Undertaking #16

Reference: PUB (MPI) 2-13
Provide the basis and derivation of the 178 basis point spread adjustment.

RESPONSE:

The 178 bps point spread adjustment refers to the total projected new money yield of marketable and MUSH bonds minus the GoC 10 year bond yield forecast of 1.64% (3.42% - 1.64% = 1.78%).

The spread adjustment in Figure INV.12, referred to as the “marketable bond yield spread” in the rate application, is relative to the marketable bond yield, not the combined yield of both marketable and MUSH bonds. The marketable bond yield spread as of Q1 2018/19 is 1.73%, and is calculated using the marketable bond yield minus the GoC 10 year bond forecast (3.37% - 1.64% = 1.73%).

This spread is significantly higher than the 3 year average spread of 1.11% in Figure INV.12 due to the 0.50% marketable bond yield increase from the forecasted purchase of corporate bonds by the end of Q4 2017/18 (see INV.4.3.8 for more information). Without the 0.50% increase from corporate bonds, the marketable bond yield spread would be 1.23% (3.37% - 0.50% - 1.64% = 1.23%), which is closer to the 3 year average spread of 1.11%.