MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE COMPANY (MPI)
GENERAL RATE APPLICATION
FOR 2011/12 INSURANCE YEAR

Before Board Panel:
Graham Lane - Board Chairman
Len Evans - Board Member

HELD AT:
Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
October 6, 2010
Pages 391 to 623

APPEARANCES

Candace Everard	)Board Counsel
Nicole Hamilton	)
Kathy Kalinowsky	)MPI
Raymond Oakes	)CMMG
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Jerry Kruk	)
Robert Dawson (np)	)CBA/MBA

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UNDERTAKINGS

--- Upon commencing at 9:01 a.m.

THE CHAIRPERSON: Okay. Good morning, everyone. Ms. Everard, whenever you're ready.

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

(BRIEF PAUSE)

MS. CANDACE EVERARD: Mr. Chairman, I think MPI has a few exhibits they'd like to enter, so maybe we'll just start with that.

THE CHAIRPERSON: That's fine.

MS. KATHY KALINOWSKY: Good morning. I'd just like to say that we've received quite a number of pre-ask questions this year, so we've prepared our responses to a number of them, not all of them, since they only came in towards the end of last week. But I'd like to tender each one as a separate exhibit, and Mr. Gaudreau should be passing them around right now.

MS. CANDACE EVERARD: I think Mr. Gaudreau might just need a couple of minutes to sort them through. He's going to, I think, collate them into piles, and then he'll just distribute them en masse, person by person.

Is that okay?

MS. KATHY KALINOWSKY: Sure. Do you want to wait then before I put them in as numbers, or...

MS. CANDACE EVERARD: Yeah, well, let's just give Mr. Gaudreau a few minutes to -- to put them into piles, and then maybe I'll just start with the cross, and then we can pause --

THE CHAIRPERSON: Do the pre-ask --

MS. CANDACE EVERARD: -- to enter the exhibit.

MS. KATHY KALINOWSKY: Sure, we can give him a few minutes?

THE CHAIRPERSON: Do the pre-ask questions you're responding to, would they provide any light to your cross?

MS. CANDACE EVERARD: I don't know because I don't know which answers they are, and I haven't seen them yet, so.

THE CHAIRPERSON: Okay. Well, in the interest of time, why don't you start.

MS. CANDACE EVERARD: Okay. Thank you.

MPI PANEL:

MARILYN MCLAREN, Resumed

DON PALMER, Resumed

OTTMAR KRAMER, Resumed

CONTINUED CROSS-EXAMINATION BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Okay. I'll ask -- this is probably for Mr. Kramer -- take a look at Tab 8 of the book of documents, which is TI.13.

This is a document we spoke a little bit about yesterday. It compares, if I'm right, the forecast for the current year, as of the time of filing of the GRA, with the projections for the year of the Application.

Is that right?

(BRIEF PAUSE)

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

MS. CANDACE EVERARD: Thank you. Now, we know that the forecast for the current year, as reflected in TI.13, has been updated somewhat, by virtue of the second quarter results that we spoke about yesterday. I just would like the Corporation to confirm though that the Application stands as per the GRA filing, and is not updated by virtue of the second quarter report, although that information is before the Board.

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

MS. CANDACE EVERARD: Okay. So looking at TI.13, we see -- if we look at the first line relating to motor vehicle premiums written, we see that there's an increase anticipated from the current year's forecast, as of the time of the GRA filing, to the forecast for the year of the Application of about 6 million.

Is that correct?

MR. OTTMAR KRAMER: Yes, about six and a half (6 1/2), yes.

MS. CANDACE EVERARD: Which is just under 1 percent?

MR. OTTMAR KRAMER: Yes.

MS. CANDACE EVERARD: And if we look on page 2 of TI.13, we see a calculation between that Point A and Point B; that is the 743 million for the current year and the 749 million for the year of the Application. I believe we spoke yesterday about the volume increase that's reflected here and that 2 percent is actually 2.25 or should be 2.25?

MR. OTTMAR KRAMER: Yes, corr -- that's correct. That was a typo.

MS. CANDACE EVERARD: But the $17.2 million figure that appears there is correct?

MR. OTTMAR KRAMER: That's correct.

MS. CANDACE EVERARD: And we see a

further increase arising from the upgrade factor offset by two (2) additional figures that represent the rate reduction that is being proposed?

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

MS. CANDACE EVERARD: The next line in TI.13 relates to driver premiums. We see at the time of the GRA filing the forecast for the current year was some $34.3 million and the projection for the year of the Application is 24 million, so a decrease of about 10.2 million.

Is that right?

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

MR. DON PALMER: And -- and just to give some reason for that big decrease is the -- or in the Application year, 2011, part of the transition to the Driver Safety Rating Program was there would still be accident surcharges that would be charged in '10/'11, the current year. Those go away in '11/'12, so that is why we've got the $10 million decrease on driver's premium.

MS. CANDACE EVERARD: Yeah, you're -- you're in my head, Mr. Palmer, because I was just about to go to the last page of TI.13 that reflects the details of that. And maybe we'll just go there so the -- the Board can see that calculation.

If we look at the last page, which is

Schedule 2 of TI.13, we see the Corporation is expecting demerit point premiums of about 3.2 million, and then that's offset by the charge to accident surcharges that will no longer be there as a result of the new system, and that's how we get the ten point two (10.2).

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Okay. So if we go back to the TI.13 and the schedule that's immediately following, and we look in the section that's entitled "Net Earned Premiums," we see that service fees and other revenue are projected to increase from 16.5 million to about 20.9 million, for a different of about four point three (4.3).

Is that right?

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

MS. CANDACE EVERARD: And the reason behind that, as set out on page 2, is due to higher transaction fees from increased volume, as well as higher interest rates.

Is that right?

MR. OTTMAR KRAMER: Yes, tha -- that's the explanation.

MS. CANDACE EVERARD: Now, we know from looking at the second quarter information that the

Corporation filed yesterday, that the current update for the service fees for the current year is -- it's actually gone down a little bit from the sixteen point five (16.5) that we saw in the GRA to about 15.3 million.

Is that right?

MR. OTTMAR KRAMER: Yes, fifteen point three eight (15.38), so fifteen point four (15.4).

MS. CANDACE EVERARD: You'd probably say fifteen point four (15.4).

Okay. And if we continue in TI.13 in that second section that ends with "Total Earned Revenues," we see that those are expected in the TI.13 filing to increase by about 6.5 million, which is just less than 1 percent.

Is that right?

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

MS. CANDACE EVERARD: And, again, we now have an updated number for that current year figure. Rather than 771.4 million, it's about seven hundred and sixty eight point three (768.3).

So if we looked at that number, that would mean that the expected increase is more like 3.5 million.

Is that right?

MR. OTTMAR KRAMER: No --

MS. CANDACE EVERARD: Maybe my math has

gone in the wrong direction.

MR. OTTMAR KRAMER: You -- you went the wrong direction. It would be nine (9) --

MS. CANDACE EVERARD: Yeah, it's more like 10 million.

MR. OTTMAR KRAMER: Yeah, 9/10 million, yeah.

MS. CANDACE EVERARD: Fair. Thank you. If we look at the next section in TI.13, the third section, it's entitled, "Claims Incurred," and we see on that line of the table that as of the time of the GRA filing, the forecasted number for the current year was some 619.2 million. The forecast for the year of the application is 647.4 million, for an increase of about 28.2.

That's right?

MR. OTTMAR KRAMER: That's correct.

MS. CANDACE EVERARD: And that number doesn't change much at all, pursuant to the second quarter results? It stays pretty much the same?

MR. OTTMAR KRAMER: Yes, the second quarter was up slightly, about a million and a half.

MS. CANDACE EVERARD: Now, we see if we look at Schedule 1 of TI.3 -- TI.13, pardon me, this reflects a breakdown as at the time of the GRA filing of that $28.2 million increase. And we see there that about 8.8 million of the increase is driven by PIPP.

Is that correct?

MR. OTTMAR KRAMER: Yes, that is correct.

MS. CANDACE EVERARD: And we also see an increase on the collision line of about 14.6 million?

MR. OTTMAR KRAMER: Yes.

MS. CANDACE EVERARD: Comprehensive, again, there's an increase of about 3.3 million, or almost 6 percent?

MR. OTTMAR KRAMER: Yes, five point five (5.5).

MS. CANDACE EVERARD: And we see as well, an increase for property damage of about a hundred -- or 1.5 million.

Is that right?

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

MS. CANDACE EVERARD: Going back to TI.13 we seen on the next line, the line called, "Claims Expenses," right underneath, "Claims Incurred," that there's an increase expected as of the time of the GRA filing. The forecast for the current year was about 91.1 million, and that was forecasted to increase in the current year to about 93.8 million.

Is that right?

MR. OTTMAR KRAMER: Yes.

MS. CANDACE EVERARD: And that spread, I believe, is increased if we look at the second quarter result, which provides for claims expenses forecasted for the current year of a little bit less, being 89.4 million.

Is that right?

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

MS. CANDACE EVERARD: We see if we look at page 3 of TI.13 that there is some commentary with respect to the claims expenses line, which provides that -- again, using the numbers from the time of the GRA filing, that there was a 2 percent general price increase being included, as well as some increased building expenses and amortization from improvement initiatives.

Is that right?

MR. OTTMAR KRAMER: Yes, that's the explanation on page 3.

MS. CANDACE EVERARD: If we go back to TI.13, we see under the section entitled, "Expenses", on the second line, there's an item for commissions, which were forecasted as of the filing of the GRA to be about 45 million in the current year, and to be dropping to just under 41 million in the year of the application.

And that's of course due to the streamline renewal process. Is that right?

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

MS. CANDACE EVERARD: We see --

MR. OTTMAR KRAMER: And -- and it's also impacted by the rate decrease, to the extent that the rates are lower. The agents earn -- or the brokers earn less commission.

MS. CANDACE EVERARD: Right, because they get a percentage?

MR. OTTMAR KRAMER: That's correct.

MS. CANDACE EVERARD: Okay. And we also see, with respect to investment income, there's a -- a projection of -- on TI.13 of eight-five point seven (85.7) for the current year, to increase to ninety-two point six (92.6) for the year of the application. And we spoke about that yesterday.

Is that right?

MR. OTTMAR KRAMER: Yeah -- yes, based on TI.13.

MS. CANDACE EVERARD: And we -- we did talk about the updated second quarter results yesterday, and as well, the reasons for a fairly significant anticipated increase there?

MR. OTTMAR KRAMER: Yes, that's correct, due to declining interest rates in the market.

MS. CANDACE EVERARD: And I think you had also talked about some gains within that figure, as well?

MR. OTTMAR KRAMER: Right. The -- the declining interest rates result in -- in gains on the bond portfolio.

MS. CANDACE EVERARD: Good. Now with respect to the anticipated net result for the year of the application, is it fair to say that budgeting for an underwriting loss is something that the Corporation does typically?

MR. OTTMAR KRAMER: Not typically, but the -- the rate application is over -- it was over a two (2) -- two (2) year period, the rates do go over a twenty-four (24) month period, so you need to take a look at the '11/'12 numbers, plus the '12/'13 numbers, and the average of the two (2) is a -- is a profit number.

THE CHAIRPERSON: Mr. Kramer, I think you misheard Ms. Everard's question.

MR. OTTMAR KRAMER: Sorry. Mr. Palmer just corrected me.

Yes, the under -- underwriting, yes. Do budget for an underwriting loss, and the investment income brings it back to a -- a break even position. I apologize for the misunderstanding.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: No worries. Thank you, and you've answered my next question as well, dealing with the investment income. And we know that there's some significant reliance on that to balance things out at the end of the day.

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

MS. CANDACE EVERARD: Okay. Thank you. Those are the questions dealing with TI.13, and the financials for the moment. I'm going to turn then to a new area. Maybe before I do that I'll just see if we're ready for those exhibits?

No. Okay. So I'll keep going. I'm going to pose some questions to the panel, with respect to the rate stabilization reserve. We did speak a little bit yesterday about the purpose of the RSR. It's -- it's unchanged from previous years, and it's on the record.

Can the panel advise if there have been any significant changes in the Corporation's risk profile since last year?

MR. DON PALMER: Not significant changes in risk profile, no.

MS. CANDACE EVERARD: We had an IR on that posed by the Board in the First Round. It was Number 1-82, if the panel would like to go there; you don't necessarily need to.

My question is: When the Corporation is considering its risk profile and whether or not there have been changes in it, what are the elements or characteristics that the Corporation considers?

(BRIEF PAUSE)

MR. DON PALMER: We do have a risk management framework that we've talked about that we have a -- a number of risk profiles that are included, some forty (40) odd of risk profiles. Those are updated and reviewed on an annual basis, everyone of them on a rotating basis. There are some that are more critical that are reviewed on a quarterly basis, every one. We also are looking at -- at new risks as things emerge, as -- as new realities are evidenced, so that risk framework is constantly under -- being monitored.

In -- in addition, there's also -- that -- that's the identification part of the -- the risk profile. There's also the measurement. We're still running the dynamic capital adequacy tests to measure the -- the impact of the changing risk on the pro -- so that was completed last year, and has also been completed now this year.

MS. CANDACE EVERARD: Just while we're talking about that, is that something that the Corporation is going to be able to provide to the Board in the course of the Hearing? I know there was some discussion on it in the pre-hearing exchanges.

MR. DON PALMER: We can provide that, yes.

MS. CANDACE EVERARD: So you'll take that as an undertaking?

MR. DON PALMER: Yes, we will.

--- UNDERTAKING NO. 2: MPI to Provide risk management framework/elements considered to conclude the risk profile has not changed

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: I understand that the Corporation analyses certain risks quarterly. Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And which risks are those?

MR. DON PALMER: We don't have that list just handy at this point -- point.

MS. CANDACE EVERARD: Thank you. Can you advise of whether there have been any significant changes to the risk profile, say within the last five (5) years, even cumulatively if not in one (1) shot.

MR. DON PALMER: There are a number of things. Certainly -- although it probably wasn't -- didn't change the risk profile, it certainly accentuated the risk profile when the market had its major crash in 2008. The -- the mix of our assets hasn't changed a whole bunch in -- in the last five (5) years, so -- so it wasn't because of an asset mix -- mix change.

We're certainly more aware of information security, identity security, that kind of thing, in the last five (5) years. That certainly is something that has a -- a higher profile for us.

The -- the nature of our liabilities has not changed much, but there is a change in the accounting rules in the last five (5) years that our interest rate -- where we now have to discount at market rates that are inherent in our -- in our asset mix, so that has introduced some volatility into the results. Again, we've -- we've mitigated that some -- somewhat with our immunization strategy, so -- but it is a -- a new risk.

The -- the changing accounting rules, again, not really a risk, but does put some inherent volatility in. We have gone through our analysis for IFRS Phase 1. We've talked about that in terms of changing -- changing some of the assumptions. It didn't have a huge impact on us.

IFRS for Phase 2, which I suspect we'll be talking about later on, that is something that we're aware of that -- that -- that may be a risk, and -- and add some volatility to our -- once we've -- once we've figured out exactly what IFRS for Phase 2 is going to mean to us, so that -- that's certainly a change.

MS. CANDACE EVERARD: Is it the case, in the Corporation's view, that the Application before the Board -- namely, the 4 percent rate decrease and the proposed rebate -- are any indication that, in the Corporation's view, its risk level has changed in any way?

MR. DON PALMER: No. The -- there was a -- a number of -- a list of items that was brought forth in -- I think it was the order, the DSR order -- either 89/09 or 98/09, I can't remember which one -- that had a list of -- of various uncertainty components. I think we've addressed all of those, so, from that standpoint, I would say no.

MS. MARILYN MCLAREN: Just to add to that, I think one (1) of the things, not so much the

Corporation's risk profile, but certainly our cost profile with respect to significant reductions on auto theft, so it -- it has reduced from that point of view, but it's very gradual over the last number of years. We're talking this year about spending $30 million less on auto theft this year than we thought we would spend in 2010 back in '05 when we put the theft strategies together.

So that really has reduced community risk. It's reduced our cost structure. But if you look at the basis that -- the components of the 4 percent rate decrease that the Corporation's applying for, some of it related to commissions, no risk there. Some of it's continuing to -- to wash through the reductions in auto theft. No future risk there.

And the fact that we've been administering PIPP longer, have a better handle on PIPP and have changed some of those foundational assumptions, again, we think that is not related particularly to -- to risk, except for the fact that we believe our ability to understand and forecast PIP has been continuing to improve, so there's less risk there really about going forward.

MR. DON PALMER: And -- and just for -- for reference, that itemized list of -- of those potential risks that were identified by the Board in -- they are outlined in my pre-filed testimony on -- starting on page 2, each one of those, just for reference purposes.

MS. CANDACE EVERARD: Thank you. Okay, so if we look at the RSR dollar amounts a little more closely, we'll find those at Tab 9 of the book of documents, which is TI.14 as filed in the GRA, we see in the column for the current year, reflected here at TI.14 at Tab 9, the Corporation has built into its calculations for the schedule the proposed $92 million rebate that's before the Board.

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And so, if we follow this calculation through, if the $92 million proposed rebate is granted, the balance and the Basic RSR at the end of the current fiscal year would be about 146.5 million.

Is that right?

(BRIEF PAUSE)

MR. DON PALMER: At the time of the Application, that's correct. That was updated with the second quarter to one eighty two point nine (182.9), whi -- which includes the IFRS adjustment, just for illustration purposes.

MS. CANDACE EVERARD: Yeah. And I'm -- I'm about to go there. But if we -- if we just stick with TI.13 -- or 14, pardon me, as originally filed, the balance after rebate would be 146.5 million without the rebate. And I appreciate this number doesn't appear here, but if we -- if we add back the 92 million just so that we -- we know what we're dealing with, the balance in the RSR would be about 238 1/2 million.

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And with the Board's range for the current year, as reflected here in TI.14, topping out at 154 million, but for the rebate that the Corporation is proposing, there would be about an extra 154 million in the RSR.

Is that right? Oh, pardon me. Not a hundred and fifty-four (154): eighty-four and a half (84 1/2).

MR. DON PALMER: That sounds better, yes.

MS. CANDACE EVERARD: Sorry, I got my numbers mixed up there.

And so we see, by looking at TI.14, that in large part, I believe what's driving the rebate proposal is the net income that the Corporation had in the year that's ended, 2009/'10, of about 87.8 million.

Is that right?

MR. DON PALMER: That would be accurate, yes.

MS. CANDACE EVERARD: And that piece of income was driving by a fairly significant decrease in claims incurred of about just under 80 million, and that's reflected in TI.11.

Is that right?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: Yes, that's correct, as we discussed yesterday.

MS. CANDACE EVERARD: Yes. Now, Mr. Palmer, you were speaking a moment ago about the -- the adjustment to retained earnings that comes into play as a result of IFRS transition, and I just want to speak about that a little bit. If we look at your pre-filed testimony on page 6...

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. So if we look at your pre-filed testimony on page 6, you say in the -- the second full paragraph:

> "The second major component of the Application is the rebate of 12.9 percent of 2009/'10 premium, or 92 million, that will be paid to policyholders in the 2011/'12 fiscal year.
>
> This figure represents the excess of the RSR reserve over the PUB target at February 28, 2010 of approximately 71 million, plus an unrealized gain in fixed income securities of 21 million."

And that twenty-one (21) is the adjustment that arises from the IFRS transition that we've been speaking of.

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And the 71 million that was also there, arose from PIPP runoff and the decrease in claims incurred. That was just discussed.

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Now your pre-filed

testimony also states that with the Corporation's IFRS policy decision to value the fixed income portfolio at fair value through profit and loss, formally known as "held for trading," the RSR opening balance at March 1st, 2010, under IFRS will increase by 21.1 million. You continue to say that:

> "This opening is in effect locked in, as the future RSR balances under IFRS will use this new figure as a starting point for accumulation."

That's right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: So on a combined basis then, the Corporation is proposing to refund 92 million to policyholders, which represents an amount, over the board range, that arises from runoff as well as the locked in IFRS adjustment to be made March 1st, 2010?

MR. DON PALMER: Runoff plus other favourable claims experience, yes.

MS. CANDACE EVERARD: Okay. Now pursuant to an IRS by the Board, which was Question 17 in the Second Round, and it's at Tab 41 of the book of documents, we have, in effect, a rerunning of TI.14 that includes the -- the $21.1 million adjustment that we've been speaking of.

Is that right?

(BRIEF PAUSE)

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

MS. CANDACE EVERARD: And is there a particular reason why this adjustment wasn't included in TI.14 in -- at the time of the filing of the GRA?

(BRIEF PAUSE)

MR. DON PALMER: I -- I would just say the reason is that our actual -- these are actual balances at February 28th. So February 28th, 2010 wouldn't have had the IFRS adjustment. We -- we had that explanation in other places, but the actual retained earnings as at the time mentioned doesn't include the twenty-one one (21.1).

MS. CANDACE EVERARD: And as per the answer to 2-17, which is at Tab 41, if the adjustment of 21 million is reflected on the schedule, then we -- we see the math, and after the $92 million rebate that's proposed, the balance in the RSR would be about 167.7 million.

Is that right?

MR. DON PALMER: Yes. I -- I mean, the other way we could look at it is that's essentially the -- the difference between February 28th of 2010 and March 1st of 2010, because that's really the day of the opening balance of IFRS, so you -- you -- absolutely.

MS. CANDACE EVERARD: M-hm. But there's not an issue with the 21 million adjustment being uncertain or -- you -- you've testified that it's locked in, so the Corporation's confident that that entry will be there?

MR. DON PALMER: That is -- that will be, or is the transition entry, yes.

(BRIEF PAUSE)

MR. DON PALMER: Just to add to that, that is subject to the -- or part of the policies that have been in place and passed by the Board. So if there was any change in those policies, that number could change. It's also subject to audit. But from a standpoint of -- we don't think there's going to be cha -- any change to election, so given that, that's the number.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So if we just --

THE CHAIRPERSON: Should -- just -- Ms. Everard, perhaps we should enter these exhibits now before they --

MS. CANDACE EVERARD: Sure, but --

THE CHAIRPERSON: -- pass out of our recent memory.

MS. CANDACE EVERARD: Sure. Let's do that.

MS. KATHY KALINOWSKY: Thank you. I would suggest that PUB-3-1, which is an update of the unfun -- which was a question requesting an update of the unfunded pensions liability be entered as MPI Exhibit Number 10.

MS. CANDACE EVERARD: Sorry, Ms. Kalinowsky, Ms. -- Mr. Gaudreau has gone through the replies that have been provided, and he's numbered them for us. So if it's -- if it's okay I'll just read in the numbers that he's assigned.

We've got the response to Pre-ask 3-1 as PUB/MPI Exhibit 11-1.

--- EXHIBIT NO. PUB/MPI-11-1:

Response to Pre-ask 3-1

MS. CANDACE EVERARD: We've got the response to Pre-ask number 3, so 3-3, as PUB/MPI Exhibit 11-3.

--- EXHIBIT NO. PUB/MPI-11-3:
Response to Pre-ask 3-3

MS. CANDACE EVERARD: We've got the answer to PUB/MPI Pre-ask 3-9 as PUB/MPI Exhibit 11-9.

--- EXHIBIT NO. PUB/MPI-11-9:
Response to Pre-ask 3-9

MS. CANDACE EVERARD: And then the answer to Pre-ask 11, 3-11, is PUB/MPI-11-11.

--- EXHIBIT NO. PUB/MPI-11-11:
Response to Pre-ask 3-11

MS. CANDACE EVERARD: So Mr. Gaudreau's just adopted the same system of exhibit numbering that we use for the IRs for these.

So we have one (1), three (3), nine (9), and eleven (11). And then we have a series of responses -- or sorry, we have one (1) response to a pre-ask posed by CMMG, which we've assigned an exhibit number of CMMG/MPI-4-1, and that's the reply to Question 3-1.

Okay. And that's a two (2) page document. There's a -- an attachment entitled "Undertaking Number 44" that goes with that.

--- EXHIBIT NO. CMMG/MPI-4-1:

Response to Pre-ask 3-1 with attachment entitled "Undertaking Number 44"

MS. CANDACE EVERARD: CMMG 3-2 pre-ask has been given Exhibit 4-2.

--- EXHIBIT NO. CMMG/MPI-4-2:

Response to Pre-ask 3-2

MS. CANDACE EVERARD: CMMG/MPI Pre-ask number 3 is now CMMG/MPI Exhibit 4-3.

--- EXHIBIT NO. CMMG/MPI-4-3:

Response to Pre-ask 3-3

MS. CANDACE EVERARD: And the same for Pre-ask 4, that is CMMG/MPI Pre-ask 3-4 is now Exhibit 4-4.

--- EXHIBIT NO. CMMG/MPI-4-4:
Response to Pre-ask 3-4

MS. CANDACE EVERARD: And the last one that I have is the answer to a pre-ask posed by CAC/MSOS. It's number 3-1, and the exhibit number that's been assigned to that is CAC/MSOS/MPI Exhibit 4-1.

--- EXHIBIT NO. CAC/MSOS/MPI-4-1:
Response to Pre-ask 3-1

THE CHAIRPERSON: Thank you.

(BRIEF PAUSE)

THE CHAIRPERSON: I apologize for breaking your train of thought, Ms. Everard.

MS. CANDACE EVERARD: No, that's fine. It's not hard to do, sadly.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Okay. So we were looking at Tab 41, which is the response to Question 17 posed by the Board in the Second Round, in dealing with this recalculation of TI.14. So, as we see, including the IFRS adjustment of 21 million, less the proposed rebate of 92 million, we see on this schedule the RSR balance at that point being 167.6 million, which is about 13 million higher than the Board range.

Is that right?

MR. DON PALMER: That's the projection as at February 28th of 2011, yes.

MS. CANDACE EVERARD: Yes. So is it the case then, in the Corporation's view, that the rebate should be in a -- a higher order, $13 million higher, or $105 million rebate to take that balance down to the top-end of the Board range?

MR. DON PALMER: No. It's always been the -- one (1) of the principles of our rebates is that we rebate a year-end balance after it's in the bank, so -- because that is still a projection that would, I suppose, form part of the decision-making criteria for our 2012 GRA, but in -- in terms of this GRA, what we have is our last balance, with the IFRS adjustment, at March 1st of 2010.

MS. CANDACE EVERARD: But just so that I understand the evidence correctly, the original TI.14 -- if we just flip back to that for a moment, but keep our hand on the other version that we were looking at -- the original version of TI.14, after taking into account the proposed rebate, leaves the RSR balance at a hundred and forty-six and a half (146 1/2), which is somewhere close to the top-end of the Board range, but not quite at the top-end of the Board range, right?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And the Corporation is comfortable with that, obviously, because that's what it's applied for?

MR. DON PALMER: Yes, because that $21.1 million is locked in as part of the IFRS adjustment, yes.

MS. CANDACE EVERARD: Right, and I was just about to come to that, but the original TI.14 doesn't include the 21 million?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: So as of the originally filed TI.14, the Corporation is working with solid numbers. And what I mean by solid is that there's no uncertainty built into that -- that RSR balance after the payment out of the $92 million rebate?

MR. DON PALMER: That's correct. Nor are we really dealing with any uncertainty with that twenty-one one (21.1) in there as well, so --

MS. CANDACE EVERARD: Right --

MR. DON PALMER: -- both ways.

MS. CANDACE EVERARD: And -- and I

appreciate that, and that -- I -- I guess I'm -- what I'm trying to get my head around is, if, in the original filing of TI.14, the Corporation was comfortable with the numbers and the resulting balance of 146 1/2 million, then when we turn to Tab 41, the only change we've made in the year in question is the addition of the 21 million, which is locked in.

So why is there now a level of uncertainty that -- that the Corporation has?

MR. DON PALMER: Because the $21.1 million adjustment is at March 1st of 2010, and the net income amount that you see that forms the basis, that's an uncertain number.

So, the -- the $92 million rebate is certain -- or, sorry, let me retract that. Subject to Board approval, the $92 million is there. The twenty-one point one (21.1) is virtually certain. The $13.8 million is still subject to -- to a fair amount of change.

So it really is that $13 million that takes the excess of the one sixty-seven (167) over the one fifty-four (154), not the $21 million adjustment.

MS. CANDACE EVERARD: Well, I -- I don't know that I -- that I quite agree with that, but I -- just let me make sure that I -- that I have my head around this. The Corporation's evidence is that, in looking at TI.14 as originally filed, which doesn't include on its face the 21 million, the corporation is asking for a $92 million rebate, which would leave the RSR at 146 1/2 million as of the end of the current fiscal year, as of February of 2011, and the Corporation is comfortable with that, because that's what it's asking for.

Is that right?

(BRIEF PAUSE)

MR. DONALD PALMER: Just because the $21 million wasn't shown on that particular schedule, it was always contemplated that we were going to -- to have it there.

So really, it wasn't part of the thought process of bringing that RSR down to a hundred and forty-six (146). We knew it was there. This particular schedule does show the balances at -- as at year end.

So I -- I think we're splitting hairs in terms of whether it's February 28th or March 1st, but the fact that we didn't have it in the original schedule doesn't mean that it wasn't part of our original decision-making process, that's all.

MS. CANDACE EVERARD: Maybe I'm not clear in -- in what I'm asking, then. If that's the case, then I apologize, so let me try to explain very clearly where I'm coming from.

I appreciate that the 21 million is a March 1st adjustment, that it was referred to in the pre-filed testimony, and I understand why it wasn't included in TI.14, because of that one (1) day difference.

Having said that, I think I understand correctly that the -- the 21 million is considered locked in, solid, not uncertain, by the Corporation.

We're agreed so far?

MR. DON PALMER: So far we're right there, yes.

MS. CANDACE EVERARD: So what I want to know is this: When we look at TI.14, this is reflective of the Corporation's Application, this is reflective of the proposed $92 million rebate? The Corporation is coming to the Board and saying, These are what we think the numbers are going to be in 2011 -- 2010/11, we would like this $92 million rebate, that's going to leave us with a hundred and forty-six and a half (146 1/2), and we're comfortable with that, because that's what we're asking for?

When we turn to the revised TI.14 that does include the twenty-one (21), and the question is asked, Well if there's now another twenty-one (21) there, why can't the rebate be increased? And I used thirteen (13) because of the relativity to the Board's range. And the answer is, Well it's uncertain.

But the only change from the first version to the second is the addition of the twenty-one (21) that's locked in?

MR. DON PALMER: No, I -- I will disagree with you on that point. What we were focussing in on is not the one forty six (146), but we're focussing in on the two twenty-four (224) plus the twenty-one (21) that essentially is at the end of the 2009/10, give or take a day. So -- so really the opening balance is the -- the actual RSR as at the end of '09/'10, plus a day is two twenty-four point seven (224.7) plus the twenty-one (21). So that's the number that drives the -- the $92 million rebate, not the balance at '10/'11.

MS. CANDACE EVERARD: The balance as of the end of '10/'11, if we're looking at the original TI.14 of a hundred and forty-six and a half (146 1/2), isn't certain, because of the fact that it has built into it the projected net income for the current year?

MR. DON PALMER: Yes. And -- and the decision for RSR rebate from -- I mean, from that standpoint if you added -- make the assumption that twenty-one one (21.1) is made at the end of the '09/'10 fiscal year, the decision for what the rebate will be, you can almost put your hand over the forecast '10/'11, '11/'12, '12/'13. That's not part of the decision making process.

So -- so it's not whether we're comfortable or uncomfortable with one (1) -- with the one forty-six (146). That's not part of the decision making. What we are comfortable with is the two twenty-four seven (224.7) plus the twenty-one one (21.1) that's already in the bank.

MS. CANDACE EVERARD: So the Corporation -- as you say, as far as the Corporation's concerned, looking at what is projected for the RSR balance as of the close of the current fiscal year is not a factor in coming forward and asking for the $92 million rebate?

MR. DON PALMER: That's absolutely correct, yes.

MS. CANDACE EVERARD: So the Corporation wants to look at what has occurred in the past on this point rather than what may occur in the future?

MR. DON PALMER: Definitely. The decision for the RSR is a -- is a retrospective basis, not prospective at all.

MS. CANDACE EVERARD: Just one (1)

moment, Mr. Chairman, if you don't mind.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. Just one (1) more question relating to the -- the way in which the numbers were presented for the purposes of the GRA filing. We know from the response to the IR that we looked at moment ago, 2-17, and as well, we see it in the second quarter results that the Corporation filed yesterday, that the Corporation has included in these revised versions of TI.14, the $21 million adjustment that we've been speaking of.

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: So from the Corporation's perspective, I take it then that the -- the more complete version of the document would be that which includes the $21 million adjustment?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Because -- I -- and I appreciate the explanation that's been given about the February 28th vert -- versus the March 1st adjustment date, but the fact is that the forecast for the current year is just that, it's a forecast, so there -- there is a retrospective element to TI.14, whatever version, but there's also a prospective element to it in that it does have forecasts for future.

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

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. I just want to ask a few more questions about the adjustments to retained earnings. If we go back to the book of documents, and in particular Tab 42, we see a different question posed by the Board in the Second Round, which is number 39. And we see in that particular schedule -- I'm looking at Attachment B, which is page 2 of that document, we see another iteration of TI.14 and the retained earnings.

And if we look in the current year, 2010/'11, we see that the figure for IFRS adjustments is 18.8 million, and that is, I understand, because of another adjustment that was made.

Can you explain that?

MR. DON PALMER: Included in our transition to IFRS is -- there are some nondiscretionary elements. We talked about the -- the twenty-one one (21.1) as being an election. There are some other things that are not elections, we just have to do.

The -- one (1) of those is a posting of a reserve for sick leave benefits. We have made the initial calculation that that would be $2.2 million charged to Basic at the time we have our transition.

We didn't include that in the original twenty-one one (21.1) in the calculation of the $92 million. We hadn't had a good estimate of that number at that time. When we got the estimate as $2.2 million, that's not really material, so we didn't -- we didn't apply to change the ninety-two (92) to ninety (90) because of that -- that change.

So -- so that's the reason for that particular adjustment.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. If we go back to TI.14, as originally filed --

MR. DON PALMER: I'm sorry, whi -- which is the reference again?

MS. CANDACE EVERARD: Oh, sorry. TI.14 as originally filed, which is at Tab 9 of the book of documents.

And I -- I have your evidence with respect to the Corporation's view of retrospectivity versus prospectivity, in terms of looking at the RSR balance relative to the rebate that's being applied for.

We see though on the face of TI.14, and -- and I'll -- I'll come to the updated forecast in a moment, but on the face of TI.14 as filed in June, after the proposed rebate, if it's granted, the Corporation was expecting that there would be a balance in the RSR as of the end of the current fiscal year of a hundred and forty-six and a half (146 1/2).

And we're clear on that?

MR. DON PALMER: Yes. That -- again, under GAAP accounting rules, as at February 28th, 2011, yes, that was the anticipated number.

MS. CANDACE EVERARD: And even if we add in the $21 million adjustment, that takes it to a hundred and sixty-seven (167), which would put it over the -- the Board range.

That's right?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: But either of those numbers, whether it's the one forty-six and a half (146 1/2) or the 167 million, are both fairly significantly under the Corporation's target point for the RSR balance.

That's right?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And can you explain to the Board why the Corporation would be applying for a rebate that may take it under its own target point in that particular reserve.

MR. DON PALMER: The Public Utilities Board order is what we followed. I mean, we -- we may not necessarily always agree with a PUB order, but we know that they're the order. So, from that standpoint -- again, for rate-setting purposes -- we are complying with that order.

So even though it's under the corporate target of a hundred and eighty-five (185), we know we're -- we're subject to the PUB orders in this particular instance. So that -- that's why we're complying and -- and basing the rebate on the one fifty-four (154).

MS. CANDACE EVERARD: And actually, on the face of TI.14 as filed in June, if the numbers played out the way that they're set out here, the balance in the RSR would be about 8 million less than the top-end of the Board range?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Okay. And just before we -- we talk a little bit further about the Corporation's view and -- and the Board's past orders, can you explain, for the record, the significance of the

Corporation utilizing a target point for the RSR rather than a range.

MR. DON PALMER: What it comes down to is the dynamic capital adequacy test. There are a lot of stochastic elements in -- in that test in terms of coming up with ninety-fifth percentiles and -- and -- for the -- the adverse scenarios, but really, in the analysis, come up to a point where the actuary will make a decision whether the financial condition is satisfactory or unsatisfactory, based on all of those adverse scenarios.

So in terms of the point at which we would get that satisfactory rating in the opinion of the actuary, that's the point that we pick as the target for the -- for the RSR level. So that -- that's the origination of the point. It's just the -- the turning point between having a satisfactory and an unsatisfactory rating.

MS. CANDACE EVERARD: Okay. And as we know from looking at TI.14 for the current year and the year of the application, the tar -- or the Corporation's target point range for the RSR is 184 or 185 million, right around there?

MR. DON PALMER: A hundred and eighty-five (185), yes.

MS. CANDACE EVERARD: Yeah. For the

current year, it's shown as one eighty-five (185); for the year of the Application, it's shown as one eight-four (184), but it's right there?

MR. DON PALMER: The -- we haven't done the -- the DCAT for those out -- years going out. What we have done, for illustrative purposes, is we grew that -- that target for the purposes of this chart, and really the purposes of this chart only. We have grown that by the growth in gross written premium the same as the growth in the PUB target, given that the PUB target, after the '11/'12 years -- year has -- we have been told that it'll grow based on gross written premium.

So just for comparative purposes, we have done the same thing with -- with the MPI target, and that is explained in note 3 of that -- although note 3 was a little bit more succinct than what I just said, it's the same thing. It's -- it's for illustrative purposes.

MS. CANDACE EVERARD: And thank you for pointing that out.

So, if we focus for the moment on the current year and the year of the Application, we see that the Board's range tops out at about 154 million and the Corporation's target point is at about 184/185 million, so there's a difference of roughly 30 million.

MR. DON PALMER: Yes, that's -- that's

correct.

MS. CANDACE EVERARD: And the Corporation filed some pre-filed testimony, I believe from Ms. McLaren, and perhaps from -- from yourself as well, Mr. Palmer, that the Corporation was somewhat encouraged by the fact that the -- the gap was a little bit narrowed?

MR. DON PALMER: It certainly is narrow -- narrower than it used to be, so from that standpoint, yes, we're -- we're please with that.

MS. CANDACE EVERARD: So I take it then that the Corporation's plans for the future are to continue to run the DCAT and to do the analysis that it's been doing, but is it fair to say that the -- the Corporation is prepared to accept, at least for the foreseeable future, the RSR range that the Board has established?

MR. DON PALMER: Yes. We're -- we're not disputing the -- that the Board has the ability of setting the RSR for rate setting purposes, so we will continue to accept -- accept that for our own application purposes.

MS. CANDACE EVERARD: While the Corporation may st -- will still continue to do its own analysis, and at the end of the day, may not agree with the parameters that the Board has set, the -- the

Corporation doesn't plan to pursue this issue, which has been very vigorously dealt with in the last number of years in the immediate future.

Is that fair to say?

MR. DON PALMER: That's fair to say, yes.

MS. CANDACE EVERARD: And in fact, I believe the Corporation reflected in its annual report that it anticipates that future rate applications, again, I assume for the foreseeable future, will be based on the Board's established target range?

MR. DON PALMER: Yes, that -- that's true. I think the Board has -- has said that they'll look at -- at all the documentation tri-annual -- tri-annually, and -- and we're -- we're happy with that. And -- and so at that point in time maybe the Board will see differently in three (3) years.

But at that -- but until then, we're certainly going to comply with the current target of the 10 to 20 percent of the gross written premium.

MS. CANDACE EVERARD: And I assume that the -- the Corporation appreciates, and you made reference, Mr. Palmer, to the Board's order, that the -- the Board's order with respect to the RSR range talks about a number of factors to be taken into account with respect to that level, including future forecasts, market uncertainly, quarterly results, risk evaluation, MCT, or value at risk indications, et cetera?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Does the Corporation have a view on whether deferred costs should be deducted from the RSR when the adequacy of the RSR is being considered?

MR. DON PALMER: Could you be more explicit on that? Give me an example, perhaps.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Mr. Palmer, we'll give a little further thought to that and come back to that question a little bit later on.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. Now, I understand that it's the Corporation's position that when the Board is setting Basic rates, it should not be considering the overall financial well being of the Corporation.

Is that right?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: We would agree though that Basic is the core line of business of the Corporation? Is that right?

MS. MARILYN MCLAREN: It accounts for between 80 and 90 percent of the revenue, and it is the reason the Corporation exists.

MS. CANDACE EVERARD: So I take it then that the other lines of business that the Corporation has, which for the record would be Extension, SRE, and DVL, are not the reasons that the Corporation exists?

MS. MARILYN MCLAREN: No, the Corporation was established to provide a universally available compulsory automobile insurance: that's Basic.

MS. CANDACE EVERARD: So would it be fair to say then that the other lines of business, Extension, SRE, and DVL, are ancillary lines of business within the Corporation?

MS. MARILYN MCLAREN: Not necessarily without checking my Webster's. The primary role of the Corporation is to deliver the Basic compulsory program. I -- I don't want to get into fine points of definition of words with you.

MS. CANDACE EVERARD: And -- and that's fine. Ancillary, I'll -- I'll use a couple of other words, because I actually did use my Webster's, just in case we were having this conversation. I'll replace the word "ancillary" with "subordinate", or "there to aid," which is the definition of ancillary.

So in other words, my question is that the other lines of business, Extension, SRE, and DVL, are there as subordinate to and to aid the Basic line of business.

MS. MARILYN MCLAREN: No, I wouldn't agree with that. No, they -- they are separate, standalone, they are not there to aid the way you describe it.

MS. CANDACE EVERARD: Those lines of business though are not financially independent of Basic.

Is that fair to say?

MS. MARILYN MCLAREN: Can you repeat the question?

MS. CANDACE EVERARD: Sure. The other lines of business, Extension, SRE, and DVL, as the presently exist, are not financially independent of Basic?

MS. MARILYN MCLAREN: I -- yes, they definitely are independent of Basic.

MS. CANDACE EVERARD: So are you suggesting that those lines of business could carry on and exist without Basic?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Absolutely. Absolutely, without a doubt.

MS. CANDACE EVERARD: The lines of business -- the other lines of business, that is Extension, SRE, and DVL, you say are financially independent, but I'm sure you would agree with me that they are not operationally independent of Basic?

MS. MARILYN MCLAREN: Well, we've had conversations about that here before. Certainly, there is significant integration through legislation of the different lines of business that the Corporation operates. That's why we have to rely on allocation policies to make sure that we clearly understand and have isolated and identified all the costs related to Basic, so that we can have all in clearly identified costs for the Basic compulsory program, which this Board has -- for which this Board has to review, and approve rates.

You said: Could the other lines of business stand on their own separate from Basic? There's absolutely no reason they couldn't.

MS. CANDACE EVERARD: And are you talking now financially, or operationally?

MS. MARILYN MCLAREN: Well, when you say "could they," that -- that suggests some future state. It could be both.

MS. CANDACE EVERARD: Can they now?

MS. MARILYN MCLAREN: According to the legislation that exists, there is integration between the different pieces of the corporate portfolio of responsibilities that the Corporation deals with. I mean, the issue we have here is Basic, that's what we're trying to focus on here, and that's why when there is integrated services, and integrated functions, we have to rely on allocation policies so that this Board can do its job with respect to Basic.

MS. CANDACE EVERARD: So the fact is that at present, certainly from an operational standpoint, there is crossover, and dependence, as between the lines of business.

MS. MARILYN MCLAREN: Again, not to put too fine a point on individual words, I would say that there are some shared services, and we use allocation policies to determine Basic's share of those shared services.

MS. CANDACE EVERARD: An example of a shared service would be AutoPac online, is that right?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: Can you describe, for the record, what that is.

MS. MARILYN MCLAREN: It's the computer system that administers all the functions related to the front-end part of the Corporation's business, whether it is Basic insurance on driver licences or on vehicles, registration, and Extension insurance as well. But it is the system that's used in brokers' offices to deliver registering and insuring vehicles and drivers for Manitobans.

MS. CANDACE EVERARD: And the main purpose of AutoPac online is to support Basic.

That would be true?

MS. MARILYN MCLAREN: Only as far as it's the Corporation's system. And the Corporation's main purpose is to administer Basic. But -- and most of the revenue collected through AutoPac online is Basic revenue.

MS. CANDACE EVERARD: But, as you've indicated, the AutoPac online system is also used for the other lines of business?

MS. MARILYN MCLAREN: That's right.

MS. CANDACE EVERARD: I'll ask the panel to look at Question 76 posed by the Board in the First

Round of IRs. This is at Tab 32 of the book of documents.

This particular question was asked in the context of IFRS and impairment of assets. What I'd ask, first of all, is for the panel to confirm that the quote that appears in the question of this IR, under the heading of "Alternative 3," it is in quotation marks, and that is something that was drafted by Deloitte, is that right?

MR. DON PALMER: Yes -- yes, this is an excerpt from the policy paper with regard to impairment of assets, and that's the context that it has to be read.

MS. CANDACE EVERARD: Mr. Palmer, can you read in the quote, please, for the record?

(BRIEF PAUSE)

MR. DON PALMER: The quote as it's written:

"Although MPI monitors their product line separately, there is another issue that must be considered that is unique to MPI. MPI is the sole provider of auto insurance in the province of Al -- of Manitoba. As such, they are required to take on certain product lines, such as driver's licensing, which are mandated to them by the province.

Consequently, it could be argued that the cashflows that are generated from all product lines that are part of the insurance operations do not generate independent cash flows. They are interdependent because MPI does not have the ability to choose whether or not to dissolve any of its product lines.

MPI provides driver licensing knowing that they may take a loss on it; however, it must be provided in order to obtain the cashflows from Basic insurance operations.

MPI does not have the option to choose to discontinue this service. As a result, the cashflows are not independent. Additionally, it would not be appropriate to consider separate lines of business to be CGUs (because they do not generate cashflows that are truly independent."

MS. CANDACE EVERARD: It sounds to me, from reading and hearing you read that quote, that Deloitte holds the view that the Corporation has to be looked at as a whole for the purposes of impairment testing, because of the fact that the lines of business are interrelated.

Would you agree that that's a fair portrayal of that quote?

MR. DON PALMER: For impairment testing. And -- and let me give you an example of that. If there was a service centre that, for some reason, became unviable, and say, for instance, we had a service centre in a town that was dependent on a mine, the mine closed and the town became a ghost town, so to speak, that service centre would be unviable.

In terms of where to charge the impairment to that, you can't pick and choose whether you charge that asset against some line of business. You have to essentially look at your allocation pol -- policies because the cost of that would be allocated and allocate the impairment on that same basis.

That -- that's all that this is -- is saying. There's no other purpose to say, on a more global basis, that they're all interrelated and can't be looked at separately. I mean, that -- that's not the point of this. This is specifically for an impairment of an asset.

MS. CANDACE EVERARD: And the answer that the Corporation has provided -- the -- the answer that the Corporation has provided in response to that IR states that the excerpt is related to impairment of assets, and that, in the Corporation's view, rate setting is separate and for a different purpose than the test of impairment of assets.

That's -- I'm sort of paraphrasing, but that's what the first couple of sentences of the response reads?

MR. DON PALMER: That -- that's absolutely true. Some of the language in -- in this discussion paper, it's pretty awkward, and -- and I would even say inaccurate. But, for the purposes of -- of impairment, it's there, but again, that's the context. No other context can be shared from this.

MS. CANDACE EVERARD: Is there anything in the quote that you just read in that you would say is inaccurate?

MS. MARILYN MCLAREN: Sure. There's a number of things. We're not the sole provider of auto insurance in the Province of Manitoba, in the second and third line.

And we don't provide driver licensing services in order to obtain the cashflows from Basic. That -- it's just not true. That's -- that's not how the system works, it's not how the legislation works. For many years, DVL administered a driver licensing operation and collected Basic revenue that they handed over to the Corporation.

So it -- it's just -- I think this was written probably by somebody from Deloitte who was not from Manitoba, part of a larger project team. This particular paragraph didn't get the technical scrutiny in terms of articulating exactly the Corporation's legislative and operational position in Manitoba, and it's -- it -- it certainly doesn't hurt to -- for us to take this moment now to -- to draw that to your attention.

I would also like to take a moment to draw your attention, in more specific detail, to our response in 'A', where it talks about the fact that, you know, the asset that became impaired in the example would have been allocated to the different lines of business, and the impairment would be allocated using the same way. It's all about allocation policy when it comes to one (1) line of business that the Corporation comes here to have rates reviewed and approved and operates other lines. It's all about allocation policy.

MS. CANDACE EVERARD: Just to clarify, when you say that it was incorrect for them to state that MPI is the sole provider of auto insurance, it is true that MPI is the sole provider of Basic auto insurance?

MS. MARILYN MCLAREN: Absolutely. If they had just put the word "compulsory" in front of the word "auto", that would be okay.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Is it the Corporation's view, just -- and we'll just talk about the substance of this for -- for a couple of moments longer. Is it the Corporation's view that there should be an impairment analysis, given the -- the issues that the Corporation takes with their -- what Deloitte has said here?

MR. DON PALMER: In terms of the purpose for this is written -- and that's the impairment of assets and the way that the impairment of assets are allocated -- that analysis is okay. It's just some of the descriptions are incorrect.

We -- we didn't take issue with the

conclusion of this in terms of -- of how assets are allocated. That's not the issue. In terms of the -- the building up, some of that was in -- inaccurate. We didn't -- of those several hundred pages of -- of discussion papers, we didn't wordsmith every one of them. We were looking at the substance of each paper, the recommendations that were in each paper, and the overall IFRS recommendations that -- or IFRS analysis that came out of it.

The fact that there was one (1) incorrect paragraph in two hundred (200) pages of -- of discussion, that wasn't the purpose of these papers, to describe our operations, or to have a -- an evaluation of our operations. This was clearly just for impairment.

So from that standpoint, the -- the way that impair -- impairment of assets has to be -- evaluated and allocated is okay. It's just this one (1) paragraph has some inaccuracies in it. We didn't think that that was enough to put several hundred man hours at wordsmithing every single discussion paper.

THE CHAIRPERSON: We have a representative from Deloitte that's coming as a witness later, correct?

MS. CANDACE EVERARD: Yes, that's true, Mr. Chairman. Mr. Olfert will be here next Wednesday, which is October 13th.

(BRIEF PAUSE)

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Okay. I'd like to turn the panel's attention for a moment to the annual report, which we find, I believe, at AI.7.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Yes. This is a 2009 annual report for the Corporation. It's found at AI.7 in the material.

If we look at -- I'll just wait for you, Mr. Palmer, to get there.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. If you can look at page 33 of the report, please.

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And you see on the right-hand side of the page under the column of -- or pardon me, the heading of, "Retained Earnings," the Corporation has stated here:

"Extension's total retained earnings are made up of retained earnings from the sale of Extension products, and the Extension development fund, or EDF. As at February 28th, 2010, Extension retained earnings totalled 49.1 million."

Is that right?

MR. DON PALMER: That's what it says in the annual report, yes.

MS. CANDACE EVERARD: The paragraph continues to read:

"And the EDF totalled 48.3 million."

Is that right?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And we see on the next page of this annual report, which is page 34, this relates to Special Risk Extension. We see under the heading of "Retained Earnings" that as at February 28th, 2010, SRE's retained earnings were 36.3 million.

Is that right?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And if we take all

of that together, I believe it's on page 50 of the annual report, we see the actual financial statement, which reflects that the balance in retained earnings of the competitive lines as of the end of the fiscal year 2009/'10 was some $133.7 million.

Is that right?

MR. DON PALMER: That's correct, yes.

MS. CANDACE EVERARD: And the Corporation's overall retained earnings, including the competitive lines and Basic, is 358.4 million, as at the same timeframe, February of 2010?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And I understand that the Corporation has given no indication to the Board of forecasted revenues, or forecasted retained earnings for the competitive lines.

MS. MARILYN MCLAREN: That's true. We believe it's not relevant to the Basic insurance rate proceedings here. We have referenced the annual report that says we expect both those competitive lines to make money again. That is in the annual report, but that's the extent of the information that's been provided. We expect both lines to be profitable, more specifically.

MS. CANDACE EVERARD: Mr. Chairman, I -- I am going to have a few more questions on this, but I just need to consult, and this may be an appropriate time to take the morning break, if that's agreeable.

THE CHAIRPERSON: Is fifteen (15) minutes enough time, Ms. Everard?

MS. CANDACE EVERARD: That's fine with me.

THE CHAIRPERSON: Okay. Fifteen (15) minutes. Thank you.

--- Upon recessing at 10:23 a.m.

--- Upon resuming at 10:39 a.m.

THE CHAIRPERSON: Okay, welcome back. Ms. Everard...?

CONTINUED BY MS. CANDACE EVERARD:

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

Before the break, Ms. McLaren, we were speaking about what's been put on the record by the Corporation, and I had asked about forecasted revenues or future retained earnings for the competitive lines, and you advised that the -- those have not been provided and the Corporation does not intend to provide them.

Is that fair to say?

MS. MARILYN MCLAREN: Yes.
MS. CANDACE EVERARD: Is the Corporation familiar with a memorandum that issued from the Premier last week to ministers and deputy ministers regarding the sharing of information? If not, I have a copy of it that I can provide.
MS. MARILYN MCLAREN: No.
MS. CANDACE EVERARD: Sorry, the Corporation's not familiar with it?
MS. MARILYN MCLAREN: No, I'm not.
MS. CANDACE EVERARD: What I'll do then is I'll provide a series of copies to the panel.
Yeah, here. Here's four (4) for the panel. And then these can be for -- for -- sorry, for the witness panel, and then those can be for the Board and whoever else, the Intervenors.
THE CHAIRPERSON: We should probably have an exhibit for it, exhibit number.
MS. CANDACE EVERARD: We will. I'll -- we will, absolutely.

(BRIEF PAUSE)

CONTINUED BY MS. CANDACE EVERARD:
MS. CANDACE EVERARD: Have you had a

chance to read the document?

MS. MARILYN MCLAREN: I had a quick read, yes.

MS. CANDACE EVERARD: So this is a memorandum provided by the Premier of our province, Premier Selinger, to ministers and deputy ministers. Mr. Chairman, it would be the next exhibit to be entered of the Board, Exhibit 12, so PUB/MPI Exhibit 12.

THE CHAIRPERSON: All right.

--- EXHIBIT NO. PUB/MPI-12:

Memorandum provided by Premier Selinger

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: I do have some questions for the panel with respect to this document. I appreciate that -- that you hadn't -- haven't seen it before. I didn't know whether you would have seen it.

So we can deal with this one (1) of two (2) ways. I can either ask the questions that I have right now, or if you want to be able to consider the document, I can ask the questions a little bit later on. I don't -- what -- whatever you're comfortable with.

MS. MARILYN MCLAREN: Well, let's start and see how we go.

MS. CANDACE EVERARD: Good. So the subject line of the memorandum is, "The Freedom of Information and Protection of Privacy Act." And the Premier writes in the first paragraph:

> "I am writing to all ministers and deputy ministers to underline the importance of providing information to the public in ways that reflect our shared views of openness and accountability and are responsive to the needs of Manitobans. Transparency in government is a significant factor in building and maintaining public confidence in the work we do together."

Would you agree that I've read that in properly?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: The Premier goes on, in the second paragraph, to speak of the government's 2009 annual report on the administration of the Freedom of Information and Protection of Privacy Act, commonly known as FIPPA. He goes on in the third paragraph to commend departmental staff who worked hard to meet the -- the spirit of that legislation and stresses the importance of dealing with processes under that legislation.

Is -- does that appear to be a fair summation of those two (2) paragraph?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: He continues in the fourth paragraph to state, in the first sentence:

"Government has moved forward in a significant way over recent years to make more information available to people through several channels."

And then he talks about requests received under FIPPA by the department, and gives some numbers of requests and -- that were made, and files, et cetera.

Does that appear to be correct?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: He then states in the fifth paragraph that he would:

"Encourage all departments to consider the best ways to make more government information accessible to the citizens of Manitoba, while ensuring that it is relevant, timely, and easy to find."

Have I read that in correctly?

MS. MARILYN MCLAREN: Yes, I believe

you've read it into the record correctly.
MS. CANDACE EVERARD: He then states in the second the last paragraph of the document that:
"Some information can be obtained from websites."
And he gives an example relating to travel expenses. He then says:
"Other department -- [or] other information [rather] might be listed as available on websites and provided on request, reducing the need to use FIPPA processes."
Is that right?
MS. MARILYN MCLAREN: Yes.
MS. CANDACE EVERARD: And in the very last paragraph the Premier writes:
"Reasonable access to information is fundamental to a free and democratic society. The work of your departments is crucial to ensuring our government continues to meet public expectations for openness, transparency, and accountability."
Is that what the paragraph reads?
MS. MARILYN MCLAREN: I believe so, yes.

MS. CANDACE EVERARD: Now having gone through this in a fair level of detail, can you give the Board an indication of whether what you've read and -- and heard, with respect to this document, has any impact or may have any impact on the Corporation's position regarding the disclosures that it's prepared to make to this Board?

MS. MARILYN MCLAREN: No, it doesn't have any impact, and certainly the Corporation works very hard to be as transparent as possib -- as possible. It also has obligations with respect to commercial confidentiality, and other things like that. I think we responded in one (1) of the Information Requests about forecasts for Extension, and rates and forecasts for Extension haven't been established yet.

But it's also not only about transparency and openness, it's about jurisdiction, and it's an incredibly important part of what this Corporation does. If you want a reference to what I've recently discussed, the way the Corporation approaches issues like this, it was when we were at a standing committee of the Legislature, a standing committee on Crown corporations a few weeks ago, a similar kind of question was asked. We work very hard to comply with legislation. We believe we are complying with the intent and the letter of the legislation as it relates to our responsibilities with respect to seeking review and approval of Basic compulsory AutoPac rates.

Yeah, I can give you an example from last year's proceedings where questions were asked about the number of EICs the Corporation had issued, and the Corporation declined to answer because it's not relevant to the Basic AutoPac rate application. The Board directed us to answer. We answered by giving a transcript from the standing committee of the Legislature.

We share the information. We are not secretive about the information. We do our best to share information that we believe is -- is legitimately available to the public of Manitoba. We do that on all kinds of different forums, in all kinds of different ways.

We have had no concerns expressed by the Ombudsman with respect to the openness of the Corporation. Not only did we respond to FIPPA as -- as fully as required under the law, but promptly, and we rarely require people to go through the FIPPA process if it's something that -- that we would normally release.

This is not about the Corporation being secretive and being unwilling to be transparent. It's a matter of jurisdiction.

And I can say that -- that this -- the issue of access to this kind of information is before the Court of Appeal. It's not our intention to prejudge the decision of the court or -- or debate it here in this proceeding. I think it's a legitimate process that has been started by this Board. The Court of Appeal will deal with the matter. We will all live with the results.

So it is about more than just being transparent.

MS. CANDACE EVERARD: I have a few follow-up questions with respect to what you've just stated. First of all, certainly nobody, I'm -- I'm sure in this room would dream of trying to prejudge the Court of Appeal, which is of course the -- the highest court in our jurisdiction. So nobody, I don't think, here can or -- or would even -- even dream of doing that.

You stated that the Corporation believes that it's complying with the letter and intent of the legislation. So I take it that what the Corporation's position is, is that the issue of the Board's jurisdiction is based on the legislation that -- that is there.

Is that -- is that what you're saying?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: I'm sorry, can you just repeat the question?

MS. CANDACE EVERARD: For sure. You made a comment that it's an issue of jurisdiction, and that the Corporation believes that it's complying with the letter and intent of the legislation. I think that's what you had said.

And so my question was: What the Corporation is saying is that these are issues that are related to the legislation that's in place?

MS. MARILYN MCLAREN: I -- I think that's fair. I think the Corporation's position will be in the Corporation's factum in -- in that proceeding.

But, you know, for many years we have taken the position that the -- these proceedings are related to the financial forecast and rates for Basic compulsory insurance. And clearly, as we discussed a few minutes ago, the Corporation functions in an integrated way, and that's why we need to rely on allocation policy, vetted and approved allocation policy. But clearly we have always conducted ourselves here, as best we can, according to how -- what we believe the intent and the letter of the legislation is, yes.

MS. CANDACE EVERARD: You gave an example in your earlier answer about the EICs, which are of course the Enhanced Identification Cards. And you gave an example of something that occurred throughout last year's GRA, and I believe that you -- you said that in the meetings with the standing committee the information was shared.

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: So that was an example of the information being shared with government. Is that fair to say?

MS. MARILYN MCLAREN: The -- the Legislature. The standing committee of the Legislature, sure. And as part of the -- the Hansard records of the government, yes.

MS. CANDACE EVERARD: And it was also your evidence that those -- a record of that discussion was ultimately put in as an exhibit in this proceeding, pursuant to an order of the Board.

Is that right?

MS. MARILYN MCLAREN: A section of the transcript that answered the question that was asked as part of the Basic Autopac Rate Approval hearing, yeah.

MS. CANDACE EVERARD: So coming back to the memorandum for a moment that we've entered as Exhibit

12, it's the Corporation's evidence that, so far as it can see, and having reviewed this just over the course of this Hearing, in the last few moments, that nothing has changed in the Corporation's position as a result of this, from what it sees to this point?

MS. MARILYN MCLAREN: No, I -- I believe the Corporation has operated, for many, many years, within the spirit of this memorandum.

MS. CANDACE EVERARD: And is it your belief that the Corporation continues to do so?

MS. MARILYN MCLAREN: Definitely.

MS. CANDACE EVERARD: A question was asked of the Corporation by the Board in the First Round, which is number 6, that deals with some points that relate to these issues. I'd like -- like you to turn there for a moment. It's not in the book.

(BRIEF PAUSE)

MS. CANDACE EVERARD: This is an IR wherein the Board sought certain financial information, which has not been provided; that is information relating to Extension and SRE. And the Corporation has stated in its answer -- and I'm looking at the second paragraph -- or pardon me, second sentence of the first paragraph --

that:

"All parties to these proceedings have acknowledged that cross-subsidization of other lines of business from Basic Autopac is not acceptable."

That's what it says?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: The Corporation continues to say:

"It is unacceptable to the Corporation, its shareholder, and all Manitobans for Basic Autopac to be disadvantaged by other lines of business."

That's right?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: There was a follow-up question to this IR posed in the Second Round, which is number 3. I'd ask you to turn there for me.

(BRIEF PAUSE)

MS. CANDACE EVERARD: And in this IR, 2-3(a), the Corporation was asked to reconcile the two (2) statements that were just read in, the one (1) pertaining to the overall financial wellness of the Corporation not being germane, and the other relating to the overall financial wellness being of profound importance to the Corporation, its shareholder, and all Manitobans.

And the Corporation stated in its response that in its view, the financial wellness of Basic was germane. Documents were provided on that, and information on other lines was provided to other stakeholders but not the Board.

Is that a fair summary of that response?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: Now, I take it, when the Corporation states that -- and this would be back in 1-6 -- that:

> "The overall financial wellness is of profound importance to the Corporation, its shareholder, and to all Manitobans."

The Corporation, when it's referring to all Manitobans, is referring to the public of Manitoba.

Is that fair to say?

MS. MARILYN MCLAREN: Sure, that's fair.

MS. CANDACE EVERARD: Now, what we've seen in some of the documents that we've looked at and evidence that's been given on the record, is that financial information with respect to the competitive lines is put out on the public record to all Manitobans certainly each year when the Corporation comes out with its annual report, and as well quarter by quarter when the Corporation comes out with its quarterly financial statements.

Is that fair to say?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: And we've had some evidence about what those most recent quarterly reports reflect, and as well we've also looked at the most recent annual report that would have been issued in -- after February of 2010?

MS. MARILYN MCLAREN: Right.

MS. CANDACE EVERARD: So at the end of the day, I think what we can agree on is that financial information regarding the other lines of business -- that is, other than Basic -- are ultimately provided to the public and to this Board.

But would it be fair to say that -- that this is a timing issue, from the Corporation's perspective, in that the Corporation will provide the information in a retrospective way, but will not provide current or prospective information?

MS. MARILYN MCLAREN: Yes, that's fair, except that both the -- the annual report and the quarterlies do have an outlook section that is prospective.

MS. CANDACE EVERARD: But in terms of further detail -- and -- and I thank you for pointing that out. In terms of the level of detail that may be requested beyond what's in the financials, there's an issue, from the Corporation's view -- or in the Corporation's view -- with providing that, and that appears to be a -- a timing concern on the Corporation's part.

Is that right?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Anything that the Corporation provides publicly is clearly available to this Board. You know, I -- it -- it wouldn't be reasonable for the Corporation to restrict the access in these proceedings to the Basic compulsory annual report and not the corporate annual report.

But the -- the issue as to what the Corporation provides to this Board is really not just related to timing. It's related to relevance and -- and jurisdiction, according to what these proceedings -- about these proceedings, are about Basic compulsory

Autopac rates. So it -- it's a component. It's all of those things; it's not just the timing manner.

MS. CANDACE EVERARD: Fair enough. But timing is a piece of it?

MS. MARILYN MCLAREN: Certainly.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. I have a couple of followup questions from some of the areas that we've already covered that I'd like to deal with before we move into another area.

(BRIEF PAUSE)

MS. CANDACE EVERARD: One (1) questions relates to the second quarter report, which I appreciate that we've already looked at. And I -- I just want to ensure that we have some detail on the record, with respect to some of those second quarter results.

We see -- and -- and this I know we covered, that on page 8 of the second quarter report, we see Basic is showing a net loss for the quarter of some $42.9 million.

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Whereas the competitive lines are showing a net income for the same period of 7.3 million, and that nets out at about a $35 million loss to the Corporation for that quarter.

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And -- and I know we covered that part. What -- what I want to make sure we have on the record is the "why" or the explanation behind how it is that Basic posts a fairly significant loss for the quarter, whereas the competitive lines have a net income.

How -- how does that come about that the -- the two (2) results are so different?

MR. DON PALMER: Essentially what it comes down to is the coverage. And, specifically, on the Basic program there are two (2) main drivers of that $42 million loss, one (1) is interest rates.

When we talked about movement in -- in interest rates and in -- going down, liabilities go -- going up that aren't perfectly matched, that's significant, and it's only from the Personal Injury Protection Plan perspective. That's only Basic.

PIPP is a Basic program, not -- not an Extension program, so that's entirely within that $42 million.

The other main driver is -- is hail and the large hail -- high hail losses, which would primarily be Basic. So from that standpoint, it comes to what the underlying -- the claims costs are the coverage. And in those two (2) instances, it's mostly Basic, so it would be that that's driving that loss.

(BRIEF PAUSE)

MS. CANDACE EVERARD: As a result of the hailstorms that you spoke about, is there any attachment to or affect on the Extension side?

An example would be like a reduced deductible.

(BRIEF PAUSE)

MR. DON PALMER: The Basic claims are subject to a five hundred dollar ($500) deductible, so any claims under that would not be the responsibility of Basic.

MS. CANDACE EVERARD: So they would be in Extension.

MR. DON PALMER: If there was coverage, you know, they could be in Extension, they could be in a competitor Extension, they could be self-insured.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So just to use an example, let's say that a vehicle has hail damage and the extent of the -- the dollar value of that damage is two thousand dollars ($2,000). That policyholder has an Extension piece where their deductible is two hundred (200) instead of five hundred (500).

How much of that is attributed to Extension and how much of it's attributed to Basic?

MR. DON PALMER: In that two thousand dollar ($2,000) claim with a five hundred dollar ($500) Basic deductible, there would be fifteen hundred dollars ($1,500) that's taken Basic. The additional five hundred dollars ($500) would be, in the specific example that you have stated, if -- if the customer had a five hundred dollar ($500) -- or a two hundred dollar ($200) deductible, three hundred (300) would be in Extension and two hundred (200) would be self-insured.

MS. CANDACE EVERARD: When you say "self-insured," do you mean the person pays it out of their own pocket?

MR. DON PALMER: yes.

MS. CANDACE EVERARD: It's kind of like no insurance.

MR. DON PALMER: No insurance for that two (2) -- first two hundred dollars ($200), yes.

MS. CANDACE EVERARD: Okay. Thank you. Now, I had asked a question earlier with respect to the RSR and deferred expenses, and it wasn't quite clear, and so I've got a little bit more detail on that piece. Here's the -- the background to the question, so I'll -- I'll remind you of what the question was, and then I'll -- I'll give you the background.

The question was whether the Corporation has a view on whether deferred costs should be deducted from the RSR when the adequacy of the RSR is being considered?

Now, here's what we mean by that. Deferred costs are costs that we would consider to be illiquid that cannot be converted into cash, and that are not represented in investments.

Does that assist?

MS. MARILYN MCLAREN: I'm guessing not. Like deferred development? Things that we amortize?

MS. CANDACE EVERARD: Yes. Like an example would be business process review costs.

MR. DON PALMER: Those -- those costs are already accounted for in our current statement.

So, again, I'm not sure that I'm necessarily understanding the question. They -- they are part of the -- the equity of the Corporation, so from that standpoint, if there wasn't an asset there, we wouldn't -- if there wasn't some value to it, we wouldn't have it recorded as an asset.

So from that standpoint, if -- if you're suggesting that somehow we take the deferred development costs out of our -- of our balance sheet, I don't think that's appropriate. We do record our assets and our liabilities according to GAAP, and will record them according to IFRS, and it's really a measurement if there's really a true asset or not, for goodwill.

I mean, there was some changes to 30-64 that did not effect Basic, per se. There was nothing there that didn't have a -- a value to it. But that really is a test. So if somehow we should have a different value of -- of retained earnings because there's a -- an asset that get -- under GAAP rules we have real value for, then I don't think that's appropriate to somehow adjust your balance sheet for -- for that when it's GAAP compliant anyway.

(BRIEF PAUSE)

THE CHAIRPERSON: I'm wondering if Ms. Everard isn't sort of cross-referencing to another Board panel's approach to Manitoba Hydro, and their capital adequacy.

In judging Manitoba Hydro's capital adequacy, for example, the -- the accepted approach to this point by pretty well all parties to the ongoing hearings, always subject to discussion and a possible change, is that Manitoba Hydro's capital structure is reasonably sound as long as it's not represented by more than 75 percent debt to, if you want to call it 25 percent retained earnings, since there's no capital stock. It's just cumulated profits from the beginning. No different really than MPI.

And in some of the past orders, if I'm recollecting properly, the PUB has commented on not with respect to necessarily changing the recording of expenses, and declassifying them as being deferred, but in considering the capital adequacy of the Corporation, whether or not deferred costs should have the same weight as, for example, cash and investments.

In other words, you could have a corporation that was -- had a 75 percent debt to 25 percent equity ratio that may be viewed differently if the equity was comprised of expenses that had simply been deferred for amortization in later periods, compared to one that the 25 percent was all cash.

And I'm wondering whether this is the -- the question when you're talking about the liquidity?

MR. DON PALMER: And just on that point, from a -- a capital adequacy, we have the minimum capital test, which I -- I'll have to double check, but I don't think it has a -- an adjustment for -- for deferred costs. So from that standpoint, it -- it's just a -- a question, I think, of significance.

You have talked about a debt-to-equity ratio. Our debt is zero, so from that standpoint, I think the comparison is -- is not valid. There really isn't -- as part of our balance sheet, those deferred costs care not a significant part of our balance sheet, so, from that standpoint, I think the question is largely moot, just because our capital structure is so much different than -- than that of a Manitoba Hydro. So --

THE CHAIRPERSON: I don't think I was, even in my comments, that I was suggesting that Manitoba Hydro's balance sheet resembles that of MPI's.

If one was discussing this particular topic, I suppose what would be comparable, for example, between the two corporations, where Manitoba -- a rate increase for Manitoba Hydro could be 'X' or 'Y', and deciding whether it be 'X' or 'Y', there could be an argument as to look into the nature of the assets that comprise the equity of the Corporation.

In MPI's case, potentially one could say the issue would not necessarily be the capital ratio, but it may be the appropriateness of a rebate.

MR. DON PALMER: Sorry, those last two (2) words? I...

THE CHAIRPERSON: I'm saying in MPI's case, the question would not be one of necessarily a premium increase or premium decrease -- although that potentially could come into play, depending on the nature of the assets that have been deferred and IFFRS, et cetera, et cetera, et cetera -- but it could be in judging the appropriateness of a specific amount for a rebate.

MR. DON PALMER: From that standpoint, I think that was addressed by the new CICA standard, the 30-64, which -- the new standard essentially requires an intangible asset, like dev -- development costs, to provide an economic return. So we -- that's included in our change in accounting policies in note 4 of my -- our annual report.

So we have done that measurement of an

economic return, our auditors have done that measurement of an audi -- an economic return, and we're convinced that, from that standpoint, for the purposes of the Basic AutoPac statement, there is -- that all of those deferred costs do provide that economic return, and there's no adjustment required.

THE CHAIRPERSON: Thank you for your comments. We will reflect on it.

Ms. Everard...?

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

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: I'm going to move then, members of the panel, to the investment side of things. So we'll shift gears a little bit here.

We've already talked about the importance of investment income to the Corporation's bottom line.

Is that fair to say?

MR. DON PALMER: Yes, there is reliance on investment income.

MS. CANDACE EVERARD: Now, I understand that, as of the end of the last fiscal year of 2009/'10, the Basic's investment portfolio totalled about 1.9 billion in principal.

Is that right?

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

MS. CANDACE EVERARD: And we have an IR in the book of documents, it's at Tab 17, this is 1-20, which shows that the corporate balance is about 2.2 million as of the same date. And I'm looking at page 4 of that IR.

Is that right?

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

MS. CANDACE EVERARD: Now, I understand that the source of funds that are available to the Corporation for investment are primarily unearned premiums and unpaid claims.

Is that fair to say?

MR. DON PALMER: Those are the two (2) biggest chunks. There are others.

MS. CANDACE EVERARD: Yes, I'm taking this from Tab 18 of the book of documents, which is Question 1-24 posed by the Board. The -- the items that I mentioned, unearned premiums and unpaid claims, are reflected there at the top of the table.

And, as you've indicated, there are other sources as well, but dollar wise, those are by far the most significant.

You would agree?

MR. DON PALMER: Those are the -- the two (2) biggest. The RSR and NR reserve for employee benefits are sit -- still substa -- substantial, but those are the two (2) biggest ones, for sure.

MS. CANDACE EVERARD: At the table at Tab 18 I don't see reference to reserves for employee benefits. Where would that be reflected here?

MR. DON PALMER: It's not in -- in this particular table, but it is in the -- yeah, in the Basic annual report.

MS. CANDACE EVERARD: Okay.

MR. DON PALMER: It's in the hundred to $150 million range, which I think is still significant.

MS. CANDACE EVERARD: I guess it depends if we're talking absolute or relative numbers, yes.

Okay. So we know that the -- the vast majority of the funds that the Corporation invests are Basic's.

That's fair to say?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And we see from -- and this is in a number of places. But while we're looking at Tab 18, we see it -- that it's about 87.2 percent of the portfolio.

Is that right?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And if we go back to the previous tab that we were looking at, which was Tab 17, and, again, this appears in a number of places in the material, but the -- the one that I have handy is Tab 17, page 7, which reflects corporate investment income for the year just ended, in February of 2010, of some $96.3 million.

That's right?

MR. DON PALMER: That's the corporate total, yes.

MS. CANDACE EVERARD: And the allocation to Basic of 87.2 percent that I mentioned is based on the weighted net equity balances of each line of business.

Is that right?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And the net equity balance for Basic is about 1.8 billion of the overall portfolio.

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And the remainder of investment income on a percentage basis, which would be just under 13 percent, is allocated to the non-Basic lines of business?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: If we look at PUB/MPI-1-18, which is in the book of documents at Tab 16, we see that -- and I'm looking at Attachment B, so this is -- I'm looking at the fourth page in to the attachment. It's actually numbered page 1, but it's the fourth sheet at that particular tab.

We see allocations projected on that page, and onto the next page, from the 87 percent in the 2009/'10 year through to about 90 percent by 2012/'13, and I'm now on the next page, which is the page numbered 2.

Is that right?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And that increased allocation of about 90 percent is projected to remain through the balance of the outlook period that we have here, which is the 2014/'15 year?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Okay. We'll get into a little bit then the composition of the Corporation's investment portfolio.

If we look at Tab 17 of the book of documents, where we see Question 1-20, we see the corporate -- and I'm looking at the first attachment, which is page 4 at that tab, we see the $2.2 billion portfolio held by the Corporation as a whole, and that's for the 2009/'10 year. We see that of that 2.2 billion, about 1.7 billion is held in bonds.

Is that correct?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And then there's venture capital of some 7.6 million, real estate of 15.2 million.

Is that right?

MR. DON PALMER: Yes. That was as at the end of February 2010, yeah.

MS. CANDACE EVERARD: Yeah. Yeah, that's the year I'm on. And we see in the next section, there's a negative number for cash followed by about 95 million in short term investments, and 387 million in equities.

Is that right?

MR. DON PALMER: Yes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Now, we see that between 2008/'09 and 2009/'10 there was some variation in the value of the portfolio. As of the close of the '08/'09 fiscal year, the balance was bout 2 mill -- 2 billion, pardon me, and by the close of the next year it was 2.2 billion.

Is that right?

MR. DON PALMER: Yes. The balance at the end of February of 2009 would have reflected the market crash. The bottom of the crash was essentially at the end of February, the beginning of March of 2009, so that would be reflected in these asset values.

MS. CANDACE EVERARD: Yeah. And prior to that, if we look at the schedule from '05/'06 through '07/'08, we saw a steady incline, or a steady increase, in the value of their portfolio, year after year of certainly over a million -- or pardon me -- yeah, certainly over a hundred million each year.

MR. DON PALMER: Yes. And -- and again, most of those assets, the liabilities underlying those assets would be unpaid claims reserves. Those will continue to grow because of the long tail nature of the Personal Injury Protection Plan reserves.

MS. CANDACE EVERARD: And if we look at the projections here for corporate wide, we see from the last year ended of '09/'10 through the end of the outlook period, a fairly substantial increase overall, and -- but again a fairly steady anticipated increase on the overall portfolio.

Is that fair to say?

MR. DON PALMER: Yes. That would be sort of the natural growth of the portfolio, yes.

MS. CANDACE EVERARD: So according to this schedule, as it stands, by the end of 2014/'15 the Corporation is hoping for a -- an investment portfolio of about 2.8 billion over the two point two (2.2) that it has now?

MR. DON PALMER: I don't know if I would use the word "hoping for". I would say, "projected to be."

MS. CANDACE EVERARD: Okay. Fair enough.

(BRIEF PAUSE)

MS. CANDACE EVERARD: And we see, again, from looking at this schedule that the waiting of the portfolio is anticipated to change somewhat. And we'll be speaking about the Aon recommendations from the past in a few moments.

Is that fair to say?

MR. DON PALMER: Yes., the anticipated transition into the new asset mix is included in these schedules.

MS. CANDACE EVERARD: So we see somewhat of a decrease in the bond portfolio from about 1.7 billion, as of 2009/10, and -- and again, absolute numbers decreasing for the year of the Application and the subsequent year, and then coming back to about 1.6 billion through the outlook period?

MR. DON PALMER: Yes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: And if we look at the relativities, just to see that same information in a bit of a different way, based on a percentage, we turn the page to the next page of that Tab 17, we see the weighting of the portfolio represented by percentages. So the '09/'10 figure for bonds was 77.2 percent, and we see, in fact, if we look strictly at the -- the weighting -- or the percentage, that there is anticipated to be a decline in the overall bond component in the portfolio through the outlook period, down from 77 percent to some 57 percent?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Conversely, we see an increase in the anticipated weighting of equities in the portfolio, from 17 percent in the year that ended

2009/10, through to 21 percent in 2014/15?

MR. DON PALMER: Yes. And -- and currently we're a little underweight in our equity portfolio, according to the investment policy statement, so that brings us back up to the anticipated weight in that statement.

MS. CANDACE EVERARD: Thank you. And -- and we will be talking about that in -- a little bit later on, as well.

If we turn back for a moment to the schedule we were looking at that has the dollar amounts in it, rather than the relativities or the weightings, we see for the 2009/10 fiscal year, a -- a real estate component came into play at a value of 15.2 million, and that of course represents the parking lots and a portion of Cityplace.

Is that right?

MR. DON PALMER: That was our sole real estate holding, as at the end of February of 2010, yes.

MS. CANDACE EVERARD: And as we know, the Corporation anticipates increasing its real estate interests on this schedule, but the dollar figure is anticipated to increase from that 15.2 million to about 289 million through the end of the outlook period.

Is that right?

MR. DON PALMER: We do have a 10 percent allocation target in our investment policy statement. I can tell you that we are on our way there now. We have entered into a real estate pooled fund this year. As at -- we have in that particular pool fund -- we have made a commitment of $135 million. We expect to fulfill that commitment over a twelve (12) to eighteen (18) month period.

As at, I think it's today or tomorrow, we will be in that pool about -- made up about $45 million of our $135 million commitment, so we're right on track on that twelve (12) to eighteen (18) month cycle.

So those calls come in monthly and the -- the one (1) that just came in brings up to $45 million.

MS. CANDACE EVERARD: And when you say that the Corporation is entering into a real estate pooled fund, can you just explain, for the record, what that is.

MR. DON PALMER: And investment fund that is made up of investment properties that a number of investors would have a -- a share of all of those holdings.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Is the particular fund that the Corporation is investing in a publicly available fund?

MR. DON PALMER: No, it's a private fund.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Just while we're talking about the real property investments, I just would ask the Corporation to turn to 2-13 for a moment, which was posed by the Board. I don't believe it's in the book. No, it's not. 2-13.

(BRIEF PAUSE)

MR. DON PALMER: I have it.

MS. CANDACE EVERARD: The response to this particular IR reflects provision amounts relating to the anticipated purchase of real estate investments. And for each of the years that's listed on the table, we see obviously the Cityplace parking lot component, and then a general provision component.

Can you explain how the Corporation arrived at the dollar amounts that are shown for general provision in each case.

MR. DON PALMER: It was just our anticipated to be fully invested, according to our investment policy statement by the end of 2012/'13, so it's just essentially a straight line approach into the funding of that provision each year.

MS. CANDACE EVERARD: All right. Thank you for -- for that. We'll go back to the other schedule that we were looking at.

(BRIEF PAUSE)

MS. CANDACE EVERARD: That's of course at Tab 17 of the Board's book of documents. We see, if we look at the -- the schedule that contains dollar figures as opposed to the percentages, which is page 4, that the Corporation will be introducing an infrastructure component into the portfolio in the year of the Application, and that's expected at about 30.3 million in the year of the Application.

Is that right?

MR. DON PALMER: Again, that's based on the investment policy statement and a -- and an entry into the infrastructure investments, starting in '11/'12, yes.

MS. CANDACE EVERARD: And that component

is projected to increase to about 150 million through the end of the outlook period?

MR. DON PALMER: Yes. We have a -- a 5 percent weighting in the infrastructure in our investment policy statement, so that's -- that's the movement toward that.

MS. CANDACE EVERARD: And that's reflected on the next page of this attachment, that -- that it'll be at 5.3 percent of the portfolio if that number holds true. Whereas, for the year of the Application, the infrastructure component, on a percentage basis, that's that 30.3 million, is about 1.2 percent?

MR. DON PALMER: Yes. As we get into this -- these alternative asset classes, there's significant research and due diligence that has to be done by the Corpor -- Corporation, and, more importantly, by the investment committee working group, because again it's the Department of Finance who is -- has the legislative responsibility for the investments to the Corporation.

So, from that standpoint, the -- this is a projection of how this may play out, but it is a projection.

MS. CANDACE EVERARD: And can you explain for the record what types of investments the infrastructure component would include?

MR. DON PALMER: Infrastructure typically would be things like highways, could be hospitals, could be hydroelectric facilities, any -- dams. It could be any number of those type of large, generally public type investments.

MS. CANDACE EVERARD: Okay, thank you. We'll get in then a little bit more to the composition of the for -- portfolio and the recommendations that the Corporation received a couple of years ago. We've put in at Tab 16 of the book of documents, the question and answer at Question 18, posed by the Board in the First round. And we asked in Question A for a comparative table that reflects the recommendations made by Aon, the Corporation's response, and then the progress and expectations for the future.

So we'll -- we'll get into this in a moment. Perhaps, first, just so that we -- we know that we're talking about the same thing, the Corporation retained a company called Aon Consulting back in 2008 to undertake an asset liability mix review for the Corporation.

Is that right?

MR. DON PALMER: I think the retention of

Aon was actually in 2007, but the final report was issued in 2008, that's correct.

MS. CANDACE EVERARD: Okay, thank you. And in the process of the Aon report, as I'll refer to it, being prepared, the Corporation worked collaboratively with Aon through its investment committee working group.

Is that right?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And is -- you, Mr. Palmer, sit on that particular committee.

Is that right?

MR. DON PALMER: I do.

MS. CANDACE EVERARD: Okay. So if we turn then to this attachment at Tab 16 of the book of documents, we see the -- the chart. And we'll just go through this very quickly. So in the far last col -- or pardon me, the far left column is reflected what the recommendations of Aon were from its 2008 report.

So the first one relates to bonds, and the recommendation was to either change the allocation from universe bonds to long-terms bonds or to change the fixed income using a defined transition schedule.

That's right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And the Corporation's response to that recommendation was to adopt a 10 percent allocation to long-term bonds and to fund that allocation as conti -- conditions in the capital markets become favourable.

Is that right?

MR. DON PALMER: That's correct, yes.

MS. CANDACE EVERARD: By June of '09 the Corporation had started to increase its long-term bond allocation, and by June of 2010 the Corporation had continued to do that and had a 6.6 percent allocation as of May 31st of 2010?

MR. DON PALMER: That's our current allocation, yes.

MS. CANDACE EVERARD: And then in the far right-hand column, the Corporation state that it expects to have about 8 percent in long-term bonds by 2011/'12, the year of the Application?

MR. DON PALMER: Yes. Again, as capital market conditions dictate.

MS. CANDACE EVERARD: And --

MR. DON PALMER: May I just say that right now there is some risk in a long-term bond portfolio with interest rates being down at all -- all-time lows. That's one (1) of those capital markets that

-- that dictates when we would acquire more long-term bonds.

So, again, that -- by '11/'12, again, that's a projection, not nece -- necessarily the target. It de -- depends what happens to the markets in the meantime.

MS. CANDACE EVERARD: Now, we've been talking here about the acquisition of the long-term bonds, but going with that versus -- or pardon me, with reference to Aon's recommendation is the phasing out of the universe bonds.

Is that right?

MR. DON PALMER: The mix is different. And -- and, again, talking definitions, to -- to a certain degree, the universe bonds do include some long-term bonds in -- in that portfolio, so it's sort of redefining them rather than phasing them out.

MS. CANDACE EVERARD: Is it true though that real return bonds are being phased out of the portfolio?

MR. DON PALMER: Yes, that's true. Was one (1) of those asset classes that, in order to get some diversification but also retain the inflation protection, that was part of the reason to go into real estate and infrastructure, which also provides a hedge against inflation.

MS. CANDACE EVERARD: That's good. You're in my head again, so it saves me a couple of questions.

If we look at the second row of the chart, we see the second recommendation listed here from Aon, with respect to illiquid asset classes. And the -- the recommendation was that the Corporation would be gaining significant exposure to illiquid asset classes, and it was unrealistic for some of these to increase by more than 2 percent per annum.

The Corporation's response to that would that -- it anticipated it would take several years to reach the normal policy weights for the alternative asset classes.

Is that right?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: So by June of '09 the Corporation had purchased the parking lots associated with Cityplace and had a short list of pooled fund managers and was doing some further research. And by now, we've just heard your evidence with respect to coming into one (1) of those pooled funds, to the extent of 45 million at present?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: But the Corporation is still seeking to approach that 10 percent component for real estate going forward?

MR. DON PALMER: That -- that's the target. As I say, we have in a current pooled fund, a commitment for $135 million. We don't have -- I think it -- with the Cityplace parking lots it still leaves us about 50 to $70 million that we haven't allocated. But since it's going to take us twelve (12) to eighteen (18) months to -- to fully get the commitment of a hundred and thirty-five (135), we still have some time, but there's no commitment for that portion as yet.

MS. CANDACE EVERARD: Okay. The third row here, with the third recommendation from Aon relates to currency, hedging. There was a suggestion that the Corporation should hedge the foreign currency exposure for all asset classes that target a consistent absolute return, namely real estate and infrastructure. The Corporation accepted this recommendation and says as of June of '09 that the mandate for real estate was Canadian, and therefore, did not need to be hedged. And they -- the Corporation did not have any infrastructure assets as of that date.

MR. DON PALMER: That's correct. And -- and again, the pooled fund in -- real estate fund that we've entered in is -- is exclusively a Canadian fund, so -- so that -- that's true, in terms of our commitment into this fund.

MS. CANDACE EVERARD: So there's nothing to deal with at this item then at present?

MR. DON PALMER: Not -- not hedging from the standpoint of infrastructure and real estate, no. We have had a change in the hedging of our US equities. They were formally hedged. They are no longer hedged. The way they were being hedged did have some volatility into our statement of operations, so the decision that was made in consultation with the Department of Finance was to remove the US equity hedge.

MS. CANDACE EVERARD: And that was something that was discontinued by the Corporation in May of this year? It's in the chart.

MR. DON PALMER: Discontinued by the Department of Finance, yes.

MS. CANDACE EVERARD: I was just going by the document which says:

> "The Corporation discontinued its currency hedge in May 2010."

But you're telling me that the -- the decision was effectively made by the Department of Finance?

MR. DON PALMER: Yes, I -- I would say that that chart for -- for the purpose of this and -- and the -- because it's just point form, it should probably say the Corporation's assets are no longer hedged; but that that decision is the Department of Finance, no question.

MS. CANDACE EVERARD: The last row of the table relates to T-Bills and the recommendation that there be a level of cash added in the asset allocation. And the Corporation has established a -- a minimum and maximum range for that and continues, as of June of 2010 to hold cash as necessary for day-to-day operations and investment purposes.Is that right?

MR. DON PALMER: Yes. And -- and currently our allocation of cash is -- is a little higher than that 3 per -- percent, actually, probably a lot higher, as we have funds to -- available to fund the entry into the real estate fund.

So -- so yes, we -- we have to have the available cash in order to get into those asset classes.

MS. CANDACE EVERARD: Thank you. We've been speaking a little bit about management of the portfolio. And I note that in its last rate order, the -- the Board made a recommendation to the Corporation that I'd like to speak about. This is reflected at SM.5.11.3, which we should probably go to.

(BRIEF PAUSE)

MS. CANDACE EVERARD: I'll read the recommendation into the record first of all. This stems from Order 161/09. The Corpora -- or pardon me, the Board recommended that:

"The Corporation amend the investment policy to provide for the consideration of regular rebalancing of the allocation of investments amongst permis -- permitted asset classes toward the policy's intended allocation in permitted classes to reduce the risk of undue and yield risking, market timing actions."

Is that right?

MR. DON PALMER: Yes, I -- I see that, and -- and I will add that in terms of -- of the recommendations of the Board, this was one (1) of the easy ones because we already had the asset rebalancing policy. It was not specifically referred to in the investment policy statement, which it likely should have been, so we had amended the investment policy statement to include that rebalancing policy; but we've had it for five (5) years now.

MS. CANDACE EVERARD: And that's referenced here on page 13 of SM.5, that, in fact, this policy was in place since June of 2005, and the current policy has been put on the record in this proceeding?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: If we continue looking at page 13, there is a bit more commentary from the Corporation on this point that we'll go through. In the second last paragraph on page 13, the Corporation has stated that it changed the asset allocation mix in the Investment Policy Statement, which I'll just refer to as the IPS, on June 25th of 2008.

> "The Corporation's current target allocation for public equities is 20 percent, and the target for private equities is 5 percent for a total equity target allocation of 25 percent. Prior to June 2008, the target for equities was 20.5 percent."

Is that right?

MR. DON PALMER: That's correct, yes.

MS. CANDACE EVERARD: And when we go to the next page, page 14, just under the chart that appears at the top of the page, the Corporation has stated that:

"When the private equity asset allocation was changed from a half percent to 5 percent, the transition into the asset class was expected to take a significant period of time in order to do due diligence, select managers, and fully fund the strategy."

Is that right?

MR. DON PALMER: Yes, not unlike real estate, or infrastructure. I would say that private equity is likely third on that list of three (3).

MS. CANDACE EVERARD: And the allocation to public equities, as of the year end of '08/'09 was some 13.6 percent, which comes back to the point in time after the market events of late 2008, and the fact that the market was sort of at the bottom, as of that year end.

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Now, if we speak about the rebalancing policy itself, we see at the top of page 15 of SM-5, first paragraph, the Corporation has stated that:

"The rebalancing policy states that an asset class can be outside the minimum or maximum target range for up to six (6) months before rebalancing is required."

And the Corporation has stated here that:

"The Canadian equity asset class allocation did not fall below its minimum target level, and the US was below for only about two (2) months."

Is that right?

MR. DON PALMER: That's correct, yes.

MS. CANDACE EVERARD: And then the Corporation continues on to speak about the application of the rebalancing policy, and refers in the third paragraph there to the suggestion made by the Board that the Corporation create a portfolio rebalancing policy to -- for the purposes of reducing the risk of undue and yield risking market timing actions. The Corporation states that:

"In hindsight, at that point in time, tactically rebalancing the portfolio would have been a favourable course, but given the events at the time, it wasn't possible for the Corporation to know that March 9th of '09 would be the bottom of the market."

Is that right?

MR. DON PALMER: That's correct, yes.

MS. CANDACE EVERARD: The Corporation continues in the next paragraph, which is the last on page 15, to state that:

> "The order is inconsistent [that is the Board's order] as it first argues that the Corporation should have engaged in market timing to participate in the equity market revival. Then it states that it is necessary to reduce risk by avoiding undue market timing."

That's what's reflected here?

MR. DON PALMER: That was our understanding of the order, that there seemed to be a bit of a dichotomy as we read the order, in -- in our understanding of it, yes.

MS. CANDACE EVERARD: So the Corporation understood the order to reflect, on the one (1) hand, that it should have been doing market timing rebalancing, but, on the other hand, that that risk should be avoided?

MR. DON PALMER: That's the way we read it, yes.

MS. CANDACE EVERARD: Okay. We've mentioned that the Corporation's investment rebalancing policy is on the record here. It was filed as AI.13, and it is in the Board's book of documents at Tab 8. Oh, sorry, that's not correct.

It is at Tab 13. So it was AI.13 and it's at Tab 13.

MR. DON PALMER: I have it.

MS. CANDACE EVERARD: Now, this policy is two (2) pages in length, and it's indicated that it took effect April 19th of 2010.

Is it the case then that there were some changes made to it from what had existed from June of '05?

(BRIEF PAUSE)

MR. DON PALMER: There was some amendments to it, just cleaning up of wording. There was no change in the ultimate intent of the -- the policy, no. But -- but it -- it did change. It was somewhat rewritten to coincide with the amendments to the investment policy statement, and this was added as an appendix to that investment policy statement at that time.

MS. CANDACE EVERARD: Okay. I'm just going to ask you for a moment to turn your mind back to

June of '05 when, I gather, the policy was implemented, and just explain as best you can, for the record, the reasons behind the Corporation putting this policy into place in the first instance.

MR. DON PALMER: First of all, just let me say that in June of 2005 I wasn't a member of the investment committee working group, so I'm acting essentially on hearsay on this. I don't really have knowledge of the -- of the thought process that went into the formation of the investment community or -- or the policy statement in 2005. So, that --

MS. CANDACE EVERARD: I appreciate you pointing that out, but I'm -- I'm fairly confident, based on your position and experience, that you have a pretty good idea. So, with the caveat that you've given us, just if you could explain the background, we'd appreciate it.

MR. DON PALMER: And -- and really, I think, the -- the spirit of it was -- was captured in -- in the order of the Board, in terms of reducing the risk of -- of undue yield risking, market timing actions. I think that's a pretty eloquent pro -- portrayal of any rebalancing policy. Just to ensure that we were continuing to adhere to our -- our investment policy statement without real knee-jerk reactions to -- to certain market events that could happen, or in fact have happened, so from that -- that standpoint, just to formalize that -- that steady commitment to the investment policy statement.

MS. CANDACE EVERARD: Okay. Now, it's my understanding, and -- well, it's actually reflected in the very first paragraph here of the policy, that it's the investment committee working group that has the responsibility for rebalancing the portfolio as may be needed to keep within the asset class weights that are set out in the IPS?

MR. DON PALMER: And, more specifically, defart -- Department of Finance, who is -- has a seat in the investment committee working group. So -- so again, the -- the committee as a whole makes recommendations. The -- the final decision for changes in the asset mix is done by the Department of Finance.

MS. CANDACE EVERARD: And if we look at Tab 20 of the book of documents, which is Question 26, posed by the Board in the First Round, we actually have a list of the nine (9) members of the Investment Committee Working Group, and we see that four (4) of the nine (9) are representatives of the province.

Is that right? Sorry, I'll just give you a minute to get there. It's 1-26, Tab 20 of the book of documents.

MR. DON PALMER: After yes -- yesterday, I'm not sure that I necessarily trust my counting, but I will -- I will tak -- take your word. It is -- it is numbered, and all those numbers are sequential, so we're good.

MS. CANDACE EVERARD: Okay. So the -- of the nine (9) people on the committee, four (4) of them are representative of the province, and the other five (5) would be yourself, Ms. McLaren, and since there are no names, I won't guess at who the other three (3) are, because I don't recognize the titles offhand.

But there are five (5) people from MPI, is that right?

MR. DON PALMER: Yes. And -- and just for completeness, Mr. Kramer is on that committee as director of finance and corporate controller. And Mr. Bunston, who is manager of investments who is currently sitting in the back row, is also a member of that committee.

MS. CANDACE EVERARD: That's helpful to -- to be able to match the titles to the names, so I -- I thank you for that.

THE CHAIRPERSON: There's on one from outside of the government or MPI?

MR. DON PALMER: No, not on that specific investment committee working group. We do have external managers. We do have consultants like Aon from time to time, but they're not members of the committee.

(BRIEF PAUSE)

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: I -- I thought maybe you were thinking about something that you might want to say, so I -- you're ready?

At Question 26, which we were just looking at, that contains the list of the members of the committee, we see in response to subparagraph (e) the Corporation has provided a table that reflects the asset class targets from the IPS, compared with the actual investments in each class as of June 30th of 2010.

Are you with me?

MR. DON PALMER: Yes, I'm there.

MS. CANDACE EVERARD: Okay. Now, we know from the investment rebalancing policy, from having read it anyways, that if a balance within a particular asset class falls below the minimum or above the maximum, that that would be reported to the Investment Committee of the Corporation.

Is that right?

MR. DON PALMER: That's correct, yes.

MS. CANDACE EVERARD: And that is done during what's called the Investment Activity and Performance Report.

Is that right?

MR. DON PALMER: It could be included in that. But if there are other compliance issues, it may be reported elsewhere, but it would be evident in that report, yes.

MS. CANDACE EVERARD: Okay. And then the idea would be that the asset class would be rebalanced so that it comes back within the target range within six (6) months?

MR. DON PALMER: Tha -- in theory, that -- that's true. If there's other special circumstances that would preclude that, you may extend beyond that, but it's not an absolute. But, in spirit, that's probably correct.

MS. CANDACE EVERARD: That's what the policy provides, is for six (6) months. But I think what you're saying is that if there are particular circumstances, that it's not a hard and fast rule.

Is that fair to say?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Can you give us an idea of the "why: behind the six (6) months, as a -- is that just seen as a reasonable time limit within which to shoot to bring things back within targets?

MR. DON PALMER: Again, that six (6) months would preclude the -- the knee-jerk reaction to market timing or -- or certain market hysteria that you -- you may encounter from time to time. So whether that's five (5) months or seven (7) months -- I don't know that there's anything magic in the six (6) months, but that's a reasonable time to let a market settle down.

As we've seen with the 2008/09 meltdown, there was -- we did go below the minimum weight for two (2) months, and then it sort of corrected itself.

So from that standpoint, it's a reasonable length of time for -- for those kind of activities.

MS. CANDACE EVERARD: And if there's a situation where that six (6) months can't or isn't being complied with, is that a -- a decision -- or something that's within the discretion of the investment manager to -- to do a rebalancing either within the time or without the time?

MR. DON PALMER: Not the investment manager. Those would be the individual managers of the asset classes is how we -- what we refer to as

"Investment Managers." The ultimate rebalancing would be the -- under the discretion of the Department of Finance.

MS. CANDACE EVERARD: And if we look at the chart at Tab 20, which we looked at briefly, that gave us the figures as of June 30, we'll just go through those quickly so the Board has an idea of where things were, we see under short-term investments it was just very slightly over the target. There was 3.1 percent and the target range is between zero to three (3).

Sorry, when I say it was slightly over -- the maximum, that's what I should have said, it was a couple percent over the target.

Is that fair to say?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: With respect to long-term investments, we see them in at 79 percent, the minimum being forty (40), the target being fifty-nine (59), and the maximum being eighty-five (85).

So again, under the maximum and over the target. Is that fair to say?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And with respect to equities, they're in at 17.2 percent on a 13 percent minimum, target of 20 percent and maximum of 25 percent.

So they're within range, slightly under

the target point?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And in real estate, we've already spoken about the goal being a target of 10 percent, which is also the maximum, the minimum being zero. And at this particular point in time there wasn't a whole lot there, just Cityplace, so we see it at less than 1 percent, but we know that that's about to change fairly significantly?

MR. DON PALMER: Yes, and -- and again, for accuracy purposes, I -- I think as we -- we refine the investment policy statement, I think the -- you'll see the target and the max being somewhat different. It doesn't -- it doesn't make sense to have a target at the maximum, just because all of a sudden you're -- you reach the target and you get some capital appreciation and all of a sudden you're out of compliance. So likely we will amend that next year.

But again, it's cleaning up. It's not really changing the -- the policy, per se.

MS. CANDACE EVERARD: And then lastly for infrastructure, again, we see a target and a maximum of 5 percent, which based on what you've just said, it'll probably change so that there's some form of buffer there. And we've already talked about the infrastructure coming into play in the future years?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Okay. Now coming back to the issue of rebalancing and whether it's able to be done within the six (6) month guideline or not, and you said that that's ultimately up to the Department of Finance. Is it the case -- and I believe that this is referenced right in the policy -- that certain asset classes are given special consideration when it comes to rebalancing?

Specifically, I'm looking at the third last paragraph of the policy, the rebalancing policy, which I'll maybe just read it in and you can tell me if it's correct. That:

> "Alternative asset classes which include real estate, private equity, and infrastructure can be highly illiquid and costly to rebalance. Therefore, special consideration will be given to rebalancing alternative asset classes. These will be rebalanced on a best efforts basis, based on available liquidity and the relevant fund, and the liquidity policy of the relevant fund."

MR. DON PALMER: Yes. And -- and again, because of the illiquidity of -- of those, you can't readily get in and out.

MS. CANDACE EVERARD: Okay. And is it the Corporation's view that -- that there should be an element of judgment involved in deciding when to rebalance, or is it the Corporation's view that it should be a -- a mechanistic approach?

MR. DON PALMER: There's always some judgment within the rebalancing effort. Again, we talked about the timing; six (6) months, whether it's five (5), whether it's seven (7), there's available assets to -- to buy, or liquidity of existing assets, so there would be some judgment involved.

MS. CANDACE EVERARD: Now, as we identified, there are three (3) of the asset classes as of June 30th of 2010 that had a minimum requirement of zero, which were short term investments, real estate, and infrastructure.

Does the Corporation anticipate any of those zero percentage requirements changing in the foreseeable future?

MR. DON PALMER: They'll be at zero for probably the next three (3) years. We don't necessarily anticipate to -- to get into all three (3) of those asset classes in the -- in the very short-term, so as long as we know -- like -- like private equity --

MS. CANDACE EVERARD: I'm just talking about the target. I'm -- I wasn't talking about actual assets in the class. I was just talking about having a target of zero.

MR. DON PALMER: I guess I can't really speak -- once we get invested in -- in those alternative assets, then we will -- it's quite possible we would increase the target, but it doesn't make sense to increase it until we're in there.

THE CHAIRPERSON: Ms. Everard, just for a minute.

Mr. Palmer, just before it leaves my mind, on the question of mechanistic as to -- apposed to judgment, a story from afield, so to speak. I don't know whether you'd ever had a discussion with a sister Crown, which is actually a subsidiary of Centra Gas, that had a lot of experience with those particular issues of mechanistic versus, if you want to call it, taking a market view for a period of approximately, oh, almost a decade.

They would hedge their primary gas purchases for a so-called weather normalized year on a strictly mechanistic perspective. The concept was they -

- they would use a specific number of counterparties, and a specific date of a specific quarter, to a specific percentage. And the effort was to avoid what they perceived to be the -- the risk of having judgment entered into it, given the lack of control that practically anybody has over the size of the market.

And just for the purposes of sharing, and for no other reason, eventually that Corporation in times of, I guess, consider -- well, I'm not talking about the Corporation -- but in times of the market, very extremely stressful times, left mechanistic and went to a judgment call market views. And it was a very interesting experience.

It's a significant issue, mechanistic versus market -- market views.

MR. DON PALMER: And from what I understood from what you said, in terms of some sort of hedging contracts, I think that's maybe a little different than -- than an investment mix, as I understand it.

THE CHAIRPERSON: Actually it's not, because the -- when I talked about hedging, actually it's completely divorced from the actual practice of purchasing natural gas. In essence, it is like a separate transaction.

MR. DON PALMER: But still part of a hedging strategy.

THE CHAIRPERSON: Granted.

MR. DON PALMER: And -- and so I -- I view that somewhat differently. When we were hedging our US equities, it was done in a very mechanistic fashion, that there was no judgment on whether the Canadian dollar was going to go up or down; it was just done in order to -- to hedge the foreign cur -- currency risk, the exposure to that risk.

So that's somewhat different than -- than an asset mix, in my view.

THE CHAIRPERSON: Thank you. Ms. Everard, I think it's about time to take the lunch break, or do you have a question to sort of close off this part?

MS. CANDACE EVERARD: I -- I just have one (1) more question in this little subsection, so if I could just ask that, and then we'll --

THE CHAIRPERSON: Please.

MS. CANDACE EVERARD: -- take the lunch break.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: The question is: At 2-19, posed by the Board -- this is not in the book --

a question was asked about the performance of the portfolio, in terms of income versus the -- the benchmark, and we'll get into some questions about that in -- in some general ways a little later on, but the answer given by the Corporation was a report on the overall investment portfolio performance, that it earned 13.7 percent for the last fiscal year, and that the benchmark was seventeen point two (17.2).

Then the Corporation stated that the primary reason for the under-performance was because of the fund's actual asset allocation was different than the target asset allocation established in the IPS, and, to a lesser degree, the Corporation's under-performance in equity and non-marketable bond portfolios.

So the -- my question is: To the extent that a reason for the under-performance was the different allocation in actuality versus target, was -- you know, should there have been a -- been a rebalancing?

MR. DON PALMER: Given that we weren't out of compliance with the investment policy statement, I would say no.

MS. CANDACE EVERARD: But the Corporation doesn't disagree that if a rebalancing could have been done and could have resulted in some improvement in the result, the financial result?

MR. DON PALMER: The investment asset mix is always an important part of your total portfolio return, absolutely. So had we done a -- a rebalancing, might we have got a higher return? That's true, but I think we've seen cases where the opposite would be true as well.

So again, 20/20 hindsight. Could we have, or should we have? Maybe. Were we out of compliance with either the investment policy statement or the rebalancing policy? No, we were not.

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

THE CHAIRPERSON: Thank you. Okay. We'll see you all back at 1:15.

--- Upon recessing at 12:11 p.m.
--- Upon resuming at 1:15 p.m.

THE CHAIRPERSON: Okay. Any time, Ms. Everard.

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

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: We spoke, Mr.

Palmer, earlier a little bit about the investment policy statement, or IPS, of the Corporation, so we'll just get into that a little bit.

We see at PUB/MPI-2-19, which is in the book of documents as part of Tab 19, we actually have two (2) IRs at that tab, 1-25, which was asked in the First Round, which did include the IPS but the changes weren't blacklined; and then we had the -- another version with the blacklining filed at 2-19, so we got that. Now -- and that is at this Tab 19 in the book of documents.

We know that the IPS has been -- had a couple assesses, revisions within the last year, one (1) being on March the 25th of this year, 2010, and then another set on July 8th of 2010, which were smaller in scope.

Is that fair to say?

MR. DON PALMER: That's correct, yes.

MS. CANDACE EVERARD: And we'll just go through -- if we look at the -- the text of the answer to 1-25 we see the Corporation's narrative on the changes that were done. And if we turn to the attachment at -- at 2-19, it actually does have the 1-25 up in the upper right-hand corner, but working forward from the back of the IR we see the March changes, and that date is noted in the bottom right-hand corner of each page.

So if we keep our finger on the answer to 1-25 for the commentary, and we start at page 11 of the March 25th, 2010, blackline version we can go forward, and look at the changes.

MR. DON PALMER: I think I'm with you, but --

MS. CANDACE EVERARD: It's kind of one (1) of these where it makes sense to go back and forth.

So we see the first change in the March 25th, 2010, version is an update to Section 4.2, and the Corporation said the description of its liabilities were updated.

If we look at page 11, where that blackline change is shown, we see that there's -- appears to be a new paragraph 4.2, and then some previous commentary that was removed. This deals with, as indicated, a description of the liabilities of the Corporation, being both short term and long term, and then a description of what each of those are.

And can the Corporation maybe just explain the rationale behind this particular change to the IPS.

MR. DON PALMER: Sure. Essentially, previously we had defined the duration matching, and maybe I'll go into a -- just a brief description on what that duration matching is, or what it entails.

Duration is actually a -- a measure of the sensitivity to interest rates. So a liability or an asset that have a high duration, have more sensitivity, or will move more in -- in cost, or price, than a low duration asset or liability.

What duration matching will do is that your -- to the extent that interest rates move, if your assets and liabilities are -- have close durations, then your -- the interest sensitivity is about the same and you'll get that immunization of your statement of operations that I have talked about. So -- so that's why we -- we have it here.

In terms of our unpaid claims reserves, that's really the -- the biggest part of this, and it's -- and it's claims liabilities. It's not other liabilities. We have other liabilities in the Corporation as well that aren't as intra-sensitive. So, really, from the standpoint of -- of immunizing our portfolio, we're look -- really looking at immunizing the change of the claims liabilities, not the total liabilities of the Corporation.

So that was the driver of this change that we're -- we're just talking about; is more to immunize against the -- the change in the claims liabilities, not the total liabilities.

MS. CANDACE EVERARD: Thank you. Continuing on in the list of amendments referenced at 1-25, the second one is fairly straightforward, so I'll ask your attention to be directed to the third bullet relating to Section 5.5.

We see here that a sentence has been added which reads:

"Passive management strategies are not expected to earn a return above their respective benchmarks."

And if we look at paragraph 5.5 in this version of the IPS, we see that at page 13 this is the paragraph wherein the expected annual return references are listed. Can you give an explanation as to the addition of that particular piece of information?

MR. DON PALMER: Generally with a manage portfolio, the reason that you choose a manager is that you think that the manager will give you an ability to beat a benchmark like the -- the TSX or -- or the S&P 500, something like that.

What we have found in -- in some cases is that if you look at those returns net of fees, often you will have managers that net of fees don't -- don't beat the benchmarks. If you go into a passive strategy, it's much, much cheaper from a management fee perspective, but you'll -- you're guaranteed essentially to get the -- the benchmark.

We have found, especially with our small cap, in our US portfolio, I think we went over last year the fact that we have fired our US small cap manager and parked the money in a -- in a passive strategy until we looked more into that question of active versus passive. And we thought, if we've got money in a passive strategy, it's silly to have something in your IPS that says your benchmark is to beat the -- the -- or -- or that your goal is to beat the benchmark when, by definition, you're buying an investment vehicle that is going to give you the benchmark.

So from that standpoint that's why this was changed. I can also tell you subsequent to this we have now also fired our US large cap -- cap manager and we're going completely to a US passive strategy. And that is actually, again, just being executed as we speak.

And the passive strategy that we've selected is index funds, 80 percent in large cap value, and 20 percent in small cap value. And, again, that would be more in accordance with the statement in the IPS, where we would expect to get the benchmark.

MS. CANDACE EVERARD: Thank you. On the next page of the IPS, but still within this section, there's a chart that reflects the -- the benchmarks, and there was a deletion from that chart relating to what was small to mid-market capitalization equities. There's been a removal of the reference to the extra hundred and fifty (150) basis points.

Is that change driven by the -- the same circumstance that you've just described?

MR. DON PALMER: Yes, because at -- at that point in time with mid and small cap we had gone to the passive strategy.

MS. CANDACE EVERARD: Thank you. If we turn back to --

MR. DON PALMER: And just to -- if I can add to that, now that we've gone passive on large cap, you'll likely see another change in this to have that same change in the large cap strategy as well.

MS. CANDACE EVERARD: Okay. Thank you. If we go back to the first page of 1-25 with the listing of the changes, the next one that I want to speak about is section 7.1, which is the bottom bullet on the page. It provides that:

"The accounting classification for real estate was changed from available for sale, to head -- to held for trading in order to allow the Corporation to recognize the undistributed income rela -- related to the investment in the pooled real estate fund."

That's correct?

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

MS. CANDACE EVERARD: You probably don't need to look at the actual change in that instance.

The next bullet on the list relates to Section 7.5, which has been revised to simply include reference to the rebalancing policy that we've spoken about before.

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And a couple bullets down, Section 8.5, there was a change. It was changed from the phrase:

"The Corporation will limit its exposure to foreign exchange risk by hedging where necessary."

To the phrase:

"The Corporation will consider limiting its exposure to foreign exchange risk by hedging."

So is this suggesting that there will be more judgment for management of when hedging will occur?

MR. DON PALMER: Not management. Again, Investment Committee Working Group will -- will study and the final decision will be made by the Department of Finance. But the decision was made to eliminate the -- the hedge on US currency, because it did introduce some volatility into our statement of operations. That decision has been -- been made, so we're currently not hedging the US portfolio, but still have an option that we could get back into it if -- if it was required.

MS. CANDACE EVERARD: This is the change that was made earlier this year that we looked at on the -- the earlier chart of Aon recommendation?

MR. DON PALMER: I think the Aon chart specifically talked about infrastructure and real estate, but we did mention -- we did discuss that this morning, yes.

MS. CANDACE EVERARD: Okay. And if we turn to the July changes, which is just on the same page here, on 1-25, there were just a couple of changes made, and one (1) of them in particular was actually adding the rebalancing policy as an appendix to the IPS.

Is that right?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Okay. Let's get into then, in a little bit more detail, the investment income that's been earned by the Corporation. And on that I would ask you to go to the book of documents at Tab 17, where we find the answer to 1-20, posed by the Board, as well as 2-15.

And if we look at 2-15(a) we see a reflection of the investment income. And we probably want to look at page 5.

MR. DON PALMER: Of 1-20 or 2-15?

MS. CANDACE EVERARD: Of 2-15(a). So if you go to Tab 17, I'm looking at the second last sheet at Tab 17, which is PUB/MPI-2-15(a), Attachment B.

MR. DON PALMER: Yes, I have it.

MS. CANDACE EVERARD: So this reflects, in general terms, that the majority of the Corporation's investment income comes from bonds, and that would be because of the weighting of bonds within the portfolio today?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: So if we look at, starting with the -- the year that just finished, the 2009/'10 year, we see, looking at the corporate total line investment income of 96.2 million for that year, set to increase to ninety six point four (96.4), so just a slight increase to the current year, and projected to increase to 103 million for the year of the Application.

Is that right?

(BRIEF PAUSE)

MR. DON PALMER: Sorry, could you give me the reference again. I can't find those numbers.

MS. CANDACE EVERARD: Sure. I'm at Tab 17 of the book of documents, the second last page. So I'm almost at Tab 18. It's 2-15(a), Attachment B, page 5.

(BRIEF PAUSE)

MR. DON PALMER: I apologize. I have it.

MS. CANDACE EVERARD: No, that's fine. So my question was, just to review the corporate total for investment income for the Corporation, from the '09/'10 year through to the '11/'12 year, we see going from ninety-six point two (96.2) in '09/'10, to ninety-six point four (96.4) in the current year, to a hundred and three point one (103.1) in the year of the Application.

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

MS. CANDACE EVERARD: And then, just to carry it through a little farther, we see another projected increase for 2012/13 to one-o-seven point two (107.2), up to a hundred and fifteen point five (115.5) in 2013/14, and then finally at 123.5 million in 2014/15.

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

MS. CANDACE EVERARD: Now, we know, looking backward, or historically, to an extent, that the investment income in the '07/'08 year was about 125 million. That dipped to four point six (4.6) in '08/'09, and then has rebounded, for the most part, as of the last fiscal year.

Is that right?

MR. DON PALMER: Yes, we try not to look at that '08/'09 year too often.

MS. CANDACE EVERARD: I don't think anybody likes to look at -- at that in their own investments either.

That was, of course -- that particular low year was, of course, driven by the equity losses and the -- the events of fall of 2008?

MR. DON PALMER: Yes. As you can see, with the $80 million equity gain loss in the column in the fourth line.

MS. CANDACE EVERARD: Yes, the eighty point four (80.4). And then immediately to the right of that for the '09/'10 year we see a loss of 5.3 million for that year in that category.

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And if we continue on in the equities line, we see for the current year the Corporation is projecting income of thirteen point eight (13.8). This is as of the time of -- of this answer. And I appreciate we have an update to that now that we've already discussed. For the year of the Application, the Corporation is looking at 14.1 million in income, and to increase fairly steadily thereafter through the outlook period.

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Now, we see here on this schedule there are also projections for bond income, or income derived from bonds.

We understand that the long-term bonds held by the Corporation have been reclassified as held for trading.

Is that right?

MR. DON PALMER: That's not correct. We are in the process of -- we had them all designated, I think three (3) years ago, as available for sale. For reasons of our immunization strategy, we -- it was our goal to have them all designated as held for trading, but we weren't allowed under GAAP to reclassify them.

So the strategy that we -- that we undertook was, as we acquire new bonds, to -- so liquidate old bonds, buy new bonds -- the new purchases were avail -- or it's okay under GAAP for us to classify those as held for trading.

So we're gradually making that transition as we liquidate all the bonds that we held prior to -- June 1st of 2008, I think was the -- the switch-over date. So anything that we've acquire -- acquired after that date is held for trading. Ones that we're holding that we held at that date that we have not liquidated are still available for sale.

Once we get into transition to IFRS, we've got an opportunity under IFRS 1 to have a one (1) time do-over, so to speak, and at that point in time we'll be designating them all as held for trading. And, of course, because rules change, it's not called held for trading anymore; it's called fair value through pro -- profit and loss.

MS. CANDACE EVERARD: Okay. Thank you for clarifying. We see from this schedule that the fifth and sixth line items relate to realized or unrealized gains or losses on the held for trading bonds. And we see entries in those rows for the '08/'09 and '09/'10 fiscal years, and then we see nothing thereafter.

Can you explain why there are no projections in the current year and subsequent years.

(BRIEF PAUSE)

MR. DON PALMER: Sure. In terms of our overall projections, we've actually have assumed a -- a gain of $5 million per year, but it's in fact baked into the long-term bond income for the forecast period.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. Can you give us an indication offhand what the component might be? When you say it's included in the long-term bond numbers, any idea of -- of an estimate of what it might comprise?

MR. DON PALMER: It's 5 million a year.

MS. CANDACE EVERARD: Okay. So if we continue to look at this particular schedule, we see, along the bottom of the page, underneath the table:

> "The Corporation has reflected yield percentages for each of the various investment categories."

If we look at the line relating to real

estate, which is the second last line reflected there, we see that for the current year the Corporation is projecting a 5.75 yield percentage, projected to increase to 6 percent for the year of the Application and subsequent years.

MR. DON PALMER: Yes, that's -- and the way we arrived at -- at that was -- the benchmark is CPI plus 4 percent. We are -- have a forecast of 2 percent of CPI, so that's where we get the six (6) from.

(BRIEF PAUSE)

MS. CANDACE EVERARD: And for the current year, where it's still the -- the five point seven five (5.75), which I assume is one point seven five (1.75) plus four (4), is the Corporation on track, as far as you know, to meet the -- that particular percentage?

MR. DON PALMER: We're probably a little under that. I'm not quite sure offhand what our rate of return from our parking lots is, but as we're transitioning throughout the year, and we're now three quarters (3/4s) of the way through the -- through the calendar year, just a little over halfway through the fiscal year, and we're still only $45 million into our real estate portfolio. I -- I'm not sure that we'll necessarily get annualized. It might be a little bit different than that.

MS. CANDACE EVERARD: And just while we're back to the $45 million real estate investment that we spoke of earlier, the pooled fund, is -- is that a fund that is contained within Manitoba, or is -- I know you said it's all Canadian, but can you -- can you advise whether we can narrow that down a little bit more?

(BRIEF PAUSE)

MR. DON PALMER: It's a Canada-wide fund. I can give you a specific weighting in Manitoba, if -- if you would like that, but it is a Canada-wide fund.

MS. CANDACE EVERARD: Is the Manitoba weighting fairly readily available to you? I mean -- I don't mean right now, but it -- would it be particularly difficult for you to find?

MR. DON PALMER: I don't have the Manitoba weight. I have a prairie weight, a target weight of 8 percent in this particular fund.

MS. CANDACE EVERARD: That's for the whole of the prairies?

MR. DON PALMER: That's the prairie weight, yes.

MS. CANDACE EVERARD: And would the prairies then consist of Manitoba and Saskatchewan under that definition?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Okay. So 8 percent Manitoba/Saskatchewan, which means 92 percent otherwise within Canada?

MR. DON PALMER: Yes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Your evidence was that the Corporation is about to invest the $45 million, and that it's committed to $135 million.

How does that relate to the overall size of the fund?

MR. DON PALMER: I'm sorry, which --

MS. CANDACE EVERARD: How --

MR. DON PALMER: -- which fund?

MS. CANDACE EVERARD: This is a pooled real estate fund --

MR. DON PALMER: You're asking for the over --

MS. CANDACE EVERARD: -- that the Corporation has invest --

MR. DON PALMER: You're asking for the overall size of the pool?

MS. CANDACE EVERARD: Yes.

MR. DON PALMER: 2.6 billion.

MS. CANDACE EVERARD: Thank you. Still looking at page 5 here at Tab 17 that we've -- we've been working with, we see that the yield percentages for the infrastructure component along the bottom of the page is about 1 percent higher than the real estate yield percentages that we've just reviewed.

How is that number calculated?

MR. DON PALMER: CPI plus five (5).

MS. CANDACE EVERARD: And what's the rationale behind the -- the addition of 4 percent for real estate, and five (5) for infrastructure?

MR. DON PALMER: Essentially it's a -- those return weights are -- are directly proportional to the -- the risk load, so to speak. Infrastructure is a little bit riskier than real estate, so there's a higher premium put on that.

MS. CANDACE EVERARD: Thank you. In the --

MR. DON PALMER: And both of those benchmarks are pretty standard throughout the industry.

MS. CANDACE EVERARD: In the 2008/'09

fiscal year as shown here, it looks like there was about two (2) -- is that -- that would be, I guess, two thousand dollars ($2,000) on venture capital income in 2008/2009, and then there's nothing for the balance of the -- the schedule moving forward.

I -- I gather then that the Corporation is not expecting any further in -- investment income under that category?

MR. DON PALMER: Not much. Again, with such a small weighting, we've -- for the outlook period that's included in the equity income, but it's -- it is very small.

We've -- there's -- one (1) of the venture capital funds that is being discontinued, so we don't have much of an exposure into that venture capital at all.

MS. CANDACE EVERARD: Just to tie the numbers together, if we flip forward within Tab 17 we have the answer at Question 1-20, and if we look at page 4 of 1-20(a), which is a reflection of the investment portfolio, there does appear to be reflected about $7.6 million invested in venture capital.

So we're just trying to reconcile that $7.6 million investment with the projection for no income going forward?

MR. DON PALMER: Thus the name "venture capital."

There really isn't much of a return for us at this time. We haven't assumed any -- there's really no dividen -- dend return. There may be, down the road, some capital gains, I suppose, but nothing that we would count on in our forecasts.

MS. CANDACE EVERARD: I'd ask you to turn to Tab 21 of the book of documents, which is the question and answer at 28 in the First Round, posed by the Board. It's reflected in the narrative part of the Corporation's answer that:

> "Last year, the forecast for equity returns was based on the ten (10) year historical average, Government of Canada ten (10) year bond yield, plus a 1.5 percent equity risk premium."

Is that right?

MR. DON PALMER: Yes, and we've -- we've struggled over the last three (3) or four (4) years the -- the best way to incorporate a -- an equity risk premium. I think, back two (2) or three (3) years ago, we took the equity risk premium and just added it to the annual expected bond -- ten (10) year bond return, and ran it for -- well, that worked really well, if you look at the long-term returns, at the equity risk premium of 1.5 percent over ten (10) -- ten (10) year bonds, I think is a pretty reasonably equity risk premium, or ERP.

But there is some of the -- the returns from bonds and equities, there's -- not completely correlated, so in fact they may be negatively correlated, So as you get more income on the equity side, your -- your income on the -- the bond side may go down. So if you're -- if you're looking at those on a year-by-year basis, having them in lockstep year-by-year maybe is not the best assumption to make.

So last year, we said, Well, if the -- we've got a 1 1/2 percent ERP, so let's look on that on a historical basis. And that was our first step at kind of flattening out what the ERP would be on an annual basis.

And then, as we're refining our forecast -- revenue forecast methodology, we said, You know, that's a retrospective look, but really we've got a -- on a prospective basis, we've got an assumed bond return. So somehow that prospective bond return should be reflected in the prospective ERP.

So we looked at the next ten (10) year return and -- and applied the ERP to that number. So it's -- it's a change in methodology, I think, just an update to -- to better reflect the -- the forecast, the -

- the outlook.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So if I understand your evidence correctly, you've -- you've summarized basically what is reflected in the Corporation's answer at 1-28(a), on page 2, which is the -- the change in methodology that the -- that the Corporation has implemented?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And if I understand the Application correctly, this year the Corporation is using the five (5) year average risk-free rate, plus an equity risk premium of one point five (1.5).

Is that right?

MR. DON PALMER: And that 1.5 percent equity risk premium was in a Board order three (3) or four (4) years ago, so -- and that was -- an equity risk premium on the ten (10) year bond, I think, was -- was specified, but didn't say how to apply it.

So it's still within the spirit of the order, we believe, that we've changed the methodology.

MS. CANDACE EVERARD: So would it be fair to say then that what the Corporation is proposing is to forecast equity returns based on an average of over five (5) years so that the forecasts do not reflect the impact of potential interest rate hikes in the future?

MR. DON PALMER: The -- they reflect the forecasted interest rate hikes, but smoothed out over the five (5) year period.

MS. CANDACE EVERARD: Now, we at 1-29(b) the -- a comparison of last year's methodology versus this year's methodology. And would it be fair to say that the impact on investment income is fairly insignificant?

MR. DON PALMER: In the near term for the -- for the year of the Application and the subsequent year, I would say that's probably true. Going further out into the outlook period into '14/'15, there's a difference of about a hundred basis points, which I would characterize as significant, but not until further out in the outlook period.

MS. CANDACE EVERARD: Thank you.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. We'll just get into the forecasting a little bit -- in a little bit more detail, relative to investment income. If we go back to Tab 17, we have at the end of that tab 2-15, posed by the Board. And the very last page of that IR and the last page of that tab sets out projections for corporate investment income for a four (4) year period, as presented at last year's GRA, compared with those presented this year.

Is that right?

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

MS. CANDACE EVERARD: And if we focus on this table for the moment, we see that the long-term bond interest -- or pardon me, long-term bond interest investment income is projected to reduce fairly significantly for all four (4) years.

Now, this would represent a change in interest rates, is that right?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Now, we see -- if we look at the Canadian and US equity dividends and gains or losses line, similarly, we see different numbers. In this case, we see higher numbers presented at this year's GRA over those projected last year.

Can you explain why the Corporation is projecting higher investment income on equities.

(BRIEF PAUSE)

MR. DON PALMER: It's mainly be -- just because of the weight of equities has gone up. We're closer to the target level than we were at the beginning of last year, so that's the basis of the forecast.

MS. CANDACE EVERARD: Thank you. We see on the EAFE, or Europe, Asian, and Far East dividends or gains line, nothing projected for the current year in this year's GRA.

That would be because there are no investments in that category, or for what reason?

MR. DON PALMER: Yes, we currently haven't begun the movement into EAFE.

(BRIEF PAUSE)

MS. CANDACE EVERARD: And if we look at just the straight year over year comparison at the far right-hand side of the page at the bottom line that just breaks out Basic's share, we see for the current year -- and, again, I appreciate that this number will have since been updated, but at the time of filing it was two (2) -- a projection of $2.6 million less in the current year. And then that is forecasted through to 2013/'14 to be about $13 million less than thought last year.

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Okay. Still at Tab 17, we're going to turn back to 1-20(c). This is a chart that reflects the differences between the investment income that the Corporation has forecasted, and the actual investment income that it has earned, and that is done from 2004/2005 through to 2009/'10. Sorry, I'll just give you a minute to get there.

(BRIEF PAUSE)

MR. DON PALMER: Yes, I have it. And you're going to remind me of '08/'09 again.

MS. CANDACE EVERARD: It's nothing personal. It happened to everyone.

What I'd like to do is just go through in some level of detail the -- the year over year. If we look at the corporate total, starting at the far right, for 2004 to 2005, we see that the Corporation had originally projected eighty-one point nine (81.9); that was revised to 75.9 million, and the actual was eight-eight point six (88.6).

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: For the next year, 2005/'06, the original projection was 82.9 million, or almost 83 million, revised to a hundred and thirty-five point six (135.6), and the actual was 166.6 million.

Is that right?

MR. DON PALMER: Yes. And the reason for that was there was significant capital gains that were taken on the equity portfolio.

MS. CANDACE EVERARD: Significant capital gains on the equity portfolio?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: The next year, 2006/'07, the Corporation initially projected 86.3 million in investment income, later revised to 117.8 million, and the actual came in at 120.4 million.

That's right?

MR. DON PALMER: Yes. And again, there was significant gains that were taken on the equity portfolio and -- and fairly significant gains on the bond portfolio as well.

MS. CANDACE EVERARD: In 2007/'08, we see an original projection of 95.8 million, revised to a hundred thirty-nine point three (139.3), and the actual was slightly less than that at 125.5 million.

Is that right?

MR. DON PALMER: Yes. And again there was significant gains taken on the equity portfolio.

MS. CANDACE EVERARD: Sorry, you said gains on equities?

MR. DON PALMER: Yes. Original projection was 15 million, and the actual was 45 million.

MS. CANDACE EVERARD: Yes. In 2008/'09, obviously the original projection, and even the forecasted projection were significantly more than the actual, due to the events of late fall of 2008?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And then in the last year that we have completed, the 2009/'10 year, we see the original projection of 91.9 million, revised down to eight-five point seven (85.7), and the actual was somewhat less at eighty-four point one (84.1).

Is that right?

MR. DON PALMER: That -- that's the Basic share, yes.

MS. CANDACE EVERARD: Yeah. Oh, I'm sorry, I didn't mean to morph onto that line. For consistency, I'll just go back and read in the corporate totals.

The 106.3 million was the original projection, down to ninety-six point four (96.4), and the actual was ninety-six point two (96.2).

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: So if I'm reading this correctly, we see in the first four (4) years that we've just gone through, '04/'05 through '07/'08, we see the original projection for investment income being somewhat less than the actual.

Is that right?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And then in the last two (2) years of the table, '08/'09 and '09/'10, we see the original projection being more than the actual number.

That's correct?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And as you've identified, we see that the variability probably in each of these years that we see in the totals is driven by the equity gain or loss, in -- as the case may be.

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Obviously '08/'09, there was huge variability on that line. Originally for equities the Corporation projected for a $20.2 million income revised down to an $8 million income, and the ultimate was an $80.4 million loss.

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And in last year,

2009/10, again, the Corporation was projecting for an income of 11.3 million, revised to thirteen point eight (13.8), and the ultimate was a $5.3 million loss?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And in the current application, we go back to 1-20(a), we see that the Corporation is -- sorry, that would be 1-20(a), page 6.

We see that as of the filing of this IR reply, the Corporation is projecting investment income of ninety-six point four (96.4), which would include thirteen point nine (13.9) in equity gains?

(BRIEF PAUSE)

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And as we've already heard evidence on, that's been revised in -- by the second quarter results?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Okay. Let's turn then to a review of the investment income returns, as opposed to the benchmarks that the Corporation had in place. You'll find some information at Tab 19 with respect to that. Of course the investment policy statement contains information with respect to the benchmarks, and I'm just going to look for the page number reference.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Just bear with me, Mr. Chairman. I'm just trying to find the reference for something in my notes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. I found it in the first place that I looked. Thank you for your patience. What I ask you to do is go to Tab 19, which contains the response to 1-25, and you will see on page 3 that the Corporation has provided, on the record, in response to 1-25(b), a chart that reflects the actual results compared with the benchmarks.

And we had reference to this in one of our earlier discussions, I believe prior to the lunch break, that for the 2010 -- 2009/10 year, the overall result for the Corporation was some 13.7 percent, as compared with the benchmark of seventeen point two (17.2).

Is that right?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And, Mr. Palmer, you've given evidence about the reasons for that result, relative to the target that arose from the IR response that was given and the subsequent discussions that we had?

MR. DON PALMER: Yes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: And I'm just going to take you back to that IR response, which you'll find at Tab 17, and this is arising from 2-15.

(BRIEF PAUSE)

MS. CANDACE EVERARD: I believe it's contained within the response to this particular IR, that the overall benchmark that the Corporation would be working with, after making some adjustments, is 14.7 percent.

Is that consistent with your understanding as well?

(BRIEF PAUSE)

MR. DON PALMER: That concurs with our recollection, but we don't have a specific reference.

MS. CANDACE EVERARD: Yeah, and I -- I know I would have had one in front of me at the time, and I can't put my fingers on it either. But if we're agreed on a number, then that's fine.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Sorry. I just -- again, bear with me for a moment, if you don't mind. The Corporation gave some commentary that I had some questions on, and it would be best if we had that in front of us.

(BRIEF PAUSE)

MR. DON PALMER: Try Information Request 2-19.

MS. CANDACE EVERARD: That's just the reference that Mr. Cathcart found as well, and that is the one that I'm looking for. It's found at Tab 19 of the Board's book of documents, and it's just after Information Request 1-25, which also appears at that Tab.

So this is the passage that we looked at before, at least the first paragraph of the answer to 'C'. This is the piece about the underperformance last year, and this is where, in the second paragraph:

"The Corporation has put on the record that it's done some adjustments, and that the custom benchmark return has dropped to 14.7 percent."

That's at the end of that second paragraph.

MR. DON PALMER: If we adjust for asset mix, that's correct, yes.

MS. CANDACE EVERARD: Now, does the Corporation have a -- a table that reflects these adjustments, or is it -- is the Corporation just in possession of the narrative with respect to the numbers?

MR. DON PALMER: We -- we did the calculations. We weren't asked to pro -- produce the table, so we didn't. So we -- we have the underlying calculations, but this is all that's on the record.

MS. CANDACE EVERARD: Thank you.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Now, the Corporation stated in the first paragraph here, at answer

'C', that in addition to the -- the potential for rebalancing, the result that fell short of last year's benchmark was, to a lesser degree, due to the Corporation's underperformance in the equity markets and the non-marketable bond portfolio?

MR. DON PALMER: Yes, that would be correct.

(BRIEF PAUSE)

MR. DON PALMER: And just in terms of that nonmarketable bonds, they're held at book value because they're classified as held to maturity. So as the interest rates were falling and the real market values of -- of bonds were increasing in the benchmark, we didn't get that same lift because we hold those bonds at amortised value. So that's the reason for that -- that difference.

MS. CANDACE EVERARD: And you said that that pertains to the nonmarketable bonds?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: So that would be, if we just go to the page before the page we were just looking at, which is page 3 of 1-25, that would be the difference between the 6.2 percent result and the 8.7

percent benchmark. Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And speaking to the equity results that we did a moment ago, we see that there are four (4) categories of equities listed here. Under the heading of "Canadian Equities" there are large capitalization equities. The result was 46.3 percent compared with a benchmark of 49.1, is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And the small to mid capitalization equities, the result was fifty-two point two (52.2) compared to a benchmark of a hundred and three point nine (103.9)?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And under US equities, large capitalization, the result was fifty point six (50.6) compared with a benchmark of fifty-five point one (55.1)?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And with respect to small to mid capitalization equities the result was 67.7 percent compared with a benchmark of 69.3, is that right?

(BRIEF PAUSE)

MR. DON PALMER: And that particular US small cap, we have a passive strategy in that, and so the question is: Why would you be so different from the benchmark? Well, in fact, previously we had the benchmark misspecified. We -- based on the Russell 2500, and it probably should have been on -- and it should have been a mid cap one thousand (1,000), so -- so there was a misspecification in the benchmark.

MS. CANDACE EVERARD: Is it correct that the benchmarks reflected for the equity classes include the value added expectation of 1.5 percent above the index return, or no?

MR. DON PALMER: No, they do not.

MS. CANDACE EVERARD: That wasn't a trick question. And, in fairness, I should refer you back a page to the first page of 2-19. And maybe I've read this incorrectly but in the third paragraph, under (c), the second sentence:

> "The Corporation has stated the benchmark returns for all equity asset classes include the Corporation's value-added expectation of 1.5 percent above the index return."

So...

MR. DON PALMER: Sorry, I'll retract the

-- the last answer. The -- the benchmarks in the IPS are specified, so we took the extra to adjust these for that extra added value, and -- and you're correct. Thank you.

MS. CANDACE EVERARD: The answer goes on to say:

"The adjustment is a contractual return requirement."

What exactly does that mean, like in a term of a contract with investment managers, or...

MR. DON PALMER: Yes. In terms of -- that's the -- the standard that we hold our investment managers, their performance standard. If they are underperforming that, then we start looking at them a little closer, put them essentially under a watch list.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Just a few questions, a couple of which will be summary type questions with respect to interest rates. The first is: Does the Corporation agree that it is expected that interest rates will continue to rise over the foreseeable future?

MR. DON PALMER: I -- I think that that would be somewhat self-evident given that we've had historical interest rate lows, and we've talked about even recently when we've been doing some of our -- our DCATs, and looking at the impact of maybe a decrease in interest rates of a hundred and fifty (150), or two hundred (200) basis points.

And its -- right now it's impossible. We'd have negative interest rates in some case on real -- on a real basis. So I think at some point in time we would expect interest rates to go up from their all-time historical lows that we're currently seeing.

MS. CANDACE EVERARD: And again this -- the -- the following question is a -- a summary type question, because I know that there has been evidence given on this already here and there.

If you could just summarize what, if any, effects that the Corporation would expect upon it as a -- it as a Corporation, as a result of rising interest rates?

MR. DON PALMER: We would expect to get higher returns on new money, and in terms of effect on the operating statement on existing liabilities and -- and asset rate of return, there would be a balance there because of our immunization strategy.

We'd probably -- because of the longer duration of our liabilities, we might get a little bit of a lift with interest rates going up.

MS. CANDACE EVERARD: And again, the following question is a summary type question because we have had some evidence on this here and there.

Can you summarize for the Board what, if any, steps the Corporation is taking in its portfolio to insulate itself against rising interest rates?

MR. DON PALMER: Again, I -- I think the immunization strategy is absolutely paramount in that to look at the assets in isolation is -- is really not proper. You have to -- to look at the balance with the liabilities as well, so that's really part of our strategy.

Moving out of our fixed income into more alternative asset classes, which might -- may be more inflation sensitive, and hence may go up with higher interest rates, is also a strategy that can be used that would be real estate and infrastructure.

MS. CANDACE EVERARD: Thank you. Okay. If we turn back to Tab 17, that's where we find the answer to 2-5 -- 2-15, pardon me, at the end of that tab of the book of documents.

And we see at 2-15(a), Attachment 'B', page 5, and we've already looked at this document but I want to go to a different line item than we've already discussed, so I'm at 2-15(a), Attachment B, page 5.

Do you have it?

MR. DON PALMER: I have it.

MS. CANDACE EVERARD: Okay. We have a line on the document entitled "Pension Fund Transfer," and we see various negative figures there in brackets being offset against investment income, or transferred out of investment income each year. Is that right?

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

MS. CANDACE EVERARD: And the amount varies from year to year from as low as 8.6 million in 2006/2007 to as high as 13.5 million in 2007/2008, but the number typically sits around 10, 11, 12 million for -- for most of the years reflected here. Is that right?

MR. DON PALMER: That's correct.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Now, I'll ask you to go to the Basic annual report for a moment at AI.7.

(BRIEF PAUSE)

MS. CANDACE EVERARD: And in particular in the Basic annual report I want you to look at note 9.

The pages of the document are not numbered, but you'll just have to flip and find note 9.

MR. DON PALMER: That would be the note on provision for employee future benefits?

MS. CANDACE EVERARD: Yes, that's the one. And I appreciate that there's a -- a page and a bit of information here, but are you in a position to summarize, in a fairly brief way, what the -- the gist of this note is?

If -- if you can't, if that's not something that's particularly doable, then let me know.

(BRIEF PAUSE)

MR. OTTMAR KRAMER: Note 9 describes the -- the provision that we have for the future benefits which -- which includes a pension plan and other benefits. It goes through the economic assumptions used to value those liabilities, because there are valuation techniques to -- to arrive at -- at those values. They're not a one (1) year current liability. And then has a reconciliation from the beginning of the year to the end of the year as to what happened with that liability, how it's increased and decreased, what the pluses and minuses are on that.

MS. CANDACE EVERARD: Thank you. We see almost at the bottom of the section, or the end of the section, which is actually the top of the second page of note 9, we see a chart under the heading of "Plan Assets," and we see one of the line items there, or one of the headings for the chart, is "Actuarial Valuation Deficiency," and then, in brackets, "Redundancy." What is that?

And then we -- we -- there are a couple of entries under there, one (1) pertaining to interest and one (1) pertaining to expense. Can you explain what that relates to?

MR. OTTMAR KRAMER: Those actuarial valuation deficiencies -- and there is one (1) redundancy there -- those are based on the review by an external actuary of the -- of the pension plan and the other employee benefits, looking at the retirements that have happened, the payouts, deaths, et cetera, items that influence the -- either the pension plan or the other benefits to -- to understand, relative to last year's valuation, whether there was any changes to that valuation based on the actual experience that has happened. And -- and, therefore, you either have a deficiency or a redundancy, which we book full -- the full amount in year.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Thank you, Mr. Kramer. If we look at the reply given by the Corporation to pre-ask number 1, which is on the record as PUB/MPI-3-1, PUB/MPI Exhibit 11-1, we had asked the Corporation to provide an update on its unfunded pensions liability as at August 31st, 2010, comment on the extent to which market conditions and the asset mix of the Corporation's investment portfolio contributed to the liability.

And the Corporation answered that it does not have an unfunded pension liability, that the next actuarial valuation will be performed December 31st of 2010.

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Are you in a position to explain how the liability is determined?

MR. DON PALMER: The liability for future benefits is the present value of all expected future retirement and other retirement benefits to the Corporation. It's the employer portion of the pension plan.

Just from a perspective, it's just added to the liabilities to the Corporation, so we don't have a segregated plan. So from that standpoint, it shows up much the same as our unpaid claims liability. It's an entry as a liability. And then because we have no deficits, we're fully funded, so all the liabilities are fully funded.

THE CHAIRPERSON: What you're saying is the first charge on investment income is to cover off that liability, in a sense?

MR. DON PALMER: It's not -- no, it's not the first char -- I guess all the liabilities are -- they're all fully funded, so I don't know if there -- there's a first in/first out kind of --

THE CHAIRPERSON: What I meant is that if you require 'X' dollars to cover the growth, it's deducted off investment income, and the remaining investment income gets spread out to the lines of business, is that correct?

MR. DON PALMER: Tha -- that's why there's a negative provision in our investment income for that liability. Yes, that's absolutely correct.

THE CHAIRPERSON: So in any one (1) year, depending on the results, either the policyholders are subsidizing the members of the plan or the plan is subsidizing the policyholders.

Is that a fair way of putting it, since accounts aren't segregated?

MR. DON PALMER: To the extent that your return on your assets is different, you -- you have a predetermined return for your pension plan based on your -- on your interest rate assumption, yes.

THE CHAIRPERSON: Thank you.

(BRIEF PAUSE)

THE CHAIRPERSON: What I was sort of getting at was that in the way that you're doing it -- because we've had this discussion at past hearings about the segregation or non-segregation of that particular liability -- the way you're doing it, that's why you'll never have an unfunded obligation, in essence. But if the yield on your investment is, say, quite high for example, okay, the benefit would presumably flow to the lines of business because all you would take off the investment return would be the amount required to fund the plan and the supplementary benefits, is that correct?

Or would the plan members benefit in a year in which the yield was higher than the actuarial assumption?

MR. DON PALMER: Okay, thi -- this isn't about the plan members. This is about the Corporation. So the plan members' liability out of the CSSB is in --

deposited and invested by the CSSB. The MPI employer portion, that's what we're talking about here specifically.

So it's -- it is another liability of the Corporation, so it's not really to the benefit of the plan members, per se.

THE CHAIRPERSON: Thank you.

Ms. Everard...?

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you. I'm going to move then to a couple of questions about unrealized gains and losses, or gains and/or losses. We have at question 1-23 posed by the Board, and this is not in the book of documents, that the Corporation has provided information. If you -- if you wish to go to this, that's fine. I'm not going to spend a lot of time on it, but feel free to look at it.

This IR reply requested a breakdown of unrealized gains in 2009/'10 on available for sale assets and indicate how the allocation was made for recording on the Basic annual report. The Corporation provided an attachment and explained where the allocation came from.

The attachment that the Corporation provided has listed in some detail unrealized gains of

$39.7 million, is that right?

MR. DON PALMER: Sorry, what was that total again?

MS. CANDACE EVERARD: Thirty-nine point seven (39.7). It's -- I'm looking at the very last page, which I believe is a total of all of the --

MR. DON PALMER: Yeah, yes, I have.

MS. CANDACE EVERARD: -- sub numbers.

MR. DON PALMER: And I'll confirm it.

MS. CANDACE EVERARD: Is the Corporation in a position to provide an updated schedule of the balance of unrealized gains or losses, given that this is as of February 2010?

(BRIEF PAUSE)

MR. DON PALMER: As of the second quarter, we likely could do that.

MS. CANDACE EVERARD: Would you be prepared to take that as an undertaking?

MR. DON PALMER: We will.

MS. CANDACE EVERARD: Thank you.

--- UNDERTAKING NO. 3: MPI to provide an updated schedule of the balance of unrealized gains or losses

THE CHAIRPERSON: While Ms. Everard's moving on, just to complete my, or our, understanding of that one (1) situation, so the employer's contributions to the benefit plans are on the employer's books, and the employee's money is sitting in the CSSB account.

So if an MPI employee reached their retirement date, if I recall the Pension Benefit Act properly, I think I do, they in effect can commute their benefits, can they not, and take the cash and put it into an RSP if they want to?

MR. DON PALMER: Yes.

THE CHAIRPERSON: So they would get some cash from MPI, and they would get some cash from CSSB.

MR. DON PALMER: Yes, I -- I believe that's true.

THE CHAIRPERSON: So if CSSB was under water, what would -- what would happen? There -- there's no obligation for MPI to make up the employee's share?

MR. DON PALMER: No. No. We're -- we're -- I think it's 50 percent of the -- of the benefit. It basically gets billed to the employer.

THE CHAIRPERSON: Okay. That's your responsibility. Thank you.

MR. DON PALMER: Yes.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: The next question that I have relates to PUB/MPI-2-14, which is not in the book of documents, but please feel free to -- to go to it. This is an IR that relates to the immunization strategy that you've given some evidence on, Mr. Palmer.

In particular, the Board asked the Corporation to explain the reasons why the immunization strategy would only be 80 percent effective if the bonds were fully classified as held for trading.

MR. DON PALMER: Yes. We -- we do have about 80 percent of a shift in -- in liabilities would be covered by a shift in assets, yes.

MS. CANDACE EVERARD: Can you summarize for the Board the -- there's a couple of reasons reflected in this answer with respect to the -- the 80 percent effectiveness of the immunization strategy dealing with non-marketable bonds, and recorded book value.

Can you comment on that for the benefit of the Board?

MR. DON PALMER: Sure. The -- the reason for these -- the total reason for the 80 percent, the two

(2) reasons?

First of all, we're not exactly duration matched. We have in our asset or investment policy statement, there's a two (2) -- a two (2) year tolerance between the duration of assets, and -- and claims liabilities.

So from that perspective, you'll get more movement on the liabilities than -- than on the assets, if you're right on that two (2) year difference. So that's one (1) reason.

The second reason is because some of our -- our bonds, the non-marketable bonds are -- we use the term MUSH, Municipal, School and Hospital bonds, are really not readily marketable, so we do hold those to maturity, and as such they are classified as held to maturity.

They're valued on an amortized basis. But the market value of those, or the market yield, implied market yield, still has to be reflected in our liability discount rate.

So you might get a mismatch there where you -- you've got a movement in the interest rates reflected in the liabilities, but you don't have it reflected on the MUSH because you're holding those at amortized costs.

So those are the two (2) reasons for the mismatch.

MS. CANDACE EVERARD: And would it be fair to say then that Corporation doesn't expect to ever get to 100 percent immunization basically because of the presence of the MUSH bonds in the portfolio?

MR. DON PALMER: At the present time, I would say that to be true, yes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: One (1) further question on that, Mr. Palmer. With the proposed changes in the investment mix of the Corporation, and in particular, the percentage of bonds decreasing, that means, does it not, that the percentage of MUSH bonds is increasing, and would the result of that be some immunization less than 80 percent?

MR. DON PALMER: It could be if you're holding your MUSH bonds at a constant rate. They're -- they are constantly maturing. So I wouldn't say necessarily you'd have a higher percent of MUSH bonds, so that may or may not be true.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Thank you. I'm going to ask -- Mr. Chairman, I note the time, but I have just a couple more small sections on investments, so I'd just like to get through those and then we'll go to something new, and maybe more or less exciting after the break.

MR. DON PALMER: How could that -- how could that be possible?

MS. CANDACE EVERARD: Yeah, exactly. I know. Okay. If we can turn back to Tab 17 of the book of documents, we see 1-20. There was a number of subsections -- or a number of sub-questions to this, one (1) of which was subsection (h), so 1-20(h), which is page 15 of the IR reply. This relates to the write-down of impaired investments.

It would appear from looking at page 15 that there were about $3 million written down in impaired investments in the '09/10 fiscal year. Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Can you describe briefly the criteria that was used to give rise to these particular write-downs?

(BRIEF PAUSE)

MR. DON PALMER: To -- to give you the exact criteria in our policy, I don't have it handy. I could take it as an under -- undertaking, or I could give you in -- in general terms what that policy is without getting into specific numbers.

MS. CANDACE EVERARD: I'll take the general that you can give me now.

MR. DON PALMER: Essentially we're looking for write-downs that are -- or movements that are other than temporary. So if you've got a -- an asset that has been undervalued or under the book value for an extended period of time and it's significantly less than the book value, then at that point in time you take a look at it to see if you are going to write it down or not.

So essentially it's that the value is under book and you expect it to be under book, essentially forever. So -- so we do have criteria that it's a certain percentage under book value for a certain length of time and I think it's 50 percent for six (6) months, but I could be corrected on that.

(BRIEF PAUSE)

MR. DON PALMER: And I have been

corrected on that. It's one (1) year and 20 percent.

MS. CANDACE EVERARD: Thank you. Can you confirm that once investments are written down, they do remain with the Corporation?

MR. DON PALMER: Not always. They still can be marketed, they can still be sold. But just because they're written down doesn't necessarily mean they're off our books, but certainly there have been some investments that have been written down that have been sub -- subsequently liquidated.

MS. CANDACE EVERARD: And we see at sub answer (I), so 1-20(I), just one (1) sheet over in the IR we're looking at, Tab 17, that the Corporation provided a listing of the investments that were designated as impaired and currently held. And we had asked for original book value, revised book value at impairment and current book value to May 31st of 2010, and that's reflected here?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: We know, or we recall, that, at last year's GRA, we were dealing with a -- a much more significant write-down than that which we have this year. Last year was more like 24.6 million. Does that accord with your recollection?

MR. DON PALMER: That sounds pretty

close, yes, and -- and again, part of that market meltdown of -- in '08/'09, yes.

MS. CANDACE EVERARD: Is the Corporation in a position to provide us with a listing of what is currently held from that set of write-downs?

MR. DON PALMER: It seems to us that we have filed a schedule like that, probably as at year end. I don't have the exact number. As far as if we could do that for the second quarter, I'm not quite sure how long that would take.

MS. CANDACE EVERARD: I don't know that we need it for the second quarter. If it's already on the record and -- and we just don't have that reference, perhaps you could give us the reference. And then, if we need to take it any further, we'll let you know, but otherwise, perhaps that'll answer the question.

MR. DON PALMER: We'll look up that reference.

MS. CANDACE EVERARD: Thank you. Okay. Just a few more questions on investments.

We had a recommendation in last year's order. It was five (5) -- this is referenced at SM.5-11(4), where the Board had recommended to the Corporation that the investment policy be amended to prohibit the selling of securities for the sole purpose of generating current period investment gains, only to repurchase the identical securities.

(BRIEF PAUSE)

MS. CANDACE EVERARD: And, yeah, turning to the -- that section, SM.5-11(4), which is on page 16, would be fine.

The Corporation has stated, just underneath that recommendation as reflected here, that:

> "It will buy and sell securities based on specific economic circumstances and the opinions of fund managers in order to maximize returns."

That's right?

MR. DON PALMER: That's correct, yes.

MS. CANDACE EVERARD: The Corporation states in the next paragraph that:

> "It provides no direction to the fund managers as to the specific assets that are to be purchased or sold to facilitate the taking of gains."

Is that correct?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: The Corporation

also states, in the next paragraph, that:

"The selling and repurchasing of securities for the purpose of generating gains has not been done since June of 2007."

MR. DON PALMER: That would also be correct.

MS. CANDACE EVERARD: Now if we turn to PUB/MPI-2-16, which I believe is not in the book -- yeah, it's not in the book -- the Corporation was asked to provide the turnover of the equities, bonds and MUSH bonds in '08/'09 and '09/'10, and the Corporation has provided that information.

We see that, for the fiscal year '08/'09, for Canadian equities, the turnover ratio was 80 percent; for US equities, it was 54 percent. Are you with me?

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

MS. CANDACE EVERARD: For bonds, we see the turnover rate for government and corporate portfolio bonds is 64 percent, and then the MUSH bonds, 12 percent.

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

MS. CANDACE EVERARD: And then, looking at '09/'10, we see, for the Canadian equities, a turnover ratio of 41 percent; and for US equities, 21 percent; and then, for government and corporate bonds, 38 percent; and still 12 percent for MUSH. Is that right?

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

MS. CANDACE EVERARD: The -- these turnover ratios, obviously the MUSH is the same, but the other three (3) that are reflected here for Canadian equities, US equities and government and corporate bonds seem to be quite divergent when we compare these two (2) years.

Can you indicate, firstly, which level of turnover is more typical for the Corporation?

MR. DON PALMER: '09/'10 would be more typical. '08/'09 we've talked about. It was a frenzied year. There was a lot of turnover in the -- in the portfolios, in the managers that we had.

I can also tell you that, at that point in time, in '08/'09, we had two (2) value managers, two (2) growth managers. Typically, growth managers will have a higher portfolio turnover than value managers. We've done some research into that, and the median growth manager of a fairly large universe of managers actually has about a hundred percent annual turnover in their portfolio. A value manager has about 25 percent turnover.

In '08/'09, as I mentioned, we had two (2) growth managers, two (2) value managers. The split was about fifty (50) growth -- 50 percent growth, 50 percent value. We did fire one (2) of those growth managers and transferred the assets to one (1) of our existing value managers.

Now our split is about two thirds (2/3) value and one third (1/3) growth, so that will bring the turnover ratio down a fair bit.

On the US side, which also decreased, we went to the -- the passive strategy on our small and mid cap, which essentially has no turnover. And, again, that is reflected in these numbers.

MS. CANDACE EVERARD: Is the Corporation in a position to provide us with some historical information in this vein, but just for some -- some of the previous years as well, say for an additional three (3) or five (5) years historically?

MR. DON PALMER: I think that would take some time and effort to do that. I'm not -- I'll consult with our investment people, but it's -- it might not be that easy to do.

MS. CANDACE EVERARD: Okay, that's fair. Why don't you take it under advisement, whether you're prepared to provide that. Have that discussion, let us know, and then we can go from there.

--- UNDERTAKING NO. 4: MPI to provide information regarding turnover ratios and for the past three (3) or five (5) years (UNDER ADVISEMENT)

THE CHAIRPERSON: Mr. Palmer, on the MUSH, is the turnover simply the maturing of the security since you hold them to maturity, and the venture could be ten (10) years, so it sort of seems to make sense?

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

THE CHAIRPERSON: Thank you.

(BRIEF PAUSE)

THE CHAIRPERSON: How are these opportunities brought to your attention on MUSH? Is it -- does it come through the municipalities or the hospitals directly, or is it through the province?

MR. DON PALMER: It's -- our bond manager is the province of -- of Manitoba, so it -- it comes through them, yes.

THE CHAIRPERSON: Thank you.

MR. DON PALMER: Just -- just to help you with a previous query, the -- how the written-down assets have been doing is contained in CAC-1-107(b). And our write-down policy is also in that same question, CAC-1-107(c).

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you. Just -- I just want to pick up on -- and I -- I just have a couple more questions on this topic, but just following on the Chairman's question about the MUSH bonds being purchased by the Corporation, I understand that -- that MUSH stands for municipalities, universities, schools, and hospitals?

THE CHAIRPERSON: It's not dog sled racing.

MR. DON PALMER: It's municipal, school, and hospital. There's not specifically U for university.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Oh, okay. I -- I thought it was. But -- so it's not. So university's not in the -- the acronym.

MR. DON PALMER: Not in the acronym, no.

MS. CANDACE EVERARD: Interesting. Maybe we should call the MASH bonds or MISH bonds, I don't know. Anyways, just -- just on that score, obviously municipalities, we know what those are, but to the extent that investments are being made in schools and hospitals, wouldn't those be organizations or entities that are within the control of the Provincial Government?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: So how does that work based on the evidence that's been given, that it's the Department of Finance that directs the purchase of the bonds? Isn't -- isn't it kind of like the government saying, Thou shalt invest in our schools and hospitals? How -- how does that work?

MR. DON PALMER: No. Again, it's school boards, which would be under the jurisdiction of the government but not controlled by the government, in -- in your terms or -- or hospital boards, regional health authorities. So it's not -- it's not the specifically -- so they're under the jurisdiction in the big scheme of things under the governance indirectly, but it's the specific school boards and hospital boards that would be issuing the bonds.

MS. CANDACE EVERARD: So it's your evidence that there's some degree of separation there, but isn't there an argument or an appearance that it's the provincial government basically directing investments in itself?

MR. DON PALMER: No, I -- I would just -- I would say -- reiterate that it's the issuance of bonds from the school boards and the health authorities.

MS. CANDACE EVERARD: So the Corporation doesn't perceive any degree of conflict of interest in this process?

MR. DON PALMER: No, we do not.

THE CHAIRPERSON: If there was one, I presume it would have to do with the purchase of the Province of Manitoba bills and bonds?

MR. DON PALMER: If there -- yes, if there was a conflict.

THE CHAIRPERSON: So the municipal bonds are not -- they go through the municipal board. They have to have room within their assessment and within their tax rolls, and it's usually for water and sewer utilities and things of -- nature like that, roads?

MR. DON PALMER: Yes.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Okay. Just going back to the topic very briefly here of investment turnover or portfolio turnover, is the Corporation in a position to affect it's net income by selling securities that are categorized as available for sale?

MR. DON PALMER: Yes, if we directed specific taking of gains, yes, that would be the outcome.

MS. CANDACE EVERARD: And for the record, what is the rationale for categorizing equities as available for sale rather than held for trading?

MR. DON PALMER: Essentially to -- to limit the fluctuations in your operating statement.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Mr. Chairman, noting the time, and that I'm about to go into an new area, perhaps we could have the afternoon break.

THE CHAIRPERSON: We most certainly can. Thank you.

--- Upon recessing at 2:52 p.m.

--- Upon resuming at 3:14 p.m.

THE CHAIRPERSON: Okay, Ms. Everard. Sorry for the delay.

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

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: I just have one (1) follow-up question on the investment piece. We've been speaking about the investment committee working group. Does it keep minutes of its meetings?

MR. DON PALMER: Yes, it does.

MS. CANDACE EVERARD: And -- sorry, are those minutes available to be provided to the Board?

MR. DON PALMER: No, they're not.

MS. CANDACE EVERARD: And what's the reason for that?

MR. DON PALMER: Because really they're not the Corporation's minutes. It's a joint committee between the Corporation and -- and the Department of Finance. So they wouldn't be -- we -- we wouldn't disclose those.

MS. CANDACE EVERARD: And is that the Department of Finance that says that they can't be disclosed, or is that the Corporation that says that?

MR. DON PALMER: Right now it's the Corporation.

MS. CANDACE EVERARD: And the reason for it is that it's a joint committee, as you've articulated, and -- and what's the authority to refuse to produce those?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Quite frankly, the minutes have never been disclosed to anyone outside the working group members. They're -- they're working minutes to keep track of work items and so on. So it's not an -- an issue of authority as much as really a statement of fact. The minutes have never been public. They have never been disclosed. That -- that's really all we're saying at this point.

And -- and I think it's putting too fine a point on it in terms of you saying "refusing" to provide them, but they are minutes of a -- of a joint working committee for very practical working reasons. That the -- the issue of public disclosure has -- has not been discussed, to my knowledge, since I've been a member.

MS. CANDACE EVERARD: Is it something that the Corporation can give some further consideration to, and get back to us on what its final position would be, with reasons?

MS. MARILYN MCLAREN: Yes, we would do that.

MS. CANDACE EVERARD: And would the Corporation also consider filing the minutes in confidence with the Board, and providing its response to that?

MS. MARILYN MCLAREN: We'll -- we'll take the whole issue under consideration, and then get back.

--- UNDERTAKING NO. 5: MPI to provide the minutes, possibly in confidence to the Board, of the meeting of the investment committee working group (UNDER ADVISEMENT)

THE CHAIRPERSON: Mr. Palmer, while Ms. Everard's contemplating her -- her next question, one (1) response that you gave just before the break I found quite interesting, about the reason for the allocation of securities under held for sale as of the trading account, and it was to sort of mitigate volatility in the net income.

Excuse me if I'm wrong, but isn't that a reason for considering OCI at the same time as one considers the RSR?

MR. DON PALMER: No, I -- I think you've got the volatility away from the operating statement to OCI.

THE CHAIRPERSON: No, I understand what you're doing, but all I'm -- all I'm suggesting to you that it seems to be an argument for -- which isn't any different than what the Board has put in its orders from time to time, in the -- in the consideration -- in considering what MPI's overall financial position is.

I think we've always made some reference to other comprehensive income, but if the -- if the decision is simply one (1) of accounting to reduce volatility and net income, given the turnover that you've pointed out that's occurring in these Basic securities, it does seem to support the argument that OCI is a valid consideration to consider at the same time as one is considering the overall financial situation of the Corporation, and the status of the RSR.

I'm not making any other statement, other than that. It's just an observation.

MS. MARILYN MCLAREN: Mr. Chairman, if I can, I think in last year's proceedings there was an IR, and a fairly lengthy response on the part of the Corporation, about that issue.

You know, depending on how you look at it, and from different perspectives, it may be a reasonable thing to do, and -- and at this point, that's all I remember, and I would really like to find that reference, and maybe bring that forward before we discuss it further, but I -- I think we're -- we're --

THE CHAIRPERSON: Yes, I'm in the same pos --

MS. MARILYN MCLAREN: Yeah.

THE CHAIRPERSON: I'm in the same --

MS. MARILYN MCLAREN: Yeah.

THE CHAIRPERSON: -- position. I was just remarking on his comment, and it just --

MS. MARILYN MCLAREN: M-hm.

THE CHAIRPERSON: -- twigged on me that it actually was a support for something, but we're a long way from the end of this hearing at this point.

MS. MARILYN MCLAREN: Yeah. We'll bring it back.

THE CHAIRPERSON: Okay.

Ms. Everard...?

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

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: I'm going to move into some questions about IFRS, or the International Financial Reporting Standards.

We note at SM.5.4 that there was a piece of the order from last year that relates to this topic, so we'll start with that.

And that was, this Board ordered that the Corporation provide an update to the Board on or before June 30th, 2010, on IFRS recommendations received from MPI's external consultants, together with the analysis and rationale for those recommendations, as well as MPI's preliminary decisions with respect to IFRS elections.

The Corporation has stated at five point (5.) -- SM-5.4, page 2, that it completed the IFRS policy consideration, and -- and elections analysis. The policies and elections were approved by the MPI Board of Directors in February of 2010, and that a description and the rationale for the policy decisions is provided in AI.20 Part I of the filing.

Is that right?

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

MS. CANDACE EVERARD: And the Corporation continued to advise that there were detailed position papers presented at AI.20 Part II. These are shown in draft because IFRS is subject to change, and the Corporation may update the papers to reflect revised standards.

That's right?

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

MS. CANDACE EVERARD: I'm going to ask, Mr. Kramer, that you look at 1-81 posed by the Board, and it's not in the book of documents.

(BRIEF PAUSE)

MS. CANDACE EVERARD: This IR deals with the application of the new accounting standards contained in CICA Handbook, Section 3064, relating to goodwill and intangible assets, and the updates to section 1000 on financial statement concepts, is that right?

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

MS. CANDACE EVERARD: And the application of these standards was to be done commencing with the '09/'10 fiscal year, that's right?

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

MS. CANDACE EVERARD: The Corporation has stated in its reply that the adjustments were made in '09/'10, and those ma -- adjustments were material and they impacted the '07, '08, and '09 -- or '08/'09 financial years. That's partly in the question and partly in the answer.

Are you in a position to provide background on those adjustments?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: Those adjustments that we're talking about are not impacting Basic and they don't impact this Rate Application, and so we -- the -- the adjustments are detailed in our annual report, and I think that's the extent that we're prepared to discuss at this point in time.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Is it the case that the adjustments related to the business process review which were written off because they had no economic value?

MR. OTTMAR KRAMER: As indicated in the response Part B, there -- there's no impact to Basic as a result of the write-down of DVA related deferred developments, so they were DVA related deferred development expenditures.

MS. CANDACE EVERARD: Is it the case that the same analysis was done of the Basic business process review projects?

MR. OTTMAR KRAMER: All intangibles were reviewed by MPI and the external auditor, so they were all subject to review. And only the DVA related expenditures were -- were written down.

MS. CANDACE EVERARD: So there were no adjustments on the Basic side?

MR. OTTMAR KRAMER: That's correct.

MS. CANDACE EVERARD: And that, I take it, is consistent with what the Corporation provided in its 2008 annual report. There's a quote here at 1-81 that the Corporation did not expect material impacts due to these new CICA standards.

MR. OTTMAR KRAMER: Yes, we did not expect any Basic impacts.

MS. CANDACE EVERARD: And, at that time, when that statement was included in the 2008 annual report, had there been discussions with the Corporation's external auditors on the point?

MR. OTTMAR KRAMER: As indicated in the response to 'A', there were high level discussions held with the external auditors.

MS. CANDACE EVERARD: But I take it that this was not identified as a material issue as a result of those discussions.

MR. OTTMAR KRAMER: Based on the preliminary high level discussions, it was not identified that there would be adjustments related to the DVA expenditures.

MS. CANDACE EVERARD: And I take it then

that it was later, when more detailed analysis and discussions were done with the external auditor, that it became apparent to the Corporation that there would be some material adjustments. Is that right?

MR. OTTMAR KRAMER: It became aware through a detailed analysis per -- performed by the Corporation internally and confirmed by the auditor.

MS. CANDACE EVERARD: Okay. Getting into --

MR. OTTMAR KRAMER: And confirmed also. The Auditor General's office also made some inquiries with regards to this inci -- as a -- as a representative on our audit committee.

MS. CANDACE EVERARD: Thank you. Getting into the implementation of IFRS, it's our understanding that IFRS will be a requirement for years -- fiscal years that begin after January 1st of 2011, with comparative results required for 2010. And so, in the Corporation's case, this would impact the 2011/'12 fiscal year with comparative results for 2010/'11, is that right?

MR. OTTMAR KRAMER: That's correct. A lot of people don't get that correct, so that's great.

MS. CANDACE EVERARD: Everyone has their shining moments. Thank you.

So I take it that the Corporation will be required to produce an IFRS-compliant balance sheet as of March 1st of 2010 and be in a position to produce both IFRS and GAAP statements for 2011/'12. Is that right, as well?

MR. DON PALMER: Partially correct. We will not be preparing GAAP statements for '11/'12. They will only be IFRS statements.

MS. CANDACE EVERARD: Okay. Is the Corporation aware of a recent exposure draft which provides for the potential for a two (2) year delay in the implementation of IFRS?

MR. OTTMAR KRAMER: Yes, I have seen that exposure draft.

MS. CANDACE EVERARD: And has the Corporation reviewed the exemption criteria and determined whether it is eligible for a deferral?

MR. OTTMAR KRAMER: Yes, we did review that -- that exposure draft and did have discussions with our implementation partner, Deloitte, and I've even got an email here on -- on my Blackberry that:

> "That deferral is limited to entities that have activities subject to cost base regulation and recognize regulatory assets and liabilities. In MPI's case, you do not disclose that

you account for transactional events
differently than you would in the
absence of rate regulation; therefore,
you do not have regulatory assets or
liabilities."

That's what we received from our external consultant.

MS. CANDACE EVERARD: Okay. So Deloitte is saying, No, it doesn't apply to MPI?

MR. OTTMAR KRAMER: The long and short of it, yes.

MS. CANDACE EVERARD: Okay. So, in other words, the Corporation intends to be on track for the implementation in the time frame discussed, the 2011/'12, with the comparatives for '10/'11?

MR. OTTMAR KRAMER: Yes, that's the track we're proceeding on.

MS. CANDACE EVERARD: Okay. Speaking of Deloitte, we know that the Corporation retained Deloitte and that Deloitte prepared a series of position papers that are at AI.20 Part 2.

MR. OTTMAR KRAMER: Yes, that's correct. Deloitte, in consultation with the Corporation and representatives of the Corporation.

MS. CANDACE EVERARD: Sure. And we'll --

we'll come to some of those.

Before I get into AI.20, either Part 1 or Part 2, I just have a -- a short line of questions relating to IFRS-4, the Phase 2, so I'll just go into those and then we'll go back and -- and cover off the others.

Is the Corporation aware of when Phase II of IFRS-4 is currently expected to take effect?

MR. DON PALMER: I can update what I said last year when I -- when I think I was quoted in the transcript as saying it was going to be effective in 2000, and an undistinguishable sound was in the transcript.

We now know that IFRS-4 will be effective not before January 1st of 2013. There's a lot of people that are speculating that that could very well be the following year, January 1st of 2014. There's a -- a lot of discussion, a lot of buzz around IFRS-4, and there's expected to be a lot of comments to the exposure draft that was issued at the end of July of this year.

So if I was to best guess, I would say 2014, but 2013 is still possible.

MS. CANDACE EVERARD: Now you mentioned that there was an exposure draft on this phase of IFRS that came out late July of 2010.

Do you have any other information on the current status of the accounting standards that would relate to IFRS-4 Phase 2?

MR. DON PALMER: Updated from the exposure draft, no. We -- we know that there's been a lot of work. We've had discussions on it. We've been to a couple of -- of webinars on it, but in terms of further developments, no, I'm not aware of any.

MS. CANDACE EVERARD: And do you know if the major areas of impact of Phase II on the Corporation have been identified, or at least the potential areas for a major impact?

MR. DON PALMER: For -- not specifically in that context, so just us taking a look at what the changes have been contemplated in the exposure draft.

There's -- the ones that I believe will im -- impact us the most are with regard to the discount rates, and the -- the risk margins.

The exposure draft has talked about discounting at -- at a risk free rate, plus illiquidity premium, or maybe it's a liquidity premium, I'm not sure. And we don't really know what that -- that means, and it hasn't been specifically outlined in the exposure draft what -- what that margin is exactly, or how to calculate it.

So there's some uncertainty there, knowing that any change of the discount rate does result in material changes, about a ten (10) per -- or a ten (10) basis point change means about $13 million on our liabilities. How that is offset on our assets, we -- we won't really know.

So that's -- that's one (1) change that certainly has the potential of being material. Exactly whether it's up or down at this stage, we don't really know.

The other -- related to that is the risk margin, sort of analogous to our current provision for adverse deviations. What that means to us, again, is whether it's up or down, we're not sure, but there could be some impact. Those are the two (2) major ones.

One (1) of the other items is the deferred acquisition costs that is -- will impact a lot of insurers greatly in terms of the ability to defer some of the acquisition costs.

IFRS-4, Phase 2 in the exposure draft is still allowing for the deferral of incremental costs, meaning commissions and premium taxes. Those really are the only costs that we currently defer, so that which will have an impact on -- on many insurers that do defer some of their other acquisition cost doesn't affect us.

So that's one (1) that will have -- shouldn't have a major impact on -- on MPI just because we already do what is -- is put into the exposure draft.

So mainly, in short, the discount rates and the -- and the risk margins are the ones that will impact us greatly, but whether it's up or down, positive or negative, it's too early to tell.

THE CHAIRPERSON: Mr. Palmer, are these items included in the -- much earlier you indicated that there was some forty (40) risk areas that you were following.

MR. DON PALMER: IFRS is one (1) of our -- is our -- included as one (1) of the risk areas in our risk profile and framework, yes.

THE CHAIRPERSON: As it is, by the way, for every one (1) of our regulated entities.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you, Mr. Palmer, for the explanation about the accounting pieces that may be coming in in IFRS-4 Phase 2.

Do you have any information, or does the Corporation, about whether there will be international actuarial standards forthcoming in conjunction with IFRS-4, Phase 2?

MR. DON PALMER: I don't have that information, but I believe there probably are.

MS. CANDACE EVERARD: And do you have any sense, given that you think they probably are, of whether they would apply in Canada, or do you not have a sense of that at this point?

MR. DON PALMER: I don't really have a sense of that.

MS. CANDACE EVERARD: Do you have a sense of what actuarial issues may need to be addressed by any new standards that may be coming?

MR. DON PALMER: Sure. The -- the risk margins that I talked about and -- and the discount rate and what that liquidity or illiquidity premium is. Certainly there may be some guidance in that -- in that area.

MS. CANDACE EVERARD: Thank you. Okay, we'll turn then to AI.20.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Now what we have at AI.20 Part 1, I understand, reflects various policy decisions, including the description and rationale for those decisions made by the Corporation's Board of

Directors, including the elections that they have decided upon, is that correct?

MR. OTTMAR KRAMER: Yes, that's a good summary of what we've got there.

MS. CANDACE EVERARD: And we've spoken already in evidence about two (2) adjustments that will impact the retained earnings of the Corporation on the transition to IFRS. These are the 21.1 million that we've spoken about, given the rese -- re-designation of bonds, and, as well, the recognition of a provision for sick benefits of an approximately $3 million reduction in retained earnings. Is that right?

MR. OTTMAR KRAMER: Yes, kind of. The twenty-one point one (21.1) is Basic's share of the bond revaluation. I believe it's about twenty-four point one (24.1) on a corporate basis. And the 3 million sick leave provision is corporate and 2.25 million is the Basic share, so they were just corporate versus Basic.

MS. CANDACE EVERARD: Thank you. Are there any other financial implications that the Corporation is aware of relating to the accounting policies being adopted?

MR. OTTMAR KRAMER: We don't have anything identified to date on any other IFRS changes.

MS. CANDACE EVERARD: Okay. We're going

to go through some of the content at AI.20 Part 1. Just before we go there, I want to take you to 2-34 posed by the Board, which is not in the book of documents.

This was an IR that the Board posed asking that the Corporation file a copy of email or written correspondence between it and KPMG relating to the IFRS project undertaken by Deloitte. And KPMG is, of course, the Corporation's external auditor.

The answer that the Corporation provided to that IR was to state that all KPMG comments were addressed in the IFRS position papers filed. That's right?

MR. OTTMAR KRAMER: Yes, that's our position.

MS. CANDACE EVERARD: That's your position, or that's what happened?

MR. OTTMAR KRAMER: Well, that's -- that's correct. Our position -- we would only put the position if it was correct, so...

MS. CANDACE EVERARD: Okay. So -- so that's the evidence?

MR. OTTMAR KRAMER: That's the evidence, yes.

MS. CANDACE EVERARD: Fair enough. Our -- our followup question to this particular IR would be to ask the Corporation what the nature of the comments were that KPMG had that were addressed in the position papers filed?

MR. OTTMAR KRAMER: KPMG reviewed each of those papers, and the -- their review concluded with a meeting with the Corporation to discuss the changes or to get a better understanding of the details in the position paper. They were discussions and meetings that were held in our offices and they were primarily to do some wordsmithing to -- to get a better under -- understanding to perhaps add more clarity to the position papers. The position papers did not change in their -- in their final analysis as -- as to the, you know, the outcome of the potential IFRS policy changes.

MS. CANDACE EVERARD: So are you saying that KPMG didn't have any substantive input into the position papers?

MR. OTTMAR KRAMER: They -- they had some changes that clarified the IFRS standards and clarified some of the perhaps MPI current processes and procedures that -- that had been documented, and perhaps not in -- in the clearest manner. But did -- did that change our ultimate position paper? And -- and the answer would be no, but it did absolutely clarify, clarify our understanding and -- and clarify what decisions the

Corporation had to make.

MS. CANDACE EVERARD: Okay. You mentioned that KPMG attended some meetings held at the Corporation's offices. Did the -- did KPMG provide anything in writing to the Corporation with respect to its views, or -- or was it all done orally in meetings?

MR. OTTMAR KRAMER: When -- when this -- this IR request came to us, we were -- we were looking for -- to see if we had any documentation and -- and we couldn't find any documentation. I know a large part of the meetings -- there were various meetings over various days, because these -- these papers are large, as -- as you've seen.

So it would be one (1) position paper kind of per meeting. And we did not find that we -- we had anything, email wise or written. So most of those meetings -- and -- and I attended some of those meetings. There were the KPMG representatives and the -- and the Corporation representatives and it was discussion going page by page through the document where they had circled and asked for a clarification, or they had a -- a potential wording change.

MS. CANDACE EVERARD: So were there any minutes taken of the meetings that you've just described?

MR. OTTMAR KRAMER: No, there were not.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. Let's turn then to AI.20 Part 1. And I'd ask you to go firstly to page 4. This is the policy that deals with writeoff of uncollectible accounts and an allowance for doubtful accounts. Are you with me?

MR. OTTMAR KRAMER: Yes, I am.

MS. CANDACE EVERARD: Okay. What's reflected here, I believe, and I'm paraphrasing, but is that previously under GAAP, what the Corporation would do was on an annual basis scrutinize its receivables for collectability and then a report would be provided to the Board of Directors. Is that fair to say?

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

MS. CANDACE EVERARD: And under IFRS, as is stated here in the second paragraph, there's a requirement to assess reinsurance assets for impairment periodically based on an incurred loss model. That's right?

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

MS. CANDACE EVERARD: This change is not expected to result in any financial adjustments, but the Corporation's Board has approved that on an annual basis -- this is in the last paragraph -- prior to fiscal year end, reinsurance receivables will be written off based on a review of each account. Is that right?

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

MS. CANDACE EVERARD: So I take it then it's the case that this analysis has not yet been done, but will be complete -- completed for the current fiscal year end?

MR. OTTMAR KRAMER: Yes, and -- and we currently do an assessment of the reinsurance assets. What IFRS re -- requirement, and it's -- it's indicated in the third paragraph, needed us to have the frequency and the date, or the determination of that impairment and we needed to get that into the policy, so the policy change now has the frequency and the date of -- of that impairment assessment.

That's the -- that's the change to the policy.

MS. CANDACE EVERARD: Okay. And -- and that's the only change?

MR. OTTMAR KRAMER: Correct.

MS. CANDACE EVERARD: And so is that the reason why the Corporation feels that there will not be any financial adjustments as a result of this policy change?

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

MS. CANDACE EVERARD: Okay. Now let's go to page 6, which deals with the policy on subsequent valuation of property, plant and equipment. It would appear from this document that, on the transition to IFRS, the Corporation has two (2) options as to how it would value property, plant and equipment, either the cost method or the reevaluation method. Is that right?

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

MS. CANDACE EVERARD: And the cost method is the one (1) that has been adopted by the Corporation, which is basically the same as what currently exists under GAAP, is that right?

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

MS. CANDACE EVERARD: And so, because of that, basically it's like a change without being a change. There is no financial impact as a result of the adoption of the policy?

MR. OTTMAR KRAMER: That's correct.

MS. CANDACE EVERARD: In particular, there's no change in the value of the assets. This is reflected in the second last paragraph on the balance sheet, and there's also no change to the amount of amortization being expensed in future years?

MR. OTTMAR KRAMER: That's correct.

MS. CANDACE EVERARD: And I gather that

if the reevaluation method had been selected rather than the cost method, the Corporation would have to have periodic adjustments to its accounting and would have to have a third party conduct periodic appraisals of its assets, is that right?

MR. OTTMAR KRAMER: Yes. It would be required to have evaluation by an external party to value that property and, to the extent it gets increased in -- in the -- in the fair value or in the evaluation, that could also result in higher amortization expenditure -- expenses in the future.

MS. CANDACE EVERARD: Thank you. The next page is page 7, which reflects the policy for depreciation of property and equipment. And what's reflected here is that the -- the updated policy, the new one, is unchanged from the current GAAP policy, except for -- and then there are four (4) bullets listed, is that right?

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

MS. CANDACE EVERARD: The second and third bullets essentially reflect that one (1) of the changes is to add a new class of assets for office towers, which would currently include only Cityplace, and then the office towers would be excluded from the buildings class of assets, is that right?

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

MS. CANDACE EVERARD: It's reflected here that this new class is being added because Cityplace has a significantly different use than other buildings previously built or purchased by the Corporation, is that right?

MR. OTTMAR KRAMER: Yes. It's a -- it's quite a different asset than our service centres.

MS. CANDACE EVERARD: And that's by virtue of the fact that it has other tenants, I take it?

MR. OTTMAR KRAMER: Other tenants. It's an office building versus a -- a service centre, which has some office but is a -- a big large garage also.

MS. CANDACE EVERARD: Now it's reflected here, towards the bottom of the page, that the Board of Directors of MPI has approved a policy for recording depreciation on property and equipment on a straight-line basis, based on a list of estimates of useful life, is that right?

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

MS. CANDACE EVERARD: Now how did the Corporation determine that the office tower, or Cityplace, would have the same forty (40) year useful life as the other buildings owned and operated by the Corporation?

There is an IR response on this. It's PUB/MPI-1-72(e), if you'd like to have reference to that in giving your answer.

(BRIEF PAUSE)

MR. OTTMAR KRAMER: Could you give me that reference again?

MS. CANDACE EVERARD: For sure. It's 1-72(e). I could actually just read it to you. It's not long. It says that:

"The estimate reflects management's best estimate of the useful life of the asset, which is consistent with the estimated useful life of other buildings owned by the Corporation. Management will update the estimated useful life of Cityplace on an annual basis, in accordance with the requirements of IAS-16."

Is there anything that you can add to that?

MR. OTTMAR KRAMER: No, that -- that sounds good. Great answer.

MS. CANDACE EVERARD: We're -- are you

aware of whether there were any changes in the estimated useful lives of the assets listed back in AI.20, page 7, compared with that which was first considered by the Corporation, and that was -- which was ultimately approved?

MR. OTTMAR KRAMER: No. What was approved on page 7, there was -- was what we had initially looked at. But what is broken out separately, which was not under -- it's under our current GAAP statements but not under -- previous to 2009/'10 we did not have roofing systems, elevators, escalators, or HVAC systems broken out separately, and those were a new class of assets added in the '09/'10 year, which -- which is compliant with IFRS, but also from a GAAP basis due to the purchase of Cityplace, which has significant componentization to it.

MS. CANDACE EVERARD: And I was going to be coming to that, so I'm glad that you brought that up. If I understand your evidence correctly then, these new asset classes that are listed, the ones you mentioned, roofing, elevators, escalators, and HVAC, these are created in response to the componentization requirements?

MR. OTTMAR KRAMER: It's primarily as a result of the purchase of the Cityplace building, which -- which then required us to componentize the -- the major pieces of that -- that building.

MS. CANDACE EVERARD: Has the Corporation undertaken an analysis of componentization?

MR. OTTMAR KRAMER: Yes. And I believe in one (1) of the -- the IFRS papers we do have the discussion of the componentization and the analysis that was undertaken.

MS. CANDACE EVERARD: I think it's 1-72(b). So maybe we'll just go there. Do you have it?

MR. OTTMAR KRAMER: Yes, I do.

MS. CANDACE EVERARD: If -- if I'm reading this analysis correctly, it reflects that the -- if the components were amortized separately, there would be a resultant seven hundred and seventy-four thousand dollar ($774,000) debt to equity, is that right?

MR. OTTMAR KRAMER: Yes, that's the analysis that was performed at a high level. That would be the impact based on the componentization for IFRS purposes.

MS. CANDACE EVERARD: And I take it that the -- the Corporation has decided not to make that adjustment because of its assessment of the materiality thereof?

MR. OTTMAR KRAMER: Yes. And -- and Mr. Palmer just mentioned something to me. I think you had mentioned the seventy-five (75) debt to equity. It's a debit to equity, i.e., a decrease to equity.

MS. CANDACE EVERARD: Yeah, I had debit in my notes. It's five (5) to 4:00. But thank you for pointing that out, for correcting the record.

MR. OTTMAR KRAMER: It was just an I.

MS. CANDACE EVERARD: You're very kind.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Mr. Kramer, do you have a sense of whether -- if the Corporation did this seven hundred and seventy-five thousand dollar ($775,000) analysis at a detailed level rather than at a high level, whether there would be a material change to the outcome?

MR. OTTMAR KRAMER: No, I don't believe so at all.

MS. CANDACE EVERARD: Thank you. Now at 1-73(d), while we're speaking about componentization, we see a table being provided by the Corporation in response to the IR of the outstanding items required by the Corp -- required by the Corporation and the current status thereof, as well as a forecast impact of the componentization of property, plant, and equipment. And it doesn't appear that that forecast item has been provided.

It's listed as, I believe, still outstanding. Is that correct?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: I'm just looking for the word "forecast."

MS. CANDACE EVERARD: It -- it was in the question, actually. In question (d) we asked for the table detailing outstanding items and the current status. And then we also said:

"Please provide a forecast item -- impact of the componentization of PP&E."

But it doesn't look like that was provided. Maybe I'm missing it, but --

MR. OTTMAR KRAMER: I -- I would say the --the forecast -- that we should refer back to, 1-72(b), that's the forecast of the -- the seven seventy-five (775).

MS. CANDACE EVERARD: Okay. So --

MR. OTTMAR KRAMER: So we -- we just missed that in the response.

MS. CANDACE EVERARD: So it's the same

forecast.

MR. OTTMAR KRAMER: Yes. Absolutely.

MS. CANDACE EVERARD: Okay. If we go back to page 7 of AI.20 -- I just have a couple of further questions on this policy. It's reflected in the very last paragraph of the document that:

> "The estimates of useful life and residual value of assets will be reviewed at least at each financial year end and if adjusted -- if needed, will be adjusted on a prospective basis."

Is that correct?

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

MS. CANDACE EVERARD: And has the Corporation identified to date any property that will require a residual value determination?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: The Cityplace office tower will require that residual valuation.

MS. CANDACE EVERARD: And has any analysis been undertaken at this point?

MR. OTTMAR KRAMER: At this point in

time, it hasn't yet.

MS. CANDACE EVERARD: And I believe per your earlier evidence, that it's not anticipated that the new policy on page 7 will result in any impact, or adjustments, to the income statement.

Is that right?

MR. OTTMAR KRAMER: That's correct.

MS. CANDACE EVERARD: Mr. Chairman, I have a substantial amount of further cross-examination on IFRS. It's four o'clock. I'm -- I'm happy to keep going if the panel wishes, or -- I'm -- I'm in your hands.

THE CHAIRPERSON: Okay. Well, we'll resume again tomorrow morning at 10:00 a.m. I have another commitment at 9:00.

MS. CANDACE EVERARD: Thank you.

(PANEL RETIRES)

MS. KATHY KALINOWSKY: Excuse me, Mr. Chairman. If I -- if I could possibly just have an exhibit marked. It's been passed over to Mr. Gaudreau, the Board's secretary, and I believe it has been distributed to all.

It's the Investment Activity and

Performance Report for the second quarter, and Mr. Gaudreau has given it the number PUB/MPI-11-5.

--- EXHIBIT NO. PUB/MPI-11-5:
Investment Activity and Performance Report

THE CHAIRPERSON: Yes, we have it. Thank you very much.

--- Upon adjourning at 3:58 p.m.

Certified Correct,

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Cheryl Lavigne, Ms.