the record this is a GAAP analysis of the differences between Canadian GAAP, big "G," big "A," big "A," big "P" and IFRS?

MR. DONALD PALMER: It'll be done in the spring of 2010 for disclosure in that report, so, somewhere between February 28th and -- and March -- or, yeah, end of April. Yeah, so -- so published mid-June.

MS. CANDACE EVERARD: Thank you. I'll ask you to go back to the Deloitte report which is at Tab 27 of the Book of Documents, part of 1-57 posed by the Board in the First Round. I want to go through the report in -- in some level of detail so we'll start at page 11.

This is the section of the report entitled "High Impact Areas," that is of -- for first-time adoption of IFRS 1. Are you with me?

MR. OTTMAR KRAMER: Yes.

MS. CANDACE EVERARD: Now, in the third row if you will or third section of this table, there's the heading "Accounting Policy Choices Available?" and then there's the answer "yes" and then there's a list of fifteen (15) IFRS 1 elective exemptions or optional policy choices to be selected as an accommodation to the retrospective application of specific areas of IFRS related to specific types of accounting transactions.

And then it says the fourteen (14) elective exemptions -- but I think that's a typo and it should be fifteen (15) because there is a list of fifteen (15).

Can you read that list into the record, please?

MR. OTTMAR KRAMER: Yes, I can. So the elective exemptions relate to:

"1. Business combinations;

2. Fair value or revaluation as deemed cost;

3. Employee benefits;

4. Accumulative translation differences;

5. Compound financial instruments;

6. Assets and liabilities of subsidiaries, associates, and joint ventures;

7. Designation of previously recognized financial instruments;

8. Share-based payment transactions;
9. Insurance contracts;
10. Changes in existing decommissioning, restoration, or similar liabilities in the cost of property, plants, and equipment;
11. Leases;
12. Fair value measurement of financial assets, liabilities;
13. Service concession arrangements;
14. Borrowing cost;
15. Deemed cost investment in a subsidiary."

(BRIEF PAUSE)

MS. CANDACE EVERARD: Thank you, Mr. Kramer. And there is a little bit more content at this section of the table relating to five (5) mandatory areas in IFRS where retrospective application of IFRS at convergence is prohibited, i.e., mandatory exceptions and there are five (5) of this.

If you could just read those in for the completeness of the record.

MR. OTTMAR KRAMER: The five (5)

mandatory exceptions relate to:

"De-recognition of financial assets and liabilities;
Hedge accounting;
Estimates;
Assets classified as available -- or held for sale and discontinued operations;
And non-controlling interests."

MS. CANDACE EVERARD: Thank you. Now, if we go over the page to page 12 of the report, still in the same section, the last piece of the table on page 12 is entitled, "Impact to MPI," and at the first bullet there, Deloitte has stated:

"The impact of this standard has been assessed as high and has potentially significant implementation difficulty because the decisions made relating to elective exemptions will affect the consequential accounting treatment and application of related standards. As well, the disclosure requirements under IFRS 1 are extensive in the first year of preparing financial statements under IFRS."

And then Deloitte continues at the last bullet of that section to state that:

"On its preliminary review it has determined some elective exemptions and some of the mandatory exceptions that we spoke about that may be applicable to MPI."

Can you read those in for the record, please?

MR. OTTMAR KRAMER: The elective exemptions indicated here:

"A fair value or a re-evaluation as deemed cost;
Designation of previously recognized financial instruments;
Leases.
4. Fair value measurement of financial assets, liabilities.
5. Insurance contracts."

MS. CANDACE EVERARD: So with respect to the elective exemptions, Deloitte has identified five (5) of the fifteen (15) that you read in a moment ago, that -- that it feels may apply to MPI, and the other ten (10) it has not mentioned.

Is that correct?

MR. OTTMAR KRAMER: Yes, that's correct.

MS. CANDACE EVERARD: And then with respect to the mandatory exceptions there are two (2) listed of the five (5) that you read in, namely, hedge accounting and estimates.

Is that correct?

MR. OTTMAR KRAMER: Yes, that's correct.

MS. CANDACE EVERARD: What I'd ask you to do then, going back to the list of five (5) elective exemptions, if you can give the Board an indication, from your point of view, of the possible rate implications that arise from each?

MR. DONALD PALMER: We haven't finalized or quantified the impact, so at this stage we're unable to do that.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So, Mr. Palmer, you've indicated that the Corporation's not in a position to give us rate implications at this stage.

Once Deloitte has completed with the Corporation, the work that it's doing that we've already spoken about, will the Corporation then be in a position to give us rate implications for these points?

MR. DONALD PALMER: Won't be until the Board adopts policies. So -- some of the impacts, depending on the election that's chosen, could have significant effects or no effect at all, depending on what decision is made.

So, for us to guess what impact may be dependent on the MPI Board decision adoption of policy, it's -- it's not worthwhile speculating at this -- at this stage.

So in terms of Deloitte having their work done, I would answer, No, that doesn't help us until the MPI finalizes the accounting policies on these significant issues.

MS. CANDACE EVERARD: I understand that and I guess just -- just for my own understanding of this, is it the case then that the elections would be made by the Corporation's Board without knowing what the rate impacts would be?

Or would the Board of Directors make the elections knowing what the potential rate implications would be? In other words, would that be a factor in -- in making the decisions?

MR. DONALD PALMER: No, that would be a factor. There could be some quantification of the -- of the options available. That quantification has not been done yet.

MS. CANDACE EVERARD: But it will be done before the Corporation's Board makes the elections?

MR. DONALD PALMER: Yes, to the extent possible; maybe not an exact number but certainly relative magnitude.

MS. CANDACE EVERARD: Can you tell us, Mr. Palmer, dealing for the moment just with the five (5) elective exemptions, one (1) through five (5), whether you can say at this point whether all of them would have financial implications or can you say that some would not at this point?

(BRIEF PAUSE)

MR. DONALD PALMER: Likely leases nor insurance contracts would not have an effect. The other three (3) could.

MS. CANDACE EVERARD: Mr. Palmer, for the two (2) mandatory exceptions that are listed here under the MPI impact section, the hedge accounting and the estimates, would those -- can you say at this point or would those have a financial implication?

MR. OTTMAR KRAMER: We -- we currently don't see those as having an impact.

MS. CANDACE EVERARD: Okay. And if we continue on page 13, we've just sort of dipped into the top of it, the last section still under the first time adoption IFRS-1, is entitled "Next Steps."

And of course, the first bullet there is to consider the exemptions and exceptions that we've been speaking about.

The second bullet is to strategize and decide on which exemptions to apply keeping in mind that these elections are meant to ease the implementation project and consequential impacts to overall operations.

And we've spoken about the Board of Directors considering the elections at some point in the -- the future. Can you give us an idea of when that will take place?

MR. DONALD PALMER: Those discussions will take place with our Board before the end of this fiscal year.

MS. CANDACE EVERARD: Now the fourth bullet under that section reads:

> "Document the decisions made in IFRS and obtain concurrence from stakeholders if necessary."

Who would the Corporation consider or what entities would the Corporation consider as stakeholders to be consulted?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: I think we would have to give this some thought. But generally, when it comes to financial reporting, the stakeholders that -- that we are obligated to -- to consult with and get support from are the Provincial Government, the Auditor General, as well as our own auditor so that's what this would specifically reference in -- in most situations.

But, you know, I mean we may need to expand that, I'm not sure at this point.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Now, the fifth bullet under that section is, prepare the opening balance sheet March 1st, 2010, and IFRS-1 Conversion Disclosures.

Now, we-- we heard evidence earlier from you, Mr. Palmer, that whatever's going to be in the annual report is going to be made available next June, I guess.

Can you tell us anything about the timing of the opening balance sheet and when that will be available?

MR. DONALD PALMER: We'll have to have it done by May 31 of 2011. It will likely be done sometime before that, but exactly when? Probably closer to that date than -- than not.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Thank you. Mr. Chairman, I'd be about to move to another section of the Deloitte Report. So, given the time, I'm not sure if you'd like me to go ahead with that or just adjourn until Tuesday.

THE CHAIRPERSON: I don't think we could probably finish the whole Hearing by the -- the end of the day. So, we'll adjourn and see everyone back on Tuesday morning. Have a good Thanksgiving.

MS. MARILYN MCLAREN: If I could, Mr. Chairman. If I could just speak to one (1) item.

THE CHAIRPERSON: Please.

MS. MARILYN MCLAREN: To get it on the record today.

With respect to the significant reduction in chronic pain claims. There's a few different things, all contributing in various ways. I think some of it, clearly, it -- it's such a significant reduction. At some point -- at some point, on some level, they're really, we suspect are simply changes to the coding, for sure. You know, they're being coded in -- in other places.

But having said that, over the period of time that we have had the contract in place with the chiropractors that talks about protocols and -- and numbers of treatments and so on, I think that's also a meaningful factor.

There is less contention around these claims. And I think there is more -- earlier, and more awareness when something may actually divert from what normally would be a standard process.

In addition to that, I think we are encouraging our case managers to be more proactive. The work of the prolonged recovery unit that really does work hard with people who have become chronic pain claimants has informed deal -- informed our dealing with other people.

Health Care Services, we -- we learn more and more about how to work effectively with the highly skilled doctors on contract with us.

But outside of MPI there's other things happening too, in terms of the Provincial Medical Model.

And the extent to which the province, Manitoba Health uses information from the Pharmacare system, you know, to identify flags about potential over-medication and duration of medication. There's protocols for doctors to refer to specialists earlier than there used to be.

So, Manitoba Health, Manitoba Public Insurance, chiropractors, coding, there are a number of different things that are all leading to, I think, which might be some different reporting, but also a meaningful reduction in the number of chronic pain claims.

THE CHAIRPERSON: Thank you, very much. And just over the -- I mean, in your spare time perhaps, I guess, I don't know, maybe Mr. Palmer or Mr. Kramer. But, to help us to understand the sustain -- sustainability of the improvements shown in the six (6) month statements, it would helpful if we had some explanation of the -- what's the driving factors of the improvement in the AOCI.

Like you mentioned before, a couple days ago, about bonds. But, maybe it's perhaps being reflected here and some of it may be equity evaluation. But, some comments along those fronts when we get back together again on Tuesday and Wednesday would be helpful. Thank you.

MR. DONALD PALMER: We'll be happy to do

that, Mr. Chairman.

THE CHAIRPERSON: Thank you. Okay, we'll see you on Tuesday.

--- UNDERTAKING NO. 10: MPI to provide an explanation of what's the driving factors of the improvement in AOCI

MS. CANDACE EVERARD: Sorry, just one (1) other thing I wanted to say. Mr. Saranchuk has confirmed with Mr. Gaudreau that's it's okay for people to leave things in the Hearing Room if they wish to do so. There won't be anything else in here, I gather, over the next two (2) days.

So, people can -- don't have lug things around if they don't wish to.

--- Upon adjourned at 4:04 p.m.

Certified Correct,

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Cheryl Lavigne, Ms.