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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 14, 2010
Pages 1298 to 1541

APPEARANCES

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

2

3 THE CHAIRPERSON: Okay. Good morning,
4 everyone. Today we have two (2) new witnesses, Mr.
5 Kowalchuk and Mr. Parkinson of KPMG.

6 Ms. Everard, if you could just give us a
7 layout of the day's events.

8 MS. CANDACE EVERARD: Absolutely, Mr.
9 Chairman. Pursuant to the procedural outline, we will
10 have the order of examinations as follows for these two
11 (2) witnesses. Ms. Kalinowsky, I believe, wants to do a
12 direct exam. Cross-examination will then proceed with me
13 going first on behalf of the Board, and then the
14 Intervenors in the order listed, so Mr. Williams
15 typically first, and -- and the rest of the Intervenors
16 thereafter.

17 Following the completion of the cross-
18 examination, Ms. Kalinowsky would have the opportunity
19 for re-direct, if she wishes, and then pending what time
20 of day it is when all of that is done, we may have more
21 cross-examination of the MPI panel. And if not, then
22 that would be the end of today's hearing, and then we
23 reconvene on Monday morning.

24 THE CHAIRPERSON: Thank you. Ms.
25 Kalinowsky, do you want to introduce the witnesses, and

1 then we'll have Mr. Gaudreau swear them in.

2 MS. KATHY KALINOWSKY: Yes. Thank you,
3 Mr. Chair, and good morning, Mr. Evans. I have to my
4 immediate right Mr. Neil Parkinson of KPMG. He's the
5 national insurance sector leader of KPMG's insurance
6 industry practice. He's in from Toronto to testify this
7 morning. To his right is Mr. Rob Kowalchuk, who's
8 partner that -- is the lead partner on the audit for MPI.
9 The two (2) of them will be testifying this morning.

10 And to Mr. Kowalchuk's right is Mr. Scott
11 Sissons, who will just be there. Though he's in the
12 front row, he's metaphorically in the back row, and will
13 just be here for assistance to Mr. Kowalchuk or Mr.
14 Parkinson, should they need further details.

15 THE CHAIRPERSON: Thank you.

16 MS. KATHY KALINOWSKY: With that, could I
17 have them sworn.

18

19 MPI PANEL 3:

20 NEIL PARKINSON, Sworn

21 ROBERT KOWALCHUK, Sworn

22

23 THE CHAIRPERSON: Ms. Kalinowsky, just as
24 a point, did the gentlemen have an opportunity to review
25 the transcript of yesterday? I don't even know if it's

1 out yet.

2 MS. KATHY KALINOWSKY: No.

3 THE CHAIRPERSON: Okay. Please proceed.

4 MS. KATHY KALINOWSKY: The first thing we
5 have to do is mark as MPI Exhibit number 16, copies of
6 their curriculum vitae which were provided.

7

8 (BRIEF PAUSE)

9

10 MS. KATHY KALINOWSKY: And if I can
11 proceed then, Mr. Chair, I'll ask mis -- sorry, it's MPI
12 Exhibit number 16.

13

14 --- EXHIBIT NO. MPI-16: Curriculum vitae of Neil
15 Parkinson and Robert
16 Kowalchuk

17

18 EXAMINATION-IN-CHIEF BY MS. KATHY KALINOWSKY:

19 MS. KATHY KALINOWSKY: And if I could
20 just proceed then, I'll ask the first question to Mr.
21 Parkinson, and then I'll be asking Mr. Kowalchuk the same
22 questions.

23

24 But copies of your CVs have now been
25 marked as exhibits. Can you explain what your present
position is at KPMG and can you describe your work, Mr.

1 Parkinson.

2 MR. NEIL PARKINSON: I'm the national
3 insurance sector leader, which means I'm the practice
4 leader for our insurance practice here nationally. I'm a
5 partner in KPMG. If you want some details of the rest of
6 my CV, my practice is, principally, as you may guess,
7 insurance enterprises, a range of private sector insurers
8 and reinsurers and brokers, and, in addition,
9 specifically some -- I have involvement in the audit of
10 MPIC as the concurring review partner.

11 I have a similar role with respect to
12 Saskatchewan Government Insurance, Saskatchewan Workers
13 Compensation Board. I'm also lead partner on the Ontario
14 Workplace Safety and Insurance Board, as well as a num --
15 quite a number of private sector insurers.

16 In addition to that, I'm actively involved
17 in a range of professional practice and regulatory
18 matters for the insurance industry, notably chair of the
19 Auditors Advisory Committee to the Federal Superintendent
20 of Financial Institutions.

21 I chair -- or co-chair a number of other
22 committees. I co-chair a current working group of the
23 Canadian Institute of Actuaries in the CICA on updating
24 Audit Guideline 43, which was the standard produced for
25 the audit of actuarial liabilities. And previously I

1 chaired the working group that drafted Audit Guideline 43
2 in the first place.

3 I'm also a member of the Canadian
4 Accounting Standards Board's Insurance Accounting Task
5 Force, KPMG's Global Insurance Technical Committee, with
6 respect to IFRS matters, and Advisory Committee to OSSFI
7 on insurance IFRS matters.

8 And I think those would be the main
9 professional involvements.

10 Oh, yes. And previously I was also the
11 co-chair of another working group with the CIC --
12 Canadian Institute of Actuaries and the CICA on
13 communications with actuaries.

14 MS. KATHY KALINOWSKY: Thank you for
15 that, Mr. Parkinson.

16 Mr. Kowalchuk, can you explain what your
17 present position is at KPMG and can you describe your
18 work?

19 MR. ROBERT KOWALCHUK: I'm as associate
20 partner at -- at KPMG here in -- here in Winnipeg. I've
21 been employed with KPMG for the past nineteen (19) years.
22 I've worked on a variety of audit engagements over that
23 period of time, including in the private and the public
24 sector, including those in the insurance industry.

25 I've been the -- I've been the lead audit

1 engagement partner on MPI for the past four (4) years.

2 MS. KATHY KALINOWSKY: And both Mr.
3 Parkinson and Mr. Kowalchuk, can you explain what your
4 qualifications are to be the auditors of MPI?

5 MR. NEIL PARKINSON: For my part, my
6 qualifications are as a chartered accountant since 1978,
7 and for the last year, a Fellow of the Institute of
8 Chartered Accountants, and thirty (30) years of
9 experience in auditing in -- insurance companies and
10 other insurance enterprises.

11 MS. KATHY KALINOWSKY: And Mr. Kowalchuk?

12 MR. ROBERT KOWALCHUK: Myself, I'm a
13 chartered accountant since 1994 here in Manitoba. Again,
14 I've been with KPMG for nineteen (19) years, performed
15 primarily audit work on numerous audit clients, again,
16 both private and -- and public sector and -- and those in
17 the insurance industry.

18 MS. KATHY KALINOWSKY: And, Mr.
19 Kowalchuk, for which years has KPMG prepared the MPIC
20 audit?

21 MR. ROBERT KOWALCHUK: We have been
22 auditors from 2003 to the present day. We were also
23 auditors in the mid-1990s.

24 MS. KATHY KALINOWSKY: And, Mr.
25 Kowalchuk, who conducted the 2009/10 audit of MPI, which

1 is the most recent audit?

2 MR. ROBERT KOWALCHUK: I was the lead
3 audit engagement partner on -- on that particular year.
4 Mr. Parkinson was the second partner and engagement
5 quality control reviewer. Mr. Sissons was the audit
6 engagement senior manager at that time. Mr. Scott
7 MacLennan from Winnipeg is an Information Risk Management
8 specialist. The senior manager was also on the
9 engagement. Blair Manktelow was our audit support
10 actuary from our Toronto office.

11 And besides those individuals, there were
12 -- there were several CAs and -- and CA students
13 participating in the audit.

14 MS. KATHY KALINOWSKY: Mr. Kowalchuk, how
15 many years have you been involved in the audit of MPI?

16 MR. ROBERT KOWALCHUK: I've been involved
17 since 2007, so for the past four (4) years.

18 MS. KATHY KALINOWSKY: And, Mr.
19 Parkinson?

20 MR. NEIL PARKINSON: I've been in my role
21 from 2003 to the present, so this would be my eighth
22 year.

23 MS. KATHY KALINOWSKY: And, Mr.
24 Kowalchuk, can you advise how many years Mr. Sissons has
25 been working on the MPI audit?

1 MR. ROBERT KOWALCHUK: Mr. Sissons has
2 also been involved for the past eight (8) years, since
3 2003.

4 MS. KATHY KALINOWSKY: Thank you for
5 that. Mr. Parkinson, you -- you perform what is known as
6 the second partner review of the audit. Can you explain
7 that function, please.

8 MR. NEIL PARKINSON: The role of a -- a
9 second partner is to participate in -- in, you know, all
10 significant professional decisions, as well as a review
11 for the quality of completion of the audit. So the
12 second partner is involved in the initial planning, the
13 review of the results of audit procedures as they are
14 conducted, an -- an overall review at the end of the
15 quality completion of the audit, and a significant prof -
16 - professional decisions made, including related -- those
17 related to the evaluation of any audit differences,
18 financial presentation, and all communications with the,
19 in this case, the audit committee and other stakeholders.

20 MS. KATHY KALINOWSKY: And is it common
21 to have a second partner review?

22 MR. NEIL PARKINSON: For -- it is a
23 requirement of our standards to have a second partner
24 review in the ordinary course for any -- anything you
25 would call a public interest entity, a public company, or

1 other significant audited entities.

2 MS. KATHY KALINOWSKY: And, Mr.
3 Kowalchuk, you're here to testify because the PUB
4 requested you be present as a witness?

5 MR. ROBERT KOWALCHUK: Yes, that's
6 correct. The request came in a letter to Kathy
7 Kalinowsky from Pitblado, dated August 24th of this year.

8 MS. KATHY KALINOWSKY: And in that letter
9 it states:

10 "If the Corporation is not agreeable to
11 producing Mr. Kowalchuk, I [meaning
12 Candace Everard, PUB counsel] expect to
13 receive instructions from the Board to
14 issue a subpoena."

15 Is that correct?

16 MR. ROBERT KOWALCHUK: That's correct.

17 MS. KATHY KALINOWSKY: And it was two (2)
18 years ago that the PUB issued a subpoena for you to
19 testify at the PUB?

20 MR. ROBERT KOWALCHUK: That is correct.

21 MS. KATHY KALINOWSKY: Mr. Kowalchuk,
22 have you ever been called upon to testify as an auditor
23 in any other circumstances?

24 MR. ROBERT KOWALCHUK: No, I have not.

25 MS. KATHY KALINOWSKY: Mr. Parkinson,

1 your vast experience with insurers, have you been called
2 upon to testify as an auditor?

3 MR. NEIL PARKINSON: I've testified in a
4 variety of court proceedings related to tax and
5 commercial litigation.

6 MS. KATHY KALINOWSKY: Have you ever
7 testified in rate settings or regulatory proceedings?

8 MR. NEIL PARKINSON: No, I have not.

9 MS. KATHY KALINOWSKY: Mr. Kowalchuk, the
10 PUB letter set out five (5) areas that it wanted to hear
11 from KPM -- KPMG on.

12 Is that correct?

13 MR. ROBERT KOWALCHUK: That is correct.
14 The -- the five (5) areas in the letter were -- were the
15 periodic allocation methodology reviews, the cost
16 allocation and asset liability allocation methodologies,
17 IFRS, the actuarial valuation of Basic claims, liability,
18 and auditing guideline 43 specialist, and the financial
19 statements in general.

20 MS. KATHY KALINOWSKY: Thank you for
21 that. Mr. Parkinson, all of your answers, and indeed,
22 all of Mr. Kowalchuk's answers also will be from the
23 point of your -- view of your engagement as an auditor or
24 MPI.

25 Is that correct?

1 MR. NEIL PARKINSON: Yes, and that's as
2 laid out in the -- the -- the scope of what we do is laid
3 out in our engagement letter as auditors, and so that's
4 the basis on which our knowledge of MPIC is built.

5 MS. KATHY KALINOWSKY: And so as auditors
6 you do not have unlimited knowledge of MPI's operations?

7 MR. NEIL PARKINSON: That's correct. We
8 gain the -- the knowledge that we require in order to
9 carry out our role as auditors and support our opinion as
10 auditors.

11

12 (BRIEF PAUSE)

13

14 MS. KATHY KALINOWSKY: I'm just going to
15 talk a little bit about the -- have you talk a little bit
16 about the purpose of the audit and direct some questions
17 towards there, to -- so that we build up some basic
18 building blocks here.

19 But, Mr. Parkinson, can you explain what
20 the purpose is of an audit.

21 MR. NEIL PARKINSON: Well, the purpose of
22 an audit is, at the end of the day, to produce an opinion
23 from an independent firm that really expresses an opinion
24 on whether the financial statements of an enterprise
25 fairly present the financial position and results of

1 operations and cashflow within a -- a commonly understood
2 accounting framework, which is typically laid out in the
3 audit opinion and is most commonly generally accepted
4 accounting principles.

5 It refers to the specific financial
6 statements that are being audited, which is typically for
7 a fiscal year, but not always. And the audit opinion
8 could, if there are exceptions from expressing what was -
9 - would be known as a clean opinion, saying that
10 financial statements did present fairly, you might have
11 to comment on any exceptions from that if they were
12 material.

13 MS. KATHY KALINOWSKY: And, Mr.
14 Parkinson, what is the purpose of the financial
15 statements?

16 MR. NEIL PARKINSON: The financial
17 statements themselves follow a -- you know, a -- a
18 framework for their content and the way in which they are
19 prepared, which is laid out under generally accepted
20 accounting principles. So that framework would indicate,
21 for instance, that there would be certain minimum
22 financial statements and notes included, but balance
23 sheet, a statement of income, statement of retained
24 earnings, comprehensive income, accumulated other
25 comprehensive income and cashflows, as well as notes to

1 those financial statements that would lay out things like
2 accounting policies and further details required under
3 generally accepted accounting principles.

4 And the purpose of those statements is to
5 present fairly the financial position, results of
6 operations, and cashflows of the organization to meet the
7 needs of the users of those financial statements.

8 MS. KATHY KALINOWSKY: And, Mr.
9 Kowalchuk, are there any common misunderstandings by the
10 general public for -- as to what the purpose of an audit
11 is?

12 MR. ROBERT KOWALCHUK: Well, one (1)
13 misunderstanding may be that the purpose of an audit is
14 to detect fraud. Certainly, fraud may be detected during
15 the course of an audit, but that is not what it is
16 designed to do.

17 MS. KATHY KALINOWSKY: Mr. Kowalchuk,
18 you've worked on the MPI audit for a number of years now,
19 but can you explain maybe who would be interested in, or
20 rely upon, the audited financial statements of Manitoba
21 Public Insurance.

22 MR. ROBERT KOWALCHUK: There are a number
23 of stakeholders that would have an interest in the
24 audited financial statements of MPI, first being
25 management of MPI, who prepares the annual financial

1 statements; the audit committee; the Board of Directors
2 of MPI; the chair of the Board of Directors, who delivers
3 the report to the minister. Of course, the minister
4 responsible for MPI would have an interest.

5 The government would have an interest,
6 since MPI's financial statements form part of the
7 consolidated financial statements of the province. The
8 Auditor General of the Province of Manitoba would also
9 have an interest. The Crown Corporation's counsel, in
10 their oversight role, would have an interest in the
11 financial statements.

12 The provincial political parties, as they
13 review and are required to pass the annual reporting in
14 the standing committee of the Legislature. The Public
15 Utilities Board, in their capacity as regulator. And, in
16 general, the public. Those who have insurance, driver's
17 licence or vehicles registered through MPI would have an
18 interest in the -- in the financial state of the Crown
19 Corporation.

20 MS. KATHY KALINOWSKY: Mr. Kowalchuk,
21 every year an engagement letter outlines the audit
22 engagement between Manitoba Public Insurance and KPMG.

23 Is that correct?

24 MR. ROBERT KOWALCHUK: Yes, that is
25 correct.

1 MS. KATHY KALINOWSKY: And that's a
2 confidential document. But are you prepared to waive the
3 confidentiality that KPMG has attached to that engagement
4 letter, to file that letter today and refer to it today?

5 MR. ROBERT KOWALCHUK: Yes, we are.

6 MS. KATHY KALINOWSKY: I have that and
7 can distribute that, and it should be marked as MPI
8 Exhibit Number 17, I believe.

9 THE CHAIRPERSON: Very good.

10

11 --- EXHIBIT NO. MPI-17: Engagement letter outlining
12 the audit engagement between
13 Manitoba Public Insurance and
14 KPMG

15

16 CONTINUED BY MS. KATHY KALINOWSKY:

17 MS. KATHY KALINOWSKY: If I could just
18 proceed with this then.

19 Mr. Parkinson, it states that financial
20 statements will be prepared in accordance with GAAP and
21 GAAS.

22 Can you explain each of those, please,
23 along...

24 MR. NEIL PARKINSON: Okay. GAAP is an
25 abbreviation for generally accepted accounting

1 principles. Generally accepted accounting principles
2 are, in this case, Canadian generally accepted accounting
3 principles, which are currently laid out in the handbook
4 of the Canadian Institute of Chartered Accountants, and
5 it's the agreed financial reporting framework that's
6 applicable for general purpose financial statements.

7 GAAS is generally accepted auditing
8 standards. It is also laid out in the auditing sections
9 of the handbook of the Canadian Institute of Chartered
10 Accountants.

11 I would also mention that the -- those
12 generally accepted auditing standards are, you know,
13 adhered to, and in some cases, exceeded by KPMG's
14 internal standards. We have global methodology instead
15 of audit standards, which incorporates, you know, all --
16 all of the mainstream requirements of generally accepted
17 auditing standards in a variety of jurisdictions. And
18 Canada's, you know, at or near the top in that, so what --
19 - what we do certainly meets or exceeds all requirements
20 of Canadian GAAS.

21 MS. KATHY KALINOWSKY: Thank you. And
22 keep with you, Mr. Parkinson, can you summarize
23 management's responsibilities. And those are contained
24 on page 3 to page 4 of the engagement letter.

25 MR. NEIL PARKINSON: You know, as you've

1 indicated, management's responsibilities are enumerated
2 in our -- you know, our engagement letter, and beginning
3 at the bottom of page 3, and what this really highlights
4 are management's responsibilities.

5 First is prepare the financial statements,
6 because they are -- that's where the -- the principal and
7 -- and at the end of the day, sole responsibility for
8 preparation of financial statements is. And in that
9 connection, aside from preparing those financial
10 statements so as to arrive at a fair presentation of the
11 -- the entities financial position the results of
12 operations, it's required for -- required to maintain
13 appropriate accounting records, make available those
14 accounting records, and all other information to us,
15 design and maintain an appropriate system of internal
16 control for their -- for their own purposes in running
17 the business, and -- and completing financial reporting.

18 Carrying on to the top of page 4, you'll
19 see it also indicates that it's management's
20 responsibility to disclose to us a range of matters,
21 including any known controlled efficiencies; any
22 information about any possible instances of non-
23 compliance of legislative, regulatory, governmental, or
24 other nature, including any possible illegal acts;
25 disclosing any information regarding any allegations of

1 fraud or suspected fraud; any information related to
2 fraud or suspected fraud that's come to their attention
3 involving management or employees, or in particular,
4 those with significant roles in internal control, or
5 financial reporting; any known action of officers and --
6 and directors of the entity related to the -- the --
7 might been directed toward misleading us as auditors;
8 disclosing any -- the results of any assess -- risk on
9 the statements that might indicate a possibility of
10 fraud; any information on related party disclosures and
11 related party transactions, in particular; approving any
12 corrected or uncorrected misstatements that have been
13 identified by them, or by the auditors; and, finally,
14 providing a written representation's letter at the end of
15 the audit which confirms all of those matters, and -- and
16 a few more, including that the financial statements are,
17 you know, fairly present the financial position and
18 results of operations of the organization.

19 MS. KATHY KALINOWSKY: So that's
20 management's responsibilities. Now I'll ask about KPMG's
21 responsibilities as auditors. And those are lined out in
22 page 1 to page 3 of the engagement letter.

23 MR. NEIL PARKINSON: Yes, and again,
24 these are laid out in some detail here, and just to
25 summarize them, that what we need to do as auditors, and

1 what we -- we do is obtain an understanding of the, you
2 know, the Corporation's internal control over financial
3 reporting, provide a -- you know, examine on a test base
4 all evidence regard -- regarding amounts and disclosures
5 in the financial statements.

6 Or we -- it's our responsibility to
7 maintain our independence from the entity, with -- with
8 respect to the rules of professional conduct, so that we
9 can provide an independent opinion on financial
10 statements. We have to communicate matters on
11 professional standards to both management and other
12 organiza -- any -- I guess the audit committee. In
13 particular, that would be those charged with governance.

14 We communicate a summary of our audit
15 approach, both to management and to the -- the audit
16 committee, and summarize a range of matters related to
17 the results of the audit, including any difficulties we
18 may have had with the audit, any questions concerning
19 internal control deficiencies, pos -- anything indicating
20 there's anything other than honesty and integrity on the
21 part of management, any indication of material
22 misstatements in the financial statements, any
23 significant judgmental matters, and that's covered by a
24 formal written report to the audit committee at the
25 conclusion of the audit.

1 MS. KATHY KALINOWSKY: And over to you,
2 Mr. Kowalchuk, now. The top of page 6, it's listed
3 there, "The Office of the Auditor General."

4 Can you explain to how the audit is done,
5 working cooperatively and in conjunction with the Office
6 of the Auditor General.

7 MR. ROBERT KOWALCHUK: Certainly. To
8 start with, the -- the OAG receives a copy of our
9 planning information each year. They are provided with
10 copies of the draft audit opinion and draft financial
11 statements of -- and they are -- they receive the final
12 audit opinion and statements and any recommendations.
13 KPMG acknowledges that the OAG will be relying upon our
14 audit work for the purposes of consolidation into the
15 public accounts. The OAG is also present at every audit
16 committee meeting of MPI's Board of Directors.

17 MS. KATHY KALINOWSKY: And, Mr.
18 Parkinson, I also note on page 6 then that I see that
19 KPMG uses the work of the external actuary, and that
20 external actuary is Jim Christie from Ernst & Young.

21 MR. NEIL PARKINSON: That's correct. The
22 nature of the work that we do to support our use of the
23 work of the -- of the actuary is laid out in a couple of
24 profess -- professional pronouncements. One is CICA
25 5365, which is a general section that talks about how

1 auditors and actuaries interact in the course of
2 financial reporting, and includes a joint policy
3 statement of the Canadian Institute of Actuaries and the
4 Canadian Institute of Charter Accountants that lays down
5 the basis for communication between auditors and
6 actuaries in a financial reporting framework.

7 There's also Audit Guideline 43, which is
8 a guideline which lays down the approach for an auditor
9 in auditing financial statements that include actuarially
10 determined liabilities, include -- and particularly
11 insurance liabilities.

12 What we do as a result of those
13 professional pronouncements, is that we have formal
14 communication between ourselves and the -- the actuary of
15 the company as to our mutual use of each other's work.

16 And we also carry out a range of audit
17 procedures to support our use of the actuaries work.
18 That includes us verifying and ensuring that the data
19 used by the actuary is -- is accurate and appropriate for
20 the purpose of the actuary's analysis. And we also,
21 using our credential to actuary, can -- carry out a
22 review of the work of the actuary, including the
23 methodologies used, the judgments and estimations used by
24 the actuary, and whether the overall result of the
25 actuary's valuation is within a reasonable range of

1 estimates. And so we act -- we do range of computational
2 testing as well as qualitative review of the -- the
3 actuary's work as part of our overall formation of our
4 opinion on the financial statements.

5 MS. KATHY KALINOWSKY: Thank you for
6 that. Mr. Kowalchuk, can you provide an estimate of how
7 much time is spent on the MPI audit by KPMG.

8 MR. ROBERT KOWALCHUK: Yeah, we would
9 spend approximately eight hundred (800) plus hours by the
10 total team.

11 MS. KATHY KALINOWSKY: Mr. Kowalchuk,
12 again to you. KPMG audits two (2) financial statements
13 of MPI, the Basic and the overall corporate. Can you
14 outline the different types of audit procedures performed
15 on the Basic, as opposed to the overall corporate.

16 MR. ROBERT KOWALCHUK: The main
17 difference in terms of audit procedures performed on the
18 Basic financial statements is -- is the review of the
19 allocations that are inherent in the Basic financial
20 statements. That review includes ensuring that MPI is
21 following the policies and methodology for those
22 application -- allocations and applying them correctly.

23 We need to get comfortable on the
24 reasonableness of the allocations, in order to render our
25 opinion on the Basic financial statements.

1 MS. KATHY KALINOWSKY: Thank you. I'm
2 going to ask you to turn, Mr. Kowalchuk, to the auditor's
3 report, and that's for the Basic financial statements,
4 and that's found at AI.7.

5 Do you have that, Mr. Kowalchuk? I guess
6 Mr. Palmer and Mr. -- will pass you a copy.

7

8 (BRIEF PAUSE)

9

10 MS. KATHY KALINOWSKY: And would I be
11 correct in my statement that the end result of the audit
12 is the preparation of the audit opinion? And that's
13 found at page 3 of the Basic financial statements in
14 AI.7.

15 MR. ROBERT KOWALCHUK: That is correct.

16 MS. KATHY KALINOWSKY: And can I get you
17 to outline each item of the opinion, why it's there and
18 what it tells the reader.

19 MR. ROBERT KOWALCHUK: Certainly. So
20 there are three (3) paragraphs included with our
21 auditor's report. The first paragraph is what's known as
22 the introductory paragraph, the purpose of which is to
23 identify the financial statements covered by the
24 auditor's report, and distinguish between the
25 responsibilities of management and those of the auditor.

1 So the first paragraph states that the -- and identifies
2 the financial statements that have been audited, that
3 they are the responsibility of the entity's management,
4 and that it is the auditor's responsibility to express an
5 opinion on those financial statements based on the audit.

6 The second paragraph is -- is what's known
7 as the scope paragraph, the purpose of which is to inform
8 the reader that the audit was planned and performed in
9 accordance with professional standards, and the auditor
10 has made judgments in applying these standards.

11 So the second paragraph states that:

12 "The audit was conducted in accordance
13 with the Canadian generally accepted
14 auditing standards."

15 That:

16 "Those standards require that an audit
17 be planned and performed to obtain
18 reasonable assurance whether the
19 financial statements are free of
20 material misstatement."

21 And that:

22 "An audit includes examining, on a test
23 basis, evidence supporting the amounts
24 and disclosures in those financial
25 statements, the accounting principles

1 used, significant estimates made by
2 management, as well as evaluating the
3 overall financial statement
4 presentation."

5 The last paragraph is what's known as the
6 opinion paragraph, and that's where the auditor expresses
7 an opinion on whether the financial statements present
8 fairly, in all material respects, the financial position,
9 results of operations and cashflows of the entity, in
10 accordance with Canadian generally accepted accounting
11 principles.

12 MS. KATHY KALINOWSKY: And this is what
13 is known as a clean audit?

14 MR. ROBERT KOWALCHUK: Yes, this is a
15 clean audit opinion.

16 MS. KATHY KALINOWSKY: And this is in
17 respect to Basic. Was a clean audit also provided for
18 the overall Corporation?

19 MR. ROBERT KOWALCHUK: Yes, it was.

20 MS. KATHY KALINOWSKY: For each year that
21 KPMG has audited MPI, has KPMG issued a clean audit
22 opinion?

23 MR. ROBERT KOWALCHUK: Yes, we have.

24 MS. KATHY KALINOWSKY: And that is for
25 both Basic and MPI?

1 MR. ROBERT KOWALCHUK: For both Basic and
2 MPI, yes.

3 MS. KATHY KALINOWSKY: And the opposite
4 of a clean audit opinion is a qualified opinion?

5 MR. ROBERT KOWALCHUK: That is correct.

6 MS. KATHY KALINOWSKY: Mr. Kowalchuk, for
7 the MPI audit since 2003 then, KPMG has never identified
8 any fraud or non-compliance with laws and regulations,
9 it's never identified material misstatements, material
10 weakness in internal controls, significant difficulties
11 encountered during the audit, going concern issues,
12 reporting, et cetera?

13 MR. ROBERT KOWALCHUK: That is correct.

14 MS. KATHY KALINOWSKY: And has anything
15 that has been brought forward by the auditors to be
16 addressed by management, has that been done to the
17 satisfaction of KPMG?

18 MR. ROBERT KOWALCHUK: Yes, it has.

19 MS. KATHY KALINOWSKY: Mr. Kowalchuk,
20 KPMG's audit of MPI is reviewed by the Office of the
21 Auditor General of the Province of Manitoba. Has the
22 Auditor General raised any issues with KPMG with respect
23 to its audits?

24 MR. ROBERT KOWALCHUK: No, they have not.

25 MS. KATHY KALINOWSKY: Has the Office of

1 the Auditor General expressed any concerns with the audit
2 or the financial statements of either MPI or Basic to
3 KPMG?

4 MR. ROBERT KOWALCHUK: No, they have not.

5 MS. KATHY KALINOWSKY: Has the Office of
6 the Auditor General identified any areas for improvement
7 to KPMG, with regard to the KPMG audit or the financial
8 statements of MPI or of Basic?

9 MR. ROBERT KOWALCHUK: No, they have not.

10 MS. KATHY KALINOWSKY: Has the Office of
11 the Auditor General made any recommendations to KPMG with
12 regard to the audit or the financial statements of MPI or
13 Basic?

14 MR. ROBERT KOWALCHUK: No, they have not.

15

16 (BRIEF PAUSE)

17

18 MS. KATHY KALINOWSKY: Moving along here,
19 away from the audit opinion into the allocation
20 methodology reviews.

21 Mr. Kowalchuk, as an auditor of MPI,
22 you're aware that KPMG had performed an investment income
23 allocation review?

24 MR. ROBERT KOWALCHUK: Yes, in the annual
25 audit KPMG reviews the methodology that has been there

1 since 1994 for the purposes of opining on the basic
2 financial statements.

3 MS. KATHY KALINOWSKY: Had you reviewed
4 the 1994 original document?

5 MR. ROBERT KOWALCHUK: Not until
6 recently.

7 MS. KATHY KALINOWSKY: And you did that
8 recently because it was brought to your attention by MPI?

9 MR. ROBERT KOWALCHUK: That is correct.

10 MS. KATHY KALINOWSKY: Has KPMG
11 undertaken any periodic allocation methodology reviews
12 for MPI since 1994?

13 MR. ROBERT KOWALCHUK: No, not to my
14 knowledge.

15 MS. KATHY KALINOWSKY: And since 1994,
16 has MPI ever requested KPMG to undertake an allocation
17 methodology review of its assets or its liabilities?

18 MR. ROBERT KOWALCHUK: No, not to my
19 knowledge.

20 MS. KATHY KALINOWSKY: Do you think it's
21 time that MPI undertook an asset and liability allocation
22 methodology review?

23 MR. ROBERT KOWALCHUK: Yes. And one (1)
24 has recently be -- recently been completed by Deloitte.

25 MS. KATHY KALINOWSKY: Mr. Kowalchuk,

1 perhaps you can answer this question. But since the
2 review has not been undertaken since 1994, would this
3 mean, as an auditor, that the Basic financial statements
4 are inaccurate or have a misstatement?

5 MR. ROBERT KOWALCHUK: No, it would not
6 mean that. Each year management does perform its own
7 internal review of the allocation methodologies, and the
8 KPMG has been satisfied that in -- in the course of our
9 financial statement audits, that the allocations were
10 fair and reasonable.

11 As I mentioned previously, we -- we do
12 perform audit procedures on the allocations. They do
13 make up a significant portion of the Basic financial
14 statements. We review any changes to those -- to those
15 methodologies year-over-year, and perform our audit
16 procedures accordingly. It al -- we also involve our
17 information risk management specialists in terms of
18 ensuring that the allocations are properly, from a
19 systems point of view, being allocated.

20 We also assess the overall reasonableness
21 of the methodology by looking at the Basic financial
22 statements in comparative to the -- to the corporate
23 financial statements, and looking for any anomalies in
24 the area.

25 MS. KATHY KALINOWSKY: Mr. Kowalchuk, has

1 KPMG reviewed the cost allocation methodologies prepared
2 by Deloitte, at the request of MPI?

3 MR. ROBERT KOWALCHUK: Yes, we have.

4 MS. KATHY KALINOWSKY: And a review of
5 KPMG was filed on -- which provides a written assessment
6 of the methodologies for the expense allocation, and for
7 the asset and liability allocation that MPI proposes to
8 use for its 2011/12 fiscal year, that is dated October
9 4th, 2010. It's addressed to Ms. McLaren, and Mr.
10 Palmer, and it is signed from KPMG.

11 You've reviewed that?

12 MR. ROBERT KOWALCHUK: Yes. Yes, I have.

13 MS. KATHY KALINOWSKY: Mr. Kowalchuk, did
14 you prepare this report?

15 MR. ROBERT KOWALCHUK: No, I did not.
16 Neither myself or Mr. Parkinson prepared the report. It
17 was prepared by an associate partner in our Toronto
18 advisory practice. And we are here testifying as
19 auditors at the request of PUB.

20 MS. KATHY KALINOWSKY: So you're not
21 experts on allocations?

22 MR. ROBERT KOWALCHUK: No, I am not.

23 MS. KATHY KALINOWSKY: And yourself, Mr.
24 Parkinson?

25 MR. NEIL PARKINSON: No, I'm not.

1 (BRIEF PAUSE)

2

3 MS. KATHY KALINOWSKY: So other than
4 looking towards the summary conclusion, which is that
5 it's a fair and reasonable meth -- basis for the
6 allocation of expenses, and of assets and liabilities,
7 you're not prepared to testify to this report, are you?

8 MR. ROBERT KOWALCHUK: No, we are not.
9 As you mentioned the conc -- overall conclusion was that
10 it's a fair and reasonable methodology, results in a fair
11 allocation among the relevant lines of businesses. It
12 will be incorporated into the audit for the year ending
13 February 28th, 2012, at which point in time it will be
14 subject to our audit procedures during the financial
15 statement audit.

16 MS. KATHY KALINOWSKY: Well, Mr.
17 Parkinson, let's move towards your use of allocation
18 methodologies and allocations as an auditor.

19 In your professional experience, is an
20 allocation methodology the usual way to attribute costs
21 between various lines of business?

22 MR. NEIL PARKINSON: Yes. I think
23 allocation is, you know, really unavoidable for all but
24 the simplest of insurance organizations. Almost any
25 private or public sector insurance organization has

1 multiple lines of business, or segments it wants to
2 measure for one (1) reason or another that share costs,
3 share -- whether it's back office functions, or even in
4 distribution, or other functional areas, that may be
5 common across a variety of different lines of business.

6 And so it's necessary, where you can't ex
7 -- expressly associate a given cost with a specific line,
8 where there -- to, you know, share those common costs on
9 some kind of a rational and consistent basis. That --
10 that's largely true of even on monoline insurers that may
11 only do one (1) line, but nevertheless may have
12 differences in -- that they want to measure across
13 geographies, across different types of consumers, and
14 things like that.

15 So allocation is a necessity for all but
16 the very simplest of organizations, and this -- true
17 across -- for multinational companies, as well as, you
18 know, companies who only operate on one (1) -- one (1)
19 geographical area, as well.

20 And I guess I would add to that, it's
21 really pretty much the only way you can attribute costs
22 on some kind of a rational basis, is to come up with a --
23 a basis that isn't arbitrary, and allows you to
24 consistently measure things so you don't fool yourself as
25 to where there may be cross-subsidizations, where --

1 where organizations may choose, for one (1) market reason
2 or another, to subsidize, at least they need to know that
3 -- that they are doing so, so as to appropriately, and
4 accurately assess their performance, and their pricing.

5 MS. KATHY KALINOWSKY: And Mr. Parkinson,
6 to your knowledge, has the allocation between different
7 lines of business attracted significant interest of any
8 rate setting bodies for insurers?

9 MR. NEIL PARKINSON: My understanding is
10 there -- this has been a topic of conversation in British
11 Columbia from time to time, because they do have
12 mandatory, and competitive lines there. So there are
13 discussions about that that have come up before rate
14 setting bodies in BC.

15 Other than that, I'm not -- I'm not
16 conscious of it. I -- I couldn't say whether it has or
17 has not been an issue in Saskatchewan. And those are
18 really the principal jurisdictions with public auto
19 insurers in Canada.

20 MS. KATHY KALINOWSKY: Mr. Kowalchuk,
21 you've audited the Basic financial statements for the
22 year ending February 28th, 2010, right?

23 MR. ROBERT KOWALCHUK: Yes, that is
24 correct.

25 MS. KATHY KALINOWSKY: And based upon

1 your audit, do the financial statements accurately
2 reflect the Basic financial status of MPI, as of its
3 2009/'10 fiscal year end?

4 MR. ROBERT KOWALCHUK: Yes, that is
5 correct.

6 MS. KATHY KALINOWSKY: And after the
7 allocation of expenses, from an audit perspective,
8 there's no cross-subsidization between MPI's Basic line
9 of business, and its other lines of business?

10 MR. ROBERT KOWALCHUK: That is correct.

11 MS. KATHY KALINOWSKY: Mr. Kowalchuk, is
12 there anything in the financial statements that indicates
13 that the Extension and SRE lines of business, or the DVL,
14 have any material financial impact upon the Basic line of
15 business?

16 MR. ROBERT KOWALCHUK: No, there's
17 nothing to suggest that. KPMG examined the process, and
18 the methodology, and we have not identified any audit
19 differences with respect to cross-subsidization.

20 MS. KATHY KALINOWSKY: Mr. Parkinson, as
21 auditors, can you explain to the Board why it's important
22 to have an allocation methodology that is fair, and a
23 reasonable basis for the allocation of expenses, assets,
24 and liabilities?

25 MR. NEIL PARKINSON: Well, first of all,

1 as auditors we need to have some -- some basis for
2 auditing. Something -- there needs to be some kind of a
3 -- you know, an objective and well defined basis for an
4 allocation being done, so that the auditor can do their
5 work with making an assessment of whether the numbers
6 that are reported are -- are reported appropriately.

7 Put another way, if an allocation is
8 inconsistent, or arbitrary, it's very difficult for an
9 auditor to have any kind of value to add through
10 providing an opinion. And also it's -- would make it
11 very difficult for any user of a financial statement to
12 use the result, if there was no consistency, no
13 reasonably objective basis for determining numbers, or
14 whether there -- or -- or anything that was done on a
15 purely arbitrary basis.

16 MS. KATHY KALINOWSKY: My next question
17 is phrased rather inelegantly, but, as auditors, what do
18 you do with the allocation methodologies?

19 MR. NEIL PARKINSON: Well, first of all,
20 we ensure that the allocation methodology is
21 appropriately and consistently applied, so that we would
22 look to the methodology, determine whether management
23 supplied that on a -- a consistent basis of
24 interpretation, whether the calculations done have been -
25 - follow the methodology.

1 We would also look to whether there have
2 been any changes or events or developments that might
3 indicate that there -- some change in that methodology
4 was indicated, where a methodology is put in place and is
5 maintained on a reasonably consistent basis over the
6 years. As Mr. Kowalchuk referred to earlier, we do make
7 some assessment of whether there's been any basis for the
8 methodology to require any change from year to year, even
9 when it doesn't -- hasn't been changed or hasn't been
10 expressly restudied in any kind of a detailed way.

11 So, as auditors, we look at both the
12 methodology and its application.

13 MS. KATHY KALINOWSKY: And continuing
14 with you, Mr. Parkinson, in conducting an audit of a
15 major corporation with numerous subsidiaries operating in
16 several different countries, multiple jurisdictions,
17 multiple lines of business, why is an allocation
18 methodology important, even if it's not a regulated -- or
19 it doesn't have a regulated entity within it?

20 MR. NEIL PARKINSON: Well, first of all,
21 the -- you have the same problems for large, complex
22 multinational organizations as you might in a smaller
23 one. You still have allocations that need to be made
24 where there's common expenses, common platforms that
25 might be shared across different parts of the

1 organization. And unless you have an allocation
2 methodology that's well developed and is susceptible to
3 being audited and, you know, it is verified and
4 consistently applied, you can easily fool yourself or
5 draw the wrong conclusions about analyzing your -- your
6 financial results.

7 In addition to that, there are other
8 reasons why you need an allocation methodology for
9 multinationals. For instance, the taxation authorities
10 in different countries get fussed about allocations
11 involving transfer pricing, where profits are -- are
12 earned, and it's necessary to maintain well-defined
13 allocation methodologies to support transfer pricing
14 decisions between entities to make sure they're not
15 hiding losses in one (1) organization, shifting profits
16 around or to -- to low tax rate jurisdictions.

17 So it's a very well understood and well
18 developed problem for all sorts of reasons, other than
19 regulatory ones.

20 MS. KATHY KALINOWSKY: If the allocation
21 methodology is neither fair nor reasonable, nor perhaps
22 lives up to some of the guiding principles enunciated in
23 the Deloitte studies, what would be the course of action
24 for the auditors, if you came across such an allocation
25 methodology?

1 MR. NEIL PARKINSON: Well, if we were
2 uncomfortable with the allocation methodology, or felt
3 that events or developments had meant that it was
4 obsoleted or required change, we would, you know,
5 discuss, you know, our concerns with management and try
6 to resolve them, and encourage them to carry out
7 additional analysis or studies to resolve that -- you
8 know, that concern.

9 If we concluded that there were -- there
10 were -- there were problems that hadn't been resolved or
11 appropriately addressed, it could result in us finding
12 that we had an audit difference that we had to report to
13 the audit committee. It could conceivably lead to the
14 qualification of our audit report as well.

15 At the very least, where there were issues
16 of that nature, where it was impossible to resolve them
17 or arrive at a conclusion that there was definitely an
18 error or not, it would most likely result in some
19 recommendation to the organization that an update of, or
20 a fuller study of, the allocation methodology was
21 indicated. And it would be reported to an audit
22 committee as a significant judgmental matter, so that
23 they'd be able to assess whether they were comfortable in
24 approving the financial statements for their own purposes
25 as well.

1 MS. KATHY KALINOWSKY: Mr. Kowalchuk,
2 moving over to you and giving Mr. Parkinson a little bit
3 of a break here now.

4 For MPI, for the numbers that go into the
5 methodologies, do the auditors check the numbers
6 management inserts into the allega -- allocation as part
7 of its audit?

8 MR. ROBERT KOWALCHUK: yes, we do. We
9 perform audit procedures, not only on the numbers going
10 into the allocation, but in the application of the
11 allocation itself. So, yes, we do perform audit
12 procedures on the -- on those numbers.

13 MS. KATHY KALINOWSKY: And, Mr.
14 Kowalchuk, with respect to the MPI audit, there's --
15 there have been concerns with respect to the allocation
16 methodology?

17 MR. ROBERT KOWALCHUK: No, there have
18 been no concerns expressed. No.

19 MS. KATHY KALINOWSKY: Moving into
20 another topic, which is IFRS, Mr. Kowalchuk, can you
21 explain the role of KMPG, as the auditors of MPI, in the
22 development of the IFRS position papers, and also then
23 the policies that were adopted by the audit committee of
24 Manitoba Public Insurance Board of Directors.

25 MR. ROBERT KOWALCHUK: Our first

1 involvement was back in -- in 2008, where we were engaged
2 to perform what we call a quick scan, which was a high
3 level diagnostic review of some of the issues that may be
4 facing MPI on its conversion to IFRS.

5 In our role as auditors, more recently
6 we've been provided with the early drafts of the position
7 papers of MPI. We have reviewed those early drafts of
8 the position papers. We have provided our comments back
9 to management of MPI, based on those reviews. We later
10 reviewed the later drafts of those position papers, which
11 were submitted to the audit committee.

12 We attended all the audit committee
13 meetings where the IFRS position papers were discussed
14 between management and the audit committee. We provided
15 our comments to the audit committee regarding those
16 position papers, and, ultimately, the -- the policies,
17 the transition elections that were selected by
18 management.

19 MS. KATHY KALINOWSKY: And, Mr.
20 Kowalchuk, is KMPG satisfied that its observation suggest
21 -- suggestions to MPI management with regards to IFRS
22 were satisfactorily -- satisfactorily dealt with by both
23 MPI and Deloitte in the position papers?

24 MR. ROBERT KOWALCHUK: Yes, we're
25 satisfied that all of our observations and suggestions

1 were incorporated into the position papers.

2 MS. KATHY KALINOWSKY: For IFRS, what
3 will be the eventual role of KMPG as MPI's auditors?

4 MR. ROBERT KOWALCHUK: Well, a -- an
5 audit of the opening balance sheet as at March 1st, 2010
6 will need to be performed. Ultimately, for the year
7 ending February 28th, 2012, we will be providing an
8 opinion on the financial statements, that they are
9 prepared in accordance with IFRS. And between now and
10 then we will monitor the ongoing process that management
11 is going through, identifying any factors that are going
12 to be impacting those financial statements.

13 MS. KATHY KALINOWSKY: Mr. Kowalchuk, you
14 were here present for some of Mr. Olfert's testimony
15 yesterday, but with respect to your knowledge of the
16 implementation of IFRS by MPI, do you agree that there
17 were three (3) major policy decisions that had to be made
18 to-date by the audit committee?

19 MR. ROBERT KOWALCHUK: Yes, that is
20 correct.

21 MS. KATHY KALINOWSKY: And the first one
22 would be property, plant, and equipment. Could you
23 explain that at a very level and what the decision was
24 made by the audit committee with respect to that.

25 MR. ROBERT KOWALCHUK: Well, the -- with

1 respect to property, plant, and equipment, an election
2 was made to value the property, plant, and equipment at
3 the current cost as opposed to fair value on transition
4 to IFRS. That leads to sort of an as is situation
5 because that is the current accounting policy of the
6 Corporation.

7 MS. KATHY KALINOWSKY: And had you
8 provided observations and suggestions to MPI management
9 on the position paper regarding this?

10 MR. ROBERT KOWALCHUK: Yes, we did.

11 MS. KATHY KALINOWSKY: And the comments
12 were incorporated?

13 MR. ROBERT KOWALCHUK: Yes, they were.

14 MS. KATHY KALINOWSKY: And KPMG attended
15 the audit committee meetings in which this issue was
16 presented?

17 MR. ROBERT KOWALCHUK: Yes, we did.

18 MS. KATHY KALINOWSKY: And at the audit
19 committee meetings you pro -- provided input when
20 requested?

21 MR. ROBERT KOWALCHUK: Yes, we did.

22 MS. KATHY KALINOWSKY: Do you have any
23 concerns raised with this method or election?

24 MR. ROBERT KOWALCHUK: No concerns were
25 raised.

1 MS. KATHY KALINOWSKY: Do you have any
2 concerns now with this method or election?

3 MR. ROBERT KOWALCHUK: No, we have no
4 concerns.

5 MS. KATHY KALINOWSKY: Thank you. Thank
6 you. I'm going to move on to the next major decision by
7 the audit committee, and that's with respect to the re-
8 designation of financial instruments upon elec --
9 election.

10 Can you explain what the decision was of
11 the audit committee.

12 MR. ROBERT KOWALCHUK: The decision there
13 was to re-designate the fixed income financial
14 instruments to held-for-trading, or what will be known as
15 "fair value through profit or loss." This will result in
16 a one (1) time adjustment to retained earnings on
17 transition.

18 The financial magnitude for the Basic RSR
19 has been quantified at -- at \$21 million. The decision
20 was made. There will be -- will result in less
21 volatility in net income in future years, because
22 there'll be now -- now more of an offset between the
23 claims expenses and investment income, to the extent that
24 these line items are impacted due to changes in interest
25 rates.

1 MS. KATHY KALINOWSKY: Had you provided
2 observations and suggestions to MPI management on the
3 position paper in this regard?

4 MR. ROBERT KOWALCHUK: Yes, we did.

5 MS. KATHY KALINOWSKY: And are the
6 comments incorporated?

7 MR. ROBERT KOWALCHUK: Yes, they are.

8 MS. KATHY KALINOWSKY: KPMG attended the
9 audit committee meetings in which this issue was
10 presented, correct?

11 MR. ROBERT KOWALCHUK: Yes, we did.

12 MS. KATHY KALINOWSKY: And at the audit
13 committee meetings, you provided input?

14 MR. ROBERT KOWALCHUK: Yes, we did.

15 MS. KATHY KALINOWSKY: No concerns were
16 raised then with this method or election?

17 MR. ROBERT KOWALCHUK: No concerns were
18 raised.

19 MS. KATHY KALINOWSKY: Do you have any
20 concerns now with this method or with this election?

21 MR. ROBERT KOWALCHUK: No. We currently
22 have no concerns.

23 MS. KATHY KALINOWSKY: Moving on to the
24 next decision, then, which is recognition of actuarial
25 gains and losses in employee benefits/liabilities.

1 Can you explain the third decision that
2 the audit committee made, which -- for the recognition of
3 actuarial gains and losses in employee
4 benefits/liabilities.

5 MR. ROBERT KOWALCHUK: Yes. The decision
6 made in this area was to continue to recognize all future
7 actuarial gains and losses related to employee benefits
8 directly into income as they occur, which is the current
9 accounting policy practice of the Corporation. So, from
10 that standpoint, there were no changes because of that
11 transition.

12 MS. KATHY KALINOWSKY: And again, with
13 the same line of questions, had you provided observations
14 and suggestions to MPI management on the position paper
15 regarding this?

16 MR. ROBERT KOWALCHUK: Yes, we did.

17 MS. KATHY KALINOWSKY: And the comments
18 were incorporated?

19 MR. ROBERT KOWALCHUK: Yes, they were.

20 MS. KATHY KALINOWSKY: KPMG attended
21 audit committee meetings in which this issue was
22 presented?

23 MR. ROBERT KOWALCHUK: Yes, we did.

24 MS. KATHY KALINOWSKY: And at the audit
25 committee meetings, you provided input when requested?

1 MR. ROBERT KOWALCHUK: Yes, we did.

2 MS. KATHY KALINOWSKY: No concerns were
3 raised then with this method or this election?

4 MR. ROBERT KOWALCHUK: No concerns were
5 raised.

6 MS. KATHY KALINOWSKY: Do you have any
7 concerns now with this method or election?

8 MR. ROBERT KOWALCHUK: We have no
9 concerns now.

10 MS. KATHY KALINOWSKY: Mr. Parkinson, I'm
11 going to move into the area of onerous contracts.

12 You're familiar with the concept of the
13 onerous con -- contract for IFRS purposes?

14 MR. NEIL PARKINSON: Yes, I am. And, to
15 put it in brief, it would be a contract in which you
16 would have an expectation of making a loss as a result of
17 completing your obligations under that contract.

18 Examples are perhaps easiest to think about in sort of a
19 -- sort of a trading or tangible products environment,
20 where you might be obligated to complete a construction
21 contract where you -- you determine that the revenue you
22 are going to get from that contract was not going to
23 cover the expenses you expected to occur in completing
24 the contract.

25 In an insurance context, it's most easily

1 the onerous contract position paper, which is contained
2 as an appendix in one (1) of the filings that was
3 prepared?

4 MR. ROBERT KOWALCHUK: Yes, we did, and
5 we agreed with the conclusions reached.

6 MS. KATHY KALINOWSKY: How did KPMG
7 satisfy its -- itself that there are no onerous contracts
8 at MPI, whether under GAAP now, or with respect to being
9 a premium deficiency, or IFRS?

10 MR. ROBERT KOWALCHUK: Well, currently,
11 there's the premium deficiency test under Canadian GAAP
12 that the external actuary provides an opinion on.
13 Included in his opinion, with respect to IFRS, as
14 mentioned, we did review the position papers and agreed
15 with the conclusions reached.

16 MS. KATHY KALINOWSKY: Mr. Kowalchuk, has
17 KPMG ever raised the possibility of an onerous contract
18 in MPI to either -- to its management?

19 MR. ROBERT KOWALCHUK: No, we have not.

20 MS. KATHY KALINOWSKY: Have you raised
21 that to the audit committee?

22 MR. ROBERT KOWALCHUK: No, we have not.

23 MS. KATHY KALINOWSKY: Have you raised
24 that to the Office of the Auditor General?

25 MR. ROBERT KOWALCHUK: No, we have not.

1 MS. KATHY KALINOWSKY: Mr. Parkinson, I
2 think you already answered part of the question that I
3 was next going to ask you, but providing examples of
4 onerous contracts that you may have come across for an --
5 insurers, but is it usual or unusual for auto insurers to
6 have audit -- onerous contract?

7 MR. NEIL PARKINSON: It would be unusual
8 in a sense that while that product is in -- in many
9 geographies quite volatile, and subject to changes in
10 product, and significant pricing pressures, and changing
11 accident rates and exposures, it -- it only happens a
12 minority of the time. Usually insurers find that as a
13 short term situation because they can adjust go-forward
14 premium rates.

15 But it is quite possible that at any given
16 point in time the actuary of a company might determine
17 that their automobile policies were inadequately priced,
18 and that the end their premiums weren't going to be
19 sufficient to pay the remaining claims under the coverage
20 period of the contract. That -- that would be the
21 principal example of how that sort of thing could happen.

22 MS. KATHY KALINOWSKY: So to summarize
23 the issue of onerous contracts then, at -- at this point
24 in time then two (2) of the big four (4) accounting firms
25 have found that there are no onerous contracts in

1 existence at MPI?

2 MR. NEIL PARKINSON: That is correct.

3 MS. KATHY KALINOWSKY: I'm going to move
4 onto a different area, but this is the exposure draft for
5 insurance cont -- contracts.

6 Mr. Parkinson, can you explain -- are you
7 familiar with the exposure draft?

8 MR. NEIL PARKINSON: Yes, I am. I've
9 mentioned a number of the particular professional
10 involvements that I have. And just to repeat a couple of
11 them, I'm involved with as a member of the Canadian
12 Accounting Standards Board's Insurance Accounting Task
13 Force, and as well as KPMG's global technical committee,
14 and an advisory committee to OSSFI on these matters.

15 I would say so far this year I've spent in
16 excess of three hundred (300) hours on technical matters
17 related to this particular exposure draft, reviewing
18 detail. I'm assisting in the preparation of at least two
19 (2), and perhaps a third, comment letters with respect to
20 that exposure draft. And I have a working knowledge,
21 going back over the past eight (8) or nine (9) years, in
22 the various stages of the development of this project,
23 and presented on it, more times than I'd care to count
24 perhaps, on -- to various clients, and -- and industry
25 conferences on this subject.

1 What the exposure draft is, is under IFRS
2 there is a kind of a make-do, or stopgap standard called
3 IFRS-4, which was one of the few items in which the ISB
4 was una -- unable to create a good global standard in
5 2005 when IFRS was adopted widely across Europe, and
6 other countries. And so that standard, to over simplify,
7 simply allowed companies to carry on doing what they are
8 doing, subject to certain minimum standards about
9 adequacy of liabilities. This new standard is meant to
10 create one (1) global standard across all IFRS reporting
11 jurisdictions.

12 The process from here -- this exposure
13 draft was released on July 30th of this year. The
14 comment period ext -- extends to November 30th. Some
15 comment letters have already been provided, but there
16 will be a host of them to come.

17 The final standard is expected, perhaps
18 optimistically, in June of next, with a view to it being
19 available for adoption as early as 2013, but quite
20 possibly later than that.

21 One (1) of the sidebars to this is that it
22 was a joint project where the -- the United States
23 Financial Accounting Standards Board, which has not
24 agreed with ISB on all topics, and has its own discussion
25 paper that was issued on September 17th with a comment

1 period running through till roughly the same time period
2 as the ISBs.

3 And they haven't worked out all their
4 differences, and it's quite possible that there will be
5 some changes in the exposure draft put out by the ISB,
6 whether to narrow the differences with FASBI or
7 otherwise, or just in response to the many comments,
8 cards, and letters that they're getting already on this
9 subject.

10 The applicability of this to insurance
11 contracts, well it's exactly what this standard is meant
12 to cover. It's to -- it would specifically apply to the
13 insurance policy liabilities that MPIC has. Pre -- on a
14 preliminary basis, it's proposed that you would get to
15 continue to use some form of unearned premium methodology
16 for accounting, but with some perhaps welcome or
17 unwelcome differences, including reflecting time value of
18 money in unearned premiums, not just in claims, in
19 particular. And there are some other nuances in the
20 definition of an insurance contract which may be relevant
21 to a lot of insurers.

22 It is at this point, I think, premature to
23 say what the final standard will say because it is highly
24 controversial on a number of points, but I think we have
25 a very good idea of the general direction of that

1 exposure draft.

2 MS. KATHY KALINOWSKY: And thank you for
3 that, Mr. Parkinson. I'm just going to ask to summarize
4 a little bit on IFRS then. Would I be correct in my
5 understanding then that IFRS has had little implications
6 on the financial results for MPI Basic to date?

7 MR. NEIL PARKINSON: Yes, as I think has
8 previously been touched on, there were two (2) areas
9 mentioned, \$21 million with -- with respect to re-
10 designation of financial instruments, and a \$3 million
11 impact related to employee liab -- liability benefits.
12 There are other smaller amounts.

13 And there will be more significant
14 differences on the details of qualitative disclosures and
15 -- and some quantitative disclosures in the statements,
16 but the measurement differences are fairly limited given
17 the size of the organization.

18 MS. KATHY KALINOWSKY: And, Mr.
19 Kowalchuk, this is a conclusion that's been reached after
20 a lengthy and in-depth review of IFRS, by both MPI and
21 its many partners in this regard?

22 MR. ROBERT KOWALCHUK: Yes, that's
23 correct. The process utilized by MPA -- MPI and the
24 audit committee was very thorough, comparable to other
25 companies. IFRS conversion practices. There was an --

1 the involvement of Deloitte, the external IFRS
2 consultants. Preparation of position papers; review of
3 those position papers by MPI management. KPMG reviewed
4 those position papers.

5 All concerns and input feedback was
6 incorporated to come up with the best position paper,
7 which was then on each topic area presented to the audit
8 committee. The audit committee was briefed on IFRS on
9 just about every audit committee over the past two (2)
10 years. And, in fact, additional audit committees were
11 held specifically related to IFRS.

12 All the issues brought forward to the
13 committee were addressed in a timely fashion. The
14 appropriate elections were made, and policies are now in
15 place for the -- for the upcoming year on transition.

16 As mentioned before, the Office of the
17 Auditor General was also in attendance at these audit
18 committee meetings, and when questioned, offered no
19 concerns with regard to the -- the Corporation's
20 transition to IFRS.

21 MS. KATHY KALINOWSKY: So, at the end of
22 the day, from your position of sitting in at the meetings
23 of the audit committee, would I be correct in saying that
24 two (2) major accounting firms, being both Deloitte and
25 KPMG, plus the Office of the Auditor General of the

1 Province of Manitoba, at this time, have expressed no
2 concerns to the audit committee -- committee or to you as
3 auditors of MPIC with regards to MPI's transition plans
4 to IFRS?

5 MR. ROBERT KOWALCHUK: That is correct.
6 No concerns have been expressed.

7 MS. KATHY KALINOWSKY: Well, it's going
8 to be back to you on this one, Mr. Parkinson, because
9 we're going to talk about audit support and actuarial --
10 the specialist, as I continue my direct examination.

11 From reading the letter that was referred
12 to earlier, you're aware, of course, that the PUB wants
13 to hear from KPMG on the audit support with respect to
14 the actuarial valuation of Basic claims liabilities,
15 including the findings and reporting of the auditing
16 Guideline 43 actuarial specialist for this latest and
17 recent prior fiscal year-ends?

18 MR. NEIL PARKINSON: Yes, I am.

19 MS. KATHY KALINOWSKY: Mr. Parkinson, can
20 you tell us why you are particularly well suited to
21 testify on audit support and actuarial specialist?

22 MR. NEIL PARKINSON: Well, as mentioned
23 at the outset in my CV, one (1) of the things that I have
24 done from a professional involvement standpoint, is I
25 chaired the CICA task force that created Audit Guideline

1 43 in the first place, so I presented on that a number of
2 organizations. I said, If you don't like the standard,
3 you can blame me.

4 And more recently, I co-chair a joint
5 working group with the Canadian Institute of Actuaries,
6 to take that guidance and turn it into education material
7 which is going to be included in the new Canadian audit
8 standards that will be effective at the end of this year.
9 Also, this is something I do all the time with respect to
10 the audits I'm involved with, either -- with either as
11 the primary audit partner or as a concurring partner. I
12 probably see something in the order of three (3) dozen or
13 more of these sorts of memos in the course of a year.

14 MS. KATHY KALINOWSKY: And continuing
15 with you, Mr. Parkinson, it says:

16 "Auditors conducting an audit of an
17 insurance company."

18 Is an actuarial specialist required then?

19 MR. NEIL PARKINSON: Yes, the guideline,
20 I think, pre -- makes that clear. It's considered
21 authoritative guidance. And the guideline indicates that
22 in all but ext -- extremely rare situations, I think you
23 would be required to involve an actuary in support of the
24 audit. The reason being, that the -- a chartered account
25 is not an actuary, doesn't have the requisite

1 professional experience or qualifications to, you know,
2 really critique what an actuary does when it's, you know,
3 it's fundamental to the financial statements, as it is --
4 as it -- as it is for an insurance enterprise.

5 The duties of the actuarial specialist is
6 to -- with the -- within the context of the overall audit
7 plan, and directed by the -- the audit team, to carry out
8 a -- the review of the work of the appointed actuary,
9 both testing the -- the results on a quantitative basis
10 and reviewing methodologies, assumptions and judgments,
11 and arriving at a view for the purposes of the audit
12 opinion, whether the actuary's valuation is within a
13 reasonable range of actuarial estimates.

14 The individual who signed the memorandum
15 that was referred to at the outset, on our audit support
16 memo, Blair Manktelow is a fully credentialed actuary who
17 was, until about two (2) months ago, one (1) of the
18 senior actuaries in our practice. He's now a vice
19 president at a major insurance company, in charge of
20 their pricing function.

21 MS. KATHY KALINOWSKY: Thank you for
22 that, Mr. Parkinson. Could you explain the process for
23 incorporating the review of Basic policy liabilities
24 prepared by Ernst & Young, into the audit that's prepared
25 by KPMG in the end.

1 MR. NEIL PARKINSON: Well, the external
2 actuary, Mr. Christie, as I understand it, does a
3 detailed analysis twice annually. We only audit if -- if
4 you like that, in the context of the year end, but we do
5 take notice of the mid-year result to gain some audit
6 evidence from that, in particular, to become aware of any
7 changes that are indicated in the mid-year review.

8 We communicate formally in -- in writing
9 with the appointed actuary to confirm our understanding
10 of how we're going to work together, and the fact that --
11 confirming that Mr. Christie's independent, that he's,
12 you know, a member in good standing and appropriately
13 qualified and experienced. Although, we -- we know that
14 well from knowing Jim Christie quite well, and from other
15 settings as well.

16 Our actuarial specialist then takes a look
17 at the valuation completed by Mr. Christie and his staff,
18 including qual -- qualitative review of procedures, the
19 assumptions, judgments made, does quantitative testing,
20 reconciles the data that's used by the actuary back to
21 the accounting records of the company. That's to ensure
22 that it's complete and appropriately classified.

23 To the extent that there are any questions
24 we have from our review of the appointed actuary's
25 valuation, we would actually have a discussion, either by

1 telephone or in person or by email, to resolve those
2 issues and questions, and are typically able to resolve
3 those kinds of questions easily enough.

4 Then the culmination of that process is --
5 this memorandum that was tabled is provided to the -- or
6 maybe it hasn't been tabled yet. It hasn't been tabled
7 yet. Sorry.

8 Anyway, pre -- prepares a memorandum
9 summarizing the results of that and expressing a
10 conclusion for audit purposes of -- as to whether the
11 valuation of the appointed actuary is -- falls within a
12 reasonable range of actuarial estimates.

13 MS. KATHY KALINOWSKY: So what does is
14 responsibility of KPMG in the valuation process?

15 MR. NEIL PARKINSON: We're not
16 responsible for the valuation. The valuation is really a
17 management estimate which is done using the -- the
18 assistance of an external expert. Our role on this is
19 simply one of verification or providing assurance as part
20 of forming our overall -- overall opinion on the
21 financial statements of MPIC.

22 MS. KATHY KALINOWSKY: Mr. Kowalchuk, has
23 the actuarial specialist ever provided a report to the
24 audit committee of MPI board of directors that you're
25 aware of?

1 MR. ROBERT KOWALCHUK: No, not that I'm
2 aware of.

3 MR. ROBERT KOWALCHUK: Well, Mr.
4 Parkinson, is it common for the actuarial specialist to
5 provide a report directly to the audit committee of the
6 board of directors?

7 MR. NEIL PARKINSON: It would be uncommon
8 -- very uncommon in the context of the audit, where the
9 auditor's actuary also carries out a peer review -- an
10 independent peer review of the work of the appointed
11 actuary. As is sometimes the case, that peer review
12 report might be prov -- provided to the audit committee.

13 But as to the annual audit support
14 valuation, it would be very unusual for a report to be
15 provided.

16 MS. KATHY KALINOWSKY: Can you elaborate,
17 under the circumstances, when an actuarial specialist
18 would provide a report to the audit committee, other than
19 the peer review you mentioned?

20 MR. NEIL PARKINSON: It would be in the
21 context, I think, of our -- our overall reporting on the
22 audit. To the extent that there were significant
23 judgmental matters, or -- or a difference in the -- that
24 we could not resolve easily with the -- with the
25 appointed actuary, particularly if we were to have a

1 different conclusion than the actuary that was far enough
2 outside of the range that we felt that the actuary's
3 estimate was not within a reasonable range of estimates,
4 we might well have the audit support actuary attend at
5 the audit committee meetings. In some circumstances, the
6 audit support actuary might carry out an independent
7 estimate if it was a difficult enough issue, but
8 ordinarily, that would not be the case, as I mentioned.

9 MS. KATHY KALINOWSKY: And, ultimately,
10 if the actuary specialist's memo indicated that they had
11 serious concerns with the review of policy liabilities,
12 that would perhaps result in the auditors not issuing a
13 clean audit opinion?

14 MR. NEIL PARKINSON: That's correct. If
15 the -- if our view was that the actuary's valuation was
16 not within a reasonable range of estimates, the result
17 will -- would be that we would quantify an audit
18 difference, which would be the -- how far outside of that
19 range of reasonable estimates it would be. And if that
20 difference was large enough, it could give rise to a
21 qualification of our audit report.

22 MS. KATHY KALINOWSKY: And, Mr.
23 Kowalchuk, for each year that KPMG has audited MPI, would
24 I be correct in my understanding that no significant
25 issues/concerns have been raised by the actuarial

1 specialist to cause a qualified opinion to be issued?

2 MR. ROBERT KOWALCHUK: That is correct.

3 MS. KATHY KALINOWSKY: Has the actuarial
4 specialist ever raised an issue that has caused the MPI-
5 appointed actuary to alter his basic review of policy
6 liabilities?

7 MR. ROBERT KOWALCHUK: No, they have not.

8 MS. KATHY KALINOWSKY: Has KPMG provided
9 permission for MPI to file with the PUB the internal KPMG
10 memo from the actuarial specialist to the accounting
11 advisors, recog -- or, sorry, accounting auditors,
12 recognizing that this is indeed a confidential document
13 that is not usually disclosed in any circumstances?

14 MR. ROBERT KOWALCHUK: Yes, that
15 permission has been granted. I believe the document is
16 in the redacted form.

17 MS. KATHY KALINOWSKY: And the redaction
18 -- the redacted form is to remove any references to non-
19 Basic lines of business?

20 MR. ROBERT KOWALCHUK: That is correct.

21 MS. KATHY KALINOWSKY: And I could
22 circulate that now, and I believe it would be marked as
23 MPI Exhibit Number 18.

24 THE CHAIRPERSON: Thank you.

25

1 --- EXHIBIT NO. MPI-18: Internal KPMG memo from the
2 actuarial specialist to the
3 accounting auditors
4

5 CONTINUED BY MS. KATHY KALINOWSKY:

6 MS. KATHY KALINOWSKY: Mr. Kowalchuk, I
7 have that in front of me. You have that in front of
8 yourself, too?

9 MR. ROBERT KOWALCHUK: Yes, I do.

10 MS. KATHY KALINOWSKY: And that's a memo
11 dated April 22nd, 2010, to yourself from Blair Manktelow,
12 correct?

13 MR. ROBERT KOWALCHUK: That is correct.

14 MS. KATHY KALINOWSKY: And the subject
15 line is "Manitoba Public Insurance Corporation, Review of
16 Appointed Actuary's Reports, as of October -- as of
17 October 31st, 2009, and February 28th, 2010?"

18 MR. ROBERT KOWALCHUK: That is correct.

19 MS. KATHY KALINOWSKY: Had this internal
20 memo ever been disclosed to MPI prior to the request of
21 the Public Utilities Board?

22 MR. ROBERT KOWALCHUK: No, it had not,
23 and no previous memos had ever been disclosed either. As
24 mentioned, our working papers are considered confidential
25 and prepared to support our opinion on the financial

1 statements, and not prepared in the context of that they
2 may become public documents.

3 MS. KATHY KALINOWSKY: Mr. Parkinson,
4 you've provided accounting and audit services to numerous
5 insurers throughout Canada throughout your career. For
6 any of the insurances that you have provided these audit
7 services to -- or sorry, accounting and audit -- auditing
8 services to, are you are of to -- as to whether it rate
9 setting board has requested a copy of the internal memo
10 for the -- from the actuarial specialist on an audit?

11 MR. NEIL PARKINSON: Oh, my apologies.
12 No, only -- the -- the only regulators who would
13 ordinarily see a memo like this, but not receive a copy,
14 would be regulators who are responsible for carrying out
15 practice examinations of auditors, or the prudential
16 regulatory body, such as OSSFI or provincial departments
17 of an insurance who might carry out a review of the audit
18 working papers as part of their supervisory process, but
19 they would not receive copies of this sort of memorandum.

20 MS. KATHY KALINOWSKY: Mr. Parkinson, to
21 your knowledge, has KPMG ever been asked to disclose the
22 internal memo from the actuarial specialist to an
23 insurance rate setting body?

24 MR. NEIL PARKINSON: No.

25 MS. KATHY KALINOWSKY: And, Mr.

1 Parkinson, as someone who is very much at the forefront
2 of the accounting insurance and auditing insurance
3 industries, are you aware of any other circumstances in
4 which a copy of the internal memo from the actuarial
5 specialist has been requested by an insurance rate
6 setting board?

7 MR. NEIL PARKINSON: No, I'm not aware of
8 any circumstance.

9 MS. KATHY KALINOWSKY: As the chair of
10 the CIC -- CA auditing Guideline 43, audit of actuarial
11 liabilities of insurance enterprises, can you provide a -
12 - circumstance as to when an external body might request
13 a copy of this memo.

14 MR. NEIL PARKINSON: It's really not
15 provided for in the standard, as such. The circumstances
16 under which I could envisage it happening might be if
17 there were proceedings such as might be involved in
18 litigation, bankruptcy, financial collapse of an
19 institution, or something along those lines. But other
20 than that, it's really not contemplated by the -- the
21 available standards and a specific -- in a specific way.

22 MS. KATHY KALINOWSKY: And none those
23 types of calamities that you just mentioned are -- MPI is
24 being faced with right now, is it?

25 MR. NEIL PARKINSON: Not to my knowledge.

1 MS. KATHY KALINOWSKY: Is this a fair
2 standard memo?

3 MR. NEIL PARKINSON: Yes, this is very
4 much a standard form memo. As mentioned previously, I
5 see in excess of three (3) dozen of these a year.

6 MS. KATHY KALINOWSKY: And at a high
7 level were there any concerns regarding noncompliance
8 with AuG-43 with regards to this memo?

9 MR. NEIL PARKINSON: No, there were no
10 concerns expressed in this. This is very much a normal
11 sort of a read from an auditor perspective. The
12 conclusions reaches by the audit support actuary were
13 satisfactory, did not raise any concerns or -- or issues
14 that ought to be taken into account and would allow us to
15 make use of the valuation conducted by the outside
16 actuary. The -- the actuary had followed a consistent
17 approach and was a highly reputable experienced actuary
18 that was well known to -- as whose work and reputation is
19 well known to us as well.

20 MS. KATHY KALINOWSKY: Looking towards
21 page 2 of that memorandum, under the heading of
22 "Materiality", what would be the conclusion that was
23 reached with regards to materiality?

24 MR. NEIL PARKINSON: The materiality used
25 by Mr. Christie in his -- in conducting his work was

1 actually quite consistent with the planning materiality
2 figure that we arrived at in planning our overall audit.

3 MS. KATHY KALINOWSKY: And it is
4 reasonable?

5 MR. NEIL PARKINSON: Yes. I think that
6 actuarial standards for determining materiality in fact
7 are perhaps unsurprisingly very consistent with how an
8 auditor would look at arriving at and judging
9 materiality.

10 MS. KATHY KALINOWSKY: And turning over
11 to page number 3 under the heading, "Concerns or
12 recommendations," I note there that the second line -- or
13 the first line says:

14 "We have no concerns or recommendations
15 for required changed. The approach
16 filed by Mr. Christie is a conservative
17 approach that tends to result in
18 favourable development in most years.
19 And, in particular, we expect two (2)
20 major lines in Basic AutoPak accident
21 benefits, weekly benefits, and accident
22 benefits, other benefits, to continue
23 having favourable development similar
24 to the outcomes in last year's."

25 And then it says:

1 "Mr. Christie's total claims
2 liabilities estimate is closer to the
3 top end of the range of
4 reasonableness."

5 Do you see that?

6 MR. NEIL PARKINSON: Yes, I do.

7 MS. KATHY KALINOWSKY: And, as an auditor,
8 what is your response when you see something like this?

9 MR. NEIL PARKINSON: I think that that
10 would be the -- the norm, or I think perhaps the hoped
11 for conclusion you would reach. There is a degree of
12 uncertainty associated with the estimates made by
13 actuaries, and actuaries in fact carry margins for this
14 sort of thing, which they hope not to need. And that,
15 you know, if there -- as those uncertainties are
16 resolved, you would expect to see, certainly hope to see,
17 that some of the -- that conservatism would emerge in
18 future.

19 So it's not by no means an unusual kind of
20 a conclusion, or result.

21 MS. KATHY KALINOWSKY: And moving along
22 as they -- as it discusses the actuarial analysis that
23 was actually undertaken, but on page 4 of the document,
24 two-thirds (2/3), three-quarters (3/4) of the way down,
25 there's a paragraph that starts, "The October 2009

1 Report." It's not in the bullet pointed one, which
2 starts with the same words actually, but the one (1)
3 after there, which is a narrative form.

4 But it repre -- it represents a complete
5 and comprehensive analysis of MPI's policy liabilities.
6 In general, it continues to state:

7 "Mr. Christie tends to select
8 assumptions that result in estimates
9 that in aggregate are at the upper end
10 of our range of reasonableness. For
11 some lines of business, Mr. Christie
12 selected claims liabilities are above
13 our range of reasonableness. The
14 selected methods and key actuarial
15 assumptions are reasonable for all
16 lines of business in aggregate."

17 Do you see that, and what are your
18 comments with respect to this as -- as an auditor?

19 MR. NEIL PARKINSON: Again, this is the
20 norm, and I believe it's consistent with the overall
21 conclusion reached as well. This is -- I think reflects
22 a consistent and conservative approach, and did not see
23 that as unusual in any way.

24 MS. KATHY KALINOWSKY: And the following
25 paragraph, which is, "Total Unpaid Losses," skip down to

1 that final sentence there:

2 "In total, Mr. Christie's estimates of
3 projected claims liabilities are within
4 a reasonable range, based on the data
5 available and the inherent uncertainty
6 in each particular line of business."

7 And that seems to be consistent also with
8 the earlier comments you main -- you made with respect to
9 their requiring a reasonable range because their -- this
10 insurance product does of course have inherent
11 uncertainty in it.

12 MR. NEIL PARKINSON: That's correct.
13 This is consistent with my earlier comments.

14 MS. KATHY KALINOWSKY: And looking
15 towards page 5 of this memo, there's LAE, which are loss
16 adjustment expenses calculations. Under that, the final
17 sentence after saying that they've reviewed the detailed
18 calculations, and KPMG believes that the ULAE liabilities
19 are reasonable?

20 MR. NEIL PARKINSON: That's correct.

21 MS. KATHY KALINOWSKY: And with respect,
22 your comments on that as an auditor.

23 MR. NEIL PARKINSON: Again, this would be
24 the normal, or hoped for sort of result of carrying out
25 the review.

1 MS. KATHY KALINOWSKY: And I'll just run
2 through both the next two (2) para -- next two (2) line -
3 - line items there, so to speak, and that is
4 "discounting" and "premium liabilities." For
5 discounting, its:

6 "We believe that the discounting
7 calculations are reasonable."

8 That's that stand alone para -- paragraph
9 there. And under "premium liabilities":

10 "The approach and selected rad --
11 ratios for premium liabilities are
12 reasonable."

13 What are your comments on those again?

14 MR. NEIL PARKINSON: Again, those --
15 those comments are -- you know, provide -- provide a
16 conclusion that there are no differences that should be
17 of concern to an auditor.

18 MS. KATHY KALINOWSKY: From an audit
19 perspective, do you have any concerns with this review as
20 conducted by the actuarial specialist?

21 MR. NEIL PARKINSON: None at all. This
22 is very much sort of a no-issues type of a memo from an
23 auditor's perspective.

24 MS. KATHY KALINOWSKY: Based upon this
25 review, KPMG was able to issue its clean audit opinion.

1 Is that correct?

2 MR. NEIL PARKINSON: Yes. Together with
3 the rest of our audit evidence, of course, but this is --
4 we -- we had no audit differences, or other issues to
5 raise that would have affected our opinion in a negative
6 sense at all.

7

8 (BRIEF PAUSE)

9

10 MS. KATHY KALINOWSKY: We noticed that
11 one (1) of the items that PUB put in its letter that they
12 wanted to ask about was financial statements, so I
13 thought at this time I'd just close my direct with a
14 couple of questions on financial statements in general.

15 But, Mr. Kowalchuk, what -- what's in the
16 financial statements, and what do the financial
17 statements tell a reader about the overall financial
18 wellness of the Corporation?

19 MR. ROBERT KOWALCHUK: Well the financial
20 statements are at -- at one (1) point in time. So from a
21 factual point of view, certain observations can be made.
22 The retained earnings are -- are positive. The net
23 income for the 2010 fiscal year was positive. There were
24 positive cash flow from operations.

25 So those are sort of some of the

1 quantitative measurements that can be drawn from those
2 financial statements.

3 MS. KATHY KALINOWSKY: What about issues
4 of going concerns?

5 MR. ROBERT KOWALCHUK: No, there were no
6 issues of going concerns disclosed in the financial
7 statements.

8 MS. KATHY KALINOWSKY: Okay. And if
9 there were, they -- those would be disclosed in the
10 notes?

11 MR. ROBERT KOWALCHUK: Yes, they would.

12

13 (BRIEF PAUSE)

14

15 MS. KATHY KALINOWSKY: Mr. -- Mr.
16 Parkinson, as an auditor, is the information that's
17 available in the annual report comparable to that of
18 publically traded companies which would allow
19 stakeholders, including investors, and others to assess
20 the overall financial wellness of those companies?

21 MR. NEIL PARKINSON: I think that the
22 annual report of MPIC includes information which is
23 reasonably comparable to the sorts of disclosures that
24 are given by public companies. There are, of course, you
25 know, very detailed requirements applicable to public

1 companies, not all of which are applicable to MPIC's
2 business circumstances or otherwise, or necessarily
3 relevant to them, but I think the nature of the
4 information and the depth of the information provided is,
5 in fact, quite comparable to what is in a public
6 company's statement.

7 MS. KATHY KALINOWSKY: And then, Mr.
8 Parkinson, as an auditor, could an individual, reasonably
9 informed about, and experienced in reading financial
10 statements, and not the general person off the street,
11 but could they be able to assess the overall financial
12 wellness of the Corporation by reading the financial
13 statements and the audit opinion of KPMG?

14 MR. NEIL PARKINSON: Yes, I think that --
15 to the -- to the extent that any public financial
16 statement can do that, I think that would be the case
17 here. There's, you know, obviously other information in
18 greater depth that somebody might look -- look for. But
19 from a public financial statement perspective, this is a
20 reasonably, I think, fulsome set of disclosures and
21 treatments that would allow someone to make a -- an
22 informed valuation on that point.

23 MS. KATHY KALINOWSKY: Thank you for
24 that. I'll just confer with my -- the witnesses right
25 now for a moment, just to make sure there's no further

1 questions.

2 THE CHAIRPERSON: If you'd like, Ms.
3 Kalinowsky, we could take the break and then you could
4 confer at your leisure. And when we come back, if you
5 have more, you have more. Otherwise, we move on.

6 MS. KATHY KALINOWSKY: Absolutely.
7 That's a wise --

8 THE CHAIRPERSON: Okay.

9 MS. KATHY KALINOWSKY: -- use of time.
10 Thank you.

11 THE CHAIRPERSON: Thank you.

12

13 --- Upon recessing at 10:35 a.m.

14 --- Upon resuming at 10:58 a.m.

15

16 THE CHAIRPERSON: Ms. Kalinowsky, do you
17 have anymore direct?

18 MS. KATHY KALINOWSKY: Yes, I just have
19 one (1) question.

20

21 CONTINUED BY MS. KATHY KALINOWSKY:

22 MS. KATHY KALINOWSKY: It's -- Mr.
23 Parkinson, you're aware that the original estimate for
24 the PIPP enhancements was \$90 million. This was
25 subsequently then revised for the last year-end in the

1 review of policy and liabilities downwards to
2 approximately \$75 million. You're aware that Board
3 council questioned the Corporation's witnesses on the
4 revision and its compliance with GAAP.

5 Can you speak to the appropriateness of
6 such a process to revise an earlier estimate, and the
7 extent to which this is indeed GAAP compliant.

8 MR. NEIL PARKINSON: Yes, I'm aware of
9 the -- the questions, and reviewed that part of the
10 transcript from yesterday. I would confirm that it is
11 the normal expectation, under generally accepted
12 accounting principles, that you would reflect the best
13 and most current information in your estimates, and
14 wouldn't treat them as being locked in time.

15 And my understanding is that the -- the
16 estimate was updated based on a more detailed line-by-
17 line, or I guess what we would say a seriatim review of
18 the -- the cases in question, whereas the original
19 estimate was more of portfolio basis, so it would be
20 expected that there would be differences from the
21 original estimate.

22 So yes, it is very much in accordance with
23 GAAP and financial reporting practices, generally.

24 MS. KATHY KALINOWSKY: Thank you. That
25 concludes my direct-examination of both Mr. Kowalchuk and

1 Mr. Parkinson, and they're ready for cross-examination by
2 Board counsel now.

3 THE CHAIRPERSON: Please.

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

6

7 CROSS-EXAMINATION BY MS. CANDACE EVERARD:

8 MS. CANDACE EVERARD: Mr. Kowalchuk,
9 we've heard your evidence about a little bit of the
10 history between MPI and -- and KPMG, that KPMG, in the
11 last stint, has been external auditor for MPI since, I
12 believe you said, 2003?

13 MR. ROBERT KOWALCHUK: That's correct,
14 yeah.

15 MS. CANDACE EVERARD: And you, yourself,
16 have been the lead audit engagement partner for about
17 four years?

18 MR. ROBERT KOWALCHUK: Correct.

19 MS. CANDACE EVERARD: Now, does KPMG have
20 a policy of rotating engagement partners on and off
21 different assignments?

22 MR. ROBERT KOWALCHUK: That policy would
23 be applicable to a public company where there are
24 specific rules governing that. Manitoba Public Insurance
25 is not a -- a -- a public company with shares being

1 traded on a stock exchange and, therefore, it's not
2 applicable.

3 MS. CANDACE EVERARD: Can you tell us
4 what the purpose is of that policy in the context of
5 public companies?

6 MR. ROBERT KOWALCHUK: I think one of the
7 purposes of that, in that context, is just to have a
8 rotating partner. After a certain number of years, there
9 would be some familiarity built up with -- with the
10 organization. It is, I think, partially designed to
11 address any independence concerns that the public may
12 have in that circumstance, whether there are -- are any,
13 in appearance or in fact.

14 MS. CANDACE EVERARD: Can you tell us
15 whether KPMG has undertaken any other engagements for
16 MPI, aside from its work as external auditor, since its
17 appointment in 2003? And we already heard your evidence
18 about the quick scan that was done in 2008, but is there
19 -- there anything else that you can think of?

20 MR. ROBERT KOWALCHUK: There would be
21 several other engagements since that point in time, the
22 most recent one, to conduct a review on the proposed
23 allocation methodologies, which was submitted as
24 evidence.

25 MS. CANDACE EVERARD: Can you tell us

1 about what the other ones related to?

2 MR. ROBERT KOWALCHUK: We have -- you
3 mentioned the quick scan engagement. Other engagements
4 have been primarily to provide audit services at the
5 request of management -- again, various -- various
6 matters, not all of them come to mind at this point.

7 MS. CANDACE EVERARD: If you think of any
8 of the other ones as we keep going, just let me know.

9 MR. ROBERT KOWALCHUK: Certainly.

10 MS. CANDACE EVERARD: Sometimes these
11 things have a tendency to just pop into one's head.

12 Can you tell us whether there are
13 particular standards or guidelines that KPM (sic) follows
14 when it's assessing whether or not to take on any
15 additional engagements from an external audit client?

16 MR. ROBERT KOWALCHUK: Yes. We would
17 have -- what we -- we would go through what we call an
18 engagement acceptance process, whereby we would ensure
19 that any services that we would be providing to our audit
20 client, in addition to those audit -- financial statement
21 audit services, would not pose any independence threats.
22 So that's -- that is a process that we go through.

23 MS. CANDACE EVERARD: Thank you. Now, it
24 was mentioned earlier, I think, by Mr. Parkinson, that
25 typically KPMG spends over eight hundred (800) hours

1 doing the external auditing work for the Corporation.

2 Is that about fair to say?

3 MR. ROBERT KOWALCHUK: That's fair.

4 MS. CANDACE EVERARD: And can you tell us
5 roughly how many of those hours are spent on the Basic
6 side versus on the Corporate overall?

7 MR. ROBERT KOWALCHUK: It would be
8 difficult to come up with a split, as many of the audit
9 procedures performed are similar for both the Basic and
10 the corporate. So, from that standpoint, it -- it -- it
11 would be -- I could not come up with a split for you.

12

13 (BRIEF PAUSE)

14

15 MS. CANDACE EVERARD: I'm going to ask
16 you to turn to SM.6, which was filed as part of the GRA
17 filing in volume 1.

18

19 (BRIEF PAUSE)

20

21 MS. CANDACE EVERARD: SM.6 is a filing by
22 the Corporation dealing with asset and allocation --
23 asset and liability allocation. And we see that one (1)
24 of the attachments, this was in response to an IR that
25 was posed, is a report prepared by KPMG a number of years

1 ago. This is close to the end of the AI.6 filing.

2 Do you have a copy of that in front of
3 you?

4 MR. ROBERT KOWALCHUK: We're still
5 looking for it.

6

7 (BRIEF PAUSE)

8

9 MR. ROBERT KOWALCHUK: Yes, I have a
10 copy.

11 MS. CANDACE EVERARD: Thank you. Mr.
12 Kowalchuk, you testified on direct that you became
13 familiar with this document recently I think was the word
14 that you used.

15 MR. ROBERT KOWALCHUK: Correct.

16 MS. CANDACE EVERARD: And when you say
17 "recently," does that mean recently relative to the date
18 on which the report was prepared, or does that mean
19 recently relative to today's hearing?

20 MR. ROBERT KOWALCHUK: Relative to
21 today's hearing.

22 MS. CANDACE EVERARD: So would it be fair
23 to say that you reviewed this for the first time in
24 conjunction with preparation for coming to testify today?

25 MR. ROBERT KOWALCHUK: Correct.

1 MS. CANDACE EVERARD: Now, when did you
2 become aware of the existence of this document as opposed
3 to actually having reviewed it?

4 MR. ROBERT KOWALCHUK: When I first
5 became involved in the MPI audit in 2000 and -- was it
6 '07 or '08 --

7 MS. CANDACE EVERARD: '06 roughly.

8 MR. ROBERT KOWALCHUK: '06, okay. Thank
9 you.

10 MS. CANDACE EVERARD: It was '06 or '07,
11 I think.

12 MR. ROBERT KOWALCHUK: Right.

13 MS. CANDACE EVERARD: Yeah. Okay, so you
14 -- you were familiar with the existence of the document
15 back then but just didn't have occasion to review it
16 until much more recently.

17 MR. ROBERT KOWALCHUK: That is correct.

18 MS. CANDACE EVERARD: I'd like to
19 highlight for the Board some of the excerpts of this
20 document. If we go to page numbered 1, which is under
21 the section, "Introduction," we see, first off, in the
22 first paragraph, last sentence, there's reference to a
23 detailed review having been undertaken of investment
24 allocation process in 1990.

25 Do you see that?

1 MR. ROBERT KOWALCHUK: Yes, I do.

2 MS. CANDACE EVERARD: So I -- I'm going
3 to come back to this 1994 document in a moment. And --
4 and we see from a look on this introduction page, as --
5 as well, and other places in the document, that the
6 update was done in 1994 because of the switch over to no-
7 fault.

8 Are you familiar with that?

9 MR. ROBERT KOWALCHUK: Yes, I am.

10 MS. CANDACE EVERARD: And are you
11 familiar with the 1990 report?

12 MR. ROBERT KOWALCHUK: No. No, I have
13 not reviewed that report.

14 MS. CANDACE EVERARD: Are you familiar
15 with the existence of the 1990 report?

16 MR. ROBERT KOWALCHUK: Yes, I am, through
17 reference of this document.

18 MS. CANDACE EVERARD: But you -- you have
19 not ever had occasion to look at the 1990 document?

20 MR. ROBERT KOWALCHUK: I have not
21 reviewed it.

22 MS. CANDACE EVERARD: Are you aware that
23 the 1990 document was prepared by KPMG as a result of a
24 request made by the Public Utilities Board at that time?

25

1 (BRIEF PAUSE)

2

3 MR. ROBERT KOWALCHUK: No, I was not
4 familiar with that.

5 MS. CANDACE EVERARD: Mr. Parkinson, do
6 you have any more specific knowledge about the 1990
7 report?

8 MR. NEIL PARKINSON: No, I don't.

9 MS. CANDACE EVERARD: Have you ever
10 reviewed the 1990 report?

11 MR. NEIL PARKINSON: No, I have not.

12 MS. CANDACE EVERARD: But you were aware
13 of its existence as well?

14 MR. NEIL PARKINSON: Only, you know, as I
15 think Mr. Kowalchuk said, as sort of as a knock on from
16 subsequent reports.

17 MS. CANDACE EVERARD: I assume though,
18 and this question can be for -- for either of you, that
19 you would be aware from reading the 1994 document that
20 the 1990 review was done with a view to reviewing MPI's
21 allocation formula at that time.

22 MR. ROBERT KOWALCHUK: Yes.

23 MS. CANDACE EVERARD: And, Mr. Kowalchuk,
24 are you familiar with the conclusion that KPMG reached in
25 the 1990 report?

1 MR. ROBERT KOWALCHUK: Yes, I believe
2 that the conclusion was that the Corporation's existing
3 methodology at the time was appropriate and fair.

4

5 (BRIEF PAUSE)

6

7 MS. CANDACE EVERARD: Okay, we -- we may
8 come back to some questions about the -- the 1990
9 document, but for now we'll continue with our review of
10 the 1994 one that we have in front of us. It's reflected
11 on page 3 of the 1994 report that -- and this is -- I'm
12 looking in the third paragraph on page 3, that:

13 "The review was conducted to assist
14 MPIC management in determining --
15 determining whether or not the current
16 methodology continues to be appropriate
17 for allocating investment income
18 between auto and general and between
19 individual business lines given the
20 introduction of PIPP on March 1st,
21 1994."

22 Do you see that?

23 MR. ROBERT KOWALCHUK: Yes, I do.

24 MS. CANDACE EVERARD: And on page 4 KPMG
25 has reflected, and this is about halfway down the page,

1 that in the course of the review it identified and
2 considered five (5) alternatives for allocating
3 investment income, and then it lists the five (5) of them
4 there at bullet points, the first one being the status
5 quo or the equity method that was in use at that time.
6 Do you see that?

7 MR. ROBERT KOWALCHUK: Yes, I do.

8 MS. CANDACE EVERARD: And it's reflected
9 in the paragraph underneath that that method, the equity
10 method, had been in use as at 1994 for about eighteen
11 (18) years.

12 Do you see that?

13 MR. ROBERT KOWALCHUK: Yes, I see that.

14 MS. CANDACE EVERARD: And we see the
15 remaining models on the list as follows: Insurance
16 Bureau of Canada guidelines, premiums written, separate
17 investment pools, or no allocation. Do you see that?

18 MR. ROBERT KOWALCHUK: Yes, I do.

19 MS. CANDACE EVERARD: And we see in the
20 next paragraph, the one that we looked at a moment ago
21 that references the eighteen (18) year timeframe, KPMG
22 says that, as was identified in their initial review,
23 there's always a concern of the complexity of utilizing
24 the equity method, however, this concern was lessened by
25 the experience of the Corporation in having used the

1 equity method for over eighteen (18) years. Do you see
2 that?

3 MR. ROBERT KOWALCHUK: Yes, I do.

4 MS. CANDACE EVERARD: Now, we see if we
5 go to page 11 of this document there's some further
6 commentary on the equity method. And KPMG says in the
7 very first paragraph on page 11:

8 "The disadvantage of using the equity
9 method is that there was some
10 complexity involved with applying and
11 maintaining the method. Certain
12 assumptions and arbitrary allocations
13 must be made on common assets and
14 liabilities. As the allocation process
15 gets more detailed, for example,
16 allocating investment income between
17 the pre-March 1st, 1994 and post-March
18 1st, 1994 business, the number of
19 arbitrary allocations increases.
20 However, the actual amount of common
21 items that require allocation are not
22 significant compared to the overall
23 model. All allocations, by definition,
24 require assumptions because it is the
25 lack of any direct relationship which

1 requires the allocation process."

2 Have I read that in correctly?

3 MR. ROBERT KOWALCHUK: No, that is
4 correct.

5 MS. CANDACE EVERARD: Read that into the
6 record correctly.

7 MR. ROBERT KOWALCHUK: Yes, you have.

8 MS. CANDACE EVERARD: Thank you. And if
9 we go to page 19 of the report we see KPMG found, and
10 this is reflected in the fourth paragraph and last
11 paragraph on page 19, that common assets and liabilities
12 that must be allocated represent less than 10 percent of
13 the totals and, therefore, do not have a material impact
14 on the allocation of investment income between individual
15 lines.

16 Can you tell us whether KPMG still holds
17 that view at present?

18 MR. ROBERT KOWALCHUK: I mean, what I --
19 what I can say is that, and I don't know what the exact
20 percentage is today, it -- it still is a relatively small
21 number. Whether or not there is any material impact
22 would be on a year-by-year basis as we're performing the
23 financial statement audits, so it would have to be
24 assessed in that context.

25 MS. CANDACE EVERARD: Would you agree

1 that if the assets and liabilities to be allocated
2 represented less than 10 percent of totals, that there
3 would likely not be a material impact on the allocation
4 of investment income?

5 MR. ROBERT KOWALCHUK: That's possible
6 but, again, we'd have to assess it based on the
7 materiality for the financial statement audit in
8 question.

9 MS. CANDACE EVERARD: Okay. If we go
10 then to the conclusion section of this '94 -- 1994
11 report, we see on page 21, KPMG's conclusion at the time
12 that:

13 "The existing equity method used by the
14 Corporation continued to be acceptable
15 and appropriate to allocate investment
16 income."

17 That's in the second paragraph. Do you
18 see that?

19 MR. ROBERT KOWALCHUK: Yes, I do.

20 MS. CANDACE EVERARD: And at the bottom
21 of page 21, KPMG made a secondary recommendation, which
22 I'll read in as follows, that:

23 "The Corporation continued to enhance
24 its current allocation review process
25 by having the annual updates

1 supplemented by a substantive review
2 every five (5) to six (6) years. The
3 reviews should include an assessment of
4 the allocation methodology and a
5 comparison to other rela -- relevant
6 models."

7 Do you see that?

8 MR. ROBERT KOWALCHUK: Yes, I do.

9 MS. CANDACE EVERARD: Now, do you have
10 knowledge about whether the -- firstly, the annual
11 updates that are referenced here were done at any time
12 after 1994, and up to, let's say 2006/2007, when you
13 started as engagement partner on this file?

14 MR. ROBERT KOWALCHUK: I can't comment on
15 whether the updates were performed prior to my
16 involvement with the engagement.

17 MS. CANDACE EVERARD: What about whether
18 updates were done over the course of your engagement, the
19 last four (4) years?

20 MR. ROBERT KOWALCHUK: Yes, certainly
21 internally, annual updates are performed. We are present
22 at the audit committee meetings where the allocations and
23 necess -- any necessary revisions to those allocations
24 are presented to the audit committee for approval, and
25 then ultimately the board approval after that.

1 MS. CANDACE EVERARD: And what about the
2 substantive review every five (5) to six (6) years?
3 Again, we'll break it down.

4 Do you have knowledge of whether that was
5 done in between 1994 and roughly 2006/2007, when you
6 became involved in the file?

7 MR. ROBERT KOWALCHUK: I don't believe it
8 has been done. I -- I am not 100 percent sure.

9 MS. CANDACE EVERARD: So you don't have
10 specific knowledge that it was done?

11 MR. ROBERT KOWALCHUK: Correct.

12 MS. CANDACE EVERARD: And we know that a
13 review, certainly of expense allocation was done for the
14 Corporation last year by Deloitte, and this year there's
15 a -- an updated asset and alloc -- or asset and liability
16 allocation.

17 And you're familiar with those, obviously?

18 MR. ROBERT KOWALCHUK: Yes, I am.

19 MS. CANDACE EVERARD: Were you aware of
20 any other methodology reviews between the time you came
21 on the file and -- and those that I just described?

22 MR. ROBERT KOWALCHUK: No external
23 reviews. As I mentioned, there was an internal review
24 process that I did witness each year.

25 MS. CANDACE EVERARD: Since you've been

1 working for the Corporation as external auditor, did you
2 raise concerns with it about the appropriateness of the
3 Corporation's cost allocation methodology?

4 MR. ROBERT KOWALCHUK: No, we have not
5 raised any concerns about the appropriateness of the
6 allocations.

7 MS. CANDACE EVERARD: And why have -- why
8 did you not do that over that four (4) year period?

9 MR. ROBERT KOWALCHUK: The audit
10 procedures that we did perform each year on the
11 allocations suggested that the apply -- the application
12 of those allocations resulted in the financial statements
13 being fairly presented.

14 MS. CANDACE EVERARD: And are you aware
15 of KPMG, if not raising concerns, then making any
16 recommendations to the Corporation and in its management
17 letters, or otherwise, with respect to cost allocation?

18 MR. ROBERT KOWALCHUK: No such comments
19 were raised, no.

20 MS. CANDACE EVERARD: Mr. Parkinson, I'll
21 turn to you for a moment, because you've been on the file
22 a little bit longer than Mr. Kowalchuk.

23 Are you aware of any substantive reviews
24 being done of the cost allocation, or the allocation
25 methodologies between 1994 and 2003 when you came on

1 board?

2 MR. NEIL PARKINSON: No, I'm not aware of
3 any.

4 MS. CANDACE EVERARD: And what about
5 between 2003 and present, and I'm accepting, obviously,
6 the -- what's been done in the last -- between last year
7 and this year by Deloitte.

8 MR. NEIL PARKINSON: Well, up to the most
9 recent ones, I'm not aware of there having been any
10 substantive outside reviews being done. I would say
11 that, you know, as -- as mentioned earlier on, one (1) of
12 the things we would do on an annual basis is see -- is
13 look for any indicators that there was a problem with
14 that allocation process.

15 In the absence of that, we didn't have any
16 -- quite apart from seeing that it had been properly
17 applied, there was no indicator or event that indicated
18 that there was a -- you know, any kind of a -- a problem
19 with the allocation process.

20 MS. CANDACE EVERARD: And as a result of
21 that, I take it your evidence is that there were no
22 issues or concerns or recommendations put forward?

23 MR. NEIL PARKINSON: That's correct.

24 MS. CANDACE EVERARD: Okay. Now, we know
25 that KPMG has had the opportunity to review the work that

1 Deloitte did last year with respect to cost allocation
2 methodology and the update from this year with respect to
3 asset and liability allocation.

4 MR. ROBERT KOWALCHUK: That is correct.

5 MS. CANDACE EVERARD: And we have on the
6 record the document, which has been entered as an
7 exhibit, MPI Exhibit 13, which comprises the results of
8 the review that KPMG conducted, that's right?

9 MR. ROBERT KOWALCHUK: That's correct.

10 MS. CANDACE EVERARD: Now, the evidence
11 earlier today was that this document -- that is, Exhibit
12 13, the October 4th KPMG analysis -- was prepared by an
13 associate partner from KPMG in Toronto.

14 MR. ROBERT KOWALCHUK: That is correct.

15 MS. CANDACE EVERARD: And who was that
16 person?

17 MR. ROBERT KOWALCHUK: His name is
18 Jonathan Erling.

19 MS. CANDACE EVERARD: Okay. Can you just
20 spell that, for the record, because I don't think we have
21 that anymore.

22 MR. ROBERT KOWALCHUK: E-R-L-I-N-G.

23 MS. CANDACE EVERARD: And -- and
24 Jonathan, you said, was his first name?

25 MR. ROBERT KOWALCHUK: Correct.

1 MS. CANDACE EVERARD: Okay. Are you
2 aware of what process Mr. Erling followed in conducting
3 the review of the Deloitte work?

4 MR. ROBERT KOWALCHUK: I'm aware of some
5 of the process he followed.

6 MS. CANDACE EVERARD: Can you tell us
7 what you know about?

8 MR. ROBERT KOWALCHUK: Well, Mr. Erling
9 initially reviewed the Deloitte allocation reports. Mr.
10 Erling also travelled to Winnipeg on one (1) occasion to
11 meet with MPI senior management and cost accountants to
12 gain a deeper understanding of the decisions made during
13 that process.

14 And I know that Mr. Erling also reviewed
15 some of the source documentation in terms of the
16 mechanics of -- of -- of how the allocations were being
17 calculated.

18 MS. CANDACE EVERARD: And is there
19 anything else that you're aware of that Mr. Erling did in
20 his review?

21 MR. ROBERT KOWALCHUK: I'm not aware of
22 anything else. Mr. Erling had previous experience with
23 allocation methodologies, which is why he was working on
24 this engagement.

25 MS. CANDACE EVERARD: Are you aware, or

1 do you have a sense, of roughly how many hours Mr. Erling
2 worked on his review, and then, as well, spent on
3 preparing the -- the document that we have here?

4 MR. ROBERT KOWALCHUK: I don't have an
5 exact number. It would be less than one hundred (100)
6 hours, likely.

7

8 (BRIEF PAUSE)

9

10 MS. CANDACE EVERARD: And we know, from
11 looking at the document that's been filed, that Mr.
12 Erling, on behalf of KPMG, found that the methodologies
13 proposed by Deloitte were reasonable; is that fair to
14 say?

15 MR. ROBERT KOWALCHUK: That's fair to
16 say.

17 MS. CANDACE EVERARD: Now, can you tell
18 us a little bit -- and I -- and I know it's been
19 mentioned a couple of times today that when KPMG performs
20 its audit reviews of the Corporation, including Basic, it
21 reviews the allocations themselves. And I -- I mean that
22 as distinct from the -- the methodology that underlies
23 the allocations.

24 MR. ROBERT KOWALCHUK: That's correct.

25 MS. CANDACE EVERARD: Can you explain to

1 us how KPMG, in doing this work, reviews the
2 reasonableness of the allocations?

3 MR. ROBERT KOWALCHUK: Well, in -- in
4 summary, the -- any -- as I mentioned, there's an
5 internal review process that management undertakes each
6 year with restec -- with respect to the methodologies.
7 We compare -- in the year that we're auditing, we compare
8 the methodologies of that year to those used in previous
9 years and make note of any differences.

10 We then investigate the nature of those
11 differences and whether they are appropriate.

12 MS. CANDACE EVERARD: I gather from the
13 evidence that's on the record that, when KPMG is doing
14 that work, it has available to it information relating to
15 the Corporation as a whole, all of the lines of business.

16 MR. ROBERT KOWALCHUK: Yes. We are
17 engaged to provide an opinion on the financial statements
18 on not just the Basic, but the Corporation as a whole.

19 MS. CANDACE EVERARD: And can you comment
20 on the appropriateness of reviewing an allocation
21 methodology in a context wherein information on all of
22 the overall expenditures has not been put forward?

23 MR. ROBERT KOWALCHUK: I mean, I can only
24 comment from an audit perspective on -- on what we do,
25 and that is the process that I just described.

1 MS. CANDACE EVERARD: Would you be able
2 to do your audit, sir, without corporate-wide
3 information?

4 MR. ROBERT KOWALCHUK: We would not be
5 able to since we are engaged to report on the financial
6 statements of the Corporation.

7 MS. CANDACE EVERARD: So KPMG would not
8 be in a position to assess the reasonableness of the
9 allocations without the whole of the Corporate
10 information before it?

11 MR. ROBERT KOWALCHUK: We have that
12 information available to us due to the nature of our en -
13 - engagement. I cannot comment on -- on whether or not
14 we would require that infor -- in the absence of that
15 information, whether we would require to assess the
16 reasonableness.

17 MS. CANDACE EVERARD: Well, Mr.
18 Kowalchuk, it seems to me that without that information
19 available, KPMG would not be able to complete that
20 assessment. I mean, isn't it fair to say that the
21 corporate-wide information is provided for a reason, that
22 it be reviewed and utilized in the review?

23 MR. ROBERT KOWALCHUK: Well, the
24 corporate- wide information is given to us in order for
25 us to form our opinion on the corporate financial

1 statements. And we do use the corporate financial
2 statements in the -- in -- in analysing the allocations
3 made to the Basic financial statements, yes.

4 MS. CANDACE EVERARD: And without that
5 corporate information, that analysis would be very
6 difficult, if not impossible; would you not agree?

7 MR. ROBERT KOWALCHUK: It -- it would --
8 would be made -- it would be made more difficult.
9 Whether that's impossible, I -- I can't speak to.

10 MS. CANDACE EVERARD: Because it's never
11 happened. That -- that KPMG has not been provided with
12 the corporation information; rather, KPMG has always
13 received all of the information.

14 MR. ROBERT KOWALCHUK: That's correct.

15 MS. CANDACE EVERARD: Okay. Let's talk
16 for a moment about the quick scan report, shifting gears
17 a little bit into IFRS. The quick scan report I don't
18 believe is part of the current filing before the Board.

19 Do you have a copy of it handy?

20 MR. ROBERT KOWALCHUK: No, I do not.

21

22 (BRIEF PAUSE)

23

24 THE CHAIRPERSON: Could we have it
25 copied?

1 MS. CANDACE EVERARD: Mr. Chairman,
2 absolutely. We -- we have a couple of copies here, but
3 it may be appropriate just to break for a few minutes,
4 get these copies made, and --

5 THE CHAIRPERSON: Yes, that would be
6 appropriate.

7 MS. CANDACE EVERARD: I don't know that
8 we -- well, how lo -- how long will it take. Do you
9 think we need to leave the room, or can we just get them
10 done? A short break, Mr. Chairman, would probably be in
11 order.

12 THE CHAIRPERSON: Okay.

13

14 (BRIEF PAUSE)

15

16 THE CHAIRPERSON: Just in fairness to the
17 -- the witnesses today because, of course, you weren't
18 here yesterday -- and I'm not meant to make any un-
19 respectful comment or anything, but we would appreciate
20 it if, as we stated yesterday, if consultative
21 discussions between the witness and MPI be curtailed
22 while the witnesses are under cross-examination. Thank
23 you.

24

25 (BRIEF PAUSE)

1 THE CHAIRPERSON: Perhaps, to make the
2 best use of the time, we've got a few general questions
3 that we could pose.

4 Mr. Parkinson, do you consider the
5 practice of accounting in general, GAAP in specific, and,
6 also in specific, the new or prospective IFRS standards,
7 as being representative of the employment of a science or
8 an art? Is it a science, or is it an art?

9 MR. NEIL PARKINSON: I think that my
10 actuarial colleagues often refer to actuarial science,
11 but I think there's certainly a lot of judgment and, I
12 would say, in a lower case 'a' sense, art to it.

13 But I think a further comment is that,
14 over the years, certainly throughout my career, the
15 application of judgment, both on the accounting and the
16 actuarial side, has increasingly been caught up in more
17 and more professional guidance and rules that have
18 reduced the -- you know, how -- how blank the canvas you
19 start with is, you know, that it -- there -- there's a
20 lot more guidance, a lot more narrowing of practice from
21 then was the case twenty (20) years ago.

22 So it's closer to a science now than --
23 and it was probably a lot closer to an art fifteen (15)
24 or twenty (20) years ago.

25 THE CHAIRPERSON: I suppose you'd be

1 suggesting more towards the social sciences rather than
2 the hard science, like physics and things of that nature?

3 MR. NEIL PARKINSON: Well, on the
4 actuarial side, there's considerable guidance, I would
5 say, on how to go about doing the valuation and the
6 computations around that.

7 Having said that, there's still a
8 considerable amount of professional judgment required in
9 -- in carrying out those kind of quantitative analyses
10 and -- and estimates.

11 THE CHAIRPERSON: But specifically, when
12 you're talking about accounting standards, it's --
13 they're -- they're human conventions, are they not? It's
14 not like gravity.

15 MR. NEIL PARKINSON: Yeah. They are --
16 they are conventions. Again, I would say, increasingly,
17 the accounting standards that are developed, particularly
18 under IFRS, are being made to fit into a more coherent,
19 overall conceptual framework, which sometimes means it's
20 hard to get special treatment for the special attributes
21 of the insurance industry and in specialized industries
22 generally.

23 But, no, I certainly accept that there is
24 a great deal of judgment as to how best to meet the needs
25 of users of financial statements.

1 THE CHAIRPERSON: But Canadian GAAP and -
2 - and IFRS, if -- if my understanding is correct, is so-
3 called principle-based as opposed to the American
4 approach of detailing line by line, more like, if you
5 like, the Quebec civil code.

6 Is that a fair statement?

7 MR. NEIL PARKINSON: Yes, that is a fair
8 statement, I think.

9 THE CHAIRPERSON: So it -- it -- both
10 Canadian GAAP and IFRS allows for judgment?

11 MR. NEIL PARKINSON: Yes, that's true. I
12 would say that Canadian GAAP, as it has evolved in recent
13 years, has taken on many of the attributes of US GAAP,
14 but it was still not -- not nearly as detailed as US
15 GAAP.

16 THE CHAIRPERSON: Would you say that GAAP
17 is, or even should represent, in a sense, common sense,
18 or would you disagree?

19 MR. NEIL PARKINSON: I think that GAAP
20 ought to represent common sense, but sometimes that seems
21 like an aspirational goal. Some of the people have
22 commented on some aspects of -- IFRS insurance proposals
23 have pointed out that there are some things that don't
24 work very well for the insurance industry, even though
25 they may fit within a broader conceptual framework.

1 THE CHAIRPERSON: But seeking the goal of
2 achieving common sense is not out of line as -- with
3 respect to an objective then?

4 MR. NEIL PARKINSON: Yeah. I would agree
5 with you, yes.

6 THE CHAIRPERSON: Just to finish this,
7 and then we can get back to the -- Ms. Everard's -- would
8 you grant that the accounting standards, or at least the
9 interpretation of same by various parties, contributed to
10 some degree to the recent global credit crisis and
11 recession? I'm -- I'm speaking specifically of the rules
12 that allowed for -- or conventions, if you like, that
13 allowed for certain off-balance sheet type transactions
14 and non-recording of public debt in Greece and a whole
15 number of items of that particular nature, where -- some
16 would say were supported by accounting standards?

17 MR. NEIL PARKINSON: I think as far as I
18 would go with that is that that's -- at most, I would say
19 it would be a contributing factor as opposed to a causal
20 factor. And I think that the causal factors of that go
21 more to other -- other factors about any number of -- and
22 it gets to be a philosophical discussion, I suppose, but
23 I don't think that the crisis was triggered by, you know,
24 accounting, as such.

25 THE CHAIRPERSON: But accounting

1 contributed in some degree, did it not, by making it
2 difficult for the readers of both governmental and -- and
3 corporate financial statements to, if you want to reach
4 the essence of what was going on?

5 MR. NEIL PARKINSON: Well -- well,
6 perhaps to a degree, but I think that the -- much of the
7 information that people ignored were -- they were not
8 unaware of, and they -- the analysts, and so on, and
9 others who had -- had a lot of the information that they
10 studiously ignored, as inconvenient or otherwise, and --
11 or underrated the possibility of some negative outcomes.

12 So in many cases, pick -- pick a scandal.
13 The information was available, but simply not factored
14 into analysis or acted on on a timely basis.

15 THE CHAIRPERSON: Okay. Thank you. Ms.
16 Everard...?

17

18 CONTINUED BY MS. CANDACE EVERARD:

19 MS. CANDACE EVERARD: Thank you, Mr.
20 Chairman. Mr. Gaudreau is just passing out a copy of the
21 quick scan document, which as I indicated, I don't
22 believe is on the record in this proceeding. It was on
23 the record a couple of years ago.

24 Mr. Kowalchuk, I'm sure you're familiar
25 with the document, having looked at it and in part,

1 created it a couple years ago?

2 MR. ROBERT KOWALCHUK: Yes, that's
3 correct.

4 MS. CANDACE EVERARD: Mr. Chairman, what
5 I'd like to do then is mark the quick scan as the next
6 Board exhibit.

7

8 --- EXHIBIT NO. PUB-15: Quick scan document

9

10 THE CHAIRPERSON: Let's not let that slow
11 it down. We'll get --

12 MS. CANDACE EVERARD: Yeah --

13 THE CHAIRPERSON: -- we'll get the number
14 --

15 MS. CANDACE EVERARD: -- I'm sure Mr.
16 Gaudreau will provide a -- a number to us as soon as
17 possible, but it'll -- it'll be the next Board exhibit.

18

19 CONTINUED BY MS. CANDACE EVERARD:

20 MS. CANDACE EVERARD: So, Mr. Kowalchuk,
21 I just want to refer you to a few excerpts from the quick
22 scan. We'll start at the end and then -- and then work
23 our way back to the beginning.

24 Page 13, which is, I believe, the second
25 last page of the document, is entitled, "Considerations

1 Based on Our Quick Scan Analysis." And the first section
2 that's there is entitled, "Impact Will Be Significant."

3 Do you see that?

4 MR. ROBERT KOWALCHUK: Yes, I do.

5 MS. CANDACE EVERARD: And then the
6 narrative underneath that heading reads:

7 "Our analysis has been limited, but has
8 identified a number of areas in which
9 MPI may expect the IFRS conversion to
10 have a significant impact. We suggest
11 that these priority areas be subject to
12 review [et cetera]."

13 Is -- is that what's reflected there?

14 MR. ROBERT KOWALCHUK: That's correct.

15 MS. CANDACE EVERARD: And if we look at
16 the body of the quick scan document, what KPMG did was
17 went through a variety of categories and gave some
18 commentary sort of in a chart form, but also on the left-
19 hand side of each of these charts, reflected a high,
20 medium, or low expected impact for profit and loss
21 balance sheet disclosure and difficulty.

22 Is that right?

23 MR. ROBERT KOWALCHUK: That's correct.

24 MS. CANDACE EVERARD: So let's start on
25 page 6. This is the section relating to financial

1 instruments. And KPMG identified at the time that there
2 was an opportunity to elect a designate as available for
3 sale, securities to the held for trading designation upon
4 the transition if certain criteria were met. And I'm
5 just looking at the second last bullet there on page 6,
6 last sentence.

7 Are you with me?

8 MR. ROBERT KOWALCHUK: Yes, I see that
9 paragraph.

10 MS. CANDACE EVERARD: And then at the top
11 of page 7, within the same discussion, there are three
12 (3) bulleted points that are listed as the criteria that
13 the Corporation would have to meet in order to avail
14 itself of this transition election.

15 Is that right?

16 MR. ROBERT KOWALCHUK: That is correct.

17 MS. CANDACE EVERARD: And I take it that
18 -- thank you. I've just been informed that last exhibit,
19 Mr. Chairman, is number 15, Board Exhibit 15.

20 So, Mr. Kowalchuk, I take it that the
21 Corporation did in fact meet the three (3) criteria that
22 are listed, and in fact, that election to redesignate
23 securities has been taken.

24 That's your understanding?

25

1 (BRIEF PAUSE)

2

3 MR. ROBERT KOWALCHUK: Yes, that's
4 correct.

5 MS. CANDACE EVERARD: And I believe it
6 was mentioned earlier today, and we've had evidence on
7 the record, that as a result of this adjustment, there's
8 a -- a change to the Corporation's retained earnings of
9 24 million and about 21 million of that is attributable
10 to Basic?

11 MR. ROBERT KOWALCHUK: Yes, that's my
12 understanding.

13 MS. CANDACE EVERARD: And I gather that
14 KPMG has reviewed the election and determined that the
15 provision proposed is appropriate?

16 MR. ROBERT KOWALCHUK: Certainly we
17 haven't audited the figures yet, but we are in agreement
18 that the election is appropriate and in accordance with
19 IFRS, yes.

20 MS. CANDACE EVERARD: And the
21 calculations will be reviewed in -- in due course as the
22 normal audit procedure unfolds?

23 MR. ROBERT KOWALCHUK: Correct.

24 MS. CANDACE EVERARD: Okay. Let's go
25 then to page 8 of the quick scan document. We're now

1 into a new section entitled, "Provisions and
2 contingencies," which starts on page 7. But the part
3 that I would like to direct your attention to is on page
4 8, second last bullet, second paragraph. This is the
5 paragraph that begins:

6 "Provisions for loss making executory
7 contracts."

8 Are you with me?

9 MR. ROBERT KOWALCHUK: Yes, I see that
10 paragraph.

11 MS. CANDACE EVERARD: In essence, KPMG
12 says that provisions for these types of contracts, known
13 as onerous contracts, are required under IFRS.
14 Typically, these provisions were not recognized under
15 GAAP. The Corporation would need to evaluate its
16 agreements, such as any long-term purchase and supply
17 contracts, various leasing arrangements, to assess
18 whether additional provisions will be required under
19 IFRS.

20 That's --

21 MR. ROBERT KOWALCHUK: That's correct.

22 MS. CANDACE EVERARD: -- so far a fair
23 paraphrase of what's there?

24 MR. ROBERT KOWALCHUK: Yes.

25 MS. CANDACE EVERARD: And then, in the

1 last sentence, KPMG said:

2 "For example, MPI's master agreement
3 with the Province of Manitoba relating
4 to the driver and vehicle licensing
5 operations, will need to be further
6 analyzed."

7 That's correct?

8 MR. ROBERT KOWALCHUK: That's correct.

9 MS. CANDACE EVERARD: Can you elaborate
10 for the Board what KPMG's concerns were at that time
11 relative to that contract and the onerous contract
12 provisions under IFRS?

13 MR. ROBERT KOWALCHUK: There were no
14 concerns raised by KPMG regarding the agreement. We
15 cited it as an example of one that management would need
16 to analyze further, as well as the other contracts that -
17 - that the Corporation enters into.

18 MS. CANDACE EVERARD: You raised it
19 because you thought it could be an issue that would need
20 to be dealt with in this -- with respect to this detail?

21 MR. ROBERT KOWALCHUK: We raised it as an
22 example of a contract that would have to be reviewed.

23

24 (BRIEF PAUSE)

25

1 MS. CANDACE EVERARD: Okay. So it would
2 be fair to say that KPMG identified this agreement as a
3 point certainly for followup and further analysis as at
4 the 2008 quick scan report?

5 MR. ROBERT KOWALCHUK: Correct.

6 MS. CANDACE EVERARD: And did KPMG
7 undertake, at that time or after, a preliminary analysis
8 on what the provision may be relating to the agreement?

9 MR. ROBERT KOWALCHUK: I'm not sure I
10 understand the question.

11 MS. CANDACE EVERARD: KPMG raised this
12 contract as a potential issue. My understanding is that,
13 if it was an onerous contract, a provision would be
14 required.

15 And so my question is whether KPMG did a -
16 - even a preliminary analysis on what that provision may
17 be?

18 MR. ROBERT KOWALCHUK: No, we did not do
19 that.

20 MS. CANDACE EVERARD: And why did -- was
21 that undertaken?

22 MR. ROBERT KOWALCHUK: Management had not
23 yet analyzed the -- the contracts, including this
24 arrangement, and so, ultimately, an IFRS advisor was
25 appointed to assist with that process.

1 MS. CANDACE EVERARD: Now, I heard in
2 your direct evidence that KPMG has reviewed the analysis
3 prepared by Deloitte with respect to this issue, which is
4 about a page and a half analysis.

5 Are you familiar with the one I'm talking
6 about?

7 MR. ROBERT KOWALCHUK: Yes, I am.

8 MS. CANDACE EVERARD: And did KPMG
9 provide any input into that analysis?

10 MR. ROBERT KOWALCHUK: No. We read -- we
11 reviewed the analysis and met with management to discuss
12 the contents. We didn't provide any direct input into
13 it.

14 MS. CANDACE EVERARD: So you saw it after
15 it was prepared by Deloitte?

16 MR. ROBERT KOWALCHUK: That's correct.

17 MS. CANDACE EVERARD: Did KPMG assess the
18 reasonableness of the analysis done by Deloitte and as
19 set out there in that document?

20 MR. ROBERT KOWALCHUK: Yes, we reviewed
21 it, and we agreed with the conclusions reached.

22 MS. CANDACE EVERARD: Now, I'll just ask
23 you to turn to the document briefly. It's in the filing
24 at TI.20. It's also at Tab 14 of the book of the
25 documents. Yeah, I don't -- it's -- it's not in there.

1 I don't think you're going to find it in there. It's in
2 the book of documents, or the TI.20 volumes. Yeah, Ms.
3 Kalinowsky is just handing you a copy. I appreciate
4 that.

5 So if you go to -- you should be there on
6 page 26.

7 MR. ROBERT KOWALCHUK: Yes.

8 MS. CANDACE EVERARD: Okay. So that's
9 the first page of the analysis. You see, at -- in the
10 top half of the page, there's a financial analysis that -
11 - that's set out that has five (5) entries. We start
12 with the 21 million, and then it -- at the end of the
13 calculation, it's a net margin of an \$8 million loss. Do
14 you see that?

15 MR. ROBERT KOWALCHUK: Yes, I do.

16 MS. CANDACE EVERARD: And you're familiar
17 with -- having looked at this document before, what that
18 little calculation is, what it -- what it reflects?

19 MR. ROBERT KOWALCHUK: Yes, I am.

20 MS. CANDACE EVERARD: So it's -- we see
21 the administration revenue coming into the Corporation
22 from the government, the approximate direct cost being
23 subtracted, which leaves a direct margin of 3 million.
24 We then have an overhead allocation and -- and the net
25 margin of -- of an \$8 million loss that I mentioned.

1 Would you agree that the loss of the
2 commission offset to Basic should be included in this
3 calculation?

4

5 (BRIEF PAUSE)

6

7 MR. ROBERT KOWALCHUK: I don't believe I
8 can answer that question.

9 MS. CANDACE EVERARD: Why not?

10 MR. ROBERT KOWALCHUK: I -- I'm not aware
11 of -- of how that would impact the calculation.

12 MS. CANDACE EVERARD: I just had a
13 request that you speak a little more loudly. I guess not
14 everyone in the room is hearing you right now.

15 MR. ROBERT KOWALCHUK: Okay.

16 MS. CANDACE EVERARD: Thank you. Feel
17 free to pull the mic closer if that would help you.
18 Okay. And so I heard in the direct evidence that after
19 KPMG reviewed this analysis prepared by Deloitte, it came
20 to the conclusion that it agreed that there was really no
21 contract between the province and the Corporation.

22 MR. ROBERT KOWALCHUK: That is correct.

23 MS. CANDACE EVERARD: Can you explain the
24 rationale for that agreement on the part of KPMG and
25 contrast that with what KPMG reflected in the quick scan

1 about this contract needing to be looked at?

2 MR. ROBERT KOWALCHUK: Well, the quick
3 scan did suggest that the agreement with the province be
4 further analysed in this context, which it was. The
5 conclusions reached were that the agreement did not
6 constitute a contract. The services are provided under
7 legislation and they are part of the normal operating
8 business of the Corporation, and, therefore, the onerous
9 contract provisions would not apply.

10 MS. CANDACE EVERARD: KPMG is aware that
11 the result, at least to present, of DVL having been
12 merged with MPI is that the cost that MPI has incurred
13 have exceeded the revenues taken in?

14 MR. ROBERT KOWALCHUK: Yes, I am aware of
15 that.

16 MS. CANDACE EVERARD: Can you tell me
17 whether, in your view, the provision deficiency test is
18 adequate to evaluate this arrangement with the province?

19 MR. ROBERT KOWALCHUK: I'm not sure what
20 you mean by "provision deficiency test."

21 MS. CANDACE EVERARD: You may know it as
22 a premium deficiency test.

23 MR. NEIL PARKINSON: My apologies. Can
24 you maybe repeat the que -- I was looking for something
25 else in here. Would -- could I impose on you to repeat?

1 MS. CANDACE EVERARD: My -- my -- sure.
2 My question was whether in KPMG's view a premium or
3 provision deficiency test was adequate to evaluate the
4 arrangement with the province and MPI.

5 MR. NEIL PARKINSON: Well, a premium
6 deficiency test is applicable to adequacy of unearned
7 premiums, so it doesn't deal with the onerous contract
8 issue with respect to, you know, the -- that you're
9 raising. It's not part and parcel of the insurance
10 contracts as such.

11 So the premium deficiency test really goes
12 to -- it was considered to be sufficient to meet the
13 conditions of IFRS 4 for determining whether there was
14 liability adequacy for unearned premiums, but it's not
15 specifically directed at something like this legislative
16 responsibility to -- you know, on the licensing side.

17

18 (BRIEF PAUSE)

19

20 MS. CANDACE EVERARD: And maybe we
21 misheard something that was said in your direct evidence,
22 but we thought that when the -- when the direct
23 examination was ongoing, the evidence was that a premium
24 deficiency test was undertaken.

25 Did we hear that incorrectly? I mean, the

1 -- the transcript will -- will tell us later on, but is
2 that something that you said?

3 MR. NEIL PARKINSON: Well, a pre -- there
4 is a -- in fact, a premium deficiency test is carried out
5 annually under current Canadian GAAP, and it's in the
6 form of the appointed actuary considering the adequacy of
7 unearned -- of the unearned premium liability. And so
8 that's done, and -- and has been done, in the ordinary
9 course, under -- you know, under Canadian GAAP.

10 MS. CANDACE EVERARD: In the context of
11 the -- the work done by KPMG relating to the onerous
12 contract issue, was there a premium deficiency test
13 undertaken?

14 MR. NEIL PARKINSON: No. It's not really
15 germane to the issue of the -- you know, at hand, I
16 think. The premium deficiency test, as I say, applies to
17 the unearned premium liability and not to a question of
18 whether there is an onerous contract or not under this
19 specific provision.

20 MS. CANDACE EVERARD: Okay. So you're
21 saying, because the test isn't particularly germane to
22 that issue, no, it was not undertaken?

23 MR. NEIL PARKINSON: It was -- it was --
24 it was not -- would not have been undertaken with respect
25 to this, because it's not measuring the same thing.

1 (BRIEF PAUSE)

2

3 MS. CANDACE EVERARD: Is KPMG aware of
4 any disagreements or opposite views to the assessment
5 made by Deloitte, the -- the two (2) page onerous
6 contract analysis that we've been looking at?

7 MR. ROBERT KOWALCHUK: No, I'm not aware
8 of any disagreement.

9 MS. CANDACE EVERARD: Now, I take it,
10 because this hasn't been mentioned, that when KPMG
11 reviewed the Deloitte analysis and came to the conclusion
12 that it agreed with Deloitte's conclusion, that it did
13 not obtain any legal advice itself. Is that correct?

14 MR. ROBERT KOWALCHUK: That's correct.

15 MS. CANDACE EVERARD: And I -- my
16 understanding of your expertise, Mr. Kowalchuk, is that
17 those rest in the accounting arena, and you don't have
18 any legal training. Is that fair to say?

19 MR. ROBERT KOWALCHUK: I don't have any
20 legal training, no.

21 MS. CANDACE EVERARD: And the same would
22 be true for you, Mr. Parkinson?

23 MR. NEIL PARKINSON: That's correct.

24 MS. CANDACE EVERARD: Still on the idea
25 of an onerous contract, has KPMG considered the provision

1 or the issue that MPI pays PIPP benefits to long-haul
2 truck drivers?

3 Is that -- is that an issue that you're at
4 all familiar with, or that has been given consideration
5 in the context of an onerous contract?

6 MR. ROBERT KOWALCHUK: I don't believe
7 consideration was given to that in the context of the
8 onerous contract discussion.

9 MS. CANDACE EVERARD: And I don't mean
10 specifically the two (2) page analysis by Deloitte,
11 because it is -- it's -- it's a separate but related
12 issue.

13 So, if I understand your evidence
14 correctly, that's not something that KPMG has considered,
15 whether the long-haul trucking issue -- and this is
16 something that's been commented on by the Board, the
17 Public Utilities Board, in past Orders.

18 So your evidence is that that's not
19 something that KPMG has considered as to whether it's an
20 onerous contract?

21 MR. ROBERT KOWALCHUK: We have not looked
22 at that specifically, no.

23 THE CHAIRPERSON: Were -- were you aware
24 that it was an issue commented on in the Board's Orders?

25 MR. ROBERT KOWALCHUK: Not -- in the

1 context of an onerous contract, you mean?

2 THE CHAIRPERSON: No, just aware of the
3 issue itself, in whatever context.

4 MR. ROBERT KOWALCHUK: I understand that
5 there were some issues raised with respect to the long-
6 haul truckers. I -- I don't have a clear understanding
7 of what exactly those issues are, but I was aware
8 generally that that was discussed by the Board.

9 THE CHAIRPERSON: Did you read the -- the
10 -- the last two (2) Orders that emanated out of the
11 General Rate Applications?

12 MR. ROBERT KOWALCHUK: I'm not sure that
13 I did. I -- I -- I have read several Board Orders. I
14 can't recall if -- if -- if those were also included in
15 there.

16 THE CHAIRPERSON: Thank you, Ms. Everard.

17 MS. CANDACE EVERARD: Thank you.

18

19 CONTINUED BY MS. CANDACE EVERARD:

20 MS. CANDACE EVERARD: Mr. Kowalchuk,
21 we'll just look a little bit more at the quick scan
22 document. We see on page 9, the section relating to
23 property, plant and equipment and this provision, as I
24 understand it, under IFRS, provides for separate
25 accounting for components of property, plant and

1 equipment, is that right?

2 MR. ROBERT KOWALCHUK: That's correct.

3 MS. CANDACE EVERARD: And we know that
4 MPI has created new -- some new asset classes to deal
5 with this, including office building, HVAC - which stands
6 for heating, ventilation and air conditioning - and
7 escalators, is that right?

8 MR. ROBERT KOWALCHUK: That is correct.

9 MS. CANDACE EVERARD: And has KPMG
10 reviewed those categorizations that have been done?

11 MR. ROBERT KOWALCHUK: Yes, we have.

12 MS. CANDACE EVERARD: And did KPMG have
13 any concerns with those categorizations?

14 MR. ROBERT KOWALCHUK: No, we had no
15 concerns.

16 MS. CANDACE EVERARD: And did KPMG review
17 the office building classification and the estimated
18 useful life attached to that classification, which was
19 forty (40) years?

20 MR. ROBERT KOWALCHUK: Yes, we did.

21 MS. CANDACE EVERARD: And was KPMG
22 satisfied with that estimated useful life for that
23 category?

24 MR. ROBERT KOWALCHUK: Yes, we were.

25 MS. CANDACE EVERARD: And was that

1 satisfaction gleaned from external work, or
2 representations made by Corporate management?

3 MR. ROBERT KOWALCHUK: It was both a
4 combination of discussions with MPI management and
5 knowledge of other entities that had similar types of
6 assets.

7 MS. CANDACE EVERARD: Thank you. On the
8 next page of the quick scan, page 10, we have a section
9 entitled "Impairment." We see at the first bullet under
10 KPMG's commentary, it's reflected that IFRS contains a
11 single comprehensive impairment standard under which
12 assets are tested for impairment either individually or
13 within cash generating units, or CGUs; that's right?

14 MR. ROBERT KOWALCHUK: Yes.

15 MS. CANDACE EVERARD: And then at the
16 second bullet it's reflected that:

17 "Establishing CGUs is the most
18 difficult part of the standard, as IFRS
19 requires management to identify CGUs
20 based on the smallest group of assets
21 that is capable of generating largely
22 independent cashflow -- cash inflows
23 which may differ from asset groups
24 under GAAP."

25 That's right?

1 MR. ROBERT KOWALCHUK: Yes.

2 MS. CANDACE EVERARD: Okay. I'm going to
3 ask you to look at Tab 32 of the Board's book of
4 documents. This is question 76 posed to the Corporation
5 by the Board in our First Round of written questions.

6 Do you have that in front of you?

7 MR. ROBERT KOWALCHUK: Yes, I do.

8 MS. CANDACE EVERARD: Okay. So this is a
9 question, as I say, posed by the Board to the
10 Corporation, and the -- the quote that you see there in
11 the question under the heading of "Alternative 3," that's
12 an excerpt from one (1) of the position papers that
13 Deloitte prepared, which we have, as a whole, in the
14 filing as well. And if you -- if you'd like to go there,
15 just let me know and I can give you the reference for it.

16 But if you -- I'd just ask you to read
17 what's written here under the heading of "Alternative 3."
18 Can you tell me if it's familiar to you, if you've seen
19 it before or if this is new?

20 MR. ROBERT KOWALCHUK: I have seen that
21 before.

22 MS. CANDACE EVERARD: And so you're
23 familiar with what's reflected here under "Alternative
24 3?"

25 MR. ROBERT KOWALCHUK: Yes, I am.

1 MS. CANDACE EVERARD: Now, we see, and
2 I'm looking on -- we'll start on the fourth line near the
3 end, the sentence that reads:

4 "Consequently, it could be argued that
5 the cashflows that are generated from
6 all product lines that are part of
7 insurance operations do not generate in
8 -- independent cashflows. They are
9 interdependent because MPI does not
10 have the ability to choose whether or
11 not to dissolve any of its product
12 lines."

13 The -- the commentary continues. And
14 then, again, third line from the bottom, it -- it reads:

15 "As a result, the cashflows are not
16 independent."

17 Does KPMG agree that the Corporation does
18 not generate independent cashflows?

19 MR. ROBERT KOWALCHUK: Well, certainly
20 the operations of MPI are highly integrated, so they're -
21 - I'm not surprised that there would be difficulty in --
22 in trying to find the independent cashflows as a result
23 of those transactions.

24 MS. CANDACE EVERARD: I'm sorry, can you
25 say that last part again?

1 MR. ROBERT KOWALCHUK: I said MPI's
2 operations are highly integrated, which would make it
3 difficult to identify independent cashflows.

4 MS. CANDACE EVERARD: So you would agree
5 that the cashflows are interdependent given the highly
6 integrated nature of the business?

7

8 (BRIEF PAUSE)

9

10 MR. ROBERT KOWALCHUK: So I understand
11 that the -- the document in question was recently
12 revised, so I was just provided with a copy of the
13 revised wording.

14 MS. CANDACE EVERARD: That's fine. If
15 you could answer the question though, that would be
16 great.

17 MR. ROBERT KOWALCHUK: Could I review --
18 review the revised wording first?

19 MS. CANDACE EVERARD: Sure, review if it
20 you want, but the question will still be the same.

21 MR. ROBERT KOWALCHUK: Yeah.

22

23 (BRIEF PAUSE)

24

25 MR. ROBERT KOWALCHUK: I -- I'm not sure

1 I could answer the question at this time without further
2 analysing the revised wording.

3 MS. CANDACE EVERARD: I'm not sure why
4 you need to look at the revised wording at all. You
5 testified that the nature of the Corporation's business
6 is highly integrated, therefore, it would be difficult to
7 say that the cash flows were independent.

8 The next question that I asked you, in my
9 mind, is quite similar to that. To say so, therefore,
10 the cash flows are interdependent based on the highly
11 integrated nature of -- of the business.

12 You -- you can't answer that without
13 reading the revised version of alternative 3?

14 MR. ROBERT KOWALCHUK: I'm sorry, I
15 misunderstood the question.

16 MS. CANDACE EVERARD: Okay. So can --
17 can you answer that question?

18 MR. ROBERT KOWALCHUK: Yes.

19 MS. CANDACE EVERARD: Okay.

20 MR. ROBERT KOWALCHUK: The answer is,
21 yes.

22 MS. CANDACE EVERARD: Okay. Thank you.
23 The quick scan document that was filed with the Board two
24 (2) years ago was filed on a draft basis; that's
25 reflected just on the -- the cover page of the quick

1 scan. On the title page it's -- it does say, "Draft for
2 discussion." I don't see that really in any other places
3 on the document.

4 Do you know if this was the final version,
5 or if there was another draft that was put forward after
6 this one (1) from June 25th of '08?

7 MR. ROBERT KOWALCHUK: I believe this to
8 be the final version.

9 MS. CANDACE EVERARD: And did KPMG do any
10 further work for the Corporation regarding IFRS after the
11 -- the quick scan, other than the -- the reviews of
12 Deloitte's work that we've spoken about?

13 MR. ROBERT KOWALCHUK: No, we have not.

14 MS. CANDACE EVERARD: Mr. Chairman, I
15 just have a -- a short line of questioning. I note the
16 time, but I'd just like to get through that if that's
17 okay, and then we'll move to another area after lunch.

18

19 CONTINUED BY MS. CANDACE EVERARD:

20 MS. CANDACE EVERARD: Now we've had some
21 evidence about the review that KPMG did of the position
22 papers prepared by Deloitte. We know that that was done.

23 That's right?

24 MR. ROBERT KOWALCHUK: That is correct.

25 MS. CANDACE EVERARD: And was that review

1 of the position papers done by the same individuals that
2 did the quick scan, which would have been yourself, Mr.
3 Sisson, and a Debbie Grenier?

4 MR. ROBERT KOWALCHUK: All three (3) of
5 those individuals would have par -- partaken in the
6 review.

7 MS. CANDACE EVERARD: Okay. Now in the
8 direct evidence I believe it was stated that in reviewing
9 the position papers done by Deloitte, KPMG looked at the
10 early drafts and then looked at the -- the documents
11 again later. As well, attended audit committee meetings,
12 gave comments, et cetera.

13 Is that -- is that a fair summary of the
14 evidence?

15 MR. ROBERT KOWALCHUK: Yes, it is.

16 MS. CANDACE EVERARD: And when you talk
17 about reviewing early drafts of the -- the position
18 papers, are those drafts that KPMG would still have in
19 its possession?

20 MR. ROBERT KOWALCHUK: I don't believe we
21 have those early drafts, no.

22 MS. CANDACE EVERARD: And do you remember
23 if the position papers went through one (1) or two (2) or
24 three (3) or more stages of draft?

25 MR. ROBERT KOWALCHUK: I don't know how

1 many stages of draft they went through.

2 MS. CANDACE EVERARD: Was there anything
3 in terms of discussion between either KPMG and the
4 Corporation or KPMG and Deloitte about the position
5 papers that took place outside the audit committee
6 meetings that you talked about?

7 MR. ROBERT KOWALCHUK: We met with
8 management of MPI outside of the audit committee meetings
9 to discuss the -- the papers.

10 MS. CANDACE EVERARD: And was there any
11 document or other written product that came out of those
12 meetings in the way of written correspondence or minutes
13 or anything like that?

14 MR. ROBERT KOWALCHUK: No, there were no
15 minutes taken at those meetings.

16

17 (BRIEF PAUSE)

18

19 MS. CANDACE EVERARD: When KPMG was
20 undertaking its review of the position papers, how were
21 the position papers delivered; was it electronically or
22 in hard copy format?

23 MR. ROBERT KOWALCHUK: They were
24 delivered electronically.

25

1 (BRIEF PAUSE)

2

3 MS. CANDACE EVERARD: And would those
4 electronic copies no longer be available?

5 MR. ROBERT KOWALCHUK: That is correct.

6 MS. CANDACE EVERARD: Okay. What steps
7 did KPMG take in connection with the review of the
8 position papers to ensure that doing that review did not
9 create any threat to its independence to the Corporation?

10 MR. ROBERT KOWALCHUK: We didn't believe
11 there to be a threat. We were re -- reviewing the
12 position papers in the context of being the auditors of
13 the Corporation and requiring an understanding of the
14 accounting policy choices that will be implemented upon
15 transition to IFRS.

16 MS. CANDACE EVERARD: So I take it there
17 was no separate engagement letter for the review of the
18 position papers as distinct from the audit?

19

20 (BRIEF PAUSE)

21

22 MR. ROBERT KOWALCHUK: Sorry, there may
23 have been an addendum to the audit engagement letter with
24 respect to the IFRS services. I can't recall for sure.

25 MS. CANDACE EVERARD: Would you be able

1 to check on that, and if there is an addendum, to provide
2 a copy?

3 MR. ROBERT KOWALCHUK: Yes, I'll
4 undertake to do that.

5 MS. CANDACE EVERARD: Thank you.

6
7 --- UNDERTAKING NO. 17: MPI to indicate if there's an
8 addendum to the audit
9 engagement letter with
10 respect to the IFRS services,
11 and, if so, provide a copy
12

13 CONTINUED BY MS. CANDACE EVERARD:

14 MS. CANDACE EVERARD: Now, we've heard
15 evidence in sort of general terms that as KPMG undertook
16 the review with the position papers it may have had
17 comments and input, and it -- it did that -- or provided
18 that at the Audit Committee meetings.

19 Can you tell us what KPMG's comments were
20 or what the input was on the -- the various points?

21 MR. ROBERT KOWALCHUK: In general, many
22 of the comments were seeking further clarification on the
23 way items were -- or things were worded in the documents,
24 some word-smithing, things of that general nature.

25 MS. CANDACE EVERARD: Would it be fair to

1 say, and I'm -- I'm just paraphrasing what I understood
2 you to just say, that KPMG's input was fairly minor in
3 nature, or would you say that it was fairly ma -- major
4 in terms of actual resultant changes to the draft
5 documents?

6 MR. ROBERT KOWALCHUK: Our review of the
7 papers was not minor. The end result in terms of changes
8 to those actual papers was not significant, no.

9 MS. CANDACE EVERARD: Okay. Looking back
10 at 1-76 for a moment. That's the document at Tab 32 and
11 that's the original version of Alternative 3.

12 Do you recall KPMG having any comment or
13 input into that particular paragraph?

14 MR. ROBERT KOWALCHUK: I can't recall
15 whether we had any comments on that particular paragraph.

16 MS. CANDACE EVERARD: Mr. Chairman, maybe
17 we can take the lunch break then. And subject to any
18 maybe small followup questions, I'll move into a new
19 section after lunch.

20

21 (BRIEF PAUSE)

22

23 THE CHAIRPERSON: All right, we'll come
24 back at 1:30, but we'll still plan on dealing with this
25 witness panel today if we can.

1 MS. CANDACE EVERARD: I can indicate,
2 just for everyone's benefit, that I've done most of --
3 maybe not. I was going to say I thought I was part --
4 half -- I was farther than my halfway point, but maybe
5 not. But I'll certainly try to move along as quickly as
6 possible and allow time for Mr. Williams -- and --

7 THE CHAIRPERSON: Mr. Williams --

8 MS. CANDACE EVERARD: -- and any other
9 intervenors.

10 THE CHAIRPERSON: -- do you have any idea
11 how long you will have with them?

12 MR. BYRON WILLIAMS: I -- I would
13 estimate less than a half an hour, Mr. Chairman.

14 THE CHAIRPERSON: Ms. Peters, will you
15 have anything for them?

16 MS. LIZ PETERS: No questions.

17 THE CHAIRPERSON: Okay, it sounds like
18 it's all safe, so to speak, so we'll see you back at
19 1:30.

20

21 --- Upon recessing at 12:14 p.m.

22 --- Upon resuming at 1:29 p.m.

23

24 THE CHAIRPERSON: Okay.

25 MS. CANDACE EVERARD: Thank you, Mr.

1 Chairman. Just a couple of administrative things. I
2 know Ms. Kalinowsky's left some further exhibits to be
3 filed with Mr. Gaudreau. Mr. Gaudreau, are we in a
4 position to get those filed now?

5 Okay. Mr. Gaudreau has to mark them.
6 Would it be okay if we just continue? And I have an
7 exhibit there as well.

8

9 CONTINUED BY MS. CANDACE EVERARD:

10 MS. CANDACE EVERARD: But I'll just ask
11 one (1) follow-up question. When we were speaking before
12 the lunchbreak I had asked a question about the premium
13 deficiency test and said that we had heard something said
14 and maybe we heard it wrong. We had the court reporter,
15 and we -- we thank them for that, provide us with an
16 unofficial transcript of the morning session. And I'll
17 just reiterate what the evidence was, and then we'll go
18 from there.

19 So the -- Ms. Kalinowsky had asked you,
20 Mr. Kowalchuk, on direct:

21 "Did KPMG review the onerous contract
22 position paper which is contained as an
23 appendix in one (1) of the filings that
24 was prepared?"

25 Your answer was:

1 "Yes, we did, and we agreed with the
2 conclusions reached."

3 Ms. Kalinowsky then said:

4 "How did KPMG satisfy itself that there
5 are no onerous contracts at MPI,
6 whether under GAAP now or with respect
7 to being a premium deficiency or IFRS?"

8 And your answer was:

9 "Well, currently, there's the premium
10 deficiency test under Canadian GAAP
11 that the external actuary provides an
12 opinion on. Included in his opinion,
13 with respect to IFRS, as mentioned, we
14 did review the position papers and
15 agreed with the conclusions reached."

16 So that was, I guess, what we heard, and
17 we maybe misheard it a little bit.

18 But in -- in that context, if you could
19 just clarify because I don't think I actually asked you
20 about this, what work did KPMG do in conjunction with the
21 review of Deloitte's onerous contract analysis.

22 MR. ROBERT KOWALCHUK: So we would have
23 read the master agreement with the province and the paper
24 itself. And then using our knowledge of the AIS
25 standard, came to a conclusion that was consistent with

1 Deloitte's.

2 MS. CANDACE EVERARD: Okay, so you
3 reviewed the master agreement. You -- when you say you
4 reviewed the paper itself, that's the Deloitte paper?

5 MR. ROBERT KOWALCHUK: The Deloitte
6 paper, yes.

7 MS. CANDACE EVERARD: And was there
8 anything beyond that that the review entailed?

9 MR. ROBERT KOWALCHUK: No.

10 MS. CANDACE EVERARD: Okay. I have an
11 exhibit that I'd like to present.

12 We -- we don't actually have a sufficient
13 number of copies, and apologize; the reason being there's
14 a toner deficiency in the photocopier that we are using.
15 So I have -- I think there are five (5) copies there
16 we'll definitely provide to the panel and to the MPI
17 side.

18 What this is is an excerpt of the 1990
19 cost allocation report that was done. We spoke about it
20 in some general terms earlier. And I say "an excerpt;"
21 it's -- it's actually about a hundred and nine (109)
22 pages, and this is the first forty-seven (47) pages, just
23 because I don't have questions relating on the rest and I
24 didn't want to use more paper than I had to.

25 So -- Exhibit 16. Thank you, Mr.

1 Gaudreau. That'll be Board Exhibit number 16.

2

3 --- EXHIBIT NO. PUB-16: Excerpt of the 1990 cost
4 allocation report

5

6 CONTINUED BY MS. CANDACE EVERARD:

7 MS. CANDACE EVERARD: I'll ask you to go
8 to page 22 of the report. And I appreciate your earlier
9 evidence that you're not particularly familiar with this,
10 but I'd like to just go through -- sorry, I -- this
11 doesn't appear to be...

12

13 (BRIEF PAUSE)

14

15 MS. CANDACE EVERARD: Does anyone have
16 yellow highlighting in the -- the copy of the exhibit
17 that they've got, because I had yellow highlighting in
18 mine and now I don't have that one. If not, it's no big
19 deal.

20 Okay. We'll just proceed, and it's -- who
21 knows. Yeah, who knows.

22 That's okay. If we look at page 22 of
23 this except of the 1990 report, we see under the heading,
24 "3. Current Allocation Practice of MPIC," the following
25 paragraph:

1 "MPIC's cost allocation methodology is
2 generally consistent with the principle
3 that the Corporation exists primarily
4 to provide Basic auto insurance. As a
5 result, the allocation of costs to
6 other than basic, i.e., to General, is
7 for the most part done on an
8 incremental or marginal basis."

9 Do you see that, sir?

10 MR. ROBERT KOWALCHUK: Yes, I do.

11 MS. CANDACE EVERARD: And I appreciate
12 that this is a document prepared by KPMG back in 1990.
13 Is it still KPMG -- KPMG's view of the Corporation that
14 it exists primarily to provide Basic auto insurance?

15 MR. ROBERT KOWALCHUK: That is the most
16 significant line of business.

17 MS. CANDACE EVERARD: Now if we look on
18 page 30 of this 1990 report, we see a section on -- oh,
19 and I now have some highlighting. That's good.

20 We see on page 30, section 4, which is
21 entitled, "Basic/Extension Allocation of Indirect
22 Administrative Expenses."

23 And we see the fourth bullet under that
24 section reads:

25 "The current distinction between Basic

1 and Extension is inappropriate and
2 inconsistent with the Corporate mandate
3 for auto-insurance. Extensions should
4 be used to subsidize Basic business and
5 help keep rates at a low/reasonable
6 level."

7 And -- and I -- first of all, have I read
8 that into the record correctly?

9 MR. ROBERT KOWALCHUK: I believe you
10 have.

11 MS. CANDACE EVERARD: And I note in the
12 preamble to that bullet it reads:

13 "During the interview process, however,
14 a number of relevant comments were made
15 by Corporation officials concerning the
16 Basic/Extension allocation."

17 So it would appear on the face of that
18 that the -- the content of the second bullet that I read
19 in was gleaned by KPMG from someone at the Corporation.

20 Does that appear to be the case to you?

21 MR. ROBERT KOWALCHUK: That appears to be
22 the case.

23 MR. NEIL PARKINSON: And -- and if I
24 might add, I think that the -- my -- my first reading of
25 that, without having read the entire context of that, is

1 it's really relating something rather than asserting that
2 that's necessarily was the authors of this report's
3 viewpoint themselves.

4 MS. CANDACE EVERARD: That's why I
5 pointed out, sir --

6 MR. NEIL PARKINSON: Sure.

7 MS. CANDACE EVERARD: -- that this is a
8 comment attributed to an interview.

9 MR. NEIL PARKINSON: Okay. Just for
10 clarity.

11 MS. CANDACE EVERARD: Now I see that KPMG
12 has noted here that:

13 "Indirect administrative expenses could
14 be allocated based on premiums written,
15 as the Corporation was doing, or on an
16 activity basis."

17 And this is onto page 31:

18 "On the basis of the number of policies
19 issued or enforced, or on the basis of
20 claims incurred."

21 So we see that sort of at the top of page
22 31. There's a reference to premiums written, and then
23 the other approaches are mentioned in the ensuing
24 paragraphs.

25 Do you see that?

1 MR. ROBERT KOWALCHUK: Yes, I do.

2 MS. CANDACE EVERARD: And if we go to
3 page 46 of the document, which is near the end. It's the
4 second last page of the excerpt that I've provided, KPMG
5 provided here sort of a summary of this discussion of
6 allocation of administrative expenses. You'll see that
7 in a -- the paragraph close to the top of the page. And
8 KPMG states there at the last part of that paragraph:

9 "Premiums written could also be used as
10 a -- as an activity basis on which to
11 base the allocation of indirect
12 administrative expenses. This would
13 recognize that over time, with premiums
14 judicially applied to both the Basic
15 and Extension lines, premium and
16 investment income will equal all claims
17 costs."

18 Do you see that?

19 MR. ROBERT KOWALCHUK: Yes, I do.

20 MS. CANDACE EVERARD: Now I take it that
21 you would be aware now, that last year Deloitte
22 recommended the allocation of certain administrative
23 expenditures on the basis of net claims incurred.

24 Do you recall that from Deloitte's 2009
25 report?

1 MR. ROBERT KOWALCHUK: Yes, I do.

2 MS. CANDACE EVERARD: And were you aware
3 that the Board at last year's hearing opted to go for
4 rather than a net claims incurred approach, the premiums
5 written approach that is mentioned in this report?

6 MR. ROBERT KOWALCHUK: Yes.

7 MS. CANDACE EVERARD: Does KPMG have any
8 updated commentary on that point, sitting here today?

9 MR. ROBERT KOWALCHUK: No, not -- not at
10 this time.

11 MS. CANDACE EVERARD: Continuing on page
12 46, under the heading at number 8 entitled, "Process",
13 KPMG has stated:

14 "The current process should be
15 strengthened to ensure a more
16 substantive review of the allocation on
17 a regular basis. The Corporation would
18 do yearly updates, much as they
19 currently do, as part of the budget
20 planning process, but this would be
21 supplemented by an in depth review once
22 every three (3) or five (5) years
23 outside of the routine budgeting
24 process."

25 Would it be fair to say that that's

1 similar to the suggestion that was made in the 1994
2 report that we looked at earlier?

3 MR. ROBERT KOWALCHUK: I would say it's
4 similar, yes.

5 MS. CANDACE EVERARD: Are you in a
6 position to comment on what the benefits to the
7 Corporation would be of doing the periodic reviews that
8 are -- that are suggested here in 1990 and again in 1994?

9 MR. ROBERT KOWALCHUK: I think the --
10 there may be benefit, and I think what it's implying is
11 there may be benefit to having someone outside of the
12 Corporation perform the review.

13 MS. CANDACE EVERARD: And to, I assume,
14 doing a -- doing a review, in and of itself?

15 MR. ROBERT KOWALCHUK: Yes.

16 MS. CANDACE EVERARD: Okay. Thank you.
17 I'm going to go then to a new area that deals with one of
18 the exhibits that KPMG provided to the Board this
19 morning. It's the actuarial specialist's report, which
20 has been entered as MPI Exhibit 18.

21 THE CHAIRPERSON: Just before do that,
22 Ms. Kalinowsky, do you want to enter these exhibits? We
23 all have them now.

24 MS. KATHY KALINOWSKY: Okay. Yes, thank
25 you. A number of undertakings have been complied with

1 now with respect to the Corporation, and there was one
2 (1) undertaking which kind of got expanded on over time
3 and turned into three (3) different undertakings, but
4 really can be complied with by issuing one (1) answer.

5 So that is -- Undertaking numbers 1, 8 and
6 9 can be responded to jointly, which we've done there.
7 So that would be MPI Exhibit Number 19.

8

9 --- EXHIBIT NO. MPI-19: Responses to Undertakings 1,
10 8 and 9

11

12 MS. KATHY KALINOWSKY: PUB-3-4 is a pre-
13 ask from the Corp -- from the -- the Board to the
14 Corporation. We've provided the response now, and that
15 would be put in as PUB Exhibit Number 11-4.

16

17 --- EXHIBIT NO. PUB 11-4: Response to Pre-ask PUB 3-4

18

19 MS. KATHY KALINOWSKY: Undertaking number
20 4 from the Corporation is regarding turnover ratios, and
21 that would be MPI Exhibit Number 20.

22

23 --- EXHIBIT NO. MPI-20: Response to Undertaking 4

24

25 MS. KATHY KALINOWSKY: And Undertaking

1 number 5, which is the minutes of the meeting of the
2 investment committee working group. We've complied with
3 that. They are redacted, and that would be Exhibit
4 Number 21.

5

6 --- EXHIBIT NO. MPI-21: Response to Undertaking 5

7

8 THE CHAIRPERSON: Thank you. Ms.
9 Everard...?

10 MS. CANDACE EVERARD: Thank you.

11

12 CONTINUED BY MS. CANDACE EVERARD:

13 MS. CANDACE EVERARD: So turning then to
14 Exhibit 18, which is the KPMG document that was provided
15 this morning, we see that the author of the report was
16 Mr. Manktelow, and we had that evidence this morning.

17 Is that right?

18 MR. ROBERT KOWALCHUK: That is correct.

19 MS. CANDACE EVERARD: And I'm correct in
20 understanding that Mr. Manktelow is a Fellow in the
21 Canadian Institute of Actuaries, and that he has
22 considerable experience practising in property and
23 casualty insurance?

24 MR. ROBERT KOWALCHUK: Yes, that is
25 correct.

1 MS. CANDACE EVERARD: And he obviously,
2 at the time of this document, was employed by KPMG, and I
3 think the evidence was that was the case until a couple
4 of months ago when he took another post?

5 MR. ROBERT KOWALCHUK: That is correct.

6 MS. CANDACE EVERARD: Can you confirm
7 that this report, Exhibit 18, includes within its scope
8 the Corporation's Basic AutoPac valuation as at February
9 28th of 2010?

10 MR. NEIL PARKINSON: Sure. Yeah -- yes,
11 that is correct.

12 MS. CANDACE EVERARD: And was Mr.
13 Manktelow involved in a similar capacity to this in prior
14 years with respect to the Corporation?

15 MR. NEIL PARKINSON: Sorry about that.
16 Yes, he was -- I'm not cert -- certain how many years,
17 but last year was certainly not his first year. I think
18 he had been doing it for three (3) or four (4) years, if
19 memory serves.

20 MS. CANDACE EVERARD: Can you tell us
21 about the role of the actuarial specialist in providing
22 audit support to KPMG, as compared with the respective
23 roles of the Corporation's internal valuation actuary and
24 its external appointed actuary?

25 MR. NEIL PARKINSON: The -- both the

1 MPIC's own actuarial staff and the -- and Mr. Christie as
2 the external consulting actuary on this are both in the
3 role of providing a management function, in effect. They
4 are arriving at a figure which is reflected in the
5 financial statements of the comp -- of the company.

6 Whereas Mr. Manktelow in his role as the
7 actuarial specialist for the audit is serving in an
8 attest role, so he's -- much the same way as the audit --
9 auditor as a whole does with respect to the financial
10 reporting function of the company.

11 MS. CANDACE EVERARD: Sorry, I just want
12 to make sure I understood one (1) of the words you said,
13 that Mr. Manktelow's role was "a test role."

14 MR. NEIL PARKINSON: Yes, attest, A-T-T-
15 E-S-T, whi -- or attestation, and that's the terminology
16 commonly used for -- by -- by auditors. As opposed to
17 making it, we're checking it, if you want to think of it
18 that way, so -- and then attesting to it by issuing an
19 opinion on the resulting financial statement.

20 MS. CANDACE EVERARD: That's helpful.
21 Thank you. So would it be fair to say that Mr. Manktelow
22 carried out his work independently of MPI's internal
23 actuary and external appointed actuary, or did he work
24 with them collaboratively?

25 MR. NEIL PARKINSON: Well, it was carried

1 out independently because as part of the audit team he
2 had to be independent in the same way that the whole
3 audit team does. Nevertheless, auditors do work
4 collaboratively in the sense that we, you know, have a
5 discussion with -- but it's not -- it's -- we're not part
6 of the process. We stand outside of the process and are
7 checking it and coming to a conclusion on whether we
8 think the result's appropriate.

9 MS. CANDACE EVERARD: When you say that
10 there would have been some collaboration, can you give us
11 a sense of the extent of communication between Mr.
12 Manktelow and the other actuaries that I mentioned?

13 MR. NEIL PARKINSON: Well, it would be
14 somewhat limited. Mr. Manktelow did not actually
15 physically visit, for instance, the location -- MPIC
16 locations, so the -- the connection between both MPI
17 staff and Mr. Christie would have been primarily by
18 telephone call, email, exchange of material for review,
19 and providing comments and asking questions about
20 anything that required clarification.

21 So it wasn't -- and I would contrast that
22 with a relationship where they might turn to Mr.
23 Manktelow and say, well, what do you think we ought to
24 do, what do you think is a good assumption or approach.
25 That -- that wouldn't have been a -- that wasn't a

1 question they would have asked anyway under the
2 circumstances. So it was very much a you do your work,
3 and we will carry out audit procedures type -- type of
4 relationship.

5 MS. CANDACE EVERARD: On page 1 of the
6 report under the heading at the bottom, "Identification
7 of appointed actuary," it's reflected, this is in the
8 last sentence, that Mr. Christie's analysis is in
9 accordance with accepted actuarial practice and conforms
10 to the relevant standards of practice of the CIA, which I
11 gather would be Canadian Institute of Actuaries.

12 First of all, have I read that in
13 correctly --

14 MR. NEIL PARKINSON: That -- that is
15 corre --

16 MS. CANDACE EVERARD: -- into the record
17 correctly?

18 MR. NEIL PARKINSON: That's correct.

19 MS. CANDACE EVERARD: Would you agree
20 that that sentence reflects the main conclusion of Mr.
21 Manktelow's report?

22 MR. NEIL PARKINSON: No, that's just a
23 part of it. The -- the -- this is one (1) of the
24 specific aspects that you consider in carrying out a
25 review of the work of the -- the actuary. You determine

1 whether the actuary who did the valuation was
2 appropriately credentialed and experienced and whether
3 they carried out their work in accordance with standards.

4 Nevertheless, there's the further question
5 of whether there were, you know, any computational
6 errors, whether the appropriate data was used, and more
7 of a subjective assessment of whether the conclusions and
8 judgments reached were appropriate, so that goes -- that
9 -- that goes beyond what is written here.

10 MS. CANDACE EVERARD: Okay. So all of
11 the details that you just described are what you take
12 away from that provision in the report.

13 MR. NEIL PARKINSON: Well, this is part
14 of it. This really goes to Mr. Christie's qualifications
15 and the way he carried out his work, not the end result.
16 The end result is commented on further in the rest of the
17 memo.

18 MS. CANDACE EVERARD: Thank you. On page
19 2 of the report under the heading of "Materiality," Mr.
20 Manktelow cites the appointed actuary selection of fifty
21 thou -- of fifty thousand (50,000) as a precision gauge
22 for data for Basic AutoPac and of \$6 million as an
23 overall materiality standard for Basic AutoPac,
24 concluding that these are reasonable.

25 Are we agreed so far?

1 MR. NEIL PARKINSON: Yes.

2 MS. CANDACE EVERARD: Now, does this mean
3 that Mr. Manktelow, in effect, adopted these materiality
4 standards for his own actuary specialist's review?

5 MR. NEIL PARKINSON: He's commenting on
6 the -- and really a question as to how the appointed
7 actuary viewed materiality in carrying out his work. As
8 auditors, we form our own view of the materiality for
9 planning purposes, and I think you will have heard this
10 morning that we used marginally lower numbers for
11 planning materiality for -- in -- for the audit.

12 And what we're -- what this part of the
13 memo speaks to is the consistency between the two (2),
14 whether the tolerances to which the work were -- were
15 completed are consistent, and the -- our conclusion was
16 they were.

17 MS. CANDACE EVERARD: So can you tell us
18 what materiality standards Mr. Manktelow actually
19 adopted?

20 MR. NEIL PARKINSON: The -- the standards
21 that Mr. Manktelow used are part of the overall
22 materiality figures used in the audit, which were the
23 numbers which -- and I'm -- I'm -- don't recall the
24 precise numbers, but I think it's more like five (5)
25 point -- 5 1/2 million roughly, for planning purposes.

1 MR. ROBERT KOWALCHUK: It was roughly 5
2 1/2 million, yes.

3 MR. NEIL PARKINSON: So those materiality
4 numbers for the audit are really set by the audit team,
5 the leadership of the audit team, as opposed to being
6 separately established by the audit support actuary.

7 MS. CANDACE EVERARD: Thank you. On page
8 3 of the report, under the section titled "Concerns or
9 Recommendations," it's provided in the second sentence
10 that:

11 "The approach followed by Mr. Christie
12 a conservative approach that tends to
13 result in favourable development in
14 most years."

15 And of course, as we know, Mr. Christie is
16 the Corporation's external appointed actuary.

17 Was this viewpoint, or something
18 comparable, expressed regarding prior Basic valuations?

19 MR. NEIL PARKINSON: Yes. That's been a
20 consistent finding as a result of our audit and review of
21 the appointed actuary's work.

22 MS. CANDACE EVERARD: Continuing in the
23 same -- can you give us a sense of, when you say it was
24 consistent, over how many years?

25 MR. NEIL PARKINSON: I couldn't speak to

1 how many years back, but this wasn't exactly the first
2 time we said that. I've got to think that it was at
3 least three (3) or four (4) years, and probably further
4 back. I think there is -- my impression is that there's
5 been, you know, considerable consistency about the
6 measurement and the judgment and approaches taken in the
7 actuarial valuation.

8 MS. CANDACE EVERARD: Do you have a
9 sense, Mr. Parkinson, of how many years the actuarial
10 specialist's role has existed? Because it hasn't been in
11 place for the whole of the seven (7) years that KPMG's
12 been doing the audits, right?

13 MR. NEIL PARKINSON: In fact, it has
14 been. Well, the audit guideline 43 only dates from 2005.
15 In fact, we, along with, I think, the other major
16 accounting firms, had in practice been using audit
17 support actuaries for a period of time prior to that.

18 And for our part, that would certainly
19 have covered the -- you know, the -- all of the term of
20 employ -- of our appointment from 2003, and I -- and I'm
21 not quite sure how far back prior -- when our previous
22 term of appointment was in the late 1990s.

23 MS. CANDACE EVERARD: Thank you.
24 Continuing on in the same paragraph, under the "Concerns
25 or Recommendations" section, we see -- the third sentence

1 reads:

2 "In particular, we expect the two (2)
3 major lines Basic Autopac -- accident
4 benefits, weekly benefits, and accident
5 benefits/other benefits indexed -- to
6 continue having favourable development
7 similar to the outcomes in the last few
8 years."

9 With respect to that, and from MPI's
10 evidence, we know that the undiscounted Basic total net
11 PIPP runoff during the fiscal year of '09/'10 was
12 favourable for each insurance year, aggregating to about
13 \$87.4 million.

14 Are you familiar with that?

15 MR. NEIL PARKINSON: I'd have to refresh
16 my memory on the specific numbers, but that sounds appro
17 -- that sounds correct.

18 MS. CANDACE EVERARD: And is -- is that
19 result what you referred to as normal or hoped for
20 earlier today?

21 MR. NEIL PARKINSON: Now, I may be dating
22 myself professionally in saying this, but conservatism is
23 something that most -- most auditors, indeed most
24 accountants would -- would like to see. Although, we're
25 -- we're not meant to care about that to the same degree

1 anymore, perhaps, but, yes, I think so.

2 I think that the -- that favourable runoff
3 has been a reasonably consistent experience. The amounts
4 may vary somewhat from year-to-year, because of the, you
5 know, the volatility of the -- the business and the
6 difficulty in having certainty about the results.

7 MS. CANDACE EVERARD: Now, to what extent
8 is your view of the runoff due to the inclusion of PFAD,
9 or the provert -- provision for adverse deviation in the
10 actuary's estimates?

11 MR. NEIL PARKINSON: Well the numbers you
12 quoted were the undiscounted numbers. And without
13 checking it, that would exclude PFAD. Typically the
14 undiscounted numbers are simply the -- the case reserves
15 themselves. And the discounted numbers include the time
16 value of money on the downside, and offset largely by the
17 provisions for adverse deviation.

18 So the redundance -- redundancies or
19 favourable runoff you referred to don't include anything
20 with respect to changes in provisions for adverse
21 deviation.

22 MS. CANDACE EVERARD: Is your view of
23 what is normal or what is hoped for related to PF --
24 PFAD, or the provision for adverse deviation?

25 MR. NEIL PARKINSON: I'm -- I might ask

1 for some clarification on a question. I guess the --
2 what -- what I said -- maybe I should clarify of what I
3 said in the first instance and you can see whether I
4 answer your question accidentally or otherwise.

5 The -- what -- what is normal or hoped
6 for, I think, is that there would be some level of
7 conservatism and that if anything you would tend to have
8 had adequately -- liabilities that were large enough, or
9 maybe a little larger than -- a little bit of a safety
10 margin. And that goes with the degree -- inherent degree
11 of uncertainty.

12 You would like to be a little bit on the
13 safe side, perhaps. So that would be normal. It is --
14 as to the quantum of it, I think that it's, you know,
15 probably not unreasonable, relative to about 1.6 billion
16 in liabilities.

17

18 (BRIEF PAUSE)

19

20 MS. CANDACE EVERARD: Given your
21 evidence, sir, about the consistency over a number of
22 years, it -- it seems as though built into the numbers
23 almost is a -- is an \$80 million, or thereabout,
24 overstatement.

25 How do you reconcile that with your review

1 of the numbers?

2 MR. NEIL PARKINSON: The -- first of all
3 I wouldn't characterize it as an overstatement. The --
4 what it -- it might be, you know, a level of conservatism
5 in the estimates, but, you know, on that scale of
6 liability, it is -- is quite normal to see a range of,
7 you know, 5 percent or more, higher or lower, relative to
8 any given point estimate with respect to non-life
9 actuarial liabilities.

10 So I wouldn't characterize it as an
11 overstatement. If it were, you know, substantially
12 higher, you know, perhaps deliberate overestimate, let's
13 say that was, you know, cons -- considerably higher than
14 that, at that point we might consider something an
15 overstatement if it was outside what we would see as a
16 reasonable range of actuarial estimates. When it's
17 within a -- that reasonable range, we wouldn't call it an
18 overstatement.

19

20 (BRIEF PAUSE)

21

22 MS. CANDACE EVERARD: Okay. Mr.
23 Parkinson, just so that we're clear on your position, if
24 you turn your mind to the -- the years of consistency
25 that the Corporation has experienced and -- and having

1 favourable runoff continuously for a number of years
2 relating to a number of insurance years and giving rise
3 to large adjustments, and if -- if you take that as a
4 whole, is there not any effect or influence on your
5 sense, or KPMG's sense of fairness and reasonableness of
6 the numbers?

7 MR. NEIL PARKINSON: Well, I -- I would
8 say that the -- one (1) of the important aspects of this
9 is in fact the consistency of it because to the extent
10 that there is any favourable runoff emerging from, let's
11 say, the 2007 year, that reduces the claims cost reported
12 in 2008. And -- and if you think that, okay, you're
13 still conservative in the following year, the point of
14 the matter is that, at the end of the day, the claims
15 costs reflected in that year are about the right number.

16 What we tend to be concerned about are
17 swings in the degree of conservatism around these
18 estimates that might -- might be used to influence or
19 create an impression in the results that were different
20 than the actual results.

21 So as long as you are conservative in --
22 con -- consistent in your approach, you don't have what
23 accountants sometimes refer to as cookie jar reserving,
24 that if you have a bad year, you can reach into the jar
25 and withdraw some of the conservatism. That hasn't

1 happened.

2 The organization and its actuary have been
3 consistent in their approach so that you would see
4 emerging in each year the -- the actual results. If you
5 want to look at the -- the reserves as a whole as being,
6 you know, consistently conservative or prudent, fine.
7 The reality is it is, you know, an uncertain type of an
8 estimate to make and it's probably appropriate,
9 particularly in an entity without a lot of capital not to
10 run too close to the line on it as well.

11

12 (BRIEF PAUSE)

13

14 MS. CANDACE EVERARD: Would it be fair to
15 say then that KPMG's concern is more on the focus of the
16 income statement as opposed to the balance sheet?

17 MR. NEIL PARKINSON: Not necessarily. I
18 would say that we -- we certainly are concerned about
19 both, but we are certainly sensitive to any changes in,
20 you know, the -- the est -- the attitudes or approaches
21 to significant management estimates that can
22 significantly affect the reported income results on the
23 year.

24 We're certainly just as concerned, I
25 think, about whether the -- the liabilities that are

1 recorded are adequate to cover the liabilities, the
2 obligations to Manitoba motorists, so I would -- I
3 wouldn't say one takes precedence over the other.

4 MS. CANDACE EVERARD: Thank you. Mr.
5 Parkinson, turning our attention back to the -- the
6 document prepared by Mr. Manktelow, we were looking at
7 the paragraph under "Concerns or Recommendations," and
8 just to -- to go back there and look at the last
9 sentence, which reads:

10 "Mr. Christie's total claims
11 liabilities estimate is closer to the
12 top-end of our range of
13 reasonableness."

14 Does the reference to "total" in that
15 sentence hold true for total Basic claims liabilities?

16 MR. NEIL PARKINSON: Yes, it does.

17 MS. CANDACE EVERARD: Now, what can you
18 tell us about the width of the range of reasonableness
19 that's mentioned here in that sentence that I just read
20 into the record?

21 MR. NEIL PARKINSON: I believe I
22 mentioned a few minutes ago a rough rule of thumb, that
23 reasonable range is roughly about plus or minus 5 percent
24 around a central estimate. You will see different rules
25 of thumb of that sort in the literature from time to time

1 with some people saying as much -- as, you know, somewhat
2 higher at the -- they're more sensitive to
3 underestimates.

4 So I've heard people talk about 5 percent
5 below or 10 percent above. We -- we're more likely to
6 look at this with our -- I know our own actuarial
7 practice is around plus or minus 5 percent, but that's
8 not a bright line. In this case, I think the runoff
9 you're talking about a little less -- you know -- you
10 know, closer to 6 percent in the specific year you
11 mentioned, but in an outlook basis, around 5 percent.

12 MS. CANDACE EVERARD: Just so that the
13 record's clear, when you're talking about the plus or
14 minus 5 percent, that's 5 percent of what?

15 MR. NEIL PARKINSON: That's 5 percent of
16 the aggregate liability.

17

18 (BRIEF PAUSE)

19

20 MS. CANDACE EVERARD: When you spoke
21 about the -- the range just now in response to that
22 question, you used the phrase "we". Is -- is the range
23 something that you and Mr. Manktelow would have discussed
24 together and -- to establish that, or is it more of a --
25 a range of general application within your firm? Can you

1 give us a sense of that, how that would have been
2 established.

3 MR. NEIL PARKINSON: Well, I would say
4 that's probably "yes" to those two (2), plus a third. I
5 think that's reasonably common currency amongst audit
6 support actuaries and audit firms, gen -- generally here
7 and in the US. You know, there -- similar metrics are
8 used there.

9 So I think it would be pretty much the
10 normal expectation, without, you know, having, you know,
11 a specific discussion about it in this case.

12 MS. CANDACE EVERARD: Can you tell us
13 about the implications on the Basic financial statements
14 of conservative estimates of total claims liabilities?

15 MR. NEIL PARKINSON: Again, going back to
16 the comments I made a few minutes ago. As long as you're
17 consistently conservative, within -- you know, within a
18 reasonable range of estimates, if your approach is
19 consistent, there is little, if any, impact on the
20 reported income, you know, in any -- in any given period.
21 The -- you would still get some variation in claims costs
22 because, you know, you -- you can estimate as best you
23 can, but how it turns out isn't necessarily quite the way
24 you thought.

25 So some years will have different, you

1 know, levels of favourable runoff, or in fact can have
2 negative runoff in some years, too, for various insurers.

3 As far as the financial position is
4 concerned, to the extent that you are somewhat
5 conservative, you know, it just means you have a little
6 stronger balance sheet, in effect. The -- and to the
7 extent that you prove to be conservative -- and these are
8 in fact estimates, as I say -- as long -- as long as you
9 prove to be conservative, it just means you have greater
10 financial strength, and you -- you may hope or expect to
11 continue to see favourable runoff in the future.

12 MS. CANDACE EVERARD: Isn't it the case,
13 though, that the Basic retained earnings -- or, in the
14 case of MPI, the rate stabilization reserve -- would end
15 up being marginally depressed?

16 MR. NEIL PARKINSON: If you were to have,
17 for the sake of argument, set your liabilities \$50
18 million lower, the retained earnings would be \$50 million
19 higher. I mean, that -- that -- that's sort of the
20 simple arithmetic of it, certainly.

21 MS. CANDACE EVERARD: Thank you. We'll
22 go then to page 4 of Mr. Manktelow's memo and look at the
23 heading at the top of the page entitled "Actuarial
24 Details." With reference to the October 2009 report, the
25 second paragraph that deals with that -- and I know Ms.

1 Kalinowsky referred to this as well -- the statement
2 appears here:

3 "In general..."

4 This is the second sentence.

5 "...Mr. Christie tends to select
6 assumptions that result in estimates
7 that, in aggregate, are at the upper
8 end of our range of reasonableness."

9 What can you tell us about the width of
10 the range of reasonableness for assumptions?

11 MR. NEIL PARKINSON: Well, the
12 assumptions aren't all easily categorized as saying that
13 they're plus or minus 5 percent around a number. It's
14 the end result and the liabilities that -- that you would
15 put in that kind of a -- you know, a benchmark.

16 So the -- the individual assumptions, you
17 know, you -- you don't get to quite that way. They --
18 the -- but I think the -- the pertinent point in this
19 paragraph is to indicate that, you know, it varies from
20 line to line. Some lines are -- would appear to have,
21 you know -- Blair would have put a different number on
22 them that would have been maybe higher, maybe lower, but
23 were in his range.

24 MS. CANDACE EVERARD: Now, this -- the
25 comment that Mr. Manktelow made here, the sentence that

1 begins, "In general, Mr. Christie tends to select," would
2 that comment also be true with respect to the basic
3 valuation at February of 2010?

4 MR. NEIL PARKINSON: Yes.

5 MS. CANDACE EVERARD: Now, continuing on
6 in the same paragraph, the second-last sentence or the
7 next sentence, Mr. Manktelow has written:

8 "For some lines of business, Mr.
9 Christie's selected claims liabilities
10 are above our range of reasonableness."

11 Can you -- or what can you -- sorry, can
12 you tell us, and if you can't tell us off the top of your
13 head, can you undertake to tell us about which lines of
14 business Mr. Manktelow is referring to there?

15 MR. NEIL PARKINSON: I don't know which
16 ones are which on that. I'm not sure it'd be very useful
17 to you, but we could undertake to -- to tell you which
18 ones. But I think a complete picture would require two
19 (2) things. To say if the others were, we would have, by
20 definition, have been somewhat lower, and further, that
21 the overall picture is still at that upper end of -- of
22 the range, so -- I think that will be true in aggregate,
23 both at the Basic level and the total corporate level.

24 MS. CANDACE EVERARD: Yeah, we would
25 appreciate the undertaking for you to -- to determine

1 which lines of business were being referred to there.

2 MR. NEIL PARKINSON: Very well.

3 MS. CANDACE EVERARD: Thank you.

4 MS. KATHY KALINOWSKY: If I could just --
5 sorry, I if I can just qualify that. Will indicate if
6 it's Basic or not?

7 MS. CANDACE EVERARD: Within Basic, yes.

8

9 (BRIEF PAUSE)

10

11 MS. CANDACE EVERARD: It -- it's our
12 understanding that when Mr. Manktelow used the phrase
13 "lines of business" in that sentence, he wasn't
14 necessarily referring to them in -- by division of the
15 Corporation, the way that we usually use that phrase.
16 Our -- it's our understanding that he would have been
17 referring to PIPP collision, et cetera.

18 It's the list -- okay. Our -- our
19 understanding is that it was -- it's the bulleted list
20 under the heading of "Basic AutoPac" that appears on that
21 little chart higher up the page.

22 Do -- does that help you, Ms. Kalinowsky?
23 Just -- just for the purposes of the record --

24 MS. KATHY KALINOWSKY: Yes.

25 MS. CANDACE EVERARD: -- we have the

1 undertaking?

2 MS. KATHY KALINOWSKY: Yes.

3 MS. CANDACE EVERARD: Okay.

4

5 --- UNDERTAKING NO. 18: MPI to advise which lines of
6 business Mr. Manktelow is
7 referring to in the following
8 sentence on page 4 of his
9 report: "For some lines of
10 business, Mr. Christie's
11 selected claims liabilities
12 are above our range of
13 reasonableness."
14

15 CONTINUED BY MS. CANDACE EVERARD:

16 MS. CANDACE EVERARD: Okay, if we
17 continue to page 5 of the report, Mr. Parkinson, we see
18 halfway down the page the heading "Premium Liabilities."
19 And reflected under that heading in the third sentence or
20 fourth sentence is the following.

21 "Due to the conservativeness and the
22 selected claims liabilities, Mr.
23 Christie's selected loss ratios tend to
24 be closer to the conservative end of
25 our range of reasonableness."

1 What can you tell us about the width of
2 that range of reasonableness for expected loss ratio
3 assumptions?

4 MR. NEIL PARKINSON: The -- this is not a
5 question of width of range particularly, because what
6 happens when -- in assessing the premium liabilities is
7 that the premium liabilities are established firstly as a
8 pro rata unearned premium on a time expiry basis, so that
9 if on average the -- the enforced policies were six (6)
10 months old, you'd expect about a half a year premium
11 sitting in unearned premiums. So the con -- the
12 importance of referring to expected future claims
13 liabilities is to use that in assessing whether the --
14 the premium -- unearned premiums will be sufficient to
15 cover future costs.

16 So you could have quite a conservative
17 approach to expected claims liabilities and not throw up
18 a loss or a premium deficiency and it would have no
19 impact, whatever, on the computation of unearned premium
20 liabilities. This is a -- sort of a ceiling test or
21 valuation test used to determine whether the premiums
22 calculated on a pro rata basis are big enough.

23 And I think that in most years there is
24 relatively little that woul -- in any line that might
25 have given rise to a premium deficiency, so I couldn't

1 put it in terms of a percentage range on that.

2

3

(BRIEF PAUSE)

4

5 MS. CANDACE EVERARD: So are you
6 referring to the upper limit on deferred policy
7 acquisition costs, or the DPAC, being marginally
8 depressed by the conservatism?

9 MR. NEIL PARKINSON: Yes, I think that --
10 and -- and they're -- they're certainly affected by how
11 you set tho -- your out -- your outlook for future
12 expenses, and particularly claims expenses. And whether
13 there is any effect on the resulting amount of policy
14 acquisition costs that are maybe allowed to sit on the
15 books, and -- and you could also have to have additional
16 unearned premium liabilities as a result of -- whether
17 that has an effect really -- it isn't a one (1) to one
18 (1) correspondence. If I use the 1 percent higher loss
19 ratio, it doesn't necessarily give rise to a writedown of
20 deferred acquisition costs or a higher run on premium
21 liability.

22 MS. CANDACE EVERARD: So, Mr. Parkinson,
23 on the whole, what conclusions did you reach with respect
24 to the Basic valuation as at February 2010, after
25 reviewing Mr. Manktelow's memo?

1 MR. NEIL PARKINSON: We concluded that
2 the resulting policy liabilities of MPIC were within a
3 reasonable range of actuarial estimates, and, as a
4 result, we did not have any indication that there was a -
5 - an audit difference to discuss or request any
6 adjustment of the financial statements for it.

7 MS. CANDACE EVERARD: Okay. Shifting a
8 little bit to a couple of other issues, did KPMG issue a
9 management letter, or combined audit findings report, in
10 support of the 2009/2010 financial statements audit?

11 MR. ROBERT KOWALCHUK: We provided --
12 excuse me. We provided the audit committee with the
13 audit findings report, yes.

14 MS. CANDACE EVERARD: And I take it,
15 then, that the -- those findings would have been
16 discussed and reviewed with the audit committee of MPI?

17 MR. ROBERT KOWALCHUK: Yes, they were.

18 MS. CANDACE EVERARD: And were there any
19 specific issues related to Basic that arose and were
20 reflected in that report?

21 MR. ROBERT KOWALCHUK: No, there were
22 not.

23 MS. CANDACE EVERARD: Okay. There was
24 some evidence given in direct with respect to the -- the
25 accounting issues that relate to the PIPP enhancements,

1 and I have a few questions about those as well.

2 We know that, in the 2008/09 year, MPI
3 included a provision of about \$91 million related to the
4 anticipated PIPP benefit enhancements.

5 Do you -- you recall that?

6 MR. ROBERT KOWALCHUK: Yes, I do.

7 MS. CANDACE EVERARD: Can you tell us
8 what KPMG reviewed in determining that it was appropriate
9 to include that provision in those 2008/'09 financial
10 statements?

11

12 (BRIEF PAUSE)

13

14 MR. ROBERT KOWALCHUK: So certainly we
15 were aware of the events going on during that time
16 period, you know, starting in -- in October of 2008 with
17 the Premier asking the minister responsible for MPI to
18 review the PIPP benefits to determine whether any
19 improvements were required.

20 December of that year, we were aware that
21 MPI management had submitted proposed PIPP enhancements
22 to the Board of Directors of MPI. In that same period of
23 time, the Board approved the proposed PIPP enhancements
24 and authorized management to apply to government for
25 legislative amendments to implement those benefit

1 changes.

2 We were aware that in February of 2009 the
3 benefit changes were approved by Cabinet, and MPI
4 management advised the Board of that also in February.
5 And so management's conclusion at that point was that it
6 was highly likely that these improvements would be
7 legislated, and certainly an estimate could be made.
8 And, accordingly, the resulting liability that you
9 mentioned was recorded in the financial statements that
10 year, and also disclosed in the notes to those financial
11 statements.

12 MS. CANDACE EVERARD: And so the -- the
13 dollar figure that you mentioned was an estimate based on
14 the facts that you've described.

15 Was KPMG provided with an analysis that
16 supported that number?

17 MR. ROBERT KOWALCHUK: That would have
18 been in conjunction with the -- our procedures under
19 auditing Guideline 43. So Jim Christie would have
20 provided his report on the actuarial liabilities, which
21 would have included that 90 million, and our audit
22 support actuary was aware that the 90 million was
23 included in there as well.

24 MS. CANDACE EVERARD: And did KPMG
25 conduct any review of the analysis to ensure that it was

1 reasonable? Was that -- was that -- and if so, was that
2 done just as a part of the standard audit process, or was
3 there anything particular done with respect to that
4 number?

5 MR. NEIL PARKINSON: I don't think
6 you'll see that expressly covered in our -- the audit
7 support memo from Blair, and frankly, I haven't talked to
8 him about the specifics. As far as the -- what -- what
9 was available in the -- the actuarial working papers we
10 had, it was part of the overall package.

11 You know, we were given a general analysis
12 of what was covered by that liability. I couldn't speak
13 very easily to exactly how much specific analysis on that
14 point there was, you know, based on what I know sitting
15 here right now.

16 MS. CANDACE EVERARD: But I take it that
17 KPMG was able to reach a place where it was independently
18 comfort with the number?

19 MR. NEIL PARKINSON: Yes.

20 MS. CANDACE EVERARD: Now, Mr. Kowalchuk,
21 you testified a moment ago about the advice given to KPMG
22 by the Corporation that the Bill had been approved by
23 Cabinet or that the proposed changes had been approved by
24 Cabinet, and that in the conclusion of management it was
25 highly unlikely that there would be changes before the

1 legislation was enacted.

2 Is -- is that a fair summary of what your
3 evidence was?

4 MR. ROBERT KOWALCHUK: Yes.

5 MS. CANDACE EVERARD: And is it also your
6 evidence that on the basis of those representations, KPMG
7 was satisfied -- was itself satisfied that a liability
8 existed as of February 28th of 2009, even though the
9 legislation had not yet been introduced in the House?

10 THE CHAIRPERSON: I think --

11 MS. CANDACE EVERARD: Sorry. Are you not
12 able --

13 THE CHAIRPERSON: I think we'd like to
14 hear from the witnesses.

15

16 CONTINUED BY MS. CANDACE EVERARD:

17 MS. CANDACE EVERARD: Yeah. Are you not
18 able to answer the question without consulting with Ms.
19 Kalinowsky?

20 MR. ROBERT KOWALCHUK: We were -- we were
21 comfortable that the liability should be recorded in the
22 financial statements, yes.

23 MS. CANDACE EVERARD: And KPMG satisfied
24 itself on that point based on the advice received that
25 we've just discussed, or was there anything else that

1 KPMG used to satisfy itself?

2 MR. ROBERT KOWALCHUK: Well, we would
3 have satisfied ourselves based on our knowledge of the
4 events that I -- I listed, knowing the fact that the
5 government was in a majority position would increase the
6 likeliness of -- of the future event occurring, the
7 legislation being passed. That, combined with the
8 procedures under AuG-43 that our audit support actuary
9 would have performed in terms of the quantification of
10 the number.

11 MS. CANDACE EVERARD: Can you tell
12 whether this provision related to the -- the
13 approximately \$91 million would be allowed under IFRS, as
14 opposed to GAAP, which was in place at the time?

15 MR. NEIL PARKINSON: Yes, it would be.

16 MS. CANDACE EVERARD: Now we know that in
17 the 2009/10 annual report there was confirmation of an
18 adjustment to reflect that the \$91 million estimate had
19 changed.

20 Do you recall that?

21 MR. ROBERT KOWALCHUK: Yes, I recall
22 that.

23 MS. CANDACE EVERARD: And I'll just take
24 you briefly to one of the IR replies that you looked at
25 earlier. It's at tab 23 of the book of documents, number

1 1-41, posed by the Board.

2 I -- I assume -- you have it? I --

3 MR. ROBERT KOWALCHUK: Yes.

4 MS. CANDACE EVERARD: -- I assume that
5 KPMG would have been provided with the information
6 reflected at the table at (a) of the reply.

7 Is that correct?

8 MR. ROBERT KOWALCHUK: Yes.

9 MS. CANDACE EVERARD: And at or around
10 April 30th of 2009, KPMG would have been working on the
11 year-end audit for the '08/'09 year?

12 MR. ROBERT KOWALCHUK: Yes, that's
13 correct.

14 MS. CANDACE EVERARD: And was KPMG
15 provided with an update at that time which indicated the
16 change in the number from about the 91 million to the
17 ninety-four (94)?

18

19 (BRIEF PAUSE)

20

21 MR. ROBERT KOWALCHUK: I don't recall
22 that.

23 MS. CANDACE EVERARD: Now we know that
24 ultimately by the end of 2009/10, the number had
25 decreased and it was around 74 1/2 million after having

1 been seventy-seven (77), as of October 31st of 2009.

2 Is that right?

3 MR. ROBERT KOWALCHUK: Yes.

4 MS. CANDACE EVERARD: Now did KPMG
5 satisfy itself that the journal entries corresponding
6 with these adjustments were appropriate?

7 MR. ROBERT KOWALCHUK: Yes.

8 MS. CANDACE EVERARD: And did KPMG raise
9 any concerns with the Corporation with respect to these
10 changes in estimates?

11 MR. ROBERT KOWALCHUK: No, we did not.

12 MS. CANDACE EVERARD: And I take it
13 that's because you didn't have any concerns to raise?

14 MR. ROBERT KOWALCHUK: We have no
15 concerns.

16 MR. NEIL PARKINSON: I would add to that
17 that we did, of course, ask why the -- the estimates
18 changed. And the -- the initial estimates that were --
19 you know, that at the higher numbers in the preceding
20 year, were based on, as I understand, more of a portfolio
21 basis estimate of -- and the estimate was refined
22 significantly by doing a detailed case-by-case analysis
23 which resulted in, you know, more precise information,
24 and there was, as a result, you know, a reduction in the
25 estimate from it. So we did get -- get an understanding

1 of why the estimate had shifted.

2 MS. CANDACE EVERARD: Thank you. I'm
3 going to ask you now to go to the last annual report, and
4 we'll switch topics a little bit. We see at AI.7 the
5 most recent annual report. And I'll ask you to go to
6 page 59. This is a note -- oh, sorry, I'll just wait for
7 you to get there. Page 59 of the 2009 annual report for
8 the Corporation.

9

10 (BRIEF PAUSE)

11

12 MR. ROBERT KOWALCHUK: Yes.

13 MS. CANDACE EVERARD: Thank you. This is
14 a note that relates to a change -- and I'm looking at the
15 top note under Section 4 relating to a change in
16 accounting standards for goodwill and intangible assets.

17 Do you see that?

18 MR. ROBERT KOWALCHUK: Yes, I do.

19 MS. CANDACE EVERARD: And it's my
20 understanding, looking at the first sentence of the note,
21 that this is a change that would take effect for fiscal
22 years beginning on or after October 1st of 2008, so in
23 the case of MPI, it would impact the 2009/'10 fiscal
24 year.

25 Is that right?

1 MR. ROBERT KOWALCHUK: That's correct.

2 MS. CANDACE EVERARD: Now, in the second
3 paragraph of the note it's reflected that the
4 transitional provisions of Section 30-64 require that:

5 "Intangible assets recognized prior to
6 the fiscal year beginning on or after
7 October 1st, 2008 that do not meet the
8 new recognition or measurement criteria
9 are to be accounted for in accordance
10 with Section 15-06, called 'Accounting
11 changes,' which includes retroactive
12 application resulting in a restatement
13 of previously reported balances for the
14 fiscal year ending February, 2009."

15 Is that right?

16 MR. ROBERT KOWALCHUK: Yes.

17 MS. CANDACE EVERARD: And, in particular,
18 under this new standard, intangible assets were required
19 to provide an economic return, is that right?

20 MR. ROBERT KOWALCHUK: Yes.

21 MS. CANDACE EVERARD: And I'll ask you to
22 go to Question 1-81, posed by the Board, which I don't
23 believe is in the book of documents. No, it's not.

24

25 (BRIEF PAUSE)

1 MS. CANDACE EVERARD: Do you have 1-81?

2 MR. ROBERT KOWALCHUK: No, I don't at
3 this time.

4 MS. CANDACE EVERARD: Okay, sure. It's
5 not in the book. It's not in that bound book that's in
6 front of Mr. Sissons, so we'd have to get it from -- from
7 a different source. Perfect, I think Mr. Kramer's got it
8 there.

9

10 (BRIEF PAUSE)

11

12 MR. ROBERT KOWALCHUK: Okay.

13 MS. CANDACE EVERARD: Okay. So 1-81,
14 this was a question posed by the Board to the Corporation
15 in the -- the round of written questions. And the --
16 you'll see at the -- in the preamble to the question the
17 Board quoted from the 2008 annual report, so the one
18 before the one we just looked at. This was a quote that
19 was relative to the same Section, 30-64 of the CICA
20 Handbook. And the statement that was in that 2008 annual
21 report, that:

22 "The Corporation did not expect
23 material impacts due to the new CICA
24 standards."

25 Do you see that?

1 MR. ROBERT KOWALCHUK: Yes, I do.

2 MS. CANDACE EVERARD: And do you recall
3 that from the -- the 2008 era, that that was the thought
4 at that particular time?

5 MR. ROBERT KOWALCHUK: Yes, I do recall
6 that.

7 MS. CANDACE EVERARD: And we see, if we
8 look at the answer to 1-81(a), which is on the reverse
9 side from the quote that we were looking at, that the
10 Corporation said in the second sentence that:

11 "The analysis of the sections for the
12 2008 annual report were at a high
13 level, which was discussed with the
14 external auditor."

15 And that would, of course, be your office?

16 MR. ROBERT KOWALCHUK: Yes, it was.

17 MS. CANDACE EVERARD: What can you tell
18 us about the discussions that were held at that time
19 regarding the potential impact of the new standard?

20 MR. ROBERT KOWALCHUK: Well, as it
21 mentions, the discussions were at a fairly high level,
22 and given -- giving consideration to whether there was
23 anything that management was aware of at the time, that
24 would cause any adjustments as the resu -- result of the
25 adoption of Section 30-64.

1 MS. CANDACE EVERARD: So I take it
2 management wasn't aware of anything, but your office
3 wasn't aware of anything either at that time?

4 MR. ROBERT KOWALCHUK: No, management did
5 not identify anything, and -- and we also did not.

6 MS. CANDACE EVERARD: Was there
7 particular work or analysis that was undertaken at that
8 time in the context of that high-level discussion?

9 MR. ROBERT KOWALCHUK: It -- it was
10 primarily discussions with -- with management, and,
11 again, asking the questions whether there would be
12 anything that would be impacted by the adoption of this
13 new section.

14 MS. CANDACE EVERARD: And management
15 thought that there wouldn't be, based on your evidence.
16 Did KPMG review whatever analysis management had done at
17 that time?

18 MR. ROBERT KOWALCHUK: Again, there was
19 no detailed analysis done at that time, so it was
20 primarily discussions with management.

21 MS. CANDACE EVERARD: Did KPMG have any
22 discussions with the Corporation at that time on whether
23 certain business process review expenditures might not
24 meet the intangible asset criteria?

25 MR. ROBERT KOWALCHUK: No, I don't

1 believe we did.

2 MS. CANDACE EVERARD: Now we know that
3 there were adjustments ultimately made in the 2009/10
4 year, and would you agree that those adjustments were
5 material?

6 MR. ROBERT KOWALCHUK: Yes, they were.

7

8 (BRIEF PAUSE)

9

10 MS. CANDACE EVERARD: Is there a
11 particular reason that back in -- at the time of the 2008
12 report, KPMG didn't undertake a particular analysis with
13 respect to the -- what the effect of this change would
14 be?

15 MR. ROBERT KOWALCHUK: Well, at the -- at
16 that time there would have been no requirement to
17 quantify any adjustments necessary under the adoption of
18 a new standard. Whether it -- more just consideration of
19 if there is anything out there that might be impacted by
20 the standard.

21 When the -- when management undertook to
22 perform a more detailed analysis is when there was a
23 review with us by that time of what they had identified
24 as not meeting the definition of -- of a intangible
25 asset.

1 MS. CANDACE EVERARD: Thank you. And the
2 -- the adjustments that were ultimately made are tho --
3 those that are reflected on page 59, under -- and I'm
4 going back now to the 2009 annual report that we were
5 looking at a moment ago.

6 MR. ROBERT KOWALCHUK: Yes, that's
7 correct.

8 MS. CANDACE EVERARD: Okay. I just have
9 a -- a few more questions, Mr. Chairman, so I think we're
10 doing well for time.

11 Just going back to one of the -- the first
12 topics that we were speaking about in the cross-
13 examination today, and that relates to the -- the '90 and
14 the 1994 reports prepared by -- by KPMG. We know that
15 KPMG has been the external auditor for the Corporation
16 continuously since 2003 and obviously was -- was also the
17 external auditor at some time before that.

18 Can you tell us how KPMG was able to
19 complete its audits of the Corporation's financial
20 statements and -- and approval of those financials
21 statements since 2003, in light of the 1990 and 1994
22 reports that suggested periodic reviews on allocations
23 when those were not completed?

24 MR. ROBERT KOWALCHUK: Well, despite the
25 recommendations of those reports not being carried out,

1 it did not preclude us from being able to form an opinion
2 on the financial statements. As I mentioned, each year
3 management would go through an internal review process to
4 identify any changes to the existing allocation
5 methodologies, and we would assess the reasonableness of
6 those changes and then apply our audit procedures to the
7 allocations in order for us to form our opinion on the
8 financial statements.

9 MR. NEIL PARKINSON: And -- and if I
10 might add to that, because I -- I spoke to this earlier
11 as well. I think we did, as Mr. Kal -- Kowalchuk said,
12 car -- look for any indication of any kind of triggering
13 event or change that would lead you to believe that the
14 existing methodology was no longer appropriate or a
15 required change.

16 The recommendation to do a more in depth
17 external study on a periodic basis, whether every three
18 (3) to five (5) years or every five (5) or six (6) years
19 is one where it's reasonably within the purview of
20 management to make a cost benefit judgment on whether it
21 was appropriate to do that or not, and based on what had
22 happened in the inter -- you know, in the intervening
23 period.

24 So the fact that they did not take up
25 that, we have thick skins as auditors sometimes when

1 people don't always take all of the detail of our
2 recommendations onboard completely, and that's not
3 unreasonable thing if -- and we -- we didn't find
4 anything that would suggest that the methodology had
5 shifted. But requirements of the methodology had shifted
6 in the intervening period.

7 MS. CANDACE EVERARD: Thank you. Is KPMG
8 aware, in general, terms that the Corporation has certain
9 obligations that are set out in its governing
10 legislation, the MPIC Act?

11 MR. ROBERT KOWALCHUK: I'm aware of
12 those, in general terms, yes.

13 MS. CANDACE EVERARD: And does KPMG take
14 those obligations into account when it's conducting its
15 audit or are those legislative obligations considered --
16 not considered at all?

17 MR. ROBERT KOWALCHUK: Yeah, those
18 requirements would be outside the scope of the financial
19 statement audit.

20 MS. CANDACE EVERARD: So I take it then
21 that KPMG wouldn't include any reference to those
22 obligations in its management letter?

23 MR. ROBERT KOWALCHUK: No, we would not.

24 MS. CANDACE EVERARD: Mr. Chairman, may I
25 just have one (1) moment?

1 (BRIEF PAUSE)

2

3 MS. CANDACE EVERARD: Okay. Thank you,
4 Mr. Chairman. I don't have further questions for Mr.
5 Kowalchuk or Mr. Parkinson.

6 THE CHAIRPERSON: Thank you, Ms. Everard.
7 Before we go to the break, and then when we come back
8 from the break, Mr. Williams is eager to go, I've got a
9 couple of questions. I'll go over some of the same
10 ground as Ms. Everard but in perhaps a different way.

11 Mr. Kowalchuk, are you aware of the basis
12 or origins or intentions for the legislative requirements
13 for this Board to establish premium -- premiums and fees
14 for the compulsory monopoly AutoPac program?

15 MR. ROBERT KOWALCHUK: I'm aware --
16 excuse me. I'm aware that the -- the Board sets the
17 rates for the basic compulsory AutoPac. I -- I'm unaware
18 of any further details.

19 THE CHAIRPERSON: You're not aware of the
20 legislative intent as represented by Hansard at the time
21 or the -- the or -- origins or basically the -- what led
22 to the involvement of the Public Utility Board?

23 MR. ROBERT KOWALCHUK: In a general way,
24 yes.

25 THE CHAIRPERSON: And how -- how do you

1 describe how PUB came to be involved with MPI?

2 MR. ROBERT KOWALCHUK: I don't think I'd
3 be able to describe that for you.

4 THE CHAIRPERSON: Mr. Parkinson, are you
5 familiar with the concept and -- obviously you are, and
6 practices of rate regulated accounting?

7 MR. NEIL PARKINSON: I would not consider
8 myself one of the leading experts in it but I have some
9 familiarity anyway.

10 THE CHAIRPERSON: In -- in short, whereby
11 elements of GAAP may be substituted with practices
12 employed by a regulator towards setting just and
13 reasonable rates?

14 MR. NEIL PARKINSON: Yes.

15 THE CHAIRPERSON: Do you accept that in -
16 - in some cases employing generally accepted accounting
17 principles may produce something different than just and
18 reasonable rates?

19 MR. NEIL PARKINSON: I would -- I don't
20 think I've thought about it in a way of deciding what's
21 the best from a public policy perspective. I am
22 certainly aware, however, that some rate-setting bodies
23 have chosen to use different approaches to costs,
24 spreading costs and revenues, that give rise to
25 regulatory assets and regulatory liabilities and

1 regulatory reporting. Or they haven't felt that GAAP
2 accounting at least served their needs in setting rates
3 in the interest of the public. So I -- I accept that
4 that is the case.

5 THE CHAIRPERSON: So you could accept at
6 least that it would be the view of or decision of a
7 regulator to employ different accounting practices than
8 those that come from GAAP.

9 MR. NEIL PARKINSON: I have certainly
10 observed that happening, and I guess it's above my pay
11 grade to say whether you should or should not do that.

12 THE CHAIRPERSON: Everyone's allowed an
13 opinion.

14 Mr. Parkinson, are you aware that both
15 regulators -- across the country, actually -- and
16 utilities have written the accounting bodies involved
17 with setting IFFR, IFRS and Canadian GAAP as well,
18 supporting the continuation of certain practices for
19 rate-regulated corporations?

20 MR. NEIL PARKINSON: Yes, I am, although
21 I have to say I'm not deeply involved in the technical
22 discourse on that.

23 THE CHAIRPERSON: Again, Mr. Parkinson,
24 in your practice, do you find private insurance companies
25 expect -- expecting, too, if you -- if you like, by way

1 of pricing their products, ongoing annual underwriting
2 losses, and counting on -- counting on investment income
3 to produce at least a break-even, and, more preferably, a
4 net income for the shareholder?

5 MR. NEIL PARKINSON: Well, in the current
6 environment -- and I would say that goes back over the
7 last two (2) or three (3) years -- that expectation has
8 largely dissipated, and that's been reflected in rate
9 setting. Simply, the -- for -- particularly for non-life
10 insurers, the very substantial use of bonds to support
11 returns, and the very low rates, have meant people are
12 not underwriting on the base (sic) of trying to make it
13 up on investments. It's just not a safe thing.

14 So I think that that practice might have
15 been prevalent in the '70s and '80s, and, to a lesser
16 degree, more recently, but it's pretty much evaporated
17 from current practice.

18 THE CHAIRPERSON: So you'd say private
19 insurers are back to wanting a positive underwriting
20 position?

21 MR. NEIL PARKINSON: You know -- yes, I
22 think that that's right, that or -- or very minor losses
23 in bad years.

24 THE CHAIRPERSON: Now, you would grant
25 that MPI is different, in -- in fact, in it's -- it's

1 stance, basically, that it includes its expectation of
2 investment income towards -- in each rate application,
3 towards its goal of simply breaking even?

4 MR. NEIL PARKINSON: Well, I think every
5 insurer bakes investment into their business plans, and I
6 -- I think that it has some impact on rate setting from
7 the standpoint that people -- claims you pay out slow,
8 you get more investment income for it, but not quite the
9 same as being very tolerant of losses.

10 I would -- so to the -- I -- I'm not
11 familiar with MPIC's rate-setting attitude currently on
12 that point, so I'm not -- I'll -- I'll take it as you --
13 as you describe it.

14 THE CHAIRPERSON: Yeah. Actually, it's a
15 -- I think it's a material point that our understanding
16 has been that MPI expects ongoing underwriting losses,
17 and therefore expects and forecasts investment income as
18 their means of breaking even, which is -- you appear to
19 be confirming, different from private insurers, which is
20 basically my point.

21 MR. NEIL PARKINSON: Well, private
22 insurers, also a significant difference is that they're -
23 - they're trying to create a return on capital which has
24 a -- a significant effect on pricing, too.

25 THE CHAIRPERSON: And the reason they've

1 gone back to the underwriting position, of course, is
2 bonds, ten (10) year bonds, are producing less than 3
3 percent yield.

4 MR. NEIL PARKINSON: Yes.

5 THE CHAIRPERSON: Just a general
6 question. I certainly don't know the answer. Would --
7 would that difference in approach between a -- a Crown
8 corporation counting on investment income, assuming
9 underwriting losses, seeking no more than break-even,
10 compared to -- the vast portion of the -- of the market
11 is private, with a different approach and seeking to
12 produce net income for shareholders, would that affect
13 the approach taken by Mr. Christie as he comes to his
14 valuation of unpaid claims?

15 Or do you know?

16 MR. NEIL PARKINSON: I wouldn't -- I
17 wouldn't want to put too many words in Jim's mouth. He -
18 - but I think that he would try to steer it down the
19 middle, in terms of setting a liability. His attitude as
20 to whether -- you know, how conservative the enterprise
21 ought to be, given -- given its limited capital base, is
22 offset by the fact that it also is in a position of, you
23 know, having a captive audience and being able to adjust
24 rates prospectively, if need be, to try to make up for --
25 for poor results in the short run.

1 So I suspect, and, again, at the risk of
2 putting any words into Jim's mouth, that he's not taking
3 that into account in any significant way.

4 THE CHAIRPERSON: So he'd be looking at
5 it the same way as a private insurer, in a sense?

6 MR. NEIL PARKINSON: I think by and
7 large, yes.

8 THE CHAIRPERSON: Now, I apologize if I
9 repeat some of Ms. Everard's question in this one, but I
10 just want to go through it in a slightly different way.

11 Mr. Parkinson, we'll, we now know that are
12 aware that a \$90 million provision for a prospective
13 benefit was included in the unpaid claims liability for
14 the 2008/'09 audited accounts of MPI.

15 MR. NEIL PARKINSON: Yes.

16 THE CHAIRPERSON: Are you aware that MPI
17 did not disclose the existence of that specific provision
18 at a rate hearing between the date of the end of '08/'09
19 and the public disclosure of the provision?

20 MR. NEIL PARKINSON: I'm not aware of
21 what -- what happened or didn't happen at those rate
22 hearings, so, sorry, I don't have knowledge of that.

23 THE CHAIRPERSON: Is it possible that
24 you're not even aware that there was a rate hearing in
25 that interim period?

1 MR. NEIL PARKINSON: It -- it is more
2 than possible. It is correct that I was not aware.

3 THE CHAIRPERSON: Would you agree that
4 the provision only became a claim in law upon a
5 legislative amendment that was proclaimed six (6) or
6 seven (7) months after the date of the 2008/'09 fiscal
7 year end?

8 MR. NEIL PARKINSON: I'm not in a
9 position to say whether it's a claim in law. I will, you
10 know, concede that, although that -- that is not subject
11 -- subject to, you know, opinion of lawyer -- opinion of
12 legal counsel. But that's not, of course, quite the same
13 question of whether it would meet the liability from an
14 accounting perspective.

15 THE CHAIRPERSON: You've already
16 indicated that you weren't concerned by the fact that the
17 quantum set at the end of '08/'09 has changed materially
18 since. So you don't -- you're not expressing any
19 concerns with respect to the booking of a liability at
20 the end of '08/'09 that was not actually turned into an
21 amount that could be paid until after the proclamation of
22 a legislative amendment?

23 MR. NEIL PARKINSON: No, and -- and I
24 think we've had other precedents of broadly similar
25 claims cost events in the last couple of years that are

1 very similar in -- in that sense, whether it was the soft
2 tissue injury cap and provisions for that or the
3 imposition of the HST. In Ontario and BC we have broadly
4 similar accounting issues related to that, in terms of
5 whether those ought to be accrued for from an account
6 perspective. I -- I can accept that it might be somewhat
7 counterintuitive from a legal perspective, however.

8 THE CHAIRPERSON: Mr. Parkinson, you
9 would -- I think you would agree that -- at least it
10 would make common sense, that this Board is a major user
11 of MPI's audited statements?

12 MR. NEIL PARKINSON: Yes, very much so.

13 THE CHAIRPERSON: Mr. Parkinson, what is
14 your view as to the wisdom of withholding of material
15 information from a regulator when an opportunity to
16 disclose was available?

17 MR. NEIL PARKINSON: I'll -- I -- I don't
18 think I have a worthwhile response, being -- you know,
19 not -- not really being aware of the circumstances of the
20 -- what was expected to be disclosed, when it could be
21 disclosed, or the status of it at the time.

22 THE CHAIRPERSON: I imagine this next
23 follow-up question falls to the same. I can imagine what
24 your situation would be.

25 Mr. Kowalch -- either one of you, I guess.

1 So when KPMG attested positively to the statements at the
2 end '08/'09 you would not have been aware that public
3 knowledge of the improvement to the benefit would not
4 come until later? The filing of the annual reports would
5 have come months after that. And the tabling of the
6 Legislature going through committee and all the way
7 through to proclamation wouldn't happen to seven (7)
8 months later.

9 MR. ROBERT KOWALCHUK: That's correct.
10 We were uncertain of -- of what that timing would be.

11 THE CHAIRPERSON: So returning to the
12 concept of common sense that we were discussing right at
13 the beginning of our discussion, in a sense. Maybe
14 you'll accept this, maybe you won't, but given that the
15 historical record of Federal and provincial governments,
16 re: the development of plans that were never implemented
17 or were implemented significantly different than what
18 they were originally planned, and given that the enhanced
19 benefit booked in 8-0 -- 8-0 -- '08/'09 were neither
20 known publically. In fact, change proposal wasn't
21 actually introduced in the Legislature until months after
22 the year-end of '08/'09, does common sense suggest
23 booking that entry at the end of '08/'09? Or does GAAP
24 trump common sense?

25 MR. NEIL PARKINSON: I -- I think it is

1 partly borne out in the various GAAP references. And
2 without getting too accounting nerd for you on all of the
3 various pieces, it's also, I think, important to note
4 that that was also the view on the actuarial side. That
5 that -- that was something as -- the chief -- the
6 appointed actuary needed to take into account,
7 particularly potentially adverse developments affecting
8 claims costs.

9 And so if you'll -- if you accept that we
10 might take sideways glances for a sanity check and, Well,
11 how do the actuaries think about this, I think that there
12 was -- well, we -- we saw as common sense support that it
13 was appropriate to -- to get the -- the likely adverse
14 news into -- into those costs earlier rather than later.

15 THE CHAIRPERSON: You wouldn't disagree
16 with me, though, that oftentimes governments change their
17 mind before they reach the Legislature?

18 MR. NEIL PARKINSON: Yes, there have
19 certainly been examples.

20 THE CHAIRPERSON: Switching issues for a
21 moment. Just for the record, KPMG accepts that the
22 Province of Manitoba is a related party to MPI?

23 MR. ROBERT KOWALCHUK: Yes.

24

25 (BRIEF PAUSE)

1 THE CHAIRPERSON: Yeah. I apologize if
2 I'm repeating something but I think it's a slightly
3 different angle.

4 I'm just trying to recall whether you've
5 indicated whether you reviewed in detail the agreement
6 between Manitoba and MPI re: D -- DVL of April 20th of
7 2004.

8 MR. ROBERT KOWALCHUK: Yes, I believe
9 that's the same agreement that we reviewed in the course
10 of our review of the onerous contract issue.

11 THE CHAIRPERSON: And that agreement,
12 which is signed by officers of MPI and also for the
13 Province, through the government, contains a clause that
14 says:

15 "No -- now therefore in return for
16 mutual good and valuable consideration
17 passing between the parties, it is
18 agreed as follows."

19 THE CHAIRPERSON: So you -- do you
20 consider the agreement to be an agreement?

21 MR. ROBERT KOWALCHUK: Yes, it's an
22 agreement.

23 THE CHAIRPERSON: But you're indicating
24 to us that you were not or are not aware of the financial
25 implications of the agreement for MPI and its ratepayers?

1 MR. ROBERT KOWALCHUK: Are you talking
2 during a certain period or since the inception of the
3 agreement?

4 THE CHAIRPERSON: Over time.

5 MR. ROBERT KOWALCHUK: Well, I am aware
6 of the expenses incurred with respect to providing the
7 DVL services and the revenue that is brought in or
8 collected from the province with respect to those
9 services.

10 THE CHAIRPERSON: Is it your view that
11 operating the DVA responsibilities that were provided to
12 MPI by the province will on a standalone basis produce
13 more revenue than expense for MPI?

14 MR. ROBERT KOWALCHUK: I'm sorry, could
15 you repeat that?

16 THE CHAIRPERSON: Do you expect that
17 MPI's operations of DVA on behalf of the province will
18 produce more revenue than it will expense in the long
19 haul?

20 MR. ROBERT KOWALCHUK: I don't think I
21 can predict what might happen in the future.

22 THE CHAIRPERSON: Do you accept that on
23 an actual-to-date and forecast basis the net excess of
24 expense over revenue arising out of the DVA
25 responsibilities is material?

1 MR. ROBERT KOWALCHUK: I don't recall the
2 exact number, but I believe it was material.

3 THE CHAIRPERSON: Another general type
4 question. You appear to have indicated in standard
5 English, if you like, that given a conservative approach
6 by an actuary in establishing unpaid claims, both the
7 case reserves and the PFAD, given that and given an
8 agency where its goal is simply to break even on the
9 Basic program, do you have a view on the need for a rate
10 stabilization reserve in the...?

11 MR. NEIL PARKINSON: I haven't done any
12 expert work in assessing the economic need for that.
13 Those -- so -- and that's probably the best answer I
14 could give. I could go on and say, gee, I could think
15 about it, but that is not something we've done a detailed
16 assessment of the economic requirement for it.

17 THE CHAIRPERSON: Because you've already
18 indicated that you're aware of the fact that you're
19 dealing with a Crown corporation that has a regulator,
20 and a regulator has, in the past, set rates which involve
21 surcharges for rebuilding depleted reserves and that it's
22 a monopoly in the end, mandated monopoly.

23 Mr. Parkinson, would advise a prospective
24 investor to rely solely on the audited financial
25 statements of an entity, let us say the one that has

1 received a clear audit opinion?

2 MR. NEIL PARKINSON: Well, ordinarily, a
3 prospective investor relies on a variety of sources of
4 information, the public disclosures of that public
5 company, which would be the audited financial statements
6 or quarterly disclosures and third party analyst reports,
7 and an appreciation of the industry and industry outlook.
8 That's ordinarily all an investor has to go on.

9 THE CHAIRPERSON: And what about a
10 regulator?

11 MR. NEIL PARKINSON: Well, regulators are
12 able to request a variety of information. They get the
13 audited financial statements because the audit reports
14 expertise the information that they receive, and you
15 otherwise ask for a variety and I'm sure entitled to
16 receive a variety of information about the -- the type of
17 coverages where you're regulating the prices. So, I
18 think that that's something that you set or most
19 regulators would set for -- for the business that they
20 are regulating.

21 THE CHAIRPERSON: Just changing tact
22 again in your letter of engagement. You don't have to
23 refer to it. I think you'll probably know it by heart.
24 You state in the second paragraph that:

25 "The entity is decided not to engage us

1 to perform an interim review on the
2 unaudited interim financial
3 statements."

4 But you've also, have you not, indicated
5 that you do review their unaudited quarterly statements
6 as part of your annual review?

7 MR. ROBERT KOWALCHUK: We have access and
8 receive the quarterly financial information in our
9 attendance at the various Audit Committee meetings
10 throughout the year, where the monthly and quarterly
11 results are often presented.

12 THE CHAIRPERSON: Now, in your private
13 practice with the private firms, particularly listed
14 ones, you've mentioned before, for example, that these
15 are regular practices by actuaries, et cetera.

16 With private companies that are listed in
17 the stock exchange and are required to produce quarterly
18 statements, is it normal for those entities to engage
19 their auditor to perform interim reviews on their
20 unaudited quarterly statements?

21 MR. NEIL PARKINSON: It's the normal and,
22 I would say, near universal practice to do so in those
23 cases because in -- under the securities administrator's
24 rules, if you -- if management, in releasing their
25 quarterly statements, does not disclose that the

1 financial statements have -- have -- that they have not
2 been reviewed by the auditors, then they're assumed to
3 have been given a timely review and formal report by the
4 auditors. So, as a result, the practice has been that
5 almost everyone gets such a review done.

6 THE CHAIRPERSON: Okay. So it -- it's
7 generally normal practice to have the auditor review.
8 Okay. I understand.

9 I just want to confirm one (1) other
10 question, then I'm going to move to another area, but
11 you've indicated, I believe, if I have it correct, and I
12 think Mr. Kowalchuk has sort of seconded that point by
13 indicating lack of knowledge of the -- of the origins or
14 the circumstances that brought about this Board being in
15 a position to set the premiums and fees of the Basic
16 program.

17 So KPMG has not studied in-depth the
18 provisions of the Manitoba Public Insurance Corporations
19 Act, the requirements on the Corporation that are set out
20 therein?

21 MR. NEIL PARKINSON: We -- in planning
22 any audit, and including this one, we specifically look
23 at the legislative and legal framework in which that
24 organization operates.

25 That doesn't mean that every part of that

1 legislation will necessarily have a financial reporting
2 implication. So I believe, when Mr. Kowalchuk earlier
3 said that not -- not a detailed knowledge of everything
4 in it, that -- that's certainly true, but I think that
5 all of the aspects of the legislation which bear on the
6 financial reporting, and particularly what we express in
7 an audit opinion, are -- those provisions are included in
8 our planning of the work done and -- and the financial
9 reporting considerations.

10 THE CHAIRPERSON: So you would have then
11 reviewed subsections at 6(1), 6(2), 13(2), 14(4), 14(5)
12 and Sections 7, 10, 17, 18, 31 and also Sections 12 and
13 16, 14(1), 14(4) -- or 14(2), 14(3) and 42 and 44.

14 Presumably, sections related to their
15 financial actions and performances you would have had a
16 look at?

17 MR. NEIL PARKINSON: I -- I do not have
18 instant recall, as you might have guessed, of the
19 specific sections. I'm not that big a nerd.

20 THE CHAIRPERSON: And I may -- and I may
21 not have caught every one either.

22 MR. NEIL PARKINSON: But, you know, I --
23 you know, we -- we could look at those, but the answer is
24 that, in principle, yes, we should -- we should have --
25 have an understanding of anything in the legislation that

1 has a financial reporting implication.

2 THE CHAIRPERSON: When you were talking
3 about the external actuary's review of unpaid claims and
4 being within certain ranges and things of this particular
5 nature, are you aware of the material differences that
6 have developed over the years between MPI's forecasts of
7 claims incurred and their -- in their annual rate
8 applications, even the ones that are updated, and the
9 actual reported results?

10 MR. NEIL PARKINSON: I don't have recall
11 of -- of all of them and -- and the amounts, but I would
12 say that that sort of thing doesn't surprise me, because
13 I -- I deal with enough auto insurers to know that one
14 (1) of the -- one (1) of the things which is least
15 susceptible to accurate forecasting is the actual results
16 of providing auto insurance.

17 THE CHAIRPERSON: Are they usually all in
18 one direction?

19 MR. NEIL PARKINSON: Well, they -- they
20 tend to follow trends, but I'd -- I'd have to look at the
21 specifics of what you're referring to to comment more on
22 that.

23 THE CHAIRPERSON: Returning to a subject
24 that had been raised by Ms. Everard, and again said in a
25 different way, and going back to the issue of the cost

1 allocation formula, which is extremely important as the
2 Corporation itself has put forward to this Board.

3 I assume you're aware of the material
4 changes that has occurred to MPI's operations since the
5 last time the allocation formula were developed?

6 To help you, for example, with the -- the
7 changes that included the move to total no-fault PIPP,
8 the introduction of the retirement income benefit, the
9 merging of DVL, the integration of DVL into MPI, the
10 enhancement of the catastrophic benefits.

11 All of these changes, would they provide a
12 reasonable expectation that the formula should be
13 reviewed?

14 MR. ROBERT KOWALCHUK: Yes, and it -- and
15 it was reviewed and amended internally as required, due
16 to those changes in business circumstances.

17 THE CHAIRPERSON: Okay. And then the
18 final question I have here is perhaps an interesting one.

19 Would an insurer have an advantage over
20 actual and possible competitors if the insurance products
21 offered were through a delivery infrastructure that was
22 integrated with a mandatory insurance product that
23 represented approximately 90 percent of overall auto
24 insurance sold in the Province?

25 MR. NEIL PARKINSON: On the face of it,

1 yes; that's the one stop shopping argument that, you
2 know, there's a -- people have to -- to buy the mandatory
3 coverage, so you have an opportunity to exploit,
4 theocratically, and being able to offer other products.

5 THE CHAIRPERSON: So the cost -- if the
6 cost allocation to the competitive insurance products
7 were not based on the competitive lines, bearing costs as
8 if they were on a standalone basis, is that not a
9 competitive advantage, in your opinion, vis-a-vis other
10 insurers?

11

12 (BRIEF PAUSE)

13

14 MR. NEIL PARKINSON: I suppose it may
15 depend on the nature of the products being offered,
16 whether they're plausibly offered by the other insurers.

17 THE CHAIRPERSON: Okay. How would you
18 describe the position of an insurer in a competitive
19 market that has 95 percent of that market with the market
20 overlaid on a compulsory insurance product with premiums
21 being roughly nine (9) times the premiums in the
22 competitive lines? How would you describe that insurer's
23 position? Would it be a near monopoly?

24 MR. NEIL PARKINSON: Sounds -- sounds
25 rather close to it, yes. You said 95 percent, so I don't

1 know how the -- where the other 5 percent --

2 THE CHAIRPERSON: Well, 100 percent on
3 the mandatory monopoly situation, and say 95 percent in
4 the so called competitive lines.

5 MR. NEIL PARKINSON: Yeah. You know, it
6 -- I suppose, in fact, they don't have a monopoly on the
7 95 percent in the competitive lines, but they have an
8 advantage of one (1) stripe or another, distribution or
9 convenience on the rest apparently, or a lack of people
10 feeling there was ma -- enough of a commercial
11 opportunity to compete in the market against them.

12 THE CHAIRPERSON: Thank you, sir. I
13 appreciate that. We're going to go for a break and when
14 we come back we'll be over to Mr. Williams, who is being
15 very patient, as usual. Thank you.

16

17 --- Upon recessing at 3:07 p.m.

18 --- Upon resuming at 3:24 p.m.

19

20 THE CHAIRPERSON: Okay, Mr. Williams,
21 anytime you're ready.

22

23 CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

24 MR. BYRON WILLIAMS: Thank you. And good
25 afternoon, members of the panel. I guess before I start,

1 sometimes we forget to do this, but to Mr. Sissons and to
2 Mr. Kowalchuk and Mr. Parkinson, my clients would like to
3 thank you for taking the time to appear today. It's much
4 appreciated.

5 Mr. Parkinson, from your resume, or
6 biography, I -- I see you've got -- you've put a lot of
7 thought into communicating with actuaries; that would be
8 fair?

9 MR. NEIL PARKINSON: Yes, that's correct.

10 MR. BYRON WILLIAMS: But just so I'm
11 clear, you're not here as an actua -- you -- actuarial
12 expert in any way, sir?

13 MR. NEIL PARKINSON: No, I'm not a
14 qualified or unqualified actuary.

15 MR. BYRON WILLIAMS: And you're not
16 presenting yourself as an expert in cost allocation.

17 Would that be correct, sir?

18 MR. NEIL PARKINSON: That's also correct.

19 MR. BYRON WILLIAMS: And I note from both
20 your direct evidence and from your biography that you --
21 you've done some work with SGI, but would it also be fair
22 to say that you've not worked with ICBC in any material
23 way, sir?

24 MR. NEIL PARKINSON: Yes, that would be
25 correct.

1 MR. BYRON WILLIAMS: Okay. And it would
2 be -- flowing from that, would it be fair to say that
3 you've not testified before the British Columbia
4 Utilities Commission on matters relating to ICBC; would
5 that be accurate?

6 MR. NEIL PARKINSON: That's correct.

7 MR. BYRON WILLIAMS: And apart from
8 today, and this may be a good thing, it's fair to say
9 that you have not provided expert evidence before a rate
10 regulator charged with the responsibility of setting just
11 and reasonable rates for a public insurance monopoly.

12 Would that be fair?

13 MR. NEIL PARKINSON: That's correct as
14 well.

15 MR. BYRON WILLIAMS: And I note from your
16 biography that there's a impressive list of private
17 insurance companies, such Allianz, A-L-L-I-A-N-Z, Munich,
18 Gore and a number of others; is that right, sir?

19 MR. NEIL PARKINSON: That's correct.

20 MR. BYRON WILLIAMS: Would it be fair to
21 say that -- would it be fair to say that apart from the
22 Crown agencies or Crown corporations you've represented,
23 the insurance companies set out in your biography do now
24 -- do not -- do not sell insurance products under a
25 lawful monopoly?

1 MR. NEIL PARKINSON: That -- that's
2 correct. The -- it's really MPIC and SGI. I mean, I --
3 I certainly made presentations and had discussions with
4 ICBC, but not done any sort of paying work with them.
5 But, yes, that's correct.

6 MR. BYRON WILLIAMS: The rest, apart from
7 S -- parts of SGI, anyways, and MPI work and compete in a
8 -- in a competitive market rather than in -- under a
9 monopoly, correct?

10 MR. NEIL PARKINSON: Yes, that's correct.

11

12 (BRIEF PAUSE)

13

14 MR. BYRON WILLIAMS: Mr. Kowalchuk, just
15 a few questions about your biography as -- as well. And,
16 again, you're not -- you're not an actuary.

17 MR. ROBERT KOWALCHUK: That's correct, I
18 am not an actuary.

19 MR. BYRON WILLIAMS: And, again, I don't
20 mean that as a criticism. As much as I love Mr. Pelly,
21 that's -- or Mr. Palmer, that's not a criticism.

22 And you're not presenting yourself as an
23 expert in cost allocation?

24 MR. ROBERT KOWALCHUK: That's correct.

25 MR. BYRON WILLIAMS: And would it be fair

1 to say that apart from MPI, your privi -- primary
2 experience with the insurance industry is with private
3 sector companies?

4 MR. ROBERT KOWALCHUK: Yes, generally,
5 yes.

6 MR. BYRON WILLIAMS: And, again, apart
7 from MPI, those are companies operating in the
8 competitive market rather than under a lawful monopoly,
9 sir?

10 MR. ROBERT KOWALCHUK: Correct.

11 MR. BYRON WILLIAMS: Now, I'm sure you've
12 memorized or you're very familiar with the standard
13 letter of retainer such as the one that's presented as
14 MPI Exhibit 17, the letter, dated October 19th, 2009.

15 You're familiar with that document, Mr.
16 Kowalchuk?

17 MR. ROBERT KOWALCHUK: Yes, I am.

18 MR. BYRON WILLIAMS: And this letter set
19 out your terms of engagement with regard to an opinion
20 requested in terms of the annual financial statements of
21 Manitoba Public Insurance, correct?

22 MR. ROBERT KOWALCHUK: Correct.

23 MR. BYRON WILLIAMS: And would it be
24 accurate to say that the nature of your review in terms
25 of this audit would not give you an understanding

1 sufficient to enable you to render an opinion on the
2 effectiveness of internal control at MPI over financial
3 reporting? Would that be accurate, sir?

4 MR. ROBERT KOWALCHUK: Yes, we would not
5 provide an opinion on the -- on MPI's internal controls.
6 We do need to gain an understanding of the internal
7 controls to the extent to allow us to provide an opinion
8 on the financial statements.

9 MR. BYRON WILLIAMS: Okay. And just to
10 confirm, that understanding would not be sufficient to
11 enable you to render an opinion on the effectiveness of
12 incur -- internal control over financial reporting,
13 correct?

14 MR. ROBERT KOWALCHUK: Correct.

15 MR. BYRON WILLIAMS: And, again, speaking
16 specifically of this letter of retainer, it's fair to say
17 that your opinion under this particular letter of
18 retainer does not render an opinion on whether all
19 expenditures of MPI are prudent and necessary?

20 MR. ROBERT KOWALCHUK: That is correct.

21 MR. BYRON WILLIAMS: Likewise, again,
22 under this letter of retainer, your opinion does not
23 render an opinion on whether all assets of MPI are useful
24 and prudently acquired, correct?

25 MR. ROBERT KOWALCHUK: That is correct.

1 MR. BYRON WILLIAMS: And your opinion
2 under this letter of retainer does not express in a view
3 -- a view on whether the Corporation's projections for
4 claims incurred are the most likely forecast.

5 Would that be correct?

6 MR. ROBERT KOWALCHUK: That's correct.

7

8 (BRIEF PAUSE)

9

10 MR. BYRON WILLIAMS: Mr. Parkinson, and
11 for both -- for both MPI wit -- or both, excuse me, KPMG
12 witnesses, I'm turning now to MPI Exhibit 18, which is
13 the April 22nd, 2010 letter of the actuarial specialist.

14 Mr. Parkinson, you had a fascinating
15 discussion with My Friend Ms. Everard in terms of the use
16 of the word "conservatism." And in the con -- I'm going
17 to ask you, in the context of claims liabilities, does
18 your use of the term "appropriate conservatism," is it
19 synonymous with consistent over-estimation of claims
20 liabilities within a reasonable range?

21 MR. NEIL PARKINSON: I think the -- well,
22 "over-estimation" isn't the word I would choose. I think
23 that the -- it is a matter of providing estimates which
24 tend -- tend to be on a higher side to create a -- a
25 higher -- you know, much higher percentage of times when

1 your est -- your estimates will be sufficient to cover
2 the claims liabilities.

3 "Over-estimation" sounds a lot more like
4 deliberately overshooting with -- without necessarily
5 having an objective in mind.

6

7 (BRIEF PAUSE)

8

9 MR. BYRON WILLIAMS: Just to follow up on
10 that, would the use of the term -- again in this context,
11 "appropriate conservatism" be synonymous with an
12 expectation that estimates would tend to be on the higher
13 side, within a reasonable range?

14 MR. NEIL PARKINSON: Yes.

15 MR. BYRON WILLIAMS: Now, turning
16 specifically to page 3 -- and this is again to either of
17 your -- either of the witnesses and under "Concerns and
18 Recommendations" -- and you did go over this again with
19 My Friend Ms. -- Ms. Everard, the last sentence says:

20 "Mr. Christie's total claims
21 liabilities estimate is closer to the
22 top end of our range of
23 reasonableness."

24 That's what the sentence says, correct?

25 MR. NEIL PARKINSON: Correct.

1 MR. BYRON WILLIAMS: My question is --
2 let's take another scenario if the conclusion was a
3 little bit different.

4 In preparing an opinion pursuant to the
5 letter of retainer of October 19th, 2009, if the
6 conclusion of the actuarial specialist was that total
7 claims liabilities in -- were, in aggregate, above the
8 top end of the range of reasonableness, am I correct in
9 suggesting to you that that would result in you providing
10 a qualified opinion rather than a clean opinion?

11 MR. NEIL PARKINSON: It would, firstly,
12 result in us reporting to the audit committee and
13 management what we call an audit difference, an -- you
14 know, an error in the financial statements at that point
15 that was uncorrected.

16 There would be a question about whether
17 that was a material error or not, but you would -- you
18 would mark that from the top end of our range.

19 So, theoretically, you could still be a
20 few million dollars above that reasonable range and still
21 be less than a material amount. So it's possible you
22 could be just over and not give rise to a qualified audit
23 opinion.

24 MR. BYRON WILLIAMS: If it was a material
25 difference and you were unable to recog -- reconcile the

1 differences, that's when a -- a qualified audit opinion
2 would result?

3 MR. NEIL PARKINSON: Assuming that
4 management was, you know, unwilling to -- and -- and the
5 appointed actuary, for that matter, were unwilling to
6 make an adjustment and were unable to satisfy ourselves -
7 - unable to satisfy us that, in fact, our analysis should
8 not be changed.

9 MR. BYRON WILLIAMS: Thank you. And just
10 following this line of thought for a second more, again,
11 in -- in preparing an opinion like you would pursuant to
12 the retainer of October 19th, if your actuarial
13 specialist concluded that the total claims liabilities in
14 aggregate were not above the top end of the range of
15 reasonableness, but claims liabilities for a specific
16 line of business, which I'm using in the sense of
17 Extension, were materially above the range of
18 reasonableness, would that still result in a clean audit
19 opinion?

20 MR. NEIL PARKINSON: The -- it -- it --
21 we would be evaluating whether or not we had a clean
22 audit opinion based on the financial statement we're
23 reporting on. So whether it was total corporate or the -
24 - the -- you know, the -- the Basic cover that's the
25 subject of this Board's hearing, so long as it was within

1 just had a quick sidebar with my colleague, and the
2 comment is that, you know, there are details within the
3 financial statements. We have separate retained earnings
4 disclosed for Extension, for instance. And if that was
5 significantly misstated, as a result, that could give
6 rise to a qualification.

7 MR. BYRON WILLIAMS: Okay.

8 MR. NEIL PARKINSON: But it depends on
9 the visibility of the number that's affected within the
10 financials. If it's one (1) line of business that's lost
11 within an overall number within a financial statement,
12 and there's -- there's nothing separately reported and
13 that number's still okay, not a qualification problem.

14 But we would naturally be sensitive to
15 anything that has specific separate reporting within a
16 financial statement.

17 MR. BYRON WILLIAMS: Thank you for that.
18 And just in terms of the -- KPMG's practices as auditors,
19 would the special re -- or would the actuarial
20 specialist's report of April 22nd, 2010 -- my ex -- would
21 I be correct in suggesting that would be shared with
22 Manitoba Public Insurance? Provided to Manitoba Public
23 Insurance?

24 MR. NEIL PARKINSON: No. That's an in --
25 that's an internal work paper. Any findings in this sort

1 of a report, to the extent that they're to be discussed
2 with management or the audit committee would be through
3 our audit findings report, not this level of re --
4 reporting.

5 MR. BYRON WILLIAMS: And just -- would a
6 -- would -- okay, I have your answer.

7 And this can go to either Mr. Parkinson,
8 or to -- to Mr. Kowalchuk. In response to questioning
9 from -- in direct evidence from my learned friend Ms.
10 Kalinowsky, I think both witnesses or I -- I think the
11 panel testified that you'd never testified in a rate
12 regulation process.

13 Is that right?

14 MR. ROBERT KOWALCHUK: Well, I testified
15 two (2) years ago at -- at this hearing.

16 MR. NEIL PARKINSON: And I have not
17 previously.

18 MR. BYRON WILLIAMS: Excuse me for that
19 error. And was I also correct in suggesting that your
20 evidence was that you had never disclosed an actuarial
21 specialist report to a rate -- rate regulator on any
22 previous occasion?

23 MR. ROBERT KOWALCHUK: That is correct.

24 MR. BYRON WILLIAMS: And I just want to
25 be clear, KPMG is not suggesting in any way that it's

1 inappropriate for a rate regulator set -- seeking to set
2 just and reasonable rates to seek the best possible
3 information in the rate setting process?

4 MR. ROBERT KOWALCHUK: That would be
5 fair.

6 MR. BYRON WILLIAMS: Mr. Parkinson, you
7 talked about your experience and the time you devoted to,
8 I -- I believe it was Standard 43.

9 Do you recall that -- that evidence?

10 MR. NEIL PARKINSON: Yes.

11 MR. BYRON WILLIAMS: And I thought you
12 took a lot upon yourself. You said, If you don't like
13 that standard you can blame me.

14 Do you recall that statement?

15 MR. NEIL PARKINSON: Yes.

16 MR. BYRON WILLIAMS: I'm not really --

17 MR. NEIL PARKINSON: So -- some people
18 did, but...

19 MR. BYRON WILLIAMS: And I don't have an
20 opinion on Standard 43 and I -- I certainly don't want to
21 allocate any blame to you.

22 But would you agree that while I may be able
23 to blame you for Standard 43, in the event that my
24 clients don't like the variation between claims incurred
25 of MPI as compared to forecast used for rate-setting

1 purposes over the last five (5) years, it would be unfair
2 to blame KPMG?

3 MR. NEIL PARKINSON: Couldn't have said
4 that any better myself.

5 MR. BYRON WILLIAMS: Does that mean you
6 agree?

7 MR. NEIL PARKINSON: Yes, I agree. Yeah.

8 MR. BYRON WILLIAMS: If there's any blame
9 to be -- to be provided, I'm not suggesting there is, the
10 ultimate responsibility for -- for those forecasts
11 resides with MPI not with KPMG?

12 MR. NEIL PARKINSON: Well, in fact, we do
13 not expertize those forecasts; we report on the
14 historical financial statements.

15 MR. BYRON WILLIAMS: A lot of the
16 thinking from the historical financial statements and --
17 and from the claims liabilities valuations are, you'll
18 agree, are important inputs into the -- to the -- the
19 future forecasts, though?

20 MR. NEIL PARKINSON: Yes.

21 MR. BYRON WILLIAMS: But I'm still not to
22 blame -- blame you, correct?

23 MR. NEIL PARKINSON: Well, that -- I
24 think that's correct.

25 MR. BYRON WILLIAMS: You had a -- you had

1 an interesting conversation with the Chairman. And in
2 terms of -- you were reluctant to speculate too much
3 about Mr. Christie's practice, but I believe you stated
4 that he would be aware that Man -- Manitoba Public
5 Insurance, or MPI, has a captive audience and can adjust
6 rates prospectively.

7 Do you recall a statement to that effect,
8 sir?

9 MR. NEIL PARKINSON: Yes. And I think
10 that was in the context of saying that on the one (1)
11 hand MPIC is an organization with relatively little
12 capital and relatively little opportunity to raise new
13 capital, but on the other hand it would have the
14 opportunity, if necessary, to adjust future rates. But
15 any of those considerations would tend to offset against
16 one another.

17 MR. BYRON WILLIAMS: And -- and I
18 understand that, sir. Just in terms of captive audience,
19 presumably you were speaking to the consumers of the
20 basic insurance monopoly, sir, correct?

21 MR. NEIL PARKINSON: In a vernacular sort
22 of a way, yes.

23 MR. BYRON WILLIAMS: And, in essence, in
24 your vernacular sort of way you're -- you're pointing out
25 a -- from -- I guess from a perspective of economics that

1 there's no close substitute for -- for Basic auto
2 insurance. There's nowhere else for consumers to go.

3 Was that the thrust of the "captive
4 audience" use?

5 MR. NEIL PARKINSON: Well, yes. I think
6 that that's one (1) of the things that allows public auto
7 insurers to try to run close to the line as -- and keep
8 the costs low as they can. To -- you know, there --
9 there are plus and minuses to competition, so.

10 MR. BYRON WILLIAMS: And in that context
11 and recognizing both the statement of "captive audience"
12 and can adjust rates prospectively, you'd agree with me
13 that in the context of an insurance monopoly demand is
14 relatively inelastic?

15 Would that be a fair statement?

16 MR. NEIL PARKINSON: Yes, if they're --
17 to the extent you've got mandatory coverage and you have
18 to have car insurance to drive. Yes.

19 MR. BYRON WILLIAMS: And by relatively
20 inelastic, you'd agree with me that that means we would
21 not expect a price increase of a certain percentage to be
22 met with the commensurate and equal drop in demand?

23 Would that be fair?

24 MR. NEIL PARKINSON: Without doing a lot
25 -- you know any sort of analysis on that, I guess that

1 we're -- we're getting over into a field of competitive
2 economics, and we're -- you know, of course, I am
3 testifying here as auditor. So we're getting sort of
4 outside our brief, I think.

5 MR. BYRON WILLIAMS: Okay. Mr.
6 Chairman, those were helpful comments and that closes my
7 questioning, sir.

8 THE CHAIRPERSON: Thank you very much,
9 Mr. Williams.

10 Ms. Kalinowsky, do you have any re-direct?

11 MS. KATHY KALINOWSKY: Yes, actually I
12 do.

13

14 RE-DIRECT EXAMINATION BY MS. KATHY KALINOWSKY:

15 MS. KATHY KALINOWSKY: In no particular
16 order, but, Mr. Parkinson, the Chair asked you a general
17 question about whether regulators might need a different
18 accounting basis than GAAP for rate regulation.

19 What is the practice of other insurance
20 regulators in Canada?

21 MR. NEIL PARKINSON: By other insurance
22 regulators, presumably you mean the prudential
23 supervisory regulators such as the Office of the
24 Superintendent of Financial Institutions, federally, and
25 the various insurance departments and insurance

1 commissions in other -- in provinces.

2 The financial reporting basis used by
3 those regulators is very much uniformly generally
4 accepted accounting principles. And the -- that's --
5 they use a sort of -- a common set of financial reporting
6 forms and they mandate the use of general accepted
7 accounting principles. Although they -- they have
8 changes and differences in form and detail in the
9 financial reporting forms, they -- the measurement basis
10 is GAAP.

11 MS. KATHY KALINOWSKY: Thank you for
12 that.

13 And, Mr. Kowalchuk, the next one's for
14 you. The Board Chair at one point asked if KPMG, and
15 particularly yourself, had reviewed or read Board orders.
16 And you replied that you had read some, is that correct?

17 MR. ROBERT KOWALCHUK: Yes, that's
18 correct.

19 MS. KATHY KALINOWSKY: Over the
20 lunchbreak I showed you Board Orders number 161/09,
21 157/08, and 150/07. And those are the orders from the
22 last -- following the last three (3) General Rate
23 Applications. And you were able to look at those quickly
24 over the lunch hour, is that correct?

25 MR. ROBERT KOWALCHUK: Yes, I did.

1 MS. KATHY KALINOWSKY: So now I'm going
2 to try and re-ask the question that the Chair had asked
3 earlier, which was: Had you reviewed these three (3)
4 Board orders following their issuance?

5 MR. ROBERT KOWALCHUK: Yes, I had
6 reviewed those Board orders at some point after they were
7 issued.

8 MS. KATHY KALINOWSKY: Thank you for
9 that. And keeping with you, Mr. Kowalchuk, in terms of
10 my re-direct, when you were being questioned on the PIPP
11 enhancements and what KPMG knew at what particular point
12 of time you were reading a document, weren't you?

13 MR. ROBERT KOWALCHUK: Yes, I was.

14 MS. KATHY KALINOWSKY: And at this time I
15 began to lean over to instruct you to disclose the
16 document, but then I was -- we were spoken to by both the
17 Board counsel and the Chair to not continue to speak to
18 you, is that correct?

19 MR. ROBERT KOWALCHUK: That is correct.

20 MS. KATHY KALINOWSKY: Would you be
21 willing to file the document that you were reviewing?

22 MR. ROBERT KOWALCHUK: Yes, I'd be
23 willing to do that.

24 MS. KATHY KALINOWSKY: And what is the --
25 that document?

1 MR. ROBERT KOWALCHUK: The document I was
2 reading from is an opinion -- two (2) opinions in a
3 letter prepared by PricewaterhouseCoopers regarding the
4 90 million PIPP benefit enhancements that were recorded
5 in the financial statements, which was the topic we were
6 discussing at the time.

7 MS. KATHY KALINOWSKY: Okay. I have
8 multiple copies of that opinion and would like to file it
9 with the Board --

10 THE CHAIRPERSON: Please.

11 MS. KATHY KALINOWSKY: -- as I had
12 planned earlier.

13

14 (BRIEF PAUSE)

15

16 THE CHAIRPERSON: MPI-22.

17

18 --- EXHIBIT NO. MPI-22: Two (2) Letters to MPI from
19 PricewaterhouseCoopers, dated
20 March 9, 2010, and March 22,
21 2010

22

23 CONTINUED BY MS. KATHY KALINOWSKY:

24 MS. KATHY KALINOWSKY: Thank you. That's
25 been distributed. Thanks, Mr. Gaudreau, for that. And I

1 believe it's marked now as Exhibit Number 22 of MPI.

2 I'll switch to you, Mr. Parkinson, on
3 this, but would you be able to walk through these two (2)
4 opinions, including their conclusions?

5 MR. NEIL PARKINSON: Very well. There --
6 the first document in the stack is dated March 9th. It's
7 the shorter of the two (2). And there's another one on
8 March 22nd.

9 The first one is signed by Richard
10 Gauthier, who is an actuary with PricewaterhouseCoopers,
11 and the lengthier one is -- is signed by -- well, signed
12 PricewaterhouseCoopers LLP, but it's -- I think it was
13 Claire Cornwall, who is a partner of
14 PricewaterhouseCoopers, who did this.

15 My understanding is that the -- the
16 Corporation sought, you know, another opinion to, you
17 know, vet the position taken with respect to the PIPP
18 enhancements accrual.

19 And so both of these letters start off
20 with about a page and a half recital of the sequence of
21 events surrounding the -- the PIPP enhancements, and I
22 think that the -- you know, what happened in that period
23 of time I think will be familiar territory, so I won't,
24 you know, maybe touch on those particularly.

25 But the -- the first one, if I could carry

1 on to the second page, what Mr. Gauthier was writing
2 about was his understanding of the requirements under the
3 actuarial standards of practice on whether an actuary
4 properly ought to include a provision for the PIPP
5 enhancements and valuation, based on the information that
6 was available at February 28th, 2009.

7 And, as you'll see the conclusion later
8 on, his conclusion was that, yeah, that that was the
9 case, and he references the standards of practice, and
10 beginning later on, on page 2, summarized his findings
11 with specific reference to a number of items in the
12 standards of practice.

13 And I guess I would point to a couple of
14 things in there in particular. The -- I would say,
15 looking on page 3, 1720.03.04, which is about the third
16 complete paragraph down, refers to the need to reflect
17 current conditions as of the calculation date. And --
18 and there are further comments he makes here, about two
19 (2) down, about defining:

20 "...a contingent event as an event
21 which may or may not happen, or which
22 may happen in more than one (1) way or
23 which may happen at different times."

24 And following that, the -- the definition
25 of the best estimate.

1 He -- and following all those references
2 to the standards of practice, he has a paragraph
3 indicating that under the circumstances the data
4 available, in his view indicated there was a significant
5 chance that the future claim and settlement patterns
6 would have -- or would be altered because of the -- the
7 expected PIPP enhancements.

8 And he then concludes that, on the fourth
9 page, I guess, that his analysis supported MPI
10 management's position, the measurement of the provision
11 for unpaid claims under accepted actuarial practice
12 should include the estimated effect of the proposed PIPP
13 enhancements.

14 The second letter, dated March 22nd,
15 immediately follows in the package. And again, the first
16 page and a half recital of facts is about the -- the
17 same. He -- the -- the letter then carries on, on page
18 2, with a -- a list of the specific references in the
19 CICA Handbook that were cited or considered in the course
20 of arriving at their opinion on this.

21 And the -- the writer of the opinion
22 concluded that -- that including the PIPP enhancements in
23 the estimate of liabilities at February 28 of that year
24 was supported by accounting guideline 3, the -- excuse me
25 -- which is the first paragraph at the top of page 3, and

1 carries on in the -- the second paragraph to talk about
2 specific references with respect to that -- that
3 guideline, indicating that, at the end of that second
4 paragraph, you know:

5 "To recognize uncertainty, explicit
6 margins for adverse deviation are
7 included in actuarial assumptions."

8 And so the -- I think that there is some
9 touch of accounting guideline 3 in this.

10 There was further reference to some
11 discussion in audit guideline 43. Audit guideline 43
12 does not, in and of itself, set accounting practices.
13 It's an audit guideline, of course, but it does, in a
14 number of cases, talk about the understanding of how
15 accounting should work and how it should fit into
16 people's estimates of what liabilities ought to be and
17 provi -- consideration of things like complexity and
18 subjectivity.

19 So they didn't find anything in audit
20 guideline 43 that would -- certainly would contradict
21 their -- their view with respect to this.

22 Top of page 4, there's a reference really
23 to the -- the -- in a -- in -- in a shorter period, to
24 the Canadian Institute of Actuaries Standards of
25 Practice. That was dealt with in more detail, of course,

1 in Mr. Gauthier's separate letter, and so there -- again,
2 they felt that there was support for that in the -- the
3 actuarial Standards of Practice.

4 Then there follows, beginning partway down
5 -- further down on page 4, some discussion of other
6 standards: the general financial statement concepts,
7 concepts about, you know, the general concepts
8 surrounding the preparation of financial statements.

9 And I think that these are of a general
10 nature and don't specifically address the case in any
11 technical detail, but they could not find anything that
12 would contradict certainly the idea that you would
13 include these provisions, the PIPP provisions in the
14 actuarial liabilities.

15 A couple of interesting points. Page 5,
16 the paragraph near the bottom starting:

17 "Liabilities do not have to be legally
18 enforceable provided that they
19 otherwise meet the definition of
20 liabilities and can be based on
21 equitable or constructive obligations."

22 Without going through this verbatim their
23 -- their view was that that would also -- that -- partway
24 through the paragraph that in this case the AG and the
25 Minister responsible publically asked MPI to review PIPP

1 benefits and directed towards -- you know, directed
2 otherwise, and said that that created, in their view, a
3 constructive obligation for the PIPP enhancements.

4 Let's see. Following on to page 6, there
5 was some discussion about how to account for
6 contingencies and also analysed specific provisions in
7 CICA Handbook section 3290 and concluded that under these
8 pronouncements, as well, the provision would fit within
9 the -- you know, the -- the sort of decision tree or
10 framework used for deciding whether you should make
11 provision for anything that looked like a contingency.

12 I would just say that looking at all of
13 the various pronouncements that were cited in the
14 PricewaterhouseCoopers letter they happened, and perhaps
15 not surprisingly, to be the same place as we went in our
16 analysis. And so effectively they were finding the --
17 the same -- making the same sort of findings and looking
18 at the detailed technical pronouncements as we had.

19 They also tried to find other alternate
20 viewpoints, beginning on page 7, and tried to argue the
21 other side of the case, everything from references to a -
22 - an merging issues committee provision on accounting for
23 costs associated with exit or disposal activities, which
24 is not directly on point.

25 There's a discussion further on, on page

1 7, on abusing the substantively enacted provisions of
2 CICA 3465 income taxes, which would ordinarily require
3 you be well along on the legislative process before you
4 booked a liability.

5 The -- that was discarded both by us and
6 them, both in this case and also in two (2) other
7 precedents I refer to, which was the soft tissue injury
8 cap and the HST accrual as not being relevant because the
9 income tax section is distinctly difference in a --
10 different in a number of instances from all the other
11 liability sections of the handbook. And so they
12 discarded that, as well, in their opinion.

13 So finally, on page 9, they reach an
14 overall opinion that they felt that the estimated effect
15 of the PIPP enhancements, you know, should have been
16 included in the provision for unpaid claims at February
17 28th, '09.

18 So that's a quick summary of what's in
19 there.

20 MS. KATHY KALINOWSKY: Thank you very
21 much. I have no further questions in my re-direct.

22 THE CHAIRPERSON: Thank you, Ms.
23 Kalinowsky. I think that brings to a close.

24 Ms. Everard?

25 MS. CANDACE EVERARD: I just have a

1 couple of administrative things. We'll recall that
2 Undertaking 2 has been answered by the Corporation, this
3 is MPI Exhibit 10 and it's the provision of the DCAT. We
4 just had a couple of questions that we think will be
5 asked by way of undertaking, and because we're not
6 sitting tomorrow I thought it best to get them on the
7 record now and then it gives MPI a little bit more time.

8 So the reference is Exhibit 10, the DCAT,
9 on page 23. The first question that we had was:

10 If MPI could please provide the estimated
11 probability distribution for the 2011/'12 ultimate losses
12 for Basic for each of the five (5) component coverages as
13 referenced and in the aggregate.

14 I see Mr. Palmer is nodding, so is that a
15 "yes"?

16 MS. KATHY KALINOWSKY: Yes, we'll take
17 that as an undertaking.

18 MS. CANDACE EVERARD: Thank you. And
19 then the -- the part B to that is: To please discuss the
20 extent and treatment of any correlations discovered
21 between component coverages.

22 MS. KATHY KALINOWSKY: Yes, we can do
23 that as an undertaking too.

24 MS. CANDACE EVERARD: Thank you.

25

1 --- UNDERTAKING NO. 19: Regarding the DCAT, MPI to
2 provide the estimated
3 probability distribution for
4 the 2011/'12 ultimate losses
5 for Basic for each of the
6 five (5) component coverages
7 as referenced and in the
8 aggregate, and discuss the
9 extent and treatment of any
10 correlations discovered
11 between component coverages
12

13 MS. CANDACE EVERARD: And then the only
14 other comment, Mr. Chairman, is as we know we don't sit
15 tomorrow but Mr. Saranchuk has confirmed that people can
16 leave their things in the room if they wish and it won't
17 be disturbed and we'll be reconvening on Monday morning
18 at 9:00.

19 THE CHAIRPERSON: Very good. Well, that
20 brings to an end today's thing. I just want to thank Mr.
21 Parkinson and Mr. Kowalchuk for their attendance and
22 their evidence. We appreciate it very much. I'm glad
23 Mr. Parkinson arrived before the snow flows or flies or
24 whatever it does, but with climate change it seems to be
25 warmer here than usual. I think we're probably even

1 warmer than Toronto.

2 Anyway, have a good flight back. And for
3 everybody else, have a good weekend. You're busy
4 tomorrow I imagine. And we'll see you all on Monday.

5

6 --- Upon adjourning at 4:01 p.m.

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10 Certified correct

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16 Cheryl Lavigne, Ms.

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