MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

2022/2023 GENERAL RATE APPLICATION

HEARING

Before Board Panel:

Irene Hamilton - Board Chairperson

Robert Gabor, Q.C. - Board Chair

Michael Watson - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

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Pages 1392 to 1647

APPEARANCES

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Anthony Guerra	(np)	)Manitoba Public
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Katrine Dilay		) CAC (Manitoba)
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--- Upon commencing at 9:02 a.m.

THE PANEL CHAIRPERSON: Good morning, everyone. We will continue with cross-examination by counsel for CAC.

Sorry. One (1) moment, please.

(BRIEF PAUSE)

MR. STEVE SCARFONE: Madam Chair, maybe while we're getting settled, can I mark an exhibit that I forgot to mark yesterday?

THE PANEL CHAIRPERSON: And --

MR. STEVE SCARFONE: So we've -- now, thanks to myself, we're out of turn. But Exhibit Number 70 we forgot to mark, or I forgot to mark on the record yesterday, which was the presentation that Mr. Giesbrecht made on Rate Stabilization Reserve Capital Management Plan. Thank you.

THE PANEL CHAIRPERSON: Thank you. Thank you, Mr. Scarfone.

--- EXHIBIT NO. MPI-70: Presentation by Mr. Giesbrecht on Rate Stabilization Reserve Capital Management Plan

THE PANEL CHAIRPERSON: Ms. Dilay...?

CONTINUED MPI CAPITAL MANAGEMENT PLAN/RATE REBATE/RATE STABILIZATION RESERVE PANEL:

MARK GIESBRECHT, Previously Affirmed

TAI PHOA, Previously Sworn

DEAN DUNSTONE, Previously Affirmed

CONTINUED CROSS-EXAMINATION BY MS. KATRINE DILAY:

MS. KATRINE DILAY: Good morning, Madam Chair, Board members, and MPI witnesses.

So I'll jump right into my questions that -- that I had started yesterday, and I -- I think these ones will be likely for Mr. Giesbrecht, as they are about the Capital Management Plan.

Good morning, Mr. Giesbrecht. You'll agree that --

MR. MARK GIESBRECHT (by Teams): Good morning.

MS. KATRINE DILAY: Thank you. You'll agree that MPI is proposing not to rely on the capital release provision, beginning in the year 2022/'23?

MR. MARK GIESBRECHT (by Teams): That is correct. Their application is to remove the release for this year and to replace it with a rebate.

MS. KATRINE DILAY: And maybe I'll just seek a bit of clarification. If we could go to Part 5 of the General Rate Application, which is the Revenues chap -- in -- in the Revenues chapter at page 18...

(BRIEF PAUSE)

MS. KATRINE DILAY: And if we could look, Mr. Giesbrecht, at lines 8 to 10 on this page.

So looking at lines 8 to 10, you'll agree here that essentially MPI is proposing not to request a capital release provision -- or not to request capital release provisions beginning in the 2022/'23 policy year, and is seeking to replace this mechanism with a capital rebate methodology, correct?

MR. MARK GIESBRECHT (by Teams): Yes. It is our intention to come back in next year's GRA with a -- a wholesome plan to -- to put in place a more permanent approach which we anticipate will include some form of rebate methodology.

MS. KATRINE DILAY: But you'll agree that MPI has not proposed the details yet of how it will -- at how it will release capital to customers in the coming year, with the exception of the current special rebate application which is before the PUB now, correct?

MR. MARK GIESBRECHT (by Teams): Yes, that's correct.

MS. KATRINE DILAY: And I think you just alluded to this, but you'll agree MPI is planning to bring an update to the Capital Management Plan in the 2023 GRA for the most appropriate method of returning excess capital in a post-pandemic world?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And you'll agree MPI has given parties a hint of what they might propose next year, which is likely to be some kind of rebate methodology with some kind of range over and above the 100 percent MCT?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And we can assume this upper threshold or the upper end of that range would likely be 120 percent MCT, correct?

MR. MARK GIESBRECHT (by Teams): That's a possibility. That's -- that's a range that we have considered, but the details of which to be still fully fleshed-out and of course brought back to the Public Utilities Board.

MS. KATRINE DILAY: But it would be

fair to say that the MPI board of directors has approved the methodology of only releasing capital when the MCT is 20 percent greater than the 100 percent MCT?

MR. MARK GIESBRECHT (by Teams): They've approved that notion, yes.

MS. KATRINE DILAY: But MPI decided not to include this methodology formally in its application before the PUB today, and instead to bring it forward as part of the 2023 GRA?

MR. MARK GIESBRECHT (by Teams): That's correct.

MS. KATRINE DILAY: But just to confirm my understanding, for purposes of the MPI board of directors, their rebate threshold of 100 -- 120 percent MCT has been approved, correct?

MR. MARK GIESBRECHT (by Teams): It -- it's been approved -- you know, I'd say it's been approved to move forward on that basis. There are still more details to be fully fleshed out and put in place, but it's been approved to move forward on that basis, yes.

MS. KATRINE DILAY: But of course the Public Utilities Board, who sets MPI rates, have not approved this 100 percent and at the MCT threshold, correct?

MR. MARK GIESBRECHT (by Teams): No, we have not as of yet applied to the PUB for that -- that threshold.

MS. KATRINE DILAY: And, Ms. Schubert, if we could look to PUB-MPI-2-2, and page 4.

And so if we look to the top of the page there, Mr. Giesbrecht, you'll agree there MPI has indicated that excess capital should only be returned by way of rebate when -- once excess capital reaches 120 percent MCT?

MR. MARK GIESBRECHT (by Teams): Yeah, yeah. The -- the notion is -- I mean, right now, of course, we're still in the midst of the pandemic, and we know that we have significant amounts of excess capital. And, you know, what we're trying to consider is, in a post-pandemic world should we adopt a -- a rebate methodology? What would be a reasonable threshold or trigger point?

Because it wouldn't be reasonable to at -- you know, at 1 percent over the target to issue a rebate; it wouldn't make any sense. So there has to be a trigger point.

And so that -- that's our initial thoughts on what would be a reasonable threshold.

MS. KATRINE DILAY: So it is conceivable that the capital level could remain above the 100 percent MCT target for an unknown period of time until it reaches the 120 percent MCT, at which point MPI would then apply for a rebate?

MR. MARK GIESBRECHT (by Teams): Conceivably. You know, this is not part of this year's application, so I'm not sure the -- the absolute relevance, but that -- that would be conceivable. That, again, still needs to be fully fleshed out and brought forward in future GRAs.

MS. KATRINE DILAY: And you'll agree, Mr. Giesbrecht, that before the Capital Management Plan was introduced, when -- when MPI had excess capital, rebates was the methodology used to return capital to ratepayers?

MR. MARK GIESBRECHT (by Teams): In past it was one (1) mechanism, yes.

MS. KATRINE DILAY: And is it your recollection that, prior to the Capital Management Plan being approved, MPI used a target capital range, as opposed to one (1) target level?

MR. MARK GIESBRECHT (by Teams): Yes, that's my understanding.

MS. KATRINE DILAY: And this range was

based on scenario testing adapted from MPI's Basic Dynamic Financial Adequacy Test?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And we can go to a reference if you'd like, but one (1) example of the range based on the Dynamic Financial Adequacy Test, or the DCAT scenarios, would be the Basic total equity target capital range of 140 million to 315 million for 2019/'20 which was approved in Order 159/'18?

MR. MARK GIESBRECHT (by Teams): That -- that sounds reasonable, so, yes, I'll accept that.

MS. KATRINE DILAY: Do you want -- you could accept subject to check -- to check, if you wish.

MR. MARK GIESBRECHT (by Teams): Yeah, that's fine.

MS. KATRINE DILAY: Thank you. And, Mr. Giesbrecht, you'll agree that MPI is applying for another trial year of the Capital Management Plan, correct?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATRINE DILAY: But you'll agree this is without the capital release provision methodology, correct?

MR. MARK GIESBRECHT (by Teams): Well, for this year, we are applying to remove the previously applied for 5 percent, but not necessarily remove the -- the mechanism itself. I think that'll be part of next year's application, you know, to deem what is the -- we put forward is the best overall methodology. But for this year, we've applied to remove the 5 percent that was currently in rates.

MS. KATRINE DILAY: But you agree that the excerpt we -- we just looked at prior to this one indicated MPI was -- was going to remove the capital release provisions beginning this year, correct?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And the capital release provision is the mechanism that gets money back to ratepayers. Is that fair?

MR. MARK GIESBRECHT (by Teams): It is fair.

MS. KATRINE DILAY: But MPI is -- is applying that -- for the 100 percent MCT target to remain for this additional trial year, correct?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATRINE DILAY: And while MPI has not applied for a capital build provision this year, MPI has not sought to remove this mechanism, or methodology, from the Capital Management Plan, correct?

MR. MARK GIESBRECHT (by Teams):
That's correct.

MS. KATRINE DILAY: And, Mr. Giesbrecht, you'll agree that because of COVID-19 the Capital Management Plan has not operated in a normal environment?

MR. MARK GIESBRECHT (by Teams):
That's fair.

MS. KATRINE DILAY: And by normal environment, you'd agree we mean an environment where there was not an extraordinary event which significantly reduced the number of collisions and therefore significant improved MPI capital position in a short period of time?

MR. MARK GIESBRECHT (by Teams):
That's fair.

MS. KATRINE DILAY: And I think Ms. McCandless -- McCandless yesterday alluded to this, but just to confirm, you'll agree that in Order 121 (phonetic) flowing from the 2021 GRA the Public Utilities Board had asked MPI to file material to assist it in its review of the Capital Management Plan in this year's GRA?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: But MPI did not file this material, correct?

MR. MARK GIESBRECHT (by Teams): Not as of yet, no.

MS. KATRINE DILAY: And, again, in Order 1/'21, as part of the materials that the Public Utilities Board requested regarding the Capital Management Plan, this included an analysis of the use of a single capital range -- sorry, a single capital target versus a range, correct?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And you'll agree that MPI has not filed this analysis, correct?

MR. MARK GIESBRECHT (by Teams): That's correct. Yeah, that was discussed --

MS. KATRINE DILAY: And --

MR. MARK GIESBRECHT (by Teams): -- in yesterday's discussion.

MS. KATRINE DILAY: Thank you. And this -- MPI has not filed this analysis because instead it applied for another trial year of the Capital Management Plan, correct?

MR. MARK GIESBRECHT (by Teams): That

would be part of the reason, yes.

(BRIEF PAUSE)

MS. KATRINE DILAY: Mr. Giesbrecht, generally and without going into detail at this point, you'll agree that the Capital Management Plan should be simple and flexible?

MR. MARK GIESBRECHT (by Teams): That would be an aim that we would strive to achieve, yes.

MS. KATRINE DILAY: And you'll agree that for it to be simple, this would include simple for ratepayers to understand?

MR. MARK GIESBRECHT (by Teams): As much as possible, yes. Definitely, you know, issues of capital or rate-setting, insurance in general, have some complexities, but we would strive to make it as simple and -- and understandable as possible.

MS. KATRINE DILAY: And you'd agree simple would also mean simple for MPI to administer, as much as possible?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And you'll agree that for it to be flexible that would include being able to respond to a variety of different circumstances?

MR. MARK GIESBRECHT (by Teams): Ideally, yes.

MS. KATRINE DILAY: In a timely manner?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: Because you'll agree it is possible another event like COVID-19, resulting in a quick accumulation of capital, could happen again in the future?

MR. MARK GIESBRECHT (by Teams): It's possible. Yeah, anything's possible.

MS. KATRINE DILAY: Thank you, Mr. Giesbrecht. I will be changing gears a little bit to talk about the -- the transfers to Driver and Vehicle Administration.

You'll agree that the program Driver and Vehicle Administration was transferred from the Provincial Government to MPI in 2004?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And since 2004, the Provincial Government has provided funding for the administration of Driver and Vehicle Administration?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And, in fact,

there is an agreement between MPI and the Provincial Government on the record to this effect, correct?

MR. MARK GIESBRECHT (by Teams): That's correct.

MS. KATRINE DILAY: And without asking for a legal opinion, you are aware that the administration of Driver and Vehicle Administration, or DVA, is expressly delegated to MPI under the DVA Act and the MPI Act?

MR. MARK GIESBRECHT (by Teams): Yes, that's my understanding.

MS. KATRINE DILAY: And, again, I'm not looking for a legal opinion, but I'm hoping we can just turn to the agreement between the government and MPI, which is located at PUB-MPI-1-18.

(BRIEF PAUSE)

MS. KATRINE DILAY: Thank you, Ms. Schubert.

And if we look at clause 4.02, which is on -- at page 7, I believe...

So, under clause 4.02, is it your understanding that there government agreed to paying the annual amount payable under subsection 4.01 to MPI in equal monthly installments, commencing on April 15th, 2005 and continuing in perpetuity, subject to any adjustments referred to in this section?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And if we turn back to page 6 of the PDF and clause 2.07...

And is it your understanding there that the Government agreed to negotiate with MPI any increase or decrease in costs that may result from any implementation of a new initiative or discontinuance of any service hereto relating?

MR. MARK GIESBRECHT (by Teams): I see that clause, yes.

MS. KATRINE DILAY: And then you'll also -- is it also your understanding that, without limiting the generality of the foregoing, the parties will take into account the cost of operational and procedural changes necessitated by the implementation of new initiatives or the discontinuance of any service or services, correct?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATRINE DILAY: And, finally, if we look at clause 2.10, just below -- thank you, Ms. Schubert -- you see there that the parties acknowledge that the transfer of authorities, powers, and duties from DVL, which was the driver and vehicle licensing, to MPI is intended to improve customer service, achieve cost efficiencies, and amalgamate similar functions performed by the parties.

Do you see that?

MR. MARK GIESBRECHT (by Teams): I do.

MS. KATRINE DILAY: And the -- the parties, just below in clause (a), the parties agreed to review the operation of this agreement at lease once in each fiscal year, commencing as of April 1st, 2006, correct?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And we're still -- still staying in -- at 2004. I'd like to turn to our book of documents, which is Exhibit CAC-8, at tab 11.

And, Ms. Schubert, that would be page 112 -- or 114 of the PDF.

(BRIEF PAUSE)

MS. KATRINE DILAY: Mr. Giesbrecht, you see there that this is a news release from April of 2004?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And the topic of the news release is the transfer of driver and vehicle licensing to MPI?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And if we look towards the end of the document, which will actually be on the next page, you see there that MPI's president and CEO at the time, Mr. Jack Zacharias, was quoted?

MR. MARK GIESBRECHT (by Teams): I see that.

MS. KATRINE DILAY: And Mr. Zacharias said:

"The public would see no immediate change, but over time cost reductions will be achieved through greater efficiency, automation, and attrition."

Correct?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATRINE DILAY: And he also said the public would see no -- sorry.

And in the last sentence of the next paragraph he stated:

"Any changes in the future will be business driven with our customers in mind and will be made only after careful consideration."

Correct?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And, Mr. Giesbrecht, you'll agree that the Government of Manitoba profits from Driver and Vehicle Administration operations by collecting vehicle registrations fees, other transaction fees, and driver registration fees?

MR. MARK GIESBRECHT (by Teams): They collect revenues, yes, and -- yes.

MS. KATRINE DILAY: And you'll agree that MPI collects all the fees for driver and vehicle and registration on behalf of the Government, correct?

MR. MARK GIESBRECHT (by Teams): Yes, we do.

MS. KATRINE DILAY: But MPI does not keep any of those fees within the Corporation, correct?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATRINE DILAY: Because they are

all transferred to government?

MR. MARK GIESBRECHT (by Teams): That is correct. There -- there are some -- a small portion of fees but, materially speaking, they're all transferred to government.

MS. KATRINE DILAY: Then MPI gets paid by the Government for administering the program, correct?

MR. MARK GIESBRECHT (by Teams): That is correct.

MS. KATRINE DILAY: And would it be fair to say that the Government of Manitoba benefits from MPI administering the DVA program, rather than the government administering the program themself?

MR. MARK GIESBRECHT (by Teams): I would say likely. I'm not aware of what the -- the cost structure and the costs were prior to the transfer to MPI. I would assume they would be similar.

But the -- the aim and the goal of having MPI take this on in 2004 was that there would be synergies. There definitely is benefits to customers to have, you know, one point of service for registrations and insurance. So there's -- there's that benefit for customers.

But I -- I have not seen, you know, what was the cost pre- and post-merger to determine if -- if the actual government was in a better financial position or not.

MS. KATRINE DILAY: But you'd agree that, in the -- in the agreement and the news release we just reviewed, cost efficiency or efficient in general was one of the reasons cited for the transfer?

MR. MARK GIESBRECHT (by Teams): Yes, it definitely would have been a goal and a -- and a hope of that transaction.

MS. KATRINE DILAY: And would the cost efficiencies cited in the agreement and the news release, would it be fair to say that these would be a result of MPI being able to administer the program more efficiently than the government?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And would this be because of the efficiencies created by MPI's integrated information technology systems between driver and vehicle administration, Basic and Extension?

MR. MARK GIESBRECHT (by Teams): That's one major component, yes.

MS. KATRINE DILAY: And you'll agree

that, at this point in time, MPI is continuing to explore with the Government of Manitoba various options to fund the driver and vehicle administration shortfall?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: But the parties have yet to finalize any course of action, correct?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATRINE DILAY: So based on this, it would be fair to say that MPI acknowledges that government has an ongoing responsibility towards driver and vehicle administration, correct?

MR. MARK GIESBRECHT (by Teams): I'm not aware of any statute that states that. Of course, I think it's reasonable to expect that MPI would be fairly compensated, yes.

(BRIEF PAUSE)

MS. KATRINE DILAY: And, Mr. Giesbrecht, we can go to a reference if you'd like. But MPI's position on the record of this proceeding is that if the DVA transfers from Extension had not occurred, MPI expects that the Government of Manitoba would have raised DVA fees, and, thereby, increased the cost of future services accessed by Manitobans. Correct?

MR. MARK GIESBRECHT (by Teams): That's -- that's one possible outcome.

MS. KATRINE DILAY: And I'd like to now turn back to our -- the CAC book of documents. If we could turn to tab 12, please, which is at PDF page 117, Ms. Schubert.

(BRIEF PAUSE)

MS. KATRINE DILAY: And if we go to the next page. Mr. Giesbrecht, do you see there that this is a press release -- oh, sorry. Just one moment.

(BRIEF PAUSE)

MS. KATRINE DILAY: Sorry, Ms. Schubert. Could we go back to tab 12, actually. So that should be -- might be page 115. Thank you very much.

Mr. Giesbrecht, do you see that this is a press release from the Government of Manitoba, dated

May 12th, 2020?

MR. MARK GIESBRECHT (by Teams): I see that, yes.

MS. KATRINE DILAY: And it states that the Government of Manitoba lowered vehicle registration fees by 10 percent beginning July 1st, 2020?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And this is expected to be an $11 million program for the government?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATRINE DILAY: And is it your understanding that this would mean $11 million less in revenues for the provincial government, correct?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATRINE DILAY: And if we could now to turn to tab 13.

(BRIEF PAUSE)

MS. KATRINE DILAY: You see that this is a press release from the Government of Manitoba from May 13th, 2021?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And it states here that the Government of Manitoba will be, again, reducing vehicle registration fees by 10 percent on July 1st, 2021, for the second year in a row?

MR. MARK GIESBRECHT (by Teams): Right. Yes.

MS. KATRINE DILAY: And if you look at the third paragraph here, this decrease is estimated to keep $15 million in the pockets of Manitoban drivers?

MR. MARK GIESBRECHT (by Teams): I see that, yes.

MS. KATRINE DILAY: So this would mean $15 million less in government revenues, correct?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATRINE DILAY: So, all in all, based on these two (2) news releases, Manitobans have seen two (2) decreases of 10 percent to their vehicle registration fees in two (2) subsequent years, correct?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATRINE DILAY: And you'll agree that these decreases change government revenues from -- that they received from vehicle registration in perpetuity -- meaning until the fees are next adjusted, correct?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATRINE DILAY: And, finally, on this line of questioning, I'd like to turn to tab 15, please, of the book documents, Exhibit CAC-8.

(BRIEF PAUSE)

MS. KATRINE DILAY: And just looking at the -- the title page, just to confirm what we're looking at, is it your understanding that this is the Province of Manitoba's annual report and public accounts for the year ending March 31st, 2021?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And we've only -- we did not include the whole report. But if we could turn to page 98 of the report, which is at page 131 of the books of documents.

(BRIEF PAUSE)

MS. KATRINE DILAY: And you see there, Section 'E', which relates to driver licensing operations?

MR. MARK GIESBRECHT (by Teams): I do.

MS. KATRINE DILAY: And you'll confirm it says there the government paid $30 million to MPIC for the management and administration of driver licensing?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And MPIC, on behalf of the government, collected driving licensing fees totalling $25 million?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And then, in parentheses, in 2020, that same number would have been 26 million?

MR. MARK GIESBRECHT (by Teams): I see that, yes.

MS. KATRINE DILAY: And the Government of Manitoba collected -- or sorry, MPIC, on behalf of the Government of Manitoba, collected motor vehicle registration fees totalling $187 million?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And, in 2020, that amount would have been $192 million, correct?

MR. MARK GIESBRECHT (by Teams): I see that there, yes.

MS. KATRINE DILAY: And then, you'll confirm that the fees received by the government are included in the consolidated statement of revenue and expenses, under the Fees and Other Revenue category, correct?

MR. MARK GIESBRECHT (by Teams): Subject to check, yes.

MS. KATRINE DILAY: And that would just be the next -- the next paragraph under the heading 'E' --

MR. MARK GIESBRECHT (by Teams): I see it there. Yes.

(BRIEF PAUSE)

MS. KATRINE DILAY: And we've already discussed this, but just to confirm, MPI has transferred funds from Extension to driver and vehicle administration in 2021, correct?

MR. MARK GIESBRECHT (by Teams): For the fiscal year 2020/'21, which took place in March of 2021.

MS. KATRINE DILAY: Thank you. And

that was $60 million, correct?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATRINE DILAY: And this was to address a funding shortfall?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And the funding shortfall in the fiscal year 2020/2021 was approximately $2.7 million?

MR. MARK GIESBRECHT (by Teams): That was for the -- the annual for twenty -- for that particular year, yes.

MS. KATRINE DILAY: And for the fiscal year 2021/2022, MPI is forecasting to transfer another $53 million from Extension to DVA?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And you'll agree, one of the reasons that MPI transferred the funds over to Extension -- sorry, over to DVA -- is that Basic is currently flush with cash at a time when the DVA line of business cannot sustain itself will continue to incur losses and accumulate substantial deficit without intervention?

MR. MARK GIESBRECHT (by Teams): Yes. That's generally -- that's fair.

MS. KATRINE DILAY: And so, by saying that Basic is flush with cash, is MPI telling us that Basic, essentially, does not need the capital transfer from Extension?

MR. MARK GIESBRECHT (by Teams): I would say that the DVA financial position is -- is much worse than that of Basic. And, therefore, it is in need -- in greater need of that transfer than Basic. That would be, I believe, a true statement.

MS. KATRINE DILAY: And it would be -- and, essentially, I think, what you're saying is that Basic has more than enough capital at this point in time?

MR. MARK GIESBRECHT (by Teams): Yes. Yeah. Basic is over capitalized based on the -- the current target of 100 percent MCT.

MS. KATRINE DILAY: Thank you. I'd -- I'd like to now ask you a few questions about expenses relating to the DVA line of business.

At a general level, you'll agree that MPI is currently upgrading its legacy information technology system to a more modern commercially off-the-shelf system?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATRINE DILAY: And the project name is Project Nova?

MR. MARK GIESBRECHT (by Teams): That is correct.

MS. KATRINE DILAY: And you'll agree that according to the new re-baselined business plan, the capital cost of Nova is projected to be 128.5 million, with the contingency?

MR. MARK GIESBRECHT (by Teams): That's correct.

MS. KATRINE DILAY: And MPI is upgrading the DVA legacy information technology systems to align with the systems being brought in for Basic in -- extension and special risk extension?

MR. MARK GIESBRECHT (by Teams): Yes, that's true.

MS. KATRINE DILAY: And so, you'll agree that the costs of DVA are materially going up because of costs relating to Project Nova?

MR. MARK GIESBRECHT (by Teams): Yes, there will be a large capital cost that we anticipate will be amortized over a number of years, and that -- that cost will -- will flow into the financial results of DVA.

MS. KATRINE DILAY: But the costs of

the funding that the Government of Manitoba provides to MPI does not cover the cost relating to Project Nova, correct?

MR. MARK GIESBRECHT (by Teams): The current level of funding would not be sufficient to cover those costs, no.

MS. KATRINE DILAY: Because the current level of funding is based on the historical operating costs of DVA, correct?

MR. MARK GIESBRECHT (by Teams): Yes. Yeah, they -- there have been a couple changes in the funding over the years. It started back in 2004, roughly at, you know, $21 million. It stayed that way for a number of years and then was raised to about 27 or $28 million.

It had an indexing factor for a couple years in around 2018. That came to about $30 million and has been at that level for the last number of years.

MS. KATRINE DILAY: Thank you. And so, essentially, the -- the level of funding is meant to cover operating costs?

MR. MARK GIESBRECHT (by Teams): It -- it's meant to, yes.

MS. KATRINE DILAY: I would now like

to turn back to our Book of Documents and bring you to some references from Board Order 176/'19. So, that would be at tab 6 of the book of documents, Exhibit CAC-8.

(BRIEF PAUSE)

MS. KATRINE DILAY: And you'll agree, Mr. Giesbrecht, this was the Public Utilities Board Order in which the Capital Management Plan was first approved?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And if we could turn to page 55 of the Order, which is at page 82 of the Book of Documents.

(BRIEF PAUSE)

MS. KATRINE DILAY: And specifically looking at the second bullet point on this page. You see there that the Public Utilities Board states here that:

"The Capital Management Plan
presented by MPI incorporated a
commitment to transfer excess

retained earnings from the Extension
line to Basic, where excess is
determined, relative to the single
extension target capital level of a
two hundred (200) -- 200 percent
minimal capital test ratio as set
out by the regulation."

You see that?

MR. MARK GIESBRECHT (by Teams): I do see that, yes.

MS. KATRINE DILAY: And is it your understanding that this was the Public Utilities Board description of what MPI was proposing at the time?

MR. MARK GIESBRECHT (by Teams): Yes. Yeah, there -- there is a commitment to transfer all excess capital from Extension to Basic based on a -- a year-end test that looks at the capital level.

And any excess capital over 200 percent will automatically be transferred to Basic.

MS. KATRINE DILAY: And you'll agree that in the 2020/2021 fiscal year, MPI had transferred excess retained earnings from Extension to DVA.

So, MPI did not transfer any retained earnings from Extension to Basic, correct?

MR. MARK GIESBRECHT (by Teams): Yes,

that is correct. So, there was a $60 million transfer that was approved by MPI's board of directors, which was transferred to DVA. Subsequent to that, the test was performed for any remaining excess capital.

And because there was no remaining excess capital, there was no transfer to Basic from Extension.

MS. KATRINE DILAY: And in the fiscal year 2021/2022, MPI is forecasting to transfer the excess retained earnings from Extension to DVA.

So again, MPI is not forecasting to transfer any retained earning from Extension to Basic in that fiscal year, correct?

MR. MARK GIESBRECHT (by Teams): That is correct. We are forecasting that there will not be any excess capital within Extension to end the year that would -- that would otherwise be transferred to Basic.

MS. KATRINE DILAY: Thank you. And if we could turn to page 56 of the Book of Documents -- sorry, page 56 of the Public Utilities Board Order, so that would be page 83 of the Book of Documents, so just the next page. My apologies, Ms. Schubert.

And if we look at the top of the page there, you see that the Public Utilities Board indicated that:

"The Corporation committed to transferring excess retained earnings over 200 percent MCT from Extension to Basic, regardless of the Basic/MCT ratio at the time."

Do you see that?

MR. MARK GIESBRECHT: Yes. Yeah, so what that means is when the test is performed at year-end, the -- any excess capital within Extension would be flowed to Basic, regardless of whether Basic had a MCT of 10, or 100, or 200 percent.

The -- that -- MCT of Basic at that point in time would not have any impact on the result.

MS. KATRINE DILAY: And, Mr. Giesbrecht, in the 2022 GRA, which is currently before us, MPI has indicated that excess capital from Extension was transferred to DVA, because Basic is flush with cash, while the DVA cannot sustain itself, correct?

MR. MARK GIESBRECHT (by Teams): Yes. And so, what -- what this statement on this -- on the page indicates is when the test is performed at -- at year-end to look at what is the capital position of Extension, at -- when that test is performed, any excess capital at that point in time, above 200 percent would automatically flow to Basic, regardless of what Basic MCT was at that point in time.

Now, when -- when we are managing our overall business, when we're looking at the -- the overall position of -- of the organization, of course, we did consider what was the, you know, the -- the positions of all the lines of business, and that was a factor when transferring to -- to DVA.

The -- the reality is DVA is underfunded. And if we do not manage that line of business, that could be to the determent of other lines of business down the road.

MS. KATRINE DILAY: Thank you, Mr. Giesbrecht. I think I was just trying to confirm. I think we had -- already had this discussion, but one (1) of the rationales for transferring the excess capital this year from Extension to DVA was because Basic is flush with cash, while the DVA cannot sustain itself, correct?

MR. MARK GIESBRECHT (by Teams): Yeah. I think there's very -- two (2) key components to look at. There -- there's a -- a test performed at fiscal year-end and there's managing the business throughout the course of the year. And so, I think that, you know, you have to consider both of those in separation.

MS. KATRINE DILAY: Thank you, Mr. Giesbrecht. If we could turn to page 86 of the Book of Documents.

(BRIEF PAUSE)

MS. KATRINE DILAY: And if we look towards the bottom of the page, the last sentence of the second to last paragraph. You see there the Public Utilities Board stated:

> "The transfers from Extension to Basic will be automatic under the Capital Management Plan for any amounts over 200 percent MCT held by Extension in its reserves."

You see that?

MR. MARK GIESBRECHT (by Teams): Yes, I do.

MS. KATRINE DILAY: And you'll agree that while Extension operates in a competitive market, its rates are set by regulation, correct?

MR. MARK GIESBRECHT (by Teams): Yes, I believe so.

MS. KATRINE DILAY: And in the current GRA you'll agree that the transfers from Extension to Basic were not automatic for any amount over 200 percent MCT held in Extension in its reserve -- held by Extension in its reserves in the sense that because before fiscal year-end MPI had transferred all the excess retained earnings from Extension to DVA. So, there was no excess left to transfer to Basic.

That's correct?

MR. MARK GIESBRECHT (by Teams): Yes, that's correct.

MS. KATRINE DILAY: And you'll agree that the excess capital from Extension resulted from over-collection of Extension ratepayers in the sense that they paid more than what the Corporation needed to provide the Extension insurance products for that year?

MR. MARK GIESBRECHT (by Teams): I -- I wouldn't agree with that statement. Extension has a profit motivation. It operates in a -- in an environment open to competition and is intentionally priced with a profit provision.

And so, there is no over-collection because the intention of the product line is to produce a profit.

MS. KATRINE DILAY: Thank you, Mr. Giesbrecht, you anticipated my next question. So, MPI budgets for project margin and Extension?

MR. MARK GIESBRECHT (by Teams): That's correct, yes.

MS. KATRINE DILAY: And for the record, are you able to confirm what that profit margin in?

MR. MARK GIESBRECHT (by Teams): Generally speaking, it's between 25 and 30 percent, in that -- that ballpark.

MS. KATRINE DILAY: And you'll agree that driver and vehicle administration is a separate program from Extension?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And driver and vehicle administration does not provide an insurance product, correct?

MR. MARK GIESBRECHT (by Teams): It doesn't provide an insurance product, but -- but all Basic customers are by very nature DVA customers.

MS. KATRINE DILAY: Thank you. I'd like to bring you to two (2) excerpts from the Book of Documents.

If we could turn to tab 16, please, of

Exhibit CAC-8, which is page 134 of the Book of Documents.

And, Mr. Giesbrecht, do you see there that this is the legislative debates and proceedings from Friday, October 8th. I think we'll just have to go down the page a little bit to see the date.

MR. MARK GIESBRECHT (by Teams): Yes, I see that.

MS. KATRINE DILAY: And if we could turn to page 135 of the Book of Documents, which is just the next page over.

And if you look about half way down the page on the left-hand side, Mr. Giesbrecht, do you see there that there's -- there's a heading which indicates the start of a discussion regarding MPI or Manitoba Public Insurance autopac premiums and rebate.

MR. MARK GIESBRECHT (by Teams): I see that, yes.

MS. KATRINE DILAY: And I'll just -- want to focus on the bottom right-hand side of this page and then the top of the next page.

And you see there that Premier Goertzen is speaking.

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And, is it your

understanding based on this excerpt that he is referring to the transfers from Extension to driver and vehicle administration?

MR. MARK GIESBRECHT (by Teams): I -- I believe so.

MS. KATRINE DILAY: And looking at the -- the top of this page, and we might scroll down just a little bit, thank you, Kristen.

You'll see that Premier Goertzen was indicating here that this matter, speaking about the transfers from Extension to DVA, was before the Public Utilities Board for determination. Correct?

MR. MARK GIESBRECHT (by Teams): I'm just trying to find that.

MR. STEVE SCARFONE: Well, I'm going to interject at this point, Madam Chair. So, I appreciate Ms. Katrine wants Mr. Giesbrecht to acknowledge what's in this document.

In our view it's different than the questions that were put to Mr. Herbelin, with a similar such document, because the gentleman was present at the meetings.

So, MPI will concede that all of the content of this document is, in fact, accurate, but I don't know it is fair to ask Mr. Giesbrecht to comment on any of it, because he wasn't there.

MS. KATRINE DILAY: Thank you, Mr. Scarfone, and I'm looking for Mr. Giesbrecht to confirm what's in the document before him.

MR. STEVE SCARFONE: We will concede everything that's in there.

MS. KATRINE DILAY: Thank you.

(BRIEF PAUSE)

MS. KATRINE DILAY: And, I'd like to now turn to some questions about the special rebate application.

You'll agree that the anticipated rebate from Basic, that is before the Public Utilities Board, does not include any monies from the Extension line of business. Correct?

MR. MARK GIESBRECHT (by Teams): That is correct, yes.

MS. KATRINE DILAY: And just to confirm, this is because the excess capital in Extension was transferred to driver and vehicle administration. Correct?

MR. MARK GIESBRECHT (by Teams): Yeah, the -- the current level of excess that was present at

March 2021 was transferred to -- to DVA. Yes.

Any -- any past transfers, as there were numerous transfers from Extension to Basic over the preceding years, would have already been rebated through our -- our previous rounds of rebates.

MS. KATRINE DILAY: Yes. Thank you. And so speaking for the -- the transfer as of March 2021.

MR. MARK GIESBRECHT (By Teams): Yes.

MS. KATRINE DILAY: And then for 2021/'22, MPI is forecasting transferring approximately $53 million to DVA, which again would not be included in the rebate application. Correct?

MR. MARK GIESBRECHT (by Teams): That's correct.

MS. KATRINE DILAY: So, in a scenario where the funds were not transferred from Extension to DVA, in 2020/'21, and in 2021/'22, you agree that $113 million would have been transferred to Basic under the Capital Management Plan?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And if that excess capital of $113 million would have been transferred to Basic, it would have been included in this third special rebate application. Correct?

MR. MARK GIESBRECHT (by Teams): Yes, it would have been part of the calculation for the available excess capital within Basic over 100 percent.

MS. KATRINE DILAY: And that's because the amount of the special rebate application is meant to bring Basic back to 100 percent MCT. Correct?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATRINE DILAY: Which is the target in the Capital Management Plan?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATRINE DILAY: And I know there was some discussion with Ms. McCandless yesterday about this, but I'm hoping to just confirm the numbers, because I may have mis-heard.

MPI is currently forecasting a rebate of $335 million. Correct?

MR. MARK GIESBRECHT (by Teams): That's our applied for rebate. Yes.

MS. KATRINE DILAY: So in a scenario where the funds from Extension were transferred to Basic, rather than DVA, if we were to add the funds, that have been and are forecasted to be transferred to DVA, the rebate application would be closer to $448 million?

MR. MARK GIESBRECHT (by Teams): Yes. Yeah. There -- there may be some adjustments for the capital acquired, -- so it is a -- actually held within Basic, but generally speaking that -- that's a fair statement, or a fair range.

MS. KATRINE DILAY: Thank you. Moving on to the cost of special rebates, you'll confirm that it costs MPI almost a million dollars every time it issues a rebate to ratepayers by cheque?

MR. MARK GIESBRECHT (by Teams): Yeah. I -- I believe somewhere around seven hundred thousand (700,000) but in -- in a -- if you're rounding, it would be about -- yes, to a million.

MS. KATRINE DILAY: Maybe, we'll just bring the reference -- I -- it is Exhibit MPI-6, the special rebate application at page 23.

And so, if you look at figure 14, so you'll agree the total cost is about -- or is 90 -- 973,000?

MR. MARK GIESBRECHT (by Teams): Yes. Yeah. No, I was thinking about just the postage cost, but yeah, including the -- the actual cheque stock, yes, it's about a million dollars.

MS. KATRINE DILAY: Thank you. I just wanted to confirm, because my recollection was -- was that -- it was a bit different.

So, this cost, as we see here, includes the cost of purchasing and printing cheques?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATRINE DILAY: As well as postage costs?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATRINE DILAY: And administrative costs?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And, to confirm, MPI is proposing issuing cheques for this third special rebate application. Correct?

MR. MARK GIESBRECHT (by Teams): Yes. Yeah, when we first were considering the rebates at the onset of the pandemic, we had looked at other options.

We had looked at -- the availability of placing credits on customer accounts, but based on the legacy nature of our systems and some of the -- the effort it would take to -- to -- to do that, it wasn't feasible to do anything other than a cheque until we have Project Nova complete.

MS. KATRINE DILAY: Thank you. And I will have some follow-up questions on this topic. So, before -- before we go there, you'll agree that including this third rebate it will have been almost $3 million that MPI has spent on issuing rebates in the past eighteen (18) months?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And, if we could please turn to CAC-MPI-1-95 and part D. Thank you, Ms. Schubert.

So you'll confirm there that, there are cheques from the last two (2) rebates that have not been cashed by customers. Correct?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATRINE DILAY: And just to confirm the numbers, so for the May 2020 rebate, it was twenty thousand five hundred and thirty-six (20,536) customers who did not cash their rebate cheques?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: Representing

approximately 3.16 percent of customers?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And over $2.5 million of uncashed rebate cheques?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And then, for the December 2020 rebate, it was twenty-six thousand and twenty-four (26,024) customers who did not cash their rebate cheques?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATRINE DILAY: Representing approximately -- or representing 4.04 percent of customers. Correct?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And over $2 million of uncashed rebate cheques?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: So, would it be fair to say that these customers who did not cash their cheques are customers who did not get the benefit of the rebate?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And you'll agree there could be many reasons for why customers did not deposit their cheques?

MR. MARK GIESBRECHT (by Teams): For sure.

MS. KATRINE DILAY: And generally, without elaborating at this point, you'll agree that since the first special rebate application in May of 2020, parties have posed questions to MPI about the options other than cheques to rebate funds back to customers?

MR. MARK GIESBRECHT (by Teams): I believe so.

MS. KATRINE DILAY: And you'll agree generally that there may be other methods of issuing a rebate that would not require a physical cheque, correct?

MR. MARK GIESBRECHT (by Teams): There could be, yes.

MS. KATRINE DILAY: And one (1) method, which I believe you've alluded to, would be a credit on a ratepayer's renewal amount?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And on this point, I'd like to take you to tab 8 of the book of documents, Exhibit CAC-8, and spec -- specifically page 97. Sorry, specifically, page 101.

And so, Mr. Giesbrecht, you see that this is PUB Order 2/'21? And we may just have to go to the bottom of the page just to confirm the order number.

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And if we look at just the second to last paragraph here, towards the bottom of this -- the second last paragraph, do you see there that the Public Utilities Board said that:

> "MPI also stated that if there were a desire to rebate further funds beyond its applied-for capital release of 5 percent, it should be by a credit to ratepayers, citing the significant cost of issuing cheques over nine hundred thousand dollars ($900,000)."

MR. MARK GIESBRECHT (by Teams): I see that, yes.

MS. KATRINE DILAY: And if MPI were to use a credit on customers' renewal amount, customers would not get a refund, but rather would not pay as much on their next due payment.

Would that be fair?

MR. MARK GIESBRECHT (by Teams): That

would be the -- the notion, yes.

MS. KATRINE DILAY: And you'll agree one (1) advantage of this method is that it would be less costly than printing and mailing out cheques?

MR. MARK GIESBRECHT (by Teams): It would be more -- or less costly if it was feasible within the current system, yes.

MS. KATRINE DILAY: And under -- using this method, customers would not have to physically cash a cheque?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATRINE DILAY: So the issue of outstanding refunds would not be present, correct?

MR. MARK GIESBRECHT (by Teams): Sorry, could you repeat that?

MS. KATRINE DILAY: So the issue of outstanding refunds, in terms of the customers who have not cashed their rebate cheques, would not be an issue anymore?

MR. MARK GIESBRECHT (by Teams): I would not expect so, no.

MS. KATRINE DILAY: But one (1) disadvantage of the credit on the renewal notice may be that not all customers have access to the financial benefit immediately of the rebate, as it would depend on when during the year they pay for their renewal.

Is that -- is that fair?

MR. MARK GIESBRECHT (by Teams): Yeah, it would depend on what payment method they were currently on and how they would receive that credit. And by virtue of receiving a cheque, they have the ability to use that funds in any way they -- they wish, as opposed to only offsetting future payments.

MS. KATRINE DILAY: Thank you for that. But you'll agree also the timing may be different, in the sense that the cheques would all be sent at the same date, as opposed to credits which would be on the date of the next renewal, which would be different for different customers, correct?

MR. MARK GIESBRECHT (by Teams): Well, the -- the credits, that'd be subject to how we would administer that or unroll it -- or roll it out, I should say. We have not gone that path, so I would suspect a credit could be issued all on one (1) date, but that would be subject to how -- you know, based on the system limitations and what made the most sense from -- from that perspective, as well.

MS. KATRINE DILAY: Thank you, Mr. Giesbrecht. And you'll agree that another potential method of issuing a rebate could be an electronic transfer to customers?

MR. MARK GIESBRECHT (by Teams): Possibly.

MS. KATRINE DILAY: And you'll confirm that MPI is considering its ability to implement this option through Project Nova, and that more information will be available in the 2023 GRA?

MR. MARK GIESBRECHT (by Teams): Yes. We are looking to expand our -- our e-cash-type capabilities, whether it be to receive or send funds, and we are hoping to have that functionality available in the near future.

MS. KATRINE DILAY: And on that point, MPI has indicated this option will take time to develop, correct?

MR. MARK GIESBRECHT (by Teams): Of course, yes.

MS. KATRINE DILAY: But you'll agree that not all customers may want to receive their rebates by electronic transfer?

MR. MARK GIESBRECHT (by Teams): Possibly, yeah.

MS. KATRINE DILAY: For example, some customers may not have access to a computer, which may

-- may be needed to accept an electronic transfer?

MR. MARK GIESBRECHT (by Teams): That's fair.

MS. KATRINE DILAY: And I would just like to take you to another document in our book of documents. If we look at tab 18 of Exhibit CAC-8.

(BRIEF PAUSE)

MS. KATRINE DILAY: And do you see there, Mr. Giesbrecht; this is an excerpt from ICBC, or the Insurance Corporation of British Columbia's website?

MR. MARK GIESBRECHT (by Teams): I see that, yes.

MS. KATRINE DILAY: And you see that this page here is talking about the second customer rebate relating to COVID-19, updated August 25th, 2021?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And if we look at the next page, the top of the next page, you see the heading 'How Will I Receive This Rebate'?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And so would it be

your understanding based on this that ICBC is issuing the second COVID-19 rebate by distributing it based on how customers paid for their insurance policy?

MR. MARK GIESBRECHT (by Teams): That's what it looks like, yes.

MS. KATRINE DILAY: And so, based on this excerpt, is it your understanding that that would include a refund on credit card if that is how they paid?

MR. MARK GIESBRECHT (by Teams): I believe so, yes.

MS. KATRINE DILAY: And it could -- the refund could be issued by cheque in some circumstances?

MR. MARK GIESBRECHT (by Teams): Yeah. It looks like it says if you paid by cash, debit, Autoplan, you'll receive a credit in that manner, yes.

MS. KATRINE DILAY: Thank you. And then the last sentence of that paragraph, is it your understanding that another option is if -- by direct deposit, if customers have signed up for that option?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: Thank you. I'd like to now change a little bit in terms of topic and discuss the purpose of the rate stabilization reserve.

You'll agree that the purpose of the rate stabilization reserve is to protect motorists from rate increases that would otherwise have been necessary due to unexpected variances from forecasted results, and due to events and losses arising from non-recurring events or factors?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And you'll agree that MPI's rate stabilization reserve is currently funded to 100 percent MCT or 401.8 million?

MR. MARK GIESBRECHT (by Teams): Yes. I'm not sure of the exact dollar amount of -- at this point in time for the required cap (sic) -- but roughly 400 million is -- is the number.

MS. KATRINE DILAY: And the rate stabiliz -- rate stabilization reserve amount is currently projected to increase in the coming years, absent a plan to rebate excess capital.

Would that be fair?

MR. MARK GIESBRECHT (by Teams): Sorry, for which years are you referencing?

MS. KATRINE DILAY: Not -- in the coming years.

MR. MARK GIESBRECHT (by Teams): Well, our hope is that the -- the pandemic will soon be behind us and we return to normal. And if that were the case, then we would expect that the -- the capital level would remain relatively stable as we aim to achieve breakeven rate setting.

MS. KATRINE DILAY: Thank you, Mr. Giesbrecht. But maybe we'll go to a reference just so I can confirm my understanding.

Kristen, could we go to PF-3, which is at page 514 of the application. Thank you.

So, Mr. Giesbrecht, if we look to lines 20 and 22; so you'll agree, based on this -- on this pro forma, that the rate stabilization reserve amount is currently projected to increase in the coming years. And this would be without taking into account a -- a plan to rebate excess capital, correct?

MR. MARK GIESBRECHT (by Teams): Yes. Yeah. So what you see before you on row 22 is the development of the MCT. The -- the primary driver of the growth would be the forecasted transfer of Extension to Basic.

MS. KATRINE DILAY: And, generally speaking, you'll agree that MPI advocated in the past for its rate stabilization reserve to be funded at 100 percent MCT?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And you'll agree MPI has indicated that the MCT calculation was useful to calculate the level of capitalization of MPI?

MR. MARK GIESBRECHT (by Teams): Yes. Yeah. It is a widely-used industry standard approach to -- to capital.

MS. KATRINE DILAY: And MPI has advocated for this approach even though MPI is not a regulated entity under the Office of the Superintendent of Financial Institutions, or OSFI, correct?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATRINE DILAY: And this has been even though MPI has a statutory monopoly, correct?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATRINE DILAY: And we can go to a reference if you'd like, but is it your understanding that one (1) of MPI's justifications for using the MCT calculation has been, in part, to be consistent with other insurers in the country?

MR. MARK GIESBRECHT (by Teams): That is one (1) consideration, yes.

MS. KATRINE DILAY: And we can go to a

reference again if you'd like, but is it your understanding or your recollection that one (1) of MPI's justifications for pursuing the MCT as the appropriate capital adequacy metric was that it is exposed to the risks that are captured in the MCT score and that those risks -- and that those are risks for which it requires adequate capital?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: Turning again to the book of documents, please, Ms. Schubert, at tab 19 of Exhibit CAC-8.

And, Mr. Giesbrecht, you see there that these are the MCT requirements as published by the Office of the Superintendent of Financial Institutions?

MR. MARK GIESBRECHT (by Teams): Yes, I see the guideline on the screen.

MS. KATRINE DILAY: And if we could turn to page 152 of the book of documents and, specifically, section 4.2.

Mr. Giesbrecht, you'll agree this refers to margins for unpaid claims and premium liabilities?

MR. MARK GIESBRECHT (by Teams): I see that there, yes.

(BRIEF PAUSE)

MS. KATRINE DILAY: And margins are added to cover a potential shortfall, given the uncertainty that provisions will be sufficient to cover the anticipated liabilities?

MR. MARK GIESBRECHT (by Teams): Yeah, I believe that's fair.

MS. KATRINE DILAY: And then, in terms of how that's calculated, if we look at four point two point two (4.2.2), the margin for premium liabilities is calculated by line of business, by multiplying the greater of net premium liabilities, less the provision for adverse deviation or PFAD, correct?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And 30 percent of the net written premiums for the past twelve (12) months by the applicable risk factors, correct?

MR. MARK GIESBRECHT (by Teams): Yeah. It's taking the lesser of those two (2), yes. Or, sorry, the greater of those two (2).

MS. KATRINE DILAY: Thank you. And then if we turn to the next page, the insurance risk factors are listed there?

MR. MARK GIESBRECHT (by Teams): Yes.
MS. KATRINE DILAY: Do you see that?
MR. MARK GIESBRECHT (by Teams): I do.
MS. KATRINE DILAY: And if we go about halfway, just a little bit past halfway down the table, you see that hail is listed just past -- just at that point.
Do you see hail?
MR. MARK GIESBRECHT (by Teams): I do.
MS. KATRINE DILAY: And hail has a 20 percent risk factor for unpaid claims?
MR. MARK GIESBRECHT (by Teams): Yes.
MS. KATRINE DILAY: And 25 percent risk factor for premium liabilities, correct?
MR. MARK GIESBRECHT (by Teams): Yes. I would have to consult our team. I'm not sure if that -- that hail -- you know, hail is a risk within auto. I'm not sure if that hail is a different type of hail for a different coverage. So the -- the risk within auto may also include hail.
MS. KATRINE DILAY: Okay. So I'm -- I'm going to take you to another reference and, hopefully, I'm not -- I, hopefully, follow up on this answer.
So, if we could go to Part 7 of the

application, which is the Rate Stabilization Reserve portion, and Appendix 1.

MR. MARK GIESBRECHT (by Teams): So, sorry, just my -- my team in the back row are just confirming that -- that hail would likely be more like a crop insurance type of an issue -- are that -- that 'auto hail' would be in that 'auto other' line.

MS. KATRINE DILAY: Thank you, Mr. Giesbrecht. I will ask you just two (2) or three (3) follow-up questions just to confirm my understanding.

So, if we go to Figure AP-1-2 (phonetic), and on page 2.

So this shows the Basic capital required under the Minimum Capital Test?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And if you look at lines 11 and 12 of this figure, this is the calculation of margin required for premium liabilities and unpaid claims, correct?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATRINE DILAY: So, based on the OSFI table, the MCT table we just went through, some portion of premium liabilities and unpaid claims required capital is attributable to hail risk?

MR. MARK GIESBRECHT (by Teams): Yes, hail would be part of the overall factor. Yes. I mean, you know, not necessarily the line you referenced but within auto overall, yes.

MS. KATRINE DILAY: And, Mr. Giesbrecht, is it possible for MPI to produce the spreadsheets that underlie this particular figure?

MR. MARK GIESBRECHT (by Teams): Yes, I believe so.

MS. KATRINE DILAY: And would MPI undertake to do so?

MR. STEVE SCARFONE: That'd be fine, yes.

MS. KATRINE DILAY: Thank you. So, just to confirm, the undertaking would be to provide the undertaking -- sorry, the spreadsheets underlying Figure RSR-AP-1-2, the Minimum Capital Test Basic capital required.

MR. STEVE SCARFONE: Yes, Ms. Dilay.

--- UNDERTAKING NO. 38: MPI to provide the spreadsheets underlying Figure RSR-AP-1-2, the Minimum Capital Test Basic capital required

MS. KATRINE DILAY: Thank you. Madam Chair, if I could just have a minute just to review my notes. I think those might be all my questions for this panel.

THE PANEL CHAIRPERSON: Certainly.

MS. KATRINE DILAY: Thank you.

(BRIEF PAUSE)

MS. KATRINE DILAY: Those are all my questions. Thank you very much, Madam Chair, and thank you, MPI witnesses.

THE PANEL CHAIRPERSON: Thank you, Ms. Dilay. Ms. Meek...?

MS. KATRINE DILAY: And just to jump in. I believe Ms. Meek is in the library, so perhaps I could quickly step out and she could replace me in terms of numbers.

THE PANEL CHAIRPERSON: Thank you.

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: Good morning, Ms. Meek. Please proceed.

CROSS-EXAMINATION BY MS. CHARLOTTE MEEK:

MS. CHARLOTTE MEEK: Good morning. Good morning to the panel. Good morning, Mr. Giesbrecht. My name is Charlotte Meek. I act on behalf of the Coalition of Manitoba Motorcycle Groups. I just have a brief cross for today.

I'd like to start off with, sorry, a brief discussion of Basic and Extension insurance provided by MPI for the motorcycle class. And, again, I'm not going to direct my questions to anybody particular, but whoever is best able to answer can just jump in.

Could you confirm for me that the motorcycle class Basic coverage includes collision protection, but does not include Comprehensive coverage? Is that correct?

MR. TAI PHOA: Yes, that is correct.

MS. CHARLOTTE MEEK: Thank you. And this is different from the private passenger class, for example, wherein comprehensive coverage is included under the Basic Insurance Program provided by MPI?

MR. TAI PHOA: Yes, that is correct.

MS. CHARLOTTE MEEK: And would you agree that comprehensive coverage protects from accidental losses including fire, theft, or windstorm?

MR. TAI PHOA: Yes, that is correct.

MS. CHARLOTTE MEEK: And would you agree that the purchase of comprehensive coverage for the motorcycle insurance is an Extension coverage then that is offered by MPI?

MR. TAI PHOA: Yeah, that's correct.

MS. CHARLOTTE MEEK: And do you know if any other insurance providers in Manitoba offer comprehensive insurance coverage for motorcycles?

MR. TAI PHOA: I'll have to check with my back row.

(BRIEF PAUSE)

MR. STEVE SCARFONE: Well, that didn't take long to stump us.

(BRIEF PAUSE)

MR. TAI PHOA: And I'm still stumped. I -- I assume that there are options for motorcycles to go to other insurance. No different than any of our -- any of the other Extension products that we offer -- that MPI offers.

MS. CHARLOTTE MEEK: Would you maybe then agree that the coverage that's offered by alternate options are limited?

MR. TAI PHOA: Can you repeat that question, and maybe -- maybe just to clarify the word 'limited'.

MS. CHARLOTTE MEEK: That there are limited numbers of other insurers that provide comprehensive coverage for motorcycles, so the majority of motorcycle consumers would go to MPI for their coverage of comprehensive insurance?

(BRIEF PAUSE)

MR. TAI PHOA: Sorry, I'm not sure if this helps to answer the question, but I'm going to take a crack at it anyway. I've just got some word from my back row.

So for the Motorcycle Major Class, there's seventeen thousand (17,000) -- approximately eighteen thousand (18,000) policies, and out of those eighteen thousand (18,000) policies, 95 percent purchase Extension products through MPI.

MS. CHARLOTTE MEEK: That is helpful. Thank you.

And this question might be for Mr. Giesbrecht. There was testimony given by Mr. Gandhi during the IT and Nova panel, and he indicated -- and I think you were discussing this with Ms. Dilay this morning -- that MPI does not currently have the infrastructure to facilitate provision of credits for the excess revenues, and that rebates are the only viable option.

Is that correct?

MR. MARK GIESBRECHT (by Teams): At this time, yes.

MS. CHARLOTTE MEEK: Sure. And I'm just wondering whether MPI has canvassed ratepayers at all to determine customers' preferences for rebates, as opposed to credits on their accounts or other alternatives?

MR. MARK GIESBRECHT (by Teams): I don't recall specifically. I know we have had numerous surveys and -- and other types of gathering information from customers. But I -- I don't recall, on that topic, if that is the case or not.

MS. CHARLOTTE MEEK: Does MPI plan to discuss this issue with customers to determine what their preferences would be?

MR. MARK GIESBRECHT (by Teams):

Definitely we regularly will -- will survey customers in a -- on a manner of different topics, and so I would say, generally speaking, yes. Especially, you know, if there's ongoing needs for -- for rebates and we want to make sure that we have the best method of getting that to -- to our customers.

MS. CHARLOTTE MEEK: Thank you. And I wanted to put a similar question to you that I put to Mr. Herbelin, but he was unable to answer at the time.

In your presentation, you indicated that MPI deemed it appropriate and prudent to continue to operate those operations -- or to fund those operations. And you were referring to the transfer from Extension to DVA.

Do you recall that?

MR. MARK GIESBRECHT (by Teams): Sorry, which conversation or which presentation are you referring to? I mean, I -- the notion makes sense, but I'm not sure exactly what you're referring to.

MS. CHARLOTTE MEEK: Sure. Sorry, let me rephrase that.

In your presentation, you indicated something along the lines of MPI had deemed it appropriate and prudent to continue to fund those operations. And you were referring to the transfers from Extension to DVA.

Do you recall that?

MR. MARK GIESBRECHT (by Teams): Yes, we spoke of the DVA transfers in my presentation yesterday. Yes.

MS. CHARLOTTE MEEK: And that you felt that it was -- or MPI felt it was appropriate and prudent to continue those transfers?

MR. MARK GIESBRECHT (by Teams): And how we may continue, we have -- made one(1) transfer and we have one (1) forecasted further transfer. But there are no -- no other transfers beyond those two (2) currently in the forecast.

MS. CHARLOTTE MEEK: Thank you. And I think what you were referring is that you are deeming it appropriate to continue, as in the second transfer that MPI is proposing?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. CHARLOTTE MEEK: Thank you. And you also indicated that MPI's position is that the Corporation is not prohibited from transferring from Extension to other lines of business.

Is that correct?

MR. MARK GIESBRECHT (by Teams):

Correct.

MS. CHARLOTTE MEEK: And my question for you then is: In what circumstance would a transfer from Extension to DVA be deemed inappropriate?

MR. MARK GIESBRECHT (by Teams): When would it be inappropriate? I mean, there could be a number of situations. If Extension was under capitalized; probably the most common scenario I could think of. We have a capital target and the insurance line has to be healthy and stable. If that were not the case, then we could not transfer amounts to DVA or any other line for that matter.

MS. CHARLOTTE MEEK: And maybe I could provide you with an example.

In the event that the Corporation, in preparing for an application, sees that their projections require an overall rate increase, would the Corporation elect then not to make a transfer from Extension to any other line of business, but would rather elect to transfer to Basic in order to prevent a rate increase for ratepayers?

MR. MARK GIESBRECHT (by Teams): Well, we definitely strive for rate stability and providing low rates and value for customers. That would be a consideration. It would have to be weighed against a financial position and the -- and the need of another line of business, and would have to compare, you know, which is a more dire need.

So I would say that's definitely a consideration. But I -- I really couldn't comment without having more specifics of a -- of a situation.

MS. CHARLOTTE MEEK: So it would be possible then, where DVA continues to require funds, that a rate increase would be required in order to fund the DVA line of business?

MR. MARK GIESBRECHT (by Teams): Well, now are you referring to Basic or Extension? Because a rate increase would never be -- would never take place within Basic to fund DVA --

MS. CHARLOTTE MEEK: Or --

MR. MARK GIESBRECHT (by Teams): But -- but we have other lines of business that are not attached to Basic.

MS. CHARLOTTE MEEK: So let me -- let me rephrase my question.

Where the DVA requires funds, would MPI choose to transfer funds from Extension to DVA, rather than to Basic, to offset a rate increase for ratepayers?

MR. MARK GIESBRECHT (by Teams): That's a possibility. Again, it would all depend on the circumstances of -- of each line of business and -- and the circumstances at that point in time.

Now, we have the provisions of the -- you know, the Capital Management Plan and those would all be in place. But as we've seen with the $60 million transfer and the proposed or -- or forecasted $53 million transfer, we have to consider the -- the -- you know, the position of the company in totality and do what is best for -- for all of our lines of business.

The reality is if -- if we don't have a healthy DVA line -- 'cause that -- that comprises part of our total corporate financial picture, that could have an impact on our ability overall, looking at cash flows and our ability to meet our obligations for Basic or other lines of business.

So we have to ensure that all lines are healthy and sustainable.

MS. CHARLOTTE MEEK: Thank you. And so, Mr. Giesbrecht, you talked in your presentation and with cross-examination with Ms. Dilay about the 60 million that's already been transferred, and then there's a projected further transfer, and you said that that would cover us to approximately 2025/'26.

Is that correct?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. CHARLOTTE MEEK: And you said that that was based on the current projections, which are based on the assumption for costs related to Nova and DVA.

Is that correct?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. CHARLOTTE MEEK: And I think you indicated yesterday that the budgeted costs for Nova are critical to those assumptions.

Is that correct?

MR. MARK GIESBRECHT (by Teams): They're a major factor. They are substantial.

MS. CHARLOTTE MEEK: Okay. And is it possible for the projected costs for the DVA to increase?

MR. MARK GIESBRECHT (by Teams): That's -- it's possible. I think the -- the operating costs for DVA have been fairly stable. You know, you'd expect inflationary increases over a long period of time. But generally speaking, it's been fairly stable. With the advent of -- of Nova and trying to modernize our systems and provide better service to customers, that'll have a bit of a change in the cost base.

But longer run, we do also anticipate benefits to come. So there will be a bit of an uptick in cost and then over time, after we realize the benefits and all the costs have been amortized, we'd anticipate, you know, getting back to a -- a more stable run rate of costs.

MS. CHARLOTTE MEEK: Thank you. And I believe yesterday you also indicated that -- hope that MPI -- or it is the hope of MPI that the DVA would become self-sufficient.

Is that correct?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. CHARLOTTE MEEK: And can you advise of what steps MPI is currently taking to ensure that becomes a reality?

MR. MARK GIESBRECHT (by Teams): We are in talks with government ongoing, discussing different options about how can we address the funding gap. And so we are hopeful that we can come to a resolution with the government to -- to make that happen.

MS. CHARLOTTE MEEK: Thank you.

(BRIEF PAUSE)

MS. CHARLOTTE MEEK: And I think yesterday, Mr. Giesbrecht, you said something to the effect of given the surplus that existed in the Extension fund, it made sense to MPI, when looking at the deficiencies of DVA, to make the transfer to DVA. And I think you also referenced MPI's requirement to look at the business interest as a whole.

Does that sound familiar?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. CHARLOTTE MEEK: And would you agree that the surplus that has accumulated in both the Basic and Extension funds is a result of MPI customers being overcharged for their premiums? Is that correct?

MR. MARK GIESBRECHT (by Teams): Well, I would say for Basic we definitely have charged more than was required. It's -- there's always a forecast and forecasted rates, and it's never perfect when you're trying to break even.

So definitely, we have charged more than was required to cover the cost of claims and administration costs throughout the pandemic.

As we spoke with Ms. Dilay, as regards

to Extension, I would not characterize that as an over collection, in that Extension has a -- a profit provision.

And so, we expect to have a profit every year within Extension. And that line is fairly stable. And I wouldn't say it has had a dramatic uptick based on -- on, you know, the recent pandemic. There's been some improvement, but not to the extent anywhere near what Basic has.

MS. CHARLOTTE MEEK: Okay. And I -- I'd just like to jump to a reference here. If we could look at the 2021 special rebate application dated April 27th, 2020.

(BRIEF PAUSE)

MS. CHARLOTTE MEEK: And I apologize, I just realized I don't have a page number referenced. Might I just have a moment, Madam Chair?

THE PANEL CHAIRPERSON: Yes, certainly.

(BRIEF PAUSE)

MS. CHARLOTTE MEEK: Thank you very

much, Ms. Schubert. So, we're at page 21 and I'd just like to look at line 16 to 19 here. This reads:

"The rationale for the proposed rebate is that given the reduced claims costs, these customers would have paid significantly less in premiums to insure their motor vehicles after March 15th, 2020 had MPI calculated their premiums on a monthly, as opposed to annual basis."

So, my question for you, Mr. Giesbrecht, would be that: Would you agree that similarly, with the current special rebate application before the Board, that had MPI calculated premiums on a month-by-month basis, that customers would have paid less for both their Basic premiums, as well as their Extension premiums?

MR. MARK GIESBRECHT (by Teams): Yes. Yeah, there's no doubt there's been less claims and that's been the primary driver of our accumulation of excess capital.

All I was referencing earlier was that Extension seeks to gain a profit, and Extension has not benefited to the extent, on a percentage basis, anywhere close to what -- what Basic has.

But -- but definitely, you know, we do have more dollars within each line of business than was previously forecasted.

MS. CHARLOTTE MEEK: Sure. And I just want to clarify a specific point. Customers would have been charged less for their Extension premiums had MPI been calculating on a month-by-month basis.

Is that correct?

MR. MARK GIESBRECHT (by Teams): Yes, if we adjusted our claims forecasts on a more frequent basis, then it could have been a little bit lower, yes.

MS. CHARLOTTE MEEK: Thank you. Those are my questions, Madam Chair.

THE PANEL CHAIRPERSON: Thank you very much, Ms. Meek. I think this is an opportune time to take the morning break. Could we please come back at twenty (20) to 11:00. Thank you.

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

--- Upon resuming at 10:42 a.m.

THE PANEL CHAIRPERSON: Mr. Gabor...?

THE CHAIRPERSON: Thank you. Mr.

Giesbrecht...?

MR. MARK GIESBRECHT (by Teams): Yes. Hello.

THE CHAIRPERSON: Hi. Just a few questions. Do you know if there is the similar situation in BC or Saskatchewan as here in relation to the Crown Corporation administering DVA or a similar program to DVA?

MR. MARK GIESBRECHT (by Teams): Yes, I believe they operate similar to -- to MPI in Manitoba where they -- they do have oversight over some of those functions, yes.

THE CHAIRPERSON: Okay. And do know what the -- what the agreement is between those governments and the -- the Crown Corporations as far as the costs of those programs they carry out for the government?

MR. MARK GIESBRECHT (by Teams): I don't have details. I do believe that there is some -- there's more tight regulation or interaction between the -- the Basic insurance and the licensing component, I think, at least within Saskatchewan. But details of which, I'm not aware.

THE CHAIRPERSON: Okay. And there seems to be this -- the -- Mr. Scarfone provided

Exhibit 71 which showed the revenues and expenses for the DVA line.

Would I be correct that the big divergence occurred in relation to the IT projects for MPI?

MR. MARK GIESBRECHT (by Teams): That is definitely a point where the -- the net revenues or the -- the profitability is diminishing significantly.

Prior to the advent of Nova, we had forecasted DVA to be in a loss of about $6 to $7 million annually, and then with -- with Nova licensing costs, the line had incurred about another $12 million of annual costs.

And then there's the capital costs that would come in later upon completion and release of -- of that module which would then have another, you know, call it in the 50 million range, which would then be amortized over time.

So it -- there were losses, and they're being increased dramatically with -- with Nova.

THE CHAIRPERSON: Okay. Can you tell us in what year the -- you started with the $12 million losses?

MR. MARK GIESBRECHT (by Teams): That started this year, in this current fiscal year.

THE CHAIRPERSON: Okay. So -- and -- and you anticipate the losses will increase significantly unless there is funding from government?

MR. MARK GIESBRECHT (by Teams): Yes.

THE CHAIRPERSON: Can you advise when negotiations started in earnest in relation to increasing the amount MPI receives from government for the increased costs?

MR. MARK GIESBRECHT (by Teams): So I joined MPI in the fall of 2017. There -- there -- and there -- to my recollection, there had been talks even prior to that date.

However, I would say that we've been talking more specifically and at greater length over the past probably twelve (12) months. We've had multiple discussions and looked at various options. So I'd say we've had a real earnest look at it in the last, you know, say, twelve (12) months.

THE CHAIRPERSON: And without going into those negotiations, do you anticipate a resolution of this, of the negotiations, within the next year?

MR. MARK GIESBRECHT (by Teams): I'm certainly hopeful of that. You know, I -- I believe government also wants to come to a resolution on this as well, but, you know, we have been talking about these things for a while, so I really can't put an end date on that resolution. But -- but I would say definitely the aim is to have that within, you know, the next twelve (12) months or in the near future.

THE CHAIRPERSON: Those are my questions. Thank you. Thank you, Mr. Giesbrecht.

THE PANEL CHAIRPERSON: Mr. Watson...?

BOARD MEMBER WATSON: Thank you. For Mr. Giesbrecht, if we could bring up CAC-MPI-1-95.

(BRIEF PAUSE)

BOARD MEMBER WATSON: Item D, item D. Thank you.

Mr. Giesbrecht, with regards to the uncashed cheques, if you add the first rebate and the second rebate to rough math, there's about $4.7 million worth of cheques outstanding?

MR. MARK GIESBRECHT (by Teams): Yes.

BOARD MEMBER WATSON: What would be the range of value of the outstanding cheques? Would there be cheques outstanding greater than one thousand dollars ($1,000)?

MR. MARK GIESBRECHT (by Teams): No.

Typically, on average, these cheques would be, you know, between one (1) and three hundred dollars ($300), depending on which...

The May rebate was larger than the December rebate, so I believe December would have been in the range of a hundred dollars ($100) and the May rebates somewhere in that two hundred dollars ($200) range. So -- but, you know, on average, it would not be nowhere near a thousand (1,000).

BOARD MEMBER WATSON: And what would be the largest cheque, the top value? Would you --

MR. MARK GIESBRECHT (by Teams): Yeah. Off the top of my head, I -- I don't know. I -- I do believe we had had an IR or some questions on that at some point over the proceedings, but I really don't -- I would be guessing at this point.

BOARD MEMBER WATSON: Okay. If I was a customer and I called MPI and asked about the cheques, is there a database or some sort of information that they can answer if -- if a cheque that was sent to me is uncashed?

MR. MARK GIESBRECHT (by Teams): Yes.

BOARD MEMBER WATSON: Okay. Would they be able to answer it on the phone right away, or is it something they would have to get back to the customer on?

MR. MARK GIESBRECHT (by Teams): I -- I believe that would be available on -- on the -- on the spot for the customer.

BOARD MEMBER WATSON: Okay. Is there a way --

MR. MARK GIESBRECHT (by Teams): It may take a bit of time, but I don't believe it would require a follow-up.

BOARD MEMBER WATSON: Okay. Is there a way to -- since it's only 3 percent and 4 percent of the outstanding cheques, is there a way to post the outstanding cheques on a person's account?

MR. MARK GIESBRECHT (by Teams): I would have to take that away and -- and speak with our -- our IT folks. Right now, given our system limitations, I -- I don't know if that would be feasible.

I mean, whether it's 3 percent or 100 percent, the -- the same amount of work would have to take place to make it work within the code in the system, so I'd say likely not.

BOARD MEMBER WATSON: Okay. And your application before us right now is the third rebate is $335 million. Is that correct?

MR. MARK GIESBRECHT (by Teams): That is correct.

BOARD MEMBER WATSON: And if you take into the value of the final cheque of dollars, 3.17 percent, it's feasible that the next round of uncashed cheques could exceed $12.06 million.

Is that possible?

MR. MARK GIESBRECHT (by Teams): That certainly is possible based on the amount of cheques that are returned or are not cashed.

BOARD MEMBER WATSON: Okay.

MR. MARK GIESBRECHT (by Teams): And we have -- in prior rounds, we had made news releases and -- and tried to have different posts in different avenues and forums to encourage customers to update their address or any other information that is required to get these into their hands.

And -- and we can take a look at that again as well to make sure we're -- we're mitigating this as best as possible.

BOARD MEMBER WATSON: Okay. And it is a possible -- or a situation -- I believe you answered a question this morning from CAC -- is that some people's accounts actually may not be able to get credit and they may not be able to get benefit based on them closing their account, passing away, moving from province.

So there might be a situation even if you did post to someone's account that they would miss the opportunity of getting the rebate.

Is that correct?

MR. MARK GIESBRECHT (by Teams): That -- and how do you mean if it's -- if we were to post a credit or based on issuance of a cheque?

BOARD MEMBER WATSON: Issuance of a credit on the account. It is possible that people do close their account. They don't insure vehicles anymore, they pass away, they move out of the province.

MR. MARK GIESBRECHT (by Teams): Exactly, right? If they had no future need for insurance and we issued a credit, then that credit wouldn't be of use to them.

I -- I should say I believe the process would be, however, that their -- it may trigger a cheque if it wasn't able to be used in a different manner. So it wouldn't be that it would sit there in perpetuity, but it may take customer action to initiate the request to -- to produce it in a different manner.

BOARD MEMBER WATSON: Okay. Thank you. And the next topic for Mr. Giesbrecht. Last Wednesday, in regards to Project Nova, it was brought to our attention that driver vehicle licensing part of Project Nova is at now 49 percent.

Would you agree with that?

MR. MARK GIESBRECHT (by Teams): It's I would say in that -- in that ballpark.

BOARD MEMBER WATSON: Okay. Subject to check, on the 2020 GRA, October 16th, 2019, on the transcript at page 1489, I do believe it's Mr. Dressler sated that the DVL portion is 24.7 million.

Subject to check, would you agree with that?

MR. MARK GIESBRECHT (by Teams): Well, subject to check, that -- that number sounds low depending on exactly what he was referencing. I don't believe the overall cost of the program was ever expected at 24 million, so I would have to really see more details around what specific component was being referenced with that number.

BOARD MEMBER WATSON: Okay. So it's on page 1489, October 16th of 2019 on the transcript.

With 49 percent of the current budget of 126 million, it's $63 million now.

Would you agree?

MR. MARK GIESBRECHT (by Teams): At half, yes.

BOARD MEMBER WATSON: Okay. The $38 million increase, what part of the program for DVL part of Project Nova, where is that allocated to? How did the increase come from 24.7 million to $63 million?

MR. MARK GIESBRECHT (by Teams): Well, again, without seeing those details, I'm -- I don't believe that 24 million was a right starting point. There -- there was a re-baseline that was completed over a year ago where we at that point revised the forecast to one twenty-eight (128), but I -- I'd have to take an undertaking or look at the details.

I -- I don't believe that the increase in debase specifically was that dramatic, but I would have to look back into the details to -- to get back to you with more details on exactly what, you know, the changes were in that re-baseline.

BOARD MEMBER WATSON: Okay. If we could have an undertaking, Counsel, to reference the transcript of August -- October 16, 2019, page 1489, the 24.7 million to the current $63 million.

MR. STEVE SCARFONE: To reconcile

those two (2) figures?

BOARD MEMBER WATSON: Correct. And where the increase is and bringing it to the Board's attention that it wasn't in this year's filing.

MR. STEVE SCARFONE: Yes.

BOARD MEMBER WATSON: Okay. Thank you.

--- UNDERTAKING NO. 39: MPI to reference the transcript of October 16th, 2019, page 1,489; reconcile the 24.7 million to the current $63 million; and indicate where the increase is and that it wasn't in this year's filing

BOARD MEMBER WATSON: The last question for Mr. Giesbrecht.

In the financial statements, Board counsel brought to your attention the 2019/2020 note in regards to retained earnings on part of the DVL. And you used the word 'redundant', and there was only one (1) note in reference to that and it has since been removed from the last year's financial statements.

Was that a decision by yourself, as a CFO, or was it a decision by PWC in -- in regards to removing the note?

MR. MARK GIESBRECHT (by Teams): Yes, the -- the note you're referring to is within the MD&A, so it's not a no disclosure per se within the audited financial statements.

So when I made the comment that there was redundancy, what I meant by that was in previous annual reports within the MD&A we would speak to each line of business, and we typically would say a section on revenue, expense, claims, investments, and so on.

And what would happen within expenses, investment income, for example, and even within claims, to a large extent, would be the -- the same commentary would -- would take place in many of the lines of business as they were all affected similarly.

And so it was redundant in the -- in the sense that many of the overall drivers were spoken about two (2) and three (3) and four (4) times in some cases, and so that's where the redundancy took place.

So we streamlined the -- the MD&A to be more focussed on the overall corporate operation. And so what we did -- we would do, is within the -- the notes proper, which are the -- the fully audited notes to the financial statements, there is a statement of operations or an income statement, as well as a balance sheet that is by line of business.

You know, but through the course of the discussions, you know, I think it's clear to us that, you know, we -- we should put back in more specific reference to transfers, as it is so in -- it's keenly of interest to many stakeholders. So -- and I think that would be an improvement to -- while we want to streamline things and -- and reduce redundancy, we also want to have that transparency in making things clear.

The -- the transfers could be sought or -- or discovered through the -- the no disclosures, but it's not as easy to find.

And in terms of their decision, ultimately, it was my decision in -- in consultation with -- with my team in trying to improve the report. PWC, as our auditors, of course, have to sign off on the -- the notes and the -- the full financial statements.

And they also ensure that MD&A is consistent overall, but they don't provide an opinion on its content, other than it should align generally to what -- what is disclosed and audited within the -- the full audited annual financial statements.

BOARD MEMBER WATSON: Do you agree that there's notes in the financial statements that -- there's notes in there referencing $2 million, $3 million, $4 million, but there's no note for the $60 million transfer?

MR. MARK GIESBRECHT (by Teams): Sir, which 2, 3, and $4 million are you referring to?

BOARD MEMBER WATSON: There's notes in the financial statements. There's various notes that reference smaller dollar figures. If we would -- could pull up the 2019/2020 statements, I can point them out to you.

MR. MARK GIESBRECHT (by Teams): Are -- are you talking about specifically to transfers of prior years?

BOARD MEMBER WATSON: No, not -- not -- on other topics; you know, wages or different things like that.

MR. MARK GIESBRECHT (by Teams): Yes. Yeah. No, I mean, we follow you know what is required for -- you know for IFRS in our accounting standards and disclosures. And so while some may be smaller in dollar amounts, they are required based on the standard that we follow.

BOARD MEMBER WATSON: And the $60 million transfer didn't follow the standards?

MR. MARK GIESBRECHT (by Teams): It is not required to be disclosed within the -- within the notes.

But I -- I do agree, based on this discussion and just based on, you know, what has transpired, that, you know, we would intend to better highlight that in the future, regardless of whether or not it is actually required to pass an audit opinion.

BOARD MEMBER WATSON: Okay. Thank you.

THE PANEL CHAIRPERSON: Mr. Gabor...?

THE CHAIRPERSON: Sorry. Mr. Giesbrecht, why is it not required on the 60 million? I mean, you said that the -- the others were required by standard or practice, but it sounds like your answer is that, under standards of practice, it's not required to show the 60 million.

Can you advise why?

MR. MARK GIESBRECHT (by Teams): Yeah. So the -- the transfer is really -- it's -- it's a transfer within the Corporation. On a consolidated basis, it -- it has no impact on the overall corporate position.

And so we do disclose now, new for this year, our -- you know, our -- our performance and our balance sheets; however, those are not required disclosures, you know, based on our corporate structure.

THE CHAIRPERSON: So the transfer from Extension to Basic wouldn't be required to be disclosed?

MR. MARK GIESBRECHT (by Teams): Not within the -- the notes to the financial statements, no, and they have not been in the past. Where -- where we have disclosed it in the past has been within the MD&A, which is -- there's -- of discretion of what is or isn't in the MD&A. But within the -- the notes proper to the financial statements, it is not -- not necessary.

THE CHAIRPERSON: For disclosure and transparency purposes, do you plan to indicate in the notes the transfer from Extension to Basic going forward?

MR. MARK GIESBRECHT (by Teams): Yes. Yes. We'll -- and we'll determine if that's most appropriate in the MD&A or in the notes. But I -- I believe it's clear that it has to be there in -- in either section, but -- but more -- more clearly and explicitly stated, as opposed to shown in the statement of financial position where you could -- you could see it, but you have to more financially savvy to understand it.

THE PANEL CHAIRPERSON: Thank you. Mr. Giesbrecht, I have one (1) question.

In your responses to Ms. Dilay's question, you indicated that all Basic customers are customers of DVA. Are all DVA customers customers of Basic?

MR. MARK GIESBRECHT (by Teams): Well, that's an interesting question. So all DVA customers -- you -- you could have a customer who is say just learning to drive, and they take a knowledge test and a -- and a road test. At that point, they may not have, you know, a car or insurance. Maybe they drive, you know, a family or a parent's vehicle, so in that sense they're not necessarily Basic customers, but it could be DVA customer.

So, I wouldn't say every DVA customer is not necessarily a Basic customer. Although, it -- very interestingly, on the flip-side, by the very nature of being a Manitoba resident, everyone is afforded an extended PIPP coverage, whether or not you have a licence or a vehicle. So, from that perspective, all Manitobans are Basic customers, but not necessarily ratepaying customers.

THE PANEL CHAIRPERSON: Thank you. Mr. Scarfone, any re-direct?

RE-DIRECT-EXAMINATION BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: Yeah, just some questions.

Firstly, I guess, for my own edification and, for the record, Mr. Giesbrecht, what does MD&A reference that you just spoke about? What's that? Is that an acronym?

MR. MARK GIESBRECHT (by Teams):   Yeah. That's the Management Discussion and Analysis within an annual report.

MR. STEVE SCARFONE: Okay. Thank you. Just on a procedural thing before I begin, Madam Chair, I note that the Board didn't call upon Mr. Hacault, and that was because yesterday he said he had no questions. But he also reserved the right, as I recall, to ask questions.

And the Board might also recall that there was a reference yesterday by Mr. Hacault to what we referred to as a collaborative discussion concerning -- it wasn't a formal undertaking, but he's waiting on a response from MPIC concerning the -- I guess the best way to describe it, he wants to balance for his client the benefit of a greater rebate against the possibility of some of the solutions that were proposed to government for the DVA.

So it's a complex response that we're trying to formulate for -- for his client. When he gets that, he may have some questions again for this panel.

So I don't know that that's going to be ready before the end of this week for sure. And so it may be that this panel has to come back 'cause, as Mr. Hacault said, he did reserve the right to ask questions on that front.

THE PANEL CHAIRPERSON: Yes. Thank you, Mr. Scarfone.

And certainly if he indicates that he does have further questions, then we would ask that the panel be -- appear again in the hearing.

MR. STEVE SCARFONE: Come back. Okay. And we just wanted to confirm that and -- and -- so the panel members were aware of that possibility.

CONTINUED BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: Okay. So, let me just work backwards on the -- on the redirect. Oh, and, Mr. Watson, we still have your uncashed cheque, so we'll get that to you. Just talk to me later. Yes.

Mr. Giesbrecht, Mr. Gabor asked you about the discussions that MPIC was having with government concerning the DVA agreement. And you indicated that -- in earnest -- those were his words -- those discussions began about twelve (12) months ago. Is that right?

MR. MARK GIESBRECHT (by Teams): Yes. You know, we have been in ongoing dialogue for -- for some time. And prior to twelve (12) months ago. And that's -- that's been a ballpark.

I would say there have been more advanced discussion in the last twelve (12) months. But I couldn't put an exact pin -- pinpoint date. But roughly speaking, we definitely have been having more discussions in the last number of months.

MR. STEVE SCARFONE: Okay. And I'll just -- you know, this might be difficult to answer. I'll put a hypothetical to you because you're our Chief Financial Officer.

You haven't (sic) indicated that you're hopeful that a resolution could still occur. What would the Corporation or how would the Corporation deal with government agreeing to send to MPIC the amounts that have been transferred into the line of business?

So if the government was to cut a cheque and send $113 million to MPIC, what -- What happens after that point?

MR. MARK GIESBRECHT (by Teams): Yeah. If I were the case that the DVA line were to be funded retrospectively and -- and made whole for previous losses, then those monies could be sent back to where they came from. Being, in this case, Extension. Which would then allow that to flow back to Basic through the normal course of our -- our year end test and transfer of excess capital.

MR. STEVE SCARFONE: Ms. Meek asked you, again, some hypotheticals. She said, Well, Mr. Giesbrecht, when would it be inappropriate to transfer Extension from -- or monies from Extension to the DVA line of business.

Do you recall that line of questioning?

MR. MARK GIESBRECHT (by Teams): I do.

MR. STEVE SCARFONE: And I think the

example you provided was, Well, certainly, if -- if the Extension reserve was under capitalized, that is, not at it's 100 percent MCT target it would be inappropriate to make such a transfer, right?

MR. MARK GIESBRECHT (by Teams): Correct.

MR. STEVE SCARFONE: Would you agree as well that it would be inappropriate for MPIC to transfer any excess Extension monies to another line of business after the year end test that you made reference to?

MR. MARK GIESBRECHT (by Teams): Yes, exactly. You know, at year end, that test shall be performed. Any excess capital above 200 percent MCT within Extension would -- would flow to Basic.

So after that point in time, there would be no other capital available for any other purpose. That it would have been already transferred to Basic.

MR. STEVE SCARFONE: Do you recall, last year, testifying before the Board of the 2021 General Rate Application?

MR. MARK GIESBRECHT (by Teams): I do.

MR. STEVE SCARFONE: And at that time, sir, do you recall confirming for this Board that

MPIC, in its view, had some discretion in how it made use of the excess Extension monies?

MR. MARK GIESBRECHT (by Teams): Yes, we talked a fair bit about that.

MR. STEVE SCARFONE: And has that position changed since your evidence last year at this time?

MR. MARK GIESBRECHT (by Teams): No, it has not.

MR. STEVE SCARFONE: MPIC made a transfer, as we know, from the Extension line of business to the Driver and Vehicles Administration line of business.

Could it also, in exercising that discretion, make a transfer before year end to the Basic line of business?

MR. MARK GIESBRECHT (by Teams): Certainly. If there was a need that arose, that had to be addressed, that -- that could take place. And it has in the past.

(BRIEF PAUSE)

MR. MARK GIESBRECHT (by Teams): And just, before I forget, one point to follow up on the questioning of the -- the disclosures. We do have within the GRA and our initial application -- I just wanted to point out that we do disclose publically within the application specifically the transfers from Extension to DVA and to Basic.

So while we talked about what's in the annual report, there is publically available contained within our application to the PUB. So I just wanted to make that -- that clarification or addition to that commentary.

MR. STEVE SCARFONE: And then, the last question on -- on the transfers then to the various lines of business.

Does MPIC -- are you aware of any preference that MPIC would have toward any particular line of business?

MR. MARK GIESBRECHT (by Teams): No, I wouldn't say there's any preference. I think we want to make sure that all lines are achieving what they set out to do and they're all healthy and are doing what's best for all Manitobans.

(BRIEF PAUSE)

MR. STEVE SCARFONE: This -- this

question is probably directed best to Mr. Phao.

Mr. Phao, you'll recall that Ms. Meek was asking questions about the comprehensive coverage for her client, the motorcyclists?

MR. TAI PHOA: Yes, I do.

MR. STEVE SCARFONE: Do the effects of the pandemic have any affect on the comprehensive coverage of MPIC customers?

MR. TAI PHOA: We did not notice any significant changes to the comprehensive loss costs. So there was no impact of COVID on comprehensive.

MR. STEVE SCARFONE: And do you know why that is, sir?

MR. TAI PHOA: Comprehensive coverage is for -- for things like death and vandalism. That is not affected by the volume of driving that happens. A lot of -- like -- like the COVID impact is mostly for collisions and PIPP losses.

MR. STEVE SCARFONE: Thank you. Mr. Giesbrecht, back to you, sir.

You'll recall Ms. Dilay asking you about the methodology for issuing rebate cheques?

MR. MARK GIESBRECHT (by Teams): Yes.

MR. STEVE SCARFONE: If there was a cheaper and more effective way for MPI to issue rebates, would MPIC be using it for this application?

MR. MARK GIESBRECHT (by Teams): Yes, certainly. And it is our aim to have more flexibility and ability for other methods in the future. But right now, cheques are the most feasible.

MR. STEVE SCARFONE: And then, the last question for you, Mr. Giesbrecht, on the proposed amendments to the CMP, you'll recall Ms. Dilay asking you about the Corporation's intention to do that in next year's GRA?

MR. MARK GIESBRECHT (by Teams): Yes.

MR. STEVE SCARFONE: At this point in time, does the Corporation know for certain if the capital release provision will remain within the Capital Management Plan?

MR. MARK GIESBRECHT (by Teams): I wouldn't say we know with -- with certainty. We still have work to do in preparation for next year's GRA. So we have to come back with a complete wholesome plan that will outline and summarize, you know, a new proposal and the benefits of such.

MR. STEVE SCARFONE: And does the Corporation know, at this time, whether that 120 percent MCT threshold is the number that will appear in next year's amended Capital Management Plan?

MR. MARK GIESBRECHT (by Teams): You know, that's the best we know today that we're leaning. But I would say that that could change between now and then.

MR. STEVE SCARFONE: And does the Corporation know, in fact, if the capital build provisions will remain in the amended version of the Capital Management Plan?

MR. MARK GIESBRECHT (by Teams): I would expect that there has to be a capital build of some nature. Based on what was experienced thus far, we're -- we're not aware of any deficiencies or -- or tweaks that aren't necessary.

But, again, that should be made part of our entire analysis and -- and coming back next year with that wholesome plan.

(BRIEF PAUSE)

MR. STEVE SCARFONE: Madam Chair, those are the questions on re-direct.

THE PANEL CHAIRPERSON: Thank you very much, Mr. Scarfone.

And subject to your earlier comments with regard to Mr. Hacault, we thank this panel for its presence at the Hearings.

And can we move into the next panel, which is the investments panel. We have Mr. Giesbrecht on the screen and I'm expecting Mr. Bunston will be here --

MR. STEVE SCARFONE: Mr. Bunston should be in the building. And if they're listening downstairs, please send Mr. Bunston up.

MS. KATHLEEN MCCANDLESS: And, Madam Chair, Mr. Watchman is going to be doing to cross-examination for the Board for this panel. But I think numbers-wise, I can probably stay in the room safely for now.

THE CHAIRPERSON: I think we'll be fine. Sure. Thank you.

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: Thank you. I think we're ready to proceed now with the MPI Investments panel. Mr. Giesbrecht and Mr. Bunston are here.

MR. STEVE SCARFONE: Yes, thank you, Madam Chair. Somehow we've managed to now get ahead of schedule. This panel was scheduled to start after lunch today, so that's encouraging.

So, we have on this particular panel:

Mr. Giesbrecht on the screen, who is still sworn or affirmed;

Before you is Glenn Bunston. You will recognize him. He is the manager of Asset Liability Management and Investment Management.

These gentlemen are supported by a back row consisting of five (5) individuals:

Chris Paulis (phonetic) is listening in. He's our Financial Standards Specialists;

Kyle Broadie (phonetic), a Senior Investment Analyst;

Michael Gandhi, MPIC's Corporate Controller;

Dean Dunstone, who just left the room, Manager Forecasting and Re-insurance;

And Cara Low, MPICs new Chief Actuary Vice President Insurance and Risk Management.

And I'll ask Dr. Christle, if he can, to have Mr. Bunston swear or affirm.

MPI INVESTMENTS PANEL:

MARK GIESBRECHT, Previously Affirmed

GLENN BUNSTON, Affirmed

EXAMINATION-IN-CHIEF BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: And, Mr. Bunston, just before we begin, and you just heard me indicate that you are the Manager, sir, of Asset Liability Management and Investment Management for Manitoba Public Insurance?

MR. GLENN BUNSTON: Yes, that's correct.

MR. STEVE SCARFONE: And we all note that since you were hear last, your title has changed?

MR. GLENN BUNSTON: Yes, it's been -- been expanded to reflect the asset liability management responsibilities that myself and my team have always had. So, it's just a more accurate title.

MR. STEVE SCARFONE: Thank you. And -- and, Mr. Bunston, before us on the screen is a presentation that's titled 'Investments' that you're going to give to this panel this morning, correct?

MR. GLENN BUNSTON: Yes, that's correct.

MR. STEVE SCARFONE: And the content of this presentation will form part of your direct evidence.

Is that -- is that correct?

MR. GLENN BUNSTON: Yes.

MR. STEVE SCARFONE: And so MPIC would like to mark this particular presentation as MPI Exhibit number 72 and ask that Mr. Bunston proceed with his presentation.

--- EXHIBIT NO. MPI-72: MPI's Investments presentation

MR. GLENN BUNSTON: Okay. Well, thank you very much. It's great to be here again. I've presented here several times in the past, and I look forward to speaking to you today.

As in the past, I'll be talking about our investment strategy; in particular, the recovery from COVID-19 and the impact that had on MPI's investment portfolio.

We'll talk about our investment objectives, our asset allocation, our asset liability management strategy and some improvements we've made to that, and finally interest rate forecasting.

As I'm sure you're all aware, equity markets fell dramatically in -- in March of 2020 due to the pandemic, falling by almost 30 percent, and then fully recovered within ten (10) months, making it one of the quickest recoveries in -- in history.

Unemployment spiked to 13.7 percent in May of 2020, but has since returned to 7.1 percent, which is only 0.1 percent higher than the five (5) year average. And inflation briefly fell into negative territory in the spring of 2020, but has recently exceeded 4 percent.

Inflation has been above the Bank of Canada's 2 percent target for the last six (6) months. The Bank of Canada currently views this level of inflation as transitory, in their own words. The Bank of Canada is not expected to increase the overnight rate until the second half of 2022.

And our next ALM study will carefully consider the impact of inflation and inflation volatility on MPI's assets and liabilities. And so no chan -- no changes are planned to the current investment strategy until the asset liability management study is completed.

In early October, the Bank of Canada Governor, Tiff Macklem, stated that higher price growth is being driven by base effects and pandemic related supply issues. He also noted that the overall transitory view of the Bank of Canada remains intact, as inflation expectations are still anchored and wage pressures remain contained.

This slide talks about our investment performance of our three (3) portfolios. And over the last twelve (12) months, ended at March 31st of 2021, the Basic claims portfolio outperformed its benchmark by 1.7 percent.

The RSR and EFB portfolios had strong absolute returns, but did underperform their benchmarks by approximately 3 percent.

The RSR and EFB under performance was mainly due to global equities, real estate and infrastructure investments.

Real estate under performance was driven by our pooled fund, which declined by 1.3 percent.

Canadian Equities' under performance was due to our Canadian small cap manager, which had a very strong return of 66.5 percent, but the index was up 145.6 percent, largely due to the gold sector, in which, the invest -- our manager has no holdings.

And finally, global equities lagged due to the fact that both manager strategies are defensive in nature and focus on high quality companies, which generally under -- under perform during strong bull markets or rapidly rising equity markets.

MR. STEVE SCARFONE: And -- and those two (2) acronyms there, those portfolios, Mr. Bunston, RSR, I think we're all aware of that. What's EFB?

MR. GLENN BUNSTON: EFB is employee future benefits. It's mainly pension assets.

So equity markets declined sharply in March of 2020. The market value of our equity portfolio peaked on February 20 and bottomed out on March 23, falling 29.7 percent during that period.

But once vaccines were announced in the fall of 2020, investors started to feel optimistic and started buying stocks in cyclical sectors, such as autos, travel, entertainment, leisure and retail.

And value style stocks are -- are now in favour, which has helped our Canadian equity portfolio, which was up 56 percent to March 31st, while global equities were up a more modest 23 percent over the same period.

And since March 31st our equity portfolio was increased by almost 12 percent.

Real estate and infrastructure investments are private equity positions in real assets, that are long term in nature. They provide regular income through regulated or contractual revenue streams that are partially linked to inflation. And their evaluations are appraisal based.

To March 31st of 2021, our infrastructure return was largely driven by our investment in a -- a global pooled fund, that had a return of 7.7 percent and a major toll road in the Toronto area with a return of 6 percent.

We had two (2) other investments in a pooled fund that returned 2.3 percent, and finally a -- a third pooled fund with a return that was flat.

Our real estate pooled fund declined due to a capital loss of 3.4 percent, which occurred primarily in the beginning of the pandemic when there was a great deal of uncertainty. And that was partially offset by -- by income.

The next slide shows a graphic which depicts the -- the yield of Corporate bonds rated single A and tripe B and Province of Manitoba bonds relative to the yield of the Government of Canada ten (10) year bond.

As can be seen, Corporate and Provincial bond spreads narrowed substantially from March of 2020 to March of 2021, returning to more normal long-term levels.

The absolute level of Corporate bond yields also decreased over this period as spreads tightened.

In August of 2021 Corporate bond spreads were still ten (10) to fifteen (15) basis points higher than they were before the pandemic began in March of 2020.

MR. STEVE SCARFONE: And just there, Mr. Bunston, could you just explain for the Board, the correlation between spreads and yields and -- and what -- how one impacts the other.

MR. GLENN BUNSTON: Yeah. So, the yield on a Corporate bond is typically determined, based on the -- an underlying yield, so typically a -- kind of a risk free rate, which would be a government bond, plus a spread.

And so, this -- the -- the two (2), the -- the yield of the risk free bond plus the spread, determine the overall yield of the Corporate bond.

But last year Federal Bond yields increased, but Corporate bond yields fell by ninety (90) to one hundred and thirty five (135) basis points.

And after March 31st, the yield on bonds continued to fall, declining a further ten (10) to thirty five (35) basis points. And this decline in yields produced capital gains for our fixed income investments.

The strong equity market recovery over the last year does not change the forecasted return for MPI's equity portfolio.

As the forecast is based on the long term historical average return for the asset class. But the starting values within our financial model do reflect the increased market values at March 31st.

The forecasted real estate and infrastructure returns are stable, as they are based on forecasted inflation as per the Canadian chartered banks, plus a -- plus a fixed spread of 4 to 5 percent, respectively.

The forecast of bond yields is based on two (2) components, the Government of Canada ten (10) year bond yield and spreads.

The forecast of the Government of Canada ten (10) year bond yield is based on the actual yield at March 31st, which at 1.56 percent, was eighty six (86) basis points higher than the yield at -- one year prior.

The forecasted spreads for marketable bonds are based on actual spreads at March 31st. And they -- at -- they were ninety-three (93) basis points at March 31st which was ninety-five (95) basis points lower than the spreads one year prior.

Income generated by the fixed income portfolio is based upon the actual weighted average coupon rate of the portfolio at March 31st and is only impacted by changes in market yields to the extent that there is turnover in the portfolio.

Next, I'll talk about our investment objectives.

Our last asset liability management study helped us to design portfolios that meets the following objectives: firstly, to reduce our premium volatility; secondly, to directly match investments to liabilities; third, to ensure that capital is available to pay claims when necessary; and finally, that appropriate levels of risk is taken within each portfolio and driven by the purpose of each portfolio.

Now, I'll talk about our asset allocation. The next slide is a table but shows the asset allocation targets for each of the three (3) portfolios to -- to each asset class.

And the next slide shows for Basic claims, it's 100 percent fixed income with 60 percent in provincial bonds, 20 percent in corporate bonds and 20 percent in non-marketable -- or what we call MUSH bonds.

RSR is a balanced portfolio with 50 percent in fixed income assets and 50 percent in growth assets, which would include equities and alternative investments.

And finally, the employee future benefits portfolio has 40 percent in fixed income, 35 percent in equities and 25 percent in alternative investments, which includes real estate and infrastructure.

This table shows the consolidated corporate investment portfolio by asset class, in the second column.

The total portfolio is now valued at approximately $3.8 billion. And the highlighted column show the actual asset allocation relative to the target weights.

The asset class is highlighted in red are outside of the minimum or maximum weight specified in our investment policy statement.

So, the RSR and SRE portfolios were under weight in private debt at August 31st by approximately 7 percent. And this under weight is -- is temporary and will be rectified when the private debt manager identifies suitable investments and fully draws the capital that we have committed to their private debt funds.

Similarly, in the RSR portfolio, it was under weight in real estate at August 31st by 0.4 percent. And additional funds have been committed to real estate within that portfolio and we're currently awaiting capital calls from the investment manager.

Once those funds are invested, the actual weight will be very close to the target weight of 10 percent.

Now, I'll talk about the status of our asset liability management strategy and some recent improvements that have been made to the strategy.

So, our initial commitments to private debt were fully drawn and invested in April of 2021. But our follow-on commitments made after July of 2019 are only partially invested.

My next slide talks about the impact of interest rates on our portfolios during the most recent fiscal year from March 31st to August 31st. The -- the net impact was $31 million which was 31.9 million better than the budgeted amount. And this represents approximately 1 percent of the value of the portfolio.

During this period, interest rates fell by about twelve (12) basis points, causing the market value of the bond portfolio to increase by $56 1/2 million, and the net present value of the Basic claims to increase by $25 1/2 million, creating a net impact of 31 million.

This positive impact was due to the fact that we extended the duration of our portfolio when our Moment-Matching strategy was implemented. The majority -- this -- this created an increase in the yield of the portfolio which occurred in May and June, and that was because we sold shorter-term bonds and added longer-term bonds to the portfolio.

These transactions occurred as our fixed income -- or our corporate bond manager Addenda (phonetic) built their completion portfolio in May and June in order to implement the new Moment-Matching Asset Liability Management Strategy.

So in -- in June, with the assistance of Addenda, we implemented a strategy called Moment-Matching, which means that we now match both the duration and convexity between the Basic claims assets and liabilities. Duration measures the sensitivity of bond prices to interest rate changes, and convexity describes the curvature of the relationship between bond prices and interest rates.

The strategy is managed by Addenda on a

daily basis, and it provides better protection from non-parallel shifts in interest rates. And Moment-Matching is expected to reduce our interest rate risk by about 40 percent, with minimal impact on the yield of the portfolio.

Finally, liability cash flows will be discounted using a full yield curve rather than a single interest rate, and this will more accurately capture changes in the yield curve and how the asset portfolio is priced -- to better match how the asset portfolio is priced.

So we are planning to complete an asset liability management study by June 30th of next year. Normally, we'd prefer the fully funded portfolio to experience a full-market cycle, which is typically defined as three (3) to five (5) years, before conducting the next study.

But because we need to review our strategy prior to adopting International Financial Reporting Standards 9 and 17, waiting is not an option, so we plan to issue an RFP this fall and to select the consultant by the end of this year.

Based on my experience conducting the three (3) previous ALM studies at MPI, the process takes about six (6) months to complete, and the study will carefully consider the impact of inflation on MPI's assets and liabilities.

Now I'll talk about interest rate forecasting. So using an accurate forecast of interest rates is critical, as interest rates are one (1) of the key inputs into our financial model, which is used to forecast our revenues and expenses and to determine the rate indication for our application. Using an accurate forecast ensures that customers are charged the correct premium.

Updating our forecast with interest rates, as of August 31st, reduces the time between making the forecast and charging the rates to the customers. Using accepted actuarial practice also reduces the impact of interest rates on premiums charged to customers.

In terms of forecasting interest rates, MPI's goal is to reduce pricing risk by using the most accurate forecast. A naive forecast simply uses today's actual interest rate as the forecast of future interest rates.

The naive interest rate provides an unbiased forecast, and recognizes that interest rates could increase, decrease, or remain unchanged. A naive forecast is a better predictor of future interest rates than the previously-applied 50/50 or SIRF methodologies, which is the Standard Interest Rate Forecast methodology.

Over the short term, the Bank of Canada overnight rate is not reliably predictive of the direction and magnitude of movements in the Government of Canada ten (10) year bond rate. And the Government of Canada ten (10) year bond yield fell from 1.56 percent at March 31st to 1.22 percent at August 31st, but subsequently increased to 1.59 percent at October 15, or within three (3) basis points of the March 31st yield.

So in conclusion, we plan to stay the course until we can fully study and respond to the current market conditions. Unique investment strategies are better aligned to the purpose and characteristics of the associated liabilities. The investment strategy developed in the last Asset Liability Management Study has now been fully implemented, and improvements to the current strategy will reduce interest rate risk further.

And our next ALM study will begin shortly, and we will carefully consider the impacts of inflation on assets and liabilities, as well as changes due to the adoption of International Financial

Reporting Standards 9 and 17.

THE PANEL CHAIRPERSON: Thank you, Mr. Bunston.

Mr. Scarfone...?

CONTINUED BY MR. STEVEN SCARFONE:

MR. STEVE SCARFONE: Thank you. Mr. Bunston, you just indicated that the -- the investment strategy under the existing ALM is fully implemented. But I thought I heard you say as well that some asset classes are not fully funded.

MR. GLENN BUNSTON: Right. So for real estate and private debt, we have had to make what we call follow-on commitments to those asset classes. And it takes -- because they're illiquid classes, it takes the managers some time to invest those funds. So it can take twelve (12) to twenty-four (24) months from time to time for managers to -- of those illiquid asset classes to find suitable investments.

And so we've had to make follow-on commitments because the -- you know, our -- as the portfolio grows in size, then the -- the allocation to those asset classes needs to increase. And so we do that by making a commitment and waiting for the manager to -- to draw that commitment.

For liquid asset classes like listed equities or fixed income, the managers can typically -- if we need to make additional commitments, they can invest that money within a matter of days. But for private asset classes, it takes many months.

MR. STEVE SCARFONE: Okay. Thank you. And, Kristen, slide 22 of Mr. Bunston's presentation.

So I gather, then, sir, absent the -- the changes that are afoot -- sorry, maybe it was twenty-three (23). Yes.

So I gather, sir, the changes -- absent the changes that are afoot concerning IFRS-9 and 17, the -- the Corporation would have preferred or chosen to allow the existing strategy under the ALM study to -- to mature.

MR. GLENN BUNSTON: Well, it's typically ideal to wait for a full market cycle to observe the performance of the investment strategy. As it says here, because of the accounting changes we feel that we need to do a full review of our investment strategy.

In addition to that, the recent increase in inflation I think also needs to be carefully considered. So a combination of those factors is really driving our -- our desire to -- to start another study in the very near future.

MR. STEVE SCARFONE: Okay. Thank you. And that kind of answered my next question -- was -- it -- had it not been for the IF -- IFRS changes, would the recent developments, as it concerns inflation, have been enough to warrant an accelerated ALM study?

MR. GLENN BUNSTON: Yes, I think -- I think they would, given that inflation is -- is well above the Bank's 2 percent target and even outside of their -- their upper band of 3 percent. Certainly, increases have been significant and -- and definitely warrant consideration in terms of revising our strategy potentially.

MR. STEVE SCARFONE: And you said, sir, that that rise in the Consumer Price Index has prevailed for six (6) months now?

MR. GLENN BUNSTON: Yes, that's right.

MR. STEVE SCARFONE: And currently, the Basic claims portfolio, is it hedged against rising inflation?

MR. GLENN BUNSTON: It is not. All the bonds in the Basic claims portfolio are nominal bonds, so they don't provide inflation protection.

MR. STEVE SCARFONE: Okay. So based

on that, did the Corporation consider changing the asset mix to address rising inflation?

MR. GLENN BUNSTON: We considered it, but we felt it wouldn't be prudent without having an asset liability management study to guide us in terms of what asset classes to add and -- and the weights for those asset classes.

MR. STEVE SCARFONE: Slide 21, please, Kristen.

So there, sir, we see the net impact of the interest rate changes on the fixed income portfolio?

MR. GLENN BUNSTON: Yes.

MR. STEVE SCARFONE: And do I take that to mean, sir, that the -- the drop in interest rates caused that -- that net impact, that variance between the -- the budget and -- and actual?

MR. GLENN BUNSTON: Yes, that's right.

MR. STEVE SCARFONE: And so if I'm understanding what you spoke of earlier about the naive forecasting methodology, had that ten (10) year bond yield remained the same, then that net impact would have been zero.

Is that -- is that how that would work?

MR. GLENN BUNSTON: Well, it's really

the -- the yield on the bonds that we hold that matters. The yield on the Government of Canada ten (10) year bond, we use that as a proxy for the -- the yield of our portfolio. It's not a perfect proxy because spreads change, as well.

But, yes, if the yield on our bond portfolio is unchanged, we would expect the market value to also be unchanged.

MR. STEVE SCARFONE: Thank you. Slide 6, Kristen, please.

So, you mentioned, Mr. Bunston, that the value of the Consolidated Investment Fund is approximately 3.8 billion?

MR. GLENN BUNSTON: That's right.

MR. STEVE SCARFONE: And so this next question will highlight my ignorance in this area. But we see there that the Canadian equity portfolios were up 56 percent, in globals 23 percent?

MR. GLENN BUNSTON: Yes.

MR. STEVE SCARFONE: So -- and this may be a softball question for you, as well, but why not, sir, invest more heavily in these assets so after these returns, and maybe we can all drive for free and pay no insurance in this province?

MR. GLENN BUNSTON: Well, as tempting

as that might be, equities are -- are a very volatile asset class, and they don't provide an effective hedge against the -- the main risk that our Basic claims liabilities incur, which is interest rate risk. And that's why the portfolio at our -- for our Basic claims portfolio is a hundred percent fixed income, because it's designed to hedge the interest rate risk associated with the liabilities.

MR. STEVE SCARFONE: I think you indicated in your chapter that forms part of the General Rate Application that the ALM study will, of course, involve another request for proposal.

Has that been issued yet?

MR. GLENN BUNSTON: It has not been issued yet. It's been drafted, and it's in the process of -- of being issued.

(BRIEF PAUSE)

MR. STEVE SCARFONE: Thank you. Those are all my questions for Mr. Bunston.

THE PANEL CHAIRPERSON: Thank you, Mr. Scarfone.

Perhaps, before Board counsel starts, we could take our lunchbreak and then not interrupt

Board counsel's cross-examination.

So could we return, please, at quarter to 1:00?

MR. STEVE SCARFONE: Yes. Thank you.

--- Upon recessing at 11:48 a.m.

--- Upon resuming at 12:50 p.m.

THE PANEL CHAIRPERSON: Thank you. Mr. Watchman, would you proceed, please?

CROSS-EXAMINATION BY MR. ROBERT WATCHMAN:

MR. ROBERT WATCHMAN: Thank you, Madam Chair. Good afternoon, panel. I believe the back row of panel knows who I am, but for the record, my name is Robert Watchman, and I'm one of the Board counsel.

And, of course, my questions today are directed to the panel, so either gentleman feel free to respond when appropriate.

And my questions today will cover two (2) topics. First, investments, and then, laterally, the International Financial Reporting Standards, the new standards, nine (9) and seventeen (17)

So to begin with, in terms of

investments -- Kristen, could we turn to MPI Exhibit 35. And this is the annual report for 2002 (sic), and at page 45 of the report, this is page 47 of the exhibit...

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: So it'll be page 47 of 80 at the bottom. There. Right. Yes. Perfect.

And so, this is -- this table sets out the cash, cash equivalents, and investments for the Corporation overall.

Is that correct?

MR. GLENN BUNSTON: Yes, that's correct.

MR. ROBERT WATCHMAN: And that's as of March 31, 2021?

MR. GLENN BUNSTON: Correct.

MR. ROBERT WATCHMAN: And if we look across the column, the top col -- sorry, top row, 'Cash and Cash Equivalents', and we go to the far right, we see that the total cash equivalents as of March 31st was about 182 million, correct?

MR. GLENN BUNSTON: Sorry, the cash

equivalents?

MR. ROBERT WATCHMAN: Yes. Cash and cash equivalents.

MR. GLENN BUNSTON: Yes, that's right.

MR. ROBERT WATCHMAN: And if we go down to the bottom row, the totals, and again crossing over to the far right column, the total investments, as of March 31, 2021, were just over 3.6 billion, correct?

MR. GLENN BUNSTON: Correct.

MR. ROBERT WATCHMAN: And if we could go up one (1) line -- one (1) line to 'Investment of Property', we see that Investment of Property was about $14 million?

MR. GLENN BUNSTON: That's right.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: So you have -- the Corporation has approximately three -- at that time had approximately $3.4 billion in investments and 182 million in -- in cash or cash equivalents, and investment property of 14 million?

MR. GLENN BUNSTON: Correct.

MR. ROBERT WATCHMAN: Now, if we could

turn to Exhibit 43, MPI-43, INV-2.

And this is the investment portfolio for the Basic line of business, correct?

MR. GLENN BUNSTON: Yes, that's right.

MR. ROBERT WATCHMAN: And the Basic line of business would be made up of the -- sorry, the investment portfolios for the Basic line of business would include the Basic claims reserve?

MR. GLENN BUNSTON: Yes, it cons -- it includes a hundred percent of the Basic claims investment portfolio, a hundred percent of the retained earnings or what we call the RSR portfolio, and its allocation of the EFB portfolio, the Employee Future Benefits.

MR. ROBERT WATCHMAN: And is that allocation -- a ballpark figure -- about 85 percent of the EFB portfolio?

MR. GLENN BUNSTON: I think it's closer to 75 percent.

MR. ROBERT WATCHMAN: Okay. Thank you.

And if we look to about the middle column there, it's the 2021 -- sorry, 2020/'21 actual.

And going down to line 12, the total

assets were about $3.1 billion, correct?

MR. GLENN BUNSTON: That's right.

MR. ROBERT WATCHMAN: So from the previous exhibit, we saw that it was at that time of March 31, 2021 total assets were about 3.6 billion. But the Basic line of business investments to assets are three-point-one (3.1), which represents about 85 percent of the Corporation's overall investment portfolios?

MR. GLENN BUNSTON: That sounds about right, yes.

MR. ROBERT WATCHMAN: Now, I understand that MPI tracks the portfolio through, what's referred to as, the Portfolio (sic) Asset Management system, PAM?

MR. GLENN BUNSTON: Through the PAM system, which stands for -- it's Princeton Asset Management, which is a system owned by State Street.

MR. ROBERT WATCHMAN: Thank you.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: Now, on INV-2 -- Figure INV-2, we -- looking at that middle column, 2021/ -- sorry, 2020/'21 actual. Line 2 of that column indicates that the cash or short-term investments, as of March 31, 2021, were about 135 million, correct?

MR. GLENN BUNSTON: Yes, that's right.

MR. ROBERT WATCHMAN: And going to the next column, 2021/'22 budget, that amount reduces to $90 million?

MR. GLENN BUNSTON: Correct.

MR. ROBERT WATCHMAN: Now the Special Rate Application proposal is a rebate of 335 million?

MR. GLENN BUNSTON: Yes, that's -- I believe that's correct.

MR. ROBERT WATCHMAN: So can you tell us how the Corporation proposes to fund the 335 million?

(BRIEF PAUSE)

MR. MARK GIESBRECHT (by Teams): So maybe I'll start out with that response and, Mr. Bunston, you can add to it.

But we have been accumulating excess cash as we have had excess profitability due to the reduction in claims. And we have been parking those dollars into some short-term investments, knowing how we anticipate to be releasing those funds later this year or early into 2022, subject to the outcome of this Hearing.

MR. ROBERT WATCHMAN: So from that, do I understand that the Corporation will be selling certain investments in order to be able to fund the rebate?

MR. GLENN BUNSTON: Yes, that's correct. We -- we plan to sell assets -- some assets within the RSR portfolio. We do have some surplus assets in the Basic claims portfolio that we plan to transfer and to -- to use to fund that, as well as some of the cash and short-term investments you see her.

MR. ROBERT WATCHMAN: Now, with --

MR. MARK GIESBRECHT (by Teams): And just to -- we should also note that, you know, the assets that are in these portfolios is -- is being generated by the -- the excess savings in the claims.

So the available funds are based on the performance of the Corporation and based on having less claims. And so it's not as if we're selling from pre-existing assets; it's based on the accumulation of profitability and where those dollars have flowed into the RSR over that course of time.

MR. ROBERT WATCHMAN: And going forward, with respect to the funding for the DVA portion of Nova, does the Corporation anticipate selling any assets in the Extension investments to fund that?

MR. MARK GIESBRECHT (by Teams): Sorry, could you restate that question?

MR. ROBERT WATCHMAN: In terms of -- going forward, in terms of funding of the DVA portion of Project Nova, does the Corporation anticipate selling Extension investments?

MR. MARK GIESBRECHT (by Teams): Well -- so we transferred dollars from Extension -- the $69 (sic) that we've spoken to thus far in the Hearing. That money is available for DVA. As that money is required, it would be sold to make available for -- for DVA, yes, and its portion of the -- the Nova project.

MR. ROBERT WATCHMAN: And so that was a cash transfer?

MR. MARK GIESBRECHT (by Teams): Yes.

MR. ROBERT WATCHMAN: Now, if we could turn the page, please, Kristen, to INV-3.

And can you tell us what was the -- the date of this update?

MR. GLENN BUNSTON: The interest rates in the -- that are labelled '2022 Budget' were as of August 31st of 2021.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: So now based upon the naive interest rate forecast, MPI is forecasting a reduction in interest rates from what was included in the application.

Is that correct?

MR. GLENN BUNSTON: Yes, based on the August 31st interest rates, the Government of Canada bond yield had declined from 1.56 to 1.22. And the -- the claims discount rate had declined by sort of anywhere from fifteen (15) to thirty-three (33) basis points, depending on the -- on the term.

I will note that, as I mentioned during my presentation earlier, that interest rates subsequent to August 31st have -- have increased, so they are -- at least the Canada ten (10) year bond yield is back to where it was at March 31st.

MR. ROBERT WATCHMAN: Now, in INV-3, if we look at the column -- the fifth column in, the Marketable Bond Yield...

So the application was based upon a yield of 2.46 percent. Is that correct?

MR. GLENN BUNSTON: I believe that that's correct, yes.

MR. ROBERT WATCHMAN: And we see here that it decreases to 2.17 percent. And -- and I appreciate that there is an outstanding undertaking with respect to that number, but do you understand the forecasted rate to decrease to 2.17 or 2.34 percent?

MR. GLENN BUNSTON: Well, the -- the -- according to this, the marketable bond yield will -- as of Q1 of 2022/'23 will decline to two point one seven (2.17).

MR. ROBERT WATCHMAN: Okay. So what we're looking at then is a decrease from two point four six (2.46) to as much as two point one seven (2.17), or about a 19 percent -- sorry, nineteen (19) basis point decrease?

MR. GLENN BUNSTON: Yes, that's correct.

MR. ROBERT WATCHMAN: Sorry, I should have said 29 percent basis points decrease.

And can you tell us, what was the source for the update to the Government of Canada and the marketable bond rates?

MR. GLENN BUNSTON: Well, the Government of Canada bond yield would come from Bloomberg. The marketable bond yields, those come from the actual yields on our portfolio, as of August 31st.

MR. ROBERT WATCHMAN: Now, Kristen, if we could turn to the investment portion of the application, in particular, INV-45, Figure INV-45. Thank you.

And this figure sets out the composition of the Basic claims portfolio, correct?

MR. GLENN BUNSTON: That's right.

MR. ROBERT WATCHMAN: And, again, this portfolio was designed to mitigate against interest rate risk. Is that correct?

MR. GLENN BUNSTON: That is correct.

MR. ROBERT WATCHMAN: And the way in which that was done is that it is now a hundred percent fixed income with no growth assets?

MR. GLENN BUNSTON: Correct.

MR. ROBERT WATCHMAN: And we see here that the portfolio holds provincial bonds, corporate bonds, and MUSH bonds?

MR. GLENN BUNSTON: Yes.

MR. ROBERT WATCHMAN: And I take it

that the -- the corporate bonds were purchased because of their higher yield?

MR. GLENN BUNSTON: Their higher yield and their diversification benefits.

MR. ROBERT WATCHMAN: And if we look to the bottom part of that figure, line 10, the MUSH component as of the end of '21/20 -- sorry, the MUSH component as of the end of '21/'22, you anticipate will be approximately 23 percent of the portfolio?

MR. GLENN BUNSTON: Correct.

MR. ROBERT WATCHMAN: Now, I'm going to turn to Information Request PUB-MPI-2-18, and specifically Appendix 1 to Part B. The next page, please.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: And so what this chart indicates is that, in terms of the corporate bonds that are being held by the three (3) portfolios, the total is approximately $651.2 million?

MR. GLENN BUNSTON: As of March 31st, 2021, yes, that's correct.

MR. ROBERT WATCHMAN: And if we could turn to the next appendix there, 22 -- 2-18B.

And this addresses the -- the credit rating of the corporate bonds in each of the three (3) portfolios. And the indication here is that the -- the top portion relates to the Basic claims portfolio. And we see that the Triple B rated bonds are approximately 58.66 percent of the holdings in that portfolio -- of the corporate bond holdings in that portfolio?

MR. GLENN BUNSTON: Yes, that's right.

MR. ROBERT WATCHMAN: And that -- if you could scroll up just a little bit, Kristen. Just a little more. No, sorry, the other way. Scroll down. Thank you.

In the RSR portfolio and the EFB portfolio, the percentage of triple-rated bonds is less than that of the Basic claims portfolio?

MR. GLENN BUNSTON: That's correct.

MR. ROBERT WATCHMAN: And, Kristen, if you could turn to the next page, Appendix A to D.

In that top portion we see that, as of August 31, 2021, corporate bonds now total approximately $680.3 million?

MR. GLENN BUNSTON: Correct.

MR. ROBERT WATCHMAN: And has the Corporation reached its target as to allocation to corporate bonds?

MR. GLENN BUNSTON: We have, yes.

MR. ROBERT WATCHMAN: Okay, I'm now going to switch to the topic of investment income.

And, Kristen, if we could turn back to MPI Exhibit 35, which is the last annual report. And this time, it's page 50 of 80 at the bottom.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: And I just want to go to the bottom-half of that page. Thank you. Right there.

And so, again, this is a table entitled 'Investment Income'. Again, this is total corporate, correct?

MR. GLENN BUNSTON: Correct.

MR. ROBERT WATCHMAN: And we see that in the blue column for the year ended March 31, 2021, total investment income was approximately $101.6 million?

MR. GLENN BUNSTON: That's right.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: Now, just going up two (2) lines from the bottom. There was an entry for Recovery/Impairment of AFS Investments.

And you see the figure there is $13.4 million?

MR. GLENN BUNSTON: Yes, I do.

MR. ROBERT WATCHMAN: And if we look one (1) column over to that thirteen (13) -- thirteen (13) month year which ended in March of 2020, we see an entry of a negative $67.8 million?

MR. GLENN BUNSTON: Yes, I see that.

MR. ROBERT WATCHMAN: And that entry, the negative sixty-seven point eight (67.8), that was due to a write-down of the market value of assets.

Is that correct?

MR. GLENN BUNSTON: That's correct.

MR. ROBERT WATCHMAN: So, reading those two (2) columns together, it appears that there has now been some recovery of the value of those assets?

MR. GLENN BUNSTON: There has been -- we have recognized a recovery of some of those assets. The -- the fixed income assets are eligible to be written up, and so that's what you're seeing. The 13.4 million represents the fixed income assets only.

The equity assets have -- have increased in market value, but they're not eligible to be written up.

MR. MARK GIESBRECHT (by Teams): Just one (1) point of clarification. There -- there's not write-down or write-up per se. The -- what -- what the distinction is, is whether it flows through net income or flows through OCI.

So these assets are held at fair value regardless of their accounting classification, but the distinction is whether it flows through the income statement or the Other Comprehensive Income.

And so what happened in -- in -- last year in this report was there -- there was an impairment, which is different than a write-down. And it was held at fair value all along, but because it was -- it met certain criteria, it was then flowed through net income.

And as was mentioned subsequent to that, the fixed income portion is eligible to be transferred back to net income if there is a recovery. But the amounts for equity instruments are not eligible for the recovery to be flowed through net income until they are crystallized through a sale.

MR. ROBERT WATCHMAN: Thank you. And just for the benefit of the record, can you tell us what AFS investment stands for?

MR. MARK GIESBRECHT (by Teams): Yes. That's available for sale, and that's an accounting classification.

MR. ROBERT WATCHMAN: Thank you. I'm going to turn now to Information Request PUB-MPI-1-34, and Exhibit -- sorry, Appendix 1. And so this is a summary of the Basic line of business investment income?

MR. GLENN BUNSTON: Yes, that's right.

MR. ROBERT WATCHMAN: And if we again move to approximately the middle column, which is 2020/'21 actual, and if we go down to line 8, we see that the Basic line of business investment income was eighty-eight (88) point -- sorry. I'm going to go all the way to the bottom.

The total Basic line of business investment income was $89.5 million?

MR. GLENN BUNSTON: Correct.

MR. ROBERT WATCHMAN: And earlier in the annual report, the indication was that the overall corporate investment income was $101.5 million.

MR. GLENN BUNSTON: Correct, yeah.

MR. ROBERT WATCHMAN: So the Basic share represents approximately 88 percent of investment income?

MR. GLENN BUNSTON: Approximately, yes.

MR. ROBERT WATCHMAN: And is that, would you say, due to the nature of the Basic portfolio?

MR. GLENN BUNSTON: Well, it's due to the fact that the -- we have Basic liabilities. We have assets to pay those liabilities. We also have the retained earnings associated with Basic claims and the -- the assets backing the EFB liabilities.

The other lines of business have relatively small liabilities and some retained earnings associated with them, but the majority of the assets do back the Basic line of business.

MR. ROBERT WATCHMAN: Thank you. And if we stay with that bottom line, line 32, and for 2020/'21, the total income invest -- income -- investment income was 89.5 million. And then forecasting ahead, budget for '21/'22 is $105 million -- or, sorry, $100.5 million.

MR. GLENN BUNSTON: Correct.

MR. ROBERT WATCHMAN: And then, going out further, 99.7 million for '22/'23, a hundred and one (101) for '23/'24, a hundred and two point seven

(102.7) for '24/'25. And that's -- so that's income that comes primarily from the fixed income portfolio?

MR. GLENN BUNSTON: Yes. The fixed income portfolio represents a significant portion of the -- the total investment income.

MR. ROBERT WATCHMAN: And that income is still sensitive to changes in interest rate. Is that correct?

MR. GLENN BUNSTON: Yes. The marketable bonds are sensitive. Their -- their value is sensitive to changes in interest rates.

MR. ROBERT WATCHMAN: Now, the interest rate that was used for ratemaking purposes for discounting cash flows was forecast to be two point four six (2.46) in the original application?

MR. GLENN BUNSTON: That's the -- yes. That's the new money yield, which is the -- the forecasted yield of the marketable bonds that we expect to be able to purchase in the coming year.

MR. ROBERT WATCHMAN: And -- and as we've discussed, that the forecast new money yield will be forecasted to decrease to about 2.17 percent?

MR. GLENN BUNSTON: Correct.

MR. ROBERT WATCHMAN: Okay. Representing that twenty-nine (29) basis point change?

MR. GLENN BUNSTON: Yes.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: So if I could ask, Kristen, if we could turn to MPI Exhibit 37, and this is at page 15 of that exhibit -- sorry, on page 19 of that exhibit. And if we can just scroll down towards the bottom of the -- thanks. That's good there.

And I'm looking across at line 29, and, sorry, you won't be able to see it there, but in terms of the columns with numbers, the first column is the 2022 GRA, 2021/'22 FB.

And the indication there is that the interest rate impact would be five hundred and forty-one thousand dollars ($541,000)?

MR. GLENN BUNSTON: Yes, that's right.

MR. ROBERT WATCHMAN: And then in the October 1st update, which is the next column, it's now forecast to be 57.8 million?

MR. GLENN BUNSTON: Yes, correct.

MR. ROBERT WATCHMAN: Resulting in a positive change, being the next column, of 57.2 million?

MR. GLENN BUNSTON: Correct.

MR. ROBERT WATCHMAN: And, Kristen, if you could scroll up to around line 16, and at line 16 we see the interest rate impact on claims incurred?

MR. GLENN BUNSTON: That's correct, yeah.

MR. ROBERT WATCHMAN: Okay. And in that first column, which was the forecast at the time of the application, they were forecast to be 12 million -- 12.5 million?

MR. GLENN BUNSTON: Yes, that's right.

MR. ROBERT WATCHMAN: And then in the update, they are forecast to be 37.1 million?

MR. GLENN BUNSTON: Correct.

MR. ROBERT WATCHMAN: And so the difference being 24.6 million?

MR. GLENN BUNSTON: Correct.

MR. ROBERT WATCHMAN: And so when we net the -- the two (2) of those amounts because the -- so the claims are forecast to -- or the claims costs are forecast to increase because of interest impact by 24 million -- 24.6 million. But, as we saw, the investment income was forecast to increase by 57.235 million.

If we scroll to the bottom of the page,

that results in a net change of $32.6 million, correct?

MR. GLENN BUNSTON: Sorry, which row?

MR. ROBERT WATCHMAN: Thirty-two (32).

MR. GLENN BUNSTON: Yes, that's right.

MR. ROBERT WATCHMAN: Okay. Now, Kristen, if we could turn to INV-42 in the application, so it's a couple of pages ahead of that.

MR. GLENN BUNSTON: Maybe I could just add to that -- to that answer. I did address this on page 21 of my presentation when I began my testimony today.

And there has been a positive impact due to interest rate changes from -- from March 31st to August 31st, and -- and that's because of the -- the implementation of the Moment-Matching strategy that -- that we've -- we've implemented with the assistance of Addenda.

And that's been caused by the fact that we extended duration and -- and therefore picked up additional yield within the bond portfolio. And so that's had a positive net impact on -- on the -- our asset liability management strategy of about $32 million.

MR. ROBERT WATCHMAN: Okay, but -- and

where I was going with this was to look at the interest rate risk. So if we could scroll up a little higher on that page, Kristen, to the beginning of the text. Thank you.

And the statement made there is that the interest rate risk has been significantly reduced by creating a unique asset allocation to -- for Basic claims. Do you see that at the top?

MR. GLENN BUNSTON: I do.

MR. ROBERT WATCHMAN: And then if we go to that Figure INV-42, so there's an example given there of a hundred (100) basis points change in the Government of Canada -- Canada ten (10) year bond yield.

And for 2022 GRA, the indication there is that a hundred (100) point basis -- a hundred (100) basis point change would result in a relatively negligible impact, correct, of 1.8 million, correct?

MR. GLENN BUNSTON: Correct.

MR. ROBERT WATCHMAN: But the example we've gone through is -- we've only had a twenty-nine (29) basis point change, but it resulted in a $32 million impact.

Can you correlate -- or, you know, indicate which -- which is more accurate, the -- the

32.6 million or the 1.8?

MR. GLENN BUNSTON: So, the 1.8 is a scenario analysis. That's -- it's a -- a projection that we did, based on our expectation of equal change in interest rates to the assets and liabilities. But what actually happened was there was a structural change within our portfolio, because we -- when we implemented Moment-Matching, we increased the duration of the portfolio to be better matched to the liabilities, and that resulted in a one (1) time gain of $32 million.

So that -- that is an actual number. And so that number is -- is more relevant than this here, which is a forecasted number.

MR. ROBERT WATCHMAN: Okay. So what does that tell us in terms of investment -- sorry, interest rate, yes?

MR. GLENN BUNSTON: It tells us that we are going forward better matched on interest rate risk, because we're now matching both duration and convexity. And that -- the benefit of that is that when interest rates change in both the parallel and non-parallel fashion, that we'll be better matched and hedged against those changes.

But there was a one (1) time

implementation impact of moving to Moment-Matching, and that was a $32 million gain.

MR. ROBERT WATCHMAN: Yeah, I'm going to -- I'm going to come to that in a moment.

But if we could go ahead about three (3) or four (4) pages to page 72. And at line 16 to 20, a statement is made that:

> "In 2018 the duration of the claims liabilities was matched to the duration of Marketable Bond Port -- Portfolio, i.e., excluding MUSH bonds, instead of being matched to the duration of the Total Fixed Income Portfolio, including MUSH bonds. This -- excuse me -- this change is due to the change in the calcu -- calculation methodology for the claims discount rate, which is now based upon the dollar-weighted yield of the fixed-income portfolio, rather than the duration-weighted yield of the fixed income portfolio."

Correct?

MR. GLENN BUNSTON: Correct.

MR. ROBERT WATCHMAN: So MUSH bonds are now excluded from the determination of the duration matching.

Is that correct?

MR. GLENN BUNSTON: Well, MUSH bonds are now being included -- since we moved to Moment-Matching, the Moment-Matching strategy, again is -- is managed by Addenda, and it's a bit of a hybrid strategy. And so the way it will work is that a portion of our liabilities will be carved out and matched to the MUSH bonds, to the cash flows of the MUSH bonds. And so we're calling that the 'cashflow matching portion' of the strategy.

The remainder of the liabilities will be matched to the marketable bonds. And that -- the mom -- the first and second moments of the Asset Portfolio will -- of the Marketable Bond Portfolio will be matched to those remaining liabilities.

So it's cashflow matching on MUSH bonds and it's Moment-Matching on the Marketable Bond Portfolio.

MR. ROBERT WATCHMAN: Now, can you confirm whether the discount rate for the claims liability takes into account the yields for the MUSH bonds?

MR. GLENN BUNSTON: Yes, it does. We use the book yield on the MUSH bonds. So that is -- that is the coupon rate at the time of issuance on the MUSH bonds.

MR. ROBERT WATCHMAN: So now, turning to this strategy of Moment-Match -- is it Moment-Matching? Yes?

MR. GLENN BUNSTON: That's -- yes, we're doing a Moment-Matching currently.

MR. ROBERT WATCHMAN: And is -- is this what's referred to as the new Completion Portfolio?

MR. GLENN BUNSTON: The Completion Portfolio is -- is a tool that Addenda is using to implement Moment-Matching. They're using the Completion Portfolio to manage the overall duration and convexity of the Marketable Bond Portfolio.

MR. ROBERT WATCHMAN: If we could turn, Kristen, to Information Request CAC-MPI-1-78. And at the top of the -- the first portion of the Information Request, it -- it quotes from the investment portion of the application, saying that:

> "On March 31, 2021 MPI implemented a refinement to the current dollar in duration matching strategy in order

to better protect it from both parallel and non-parallel changes in interest rates. MPI accomplished this by establishing a new portfolio called the Completion Port -- Portfolio and managed by Addenda Capital.

Going forward, Addenda will be responsible for ensuring that the dollar value, duration, and convexity of the total basic claims Asset Portfolio matches the dollar value, duration, and convexity of the Basic claims liability on a daily basis. Addenda will monitor the duration and complexity of the provincial bonds, non-marketable bonds, and corporate bonds, and will adjust the duration of the Completion Portfolio as required in order to ensure that the overall duration and convexity are matched to the claim's liabilities. This strategy is called Moment-Matching and is expected to reduce the

Corporation's interest rate risk by
40 to 50 percent with minimal impact
on the yielded portfolio."

So this is a fair description of this Moment-Matching strategy?

MR. GLENN BUNSTON: Yes, it is.

MR. ROBERT WATCHMAN: So MUSH bonds are not actively traded, correct?

MR. GLENN BUNSTON: Correct. There's no secondary market for them, so there's -- there's no buying and selling of MUSH bonds.

MR. ROBERT WATCHMAN: And so interest rate does not impact the valuation of the bond for investment purposes?

MR. GLENN BUNSTON: Correct, because we've chosen to account for it or classify it from an accounting perspective as held to maturity; then it's not interest rate sensitive from an accounting perspective.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: Now, for this new Moment-Matching strategy, the -- MPI pays management fees to the Province for managing its bond portfolio.

Is that correct?

MR. GLENN BUNSTON: They do, yes.

MR. ROBERT WATCHMAN: And that arrangement is expected to cost about two hundred and forty thousand dollars ($240,000) annually?

MR. GLENN BUNSTON: I believe that is related to the portion of the bonds portfolio that was transferred to Addenda, the com -- being the Completion Portfolio.

MR. ROBERT WATCHMAN: And -- and, MPI expects that its fees will be -- the -- the fees it'll pay to the Province will be reduced by a hundred and eighty thousand dollars ($180,000)?

MR. GLENN BUNSTON: Correct. So the Province charges us seven and a half (7 1/2) basis points on the assets that they actively manage for us, being the fixed income assets. And for the remainder they charge three (3) basis points.

So now that they're no longer actively managing this portion of the government bond portfolio, we expect fees to be reduced to three (3) basis points.

MR. ROBERT WATCHMAN: So, approximately sixty thousand dollars (60,000)?

MR. GLENN BUNSTON: Correct, yeah.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: So, this portfolio -- or this new Completion Portfolio was implemented in June of this year.

Is that correct?

MR. GLENN BUNSTON: Late June -- or sorry, late May and ultimately early June, yes.

MR. ROBERT WATCHMAN: And has the company -- or sorry, has the Corporation sort of done any testing of the benefit of this strategy?

MR. GLENN BUNSTON: Well, we've received monthly reports from Addenda, which have provided information on the -- the matching of the moments and the convexity and duration. But given that it's only been three (3) or four (4) months, we have not -- it's still too early to do an extensive analysis.

MR. ROBERT WATCHMAN: But does the Corporation expect in the -- sometime in the future to conduct such an evaluation?

MR. GLENN BUNSTON: Yes, we'll do an evaluation of the effectiveness of the effectiveness of the strategy.

MR. ROBERT WATCHMAN: Will that be, do you think, in time for the next GRA?

MR. GLENN BUNSTON: I would think that, yes, we would have some analysis in time for the -- the next hearing.

MR. ROBERT WATCHMAN: And changing topics now. And I'm going to interest rate issues, with respect to the employee future benefit portion of the Basic line of business.

Kristen, if we could turn to MPI Exhibit 37. And it is page 35 of 51. And I was hoping that -- most of that chart will -- will fit on the page.

And well, perhaps we should start at the top of the page so we can see the -- the title, though this is the PF-3, pro forma 3 from the October 1st update.

And if we could scroll down and we're looking at line 13 and it indicates the change in re-measurement of employee future benefits.

MR. GLENN BUNSTON: Yes. That's right

MR. ROBERT WATCHMAN: And we see that, in -- in the application the change was indicated to be 34.4 million.

MR. GLENN BUNSTON: That's right.

MR. ROBERT WATCHMAN: And in the next column that's now been revised to 13 point -- sorry, negative 13.1 million?

MR. GLENN BUNSTON: Correct.

MR. ROBERT WATCHMAN: And this change -- was this change as a result of a change to the pension valuation discount rate?

MR. GLENN BUNSTON: It was, yes.

MR. ROBERT WATCHMAN: And, can you confirm that as of August 31, 2021, the Corporation was using the Fiera capital curve?

MR. GLENN BUNSTON: Yes, that's been the source of the discount rate for a number of years now.

MR. ROBERT WATCHMAN: And can you confirm what the yield -- the yield rate used on that curve?

MR. MARK GIESBRECHT (by Teams): We can take that away, we can get back quickly but it might take a few minutes to get that -- that number.

MR. ROBERT WATCHMAN: Thank you. And I'll -- so I'll just continue and -- before we conclude, hopefully we'll have a number.

Now, when we look toward the lower

portion of this chart, that negative, that $20 million change from 34.4 to $13.1 million, that then flows directly to the capital available line, line 19?

MR. MARK GIESBRECHT (by Teams): Yes.

MR. ROBERT WATCHMAN: And as result, does that not have a direct impact on the MCT ratio?

MR. MARK GIESBRECHT (by Teams): It does, yes. There -- there would be some offsetting impacts, as well on if -- if you look at the line 12, so there would be some offsetting, because that's where the available for -- assets, that are included in the employee future benefits portfolio are included. It's not a one-to-one ratio, but there will be some offsetting impacts in either direction in row 12.

But regardless, the net impact flows into the total equity position, and that has an impact on total available capital which impacts your MCT ratio.

MR. ROBERT WATCHMAN: Thank you. Now, as -- as we looked at earlier the overall interest rate impact was favourable by about $32.6 million.

Do you recall that?

MR. MARK GIESBRECHT (by Teams): Yes.

MR. GLENN BUNSTON: Yeah. Line 12, yes.

MR. ROBERT WATCHMAN: And can you tell us what portion of that favourable -- favourable interest impact was due to investments -- or investment assets backing the EFB portfolio?

MR. MARK GIESBRECHT (by TEAMS): Sorry, what exactly is your question?

So the -- the assets -- the fixed income assets that back employee future benefits, I -- I -- I'm using ballpark -- ballpark numbers, but I believe it is somewhere in around 30 to 40 percent.

So, that would be the amount that would be roughly hedged due to interest rate changes. All of the rest of the assets are -- are typically growth assets that are -- are not interest rate sensitive.

MR. ROBERT WATCHMAN: Yes. Thank you, but -- so, but relative to the overall interest rate impact being favourable 32.6 million, can -- are you able to tell us what portion of that impact was due to -- of the EFB portfolio?

MR. MARK GIESBRECHT (by TEAMS): Well, so that -- that 32 or $34 million that was spoken about earlier is independent of this amount. So that amount flows through net income and is based upon the changes in the claims liabilities and the stacking assets.

When we're talking about employee future benefits, these amounts all flow through other comprehensive income and they are -- they are separate. So, they're -- they're independent and separate.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: Okay. Kristen, if we could turn to page 33 of that exhibit.

MR. GLENN BUNSTON: Maybe I -- we have an answer on the interest rate, from the -- Fiera curve.

MR. ROBERT WATCHMAN: Thank you.

MR. GLENN BUNSTON: So it was 3.34 percent.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: And if we could scroll -- so this is the October 1st update. If we could scroll down to the -- again, just noting the headings of the columns there, the first being the 2021 actual, the second being 2021/'22 T, and then moving ahead to a future year.

If we could just scroll down to the bottom of the page and the net investment income at line 30.

And, so originally the forecast was as we indicated 80 -- 89.5 percent -- sorry, 89.5 million, revised October 1st update to 149 million, and then we see in the future years, there's a decrease to approximately 100 million and then hovering between 96 and 99 million, do you see that?

MR. GLENN BUNSTON: Yes, I see that.

MR. ROBERT WATCHMAN: And, is that a decrease in net investment income due, at least in part, to the -- the effect of the rebate that's being requested?

MR. MARK GIESBRECHT (by Teams): No, it is not.

MR. ROBERT WATCHMAN: Can you indicate to us then why you're forecasting that decrease?

MR. GLENN BUNSTON: Yeah, I think it's driven --

MR. MARK GIESBRECHT (by TEAMS): Well, if you --

MR. GLENN BUNSTON: -- driven by the increase in interest rates between March of last year and the -- the update of the forecast of this.

MR. MARK GIESBRECHT (by Teams): You'll want to key in on row 28, which is your typical investment income that you would expect on the portfolio. Row 29 is based on -- the interest rate impacts.

And the interest rate impacts are largely offset by the impact on claims so they're, you know, if you actually look at the expectation of the portfolio growth, it is increasing from, you know, the current -- the first two (2) columns, you know, in and around 90 million increasing into the, you know, 99 to $97 million in the future years.

So, factoring out changes to interest rates, which have offseting impacts on the claims side, the portfolio returns are higher in future years than they are currently, as the portfolio is expected to grow over time.

MR. ROBERT WATCHMAN: Thank you. Kristen, could we turn to the presentation that was provided today, MPI Exhibit 72, and specifically slide 22. Thank you.

Now, historically MPI has used a single claims discount rate based upon the average duration of outstanding claims liabilities, is that correct?

MR. GLENN BUNSTON: That's correct.

Yeah.

MR. ROBERT WATCHMAN: And we see here at the last bullet point there, in Exhibit 72, liabilities will be discontinued using a full yield curve, i.e., unique rates of each ten year slash term, in order to match how the asset portfolio is priced. Correct?

MR. GLENN BUNSTON: Yes. Liabilities will be discounted using a -- a full yield curve rather than a single interest rate.

MR. ROBERT WATCHMAN: So it -- this represents then a -- a change in claims discounting practice. Correct?

MR. GLENN BUNSTON: Correct. It's, again, it's something we're working towards. We're in the -- in the process of operationalizing this right now, so it hasn't been -- this change hasn't come into effect yet, but it's something we're working towards.

And it's -- it's also something that's required by the -- the new financial standard, International Financial Reporting Standard 17. So it will be -- we'll be required to use a yield curve to discount once IFRS 17 is adopted.

MR. ROBERT WATCHMAN: So has -- has this change been disclosed anywhere else?

MR. GLENN BUNSTON: I don't believe that it has.

MR. ROBERT WATCHMAN: And when are you anticipating that it will be implemented?

MR. GLENN BUNSTON: I think we're still working toward that. We're still trying to understand the -- the impact of -- of this change, and so I don't think that we have a definitive time line for when it will be implemented.

MR. ROBERT WATCHMAN: Do you anticipate that it will be by the year end 2021/'22?

MR. GLENN BUNSTON: I -- we're -- I think we're working towards having it implemented by then.

MR. ROBERT WATCHMAN: Would you be able to provide us the full yield curve that will be used for discounting?

MR. GLENN BUNSTON: Again, I think we're still reviewing potential yield curves in consultation with our fixed income manager Addenda. And so I don't think we've decided on -- on which yield curve or what rates we're going to use yet. But I think that once we make that decision we can certainly share that information.

MR. ROBERT WATCHMAN: And can you

indicate if the investment margin for adverse deviation will vary throughout the yield curve, or will it be a single value?

MR. GLENN BUNSTON: I think what you're alluding to is called the bottom-up approach under IFRS 17, which -- I know that the Canadian Institute of Actuaries has recommended a fixed fifty (50) basis point margin for determining the -- the discount rates.

We are considering that, and so we haven't made a decision -- a decision on -- on what that margin or spread would be, but we are looking at that closely.

MR. ROBERT WATCHMAN: And -- and as well, could you provide us with the impact of the change to the full yield curve on the discounted claims liabilities?

MR. GLENN BUNSTON: Not at this point, but certainly once we have finished that analysis, we can share it.

MR. ROBERT WATCHMAN: I'm going to -- at this point, I'm going to change topics again, and I'm moving now to the -- the International Financial Reporting Standards, specifically 9 and 17.

And just for a little bit of

background, I'm going to ask, Kristen, to go to Information Request from the 2021 GRA, and it's Information Request PUB-MPI-1-16. And if we could go to the top of page 3, please, these -- these questions related to the new reporting standards.

And at the top of page 3, the Corporation responded:

"Work has commenced on the seven (7) proposed position papers which covers various technical topics and recommendations for accounting policy choices. The position papers are currently in the process of international review -- sorry, internal review and external consultation.

The finalization of the papers and board of directors' approval will follow once MPI has completed internal/external -- external review with an update to the Board forthcoming."

And if we could just scroll down a little bit, and -- and -- that's good -- and just that -- that next paragraph, the last line says:

"Preliminary impacts on presentation and disclosure in the financial statements as a result of IFRS 17 options include, first, deferred policy acquisition costs..."

And -- and while I'm there, is that often referred to by the acronym DPAC?

MR. GLENN BUNSTON: Yes, that's right.

MR. ROBERT WATCHMAN: So options:

"...deferred policy acquisition costs. Upon adoption of IFRS 17, this balance must be -- must either be written off or subsumed within the insurance liability."

Next point:

"MUSH bonds: option to change measurement from amortized costs to fair value. With fair value measurement, the unrealized gains or losses would be recognized upon transition."

Next:

"Actuarial variation: new methodology -- methodology to determine the claims discount rate using the risk-free discount rate plus a liquidity premium, and to include a risk adjustment component to the insurance liability."

A final comment is made:

"There is negligible impact on rate setting expected since it will continue to be based upon accepted actuarial practice, and therefore is largely independent of accounting presentation changes."

So that was the answer of the Corporation last year.

MR. STEVE SCARFONE: Just to correct the record, Mr. Watchman, I think you read into the record "actuarial variation."

MR. ROBERT WATCHMAN: Oh.

MR. STEVE SCARFONE: And the third bullet is "actuarial valuation."

MR. ROBERT WATCHMAN: Oh, sorry. My apologies.

CONTINUED BY MR. ROBERT WATCHMAN:

MR. ROBERT WATCHMAN: And if we could just scroll down to answer (c) there, the response in (c). And this -- again, this was last year, but MPI has not quantitatively assessed the financial impact of IFRS 17 on the Basic actuarial valuation as guideline/adoption applications are being updated.

"In 2020/'21, management plans to perform high -- high level quantitative modelling for actuarial elements of IFRS 17 requirements."

So if we could just now turn to Information Request in these proceedings, and I'm going to Information Request PUB-MPI-1-7.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: And if you could go to page 3, please, middle of the page where the response begins, the response is that:

"The working assumptions and position papers are not yet approved and finalized by the board of directors. Approval and finalization will follow after the working assumptions have been validated following further testing and modelling with assistance from external resources."

Now, can you provide us with any further update with respect to the timing of when the position papers will be finalized?

MR. MARK GIESBRECHT (by Teams): Yes. We are currently working with external consultants to assist us through this process, and we would expect, you know, early into next year to have these things finalized.

One (1) of the outstanding pieces is around the determination of the actuarial discount rates which we are -- are working on, but we do expect to have a majority of these papers finalized before this fiscal year end.

MR. ROBERT WATCHMAN: And can you advise the Board who is the external consultant?

MR. MARK GIESBRECHT (by Teams): Deloitte.

MR. ROBERT WATCHMAN: And has the Corporation received any input or comments from its external auditor?

MR. MARK GIESBRECHT (by Teams): We are working in tandem with the auditor as well, as appropriate, yeah. So as we finalized or near finalization of our position papers, we are working with the auditor to ensure that we are on side and -- and there's no concerns from an auditor perspective.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: Now, with respect to investment holdings, will these changes impact the way the Corporation holds investments in segregated versus pool funds?

MR. MARK GIESBRECHT (by Teams): That's a possibility, yes. We -- we are -- we're looking to adopt the standard in a way that has no disruption to our holdings, but there are -- there are different implications depending on the nature of the holdings and what allowable classifications take place.

But we do expect right now to be moving to a fair value through profit and loss approach which wouldn't have restrictions compared to OCI options. But we're -- we're still finalizing those assessments.

MR. ROBERT WATCHMAN: So do you believe this may have impact on expected returns?

MR. MARK GIESBRECHT (by Teams): I wouldn't say expected returns. You know, the economics and the market returns are what they are.

There -- there's differences in how they are accounted for. The -- the primary difference from today to what it will likely be or could be in the future is what flows through our net income, as opposed to the other comprehensive income.

So today, as a rule of thumb, all of our assets supporting surplus, so -- which is RSR and -- and excess retained earnings, those assets are -- are designated or classified as available for sale.

And the unrealized gains on those assets flow through other comprehensive income, not through net income. We expect in the future that we'll be classifying these assets, that back-surplus, as fair value through profit and loss, and that would mean that the returns would flow through net income.

The returns themselves would not be affected, they'd be the same; it's just how they are presented in the statement of operations.

MR. GLENN BUNSTON: And if I could add to that. I wouldn't expect significant changes to our actual asset allocation, in other words, how much we're investing in each asset class as a result of these accounting standards. Where the change could come, as you pointed out, would be in the type of vehicle that we invest through, whether that a pooled-fund or a segregated account.

MR. ROBERT WATCHMAN: Thank you. Now, with respect to dispensing acquisition cashflow, cashflows as they are incurred, has the expectation that that will reduce the complexity of required disclosures, insurance liability calculations, and onerous contract assessments?

MR. MARK GIESBRECHT (by Teams): Yes.

MR. ROBERT WATCHMAN: And would the expensing of acquisition costs have an offsetting impact on the loss component for the liability of remaining coverage?

MR. MARK GIESBRECHT (by Teams): We might need some back row support that -- on that technical nature, so.

Could you repeat that question, please?

MR. ROBERT WATCHMAN: Would the expensing of acquisition costs have an offsetting impact on the loss component for the liability for remaining coverage?

(BRIEF PAUSE)

MR. MARK GIESBRECHT (by Teams): So, we're just waiting on a response from our back row.

(BRIEF PAUSE)

MR. MARK GIESBRECHT (by Teams): So, I'm told that the loss component will be less likely because we are less likely be -- to be onerous. Overall, the liability for remaining coverage will be higher if we expense the acquisition costs.

MR. ROBERT WATCHMAN: Now, to reduce volatility under IFRS-17, the asset portfolio may need to be modified so that the yield of the portfolio and the claims discount rate both change by similar amounts when interest rates change.

So in what ways might the portfolio be adjusted to achieve this?

MR. GLENN BUNSTON: I think it's too early to say. I think we need to better understand how the discount rate will be -- and the yield curve for discounting will be constructed under IFRS-17. We are still examining -- and the -- the two (2) primary methods of building the yield curve, which is the -- referred to as the bottom-up and top-down approach.

So, I think once we have a decision as to which of those two (2) methodologies we will use to build the yield curve, then we'll have a better idea as to whether any changes are actually needed to our portfolio and to what extent.

MR. ROBERT WATCHMAN: And next, I just wanted to turn to Information Request CAC-MPI-1-69. And if we could go to page 2, toward the bottom. Hold it there.

I'm just looking at the paragraph that reads:

"MPI is currently reviewing mock-up of data requirements for financial statements and note disclosures. Its staff members also meet virtually with representatives of SGI and ICBC to share their respective experiences and challenges with the implementation of IRS-17 (sic)."

Correct?

MR. MARK GIESBRECHT (by Teams): Yes, that's correct.

MR. ROBERT WATCHMAN: Can you describe for the Board the nature of the collaboration that's going on with SGI and ICBC?

MR. MARK GIESBRECHT (by Teams): Yes, certainly. Members of our accounting teams and -- and actuarial staff meet on a regular basis, as described here, to discuss options that are being considered, you know, where each corporation is at in their -- their journey to adopt IFRS-17 and 9, and to -- to share, you know, challenges, best practices, and -- and decisions that are made and some of the reasons for those decisions.

So there is -- there's ongoing and -- and routine touch points with our groups.

MR. ROBERT WATCHMAN: Did MPI discuss or have access to positions papers on IFRS-17, prepared by SGI?

MR. MARK GIESBRECHT (by Teams): No, we have not.

MR. ROBERT WATCHMAN: What system changes are required to implement IFRS-17?

MR. MARK GIESBRECHT (by Teams): That is still being assessed. We're looking at what are the requirements to gather the -- the information for disclosures, as well as what is required from the actuarial side to -- to build up to discount rates. So not quite a hundred percent sure yet what that requirement will be, whether it can be used based on our existing models to be changed to adapt or if new systems will be required entirely, that -- that's still to be determined. But we are assessing options that are available in the marketplace.

MR. ROBERT WATCHMAN: Now, MPI will be required to implement IFRS-17 for reporting periods commencing on or after January 1, 2023.

Is that correct?

MR. MARK GIESBRECHT (by Teams): Yes. So for our fiscal year, that'll be April 2023 and in March 2024, and we'll also have to have the compares -- comparatives for the year prior to that.

MR. ROBERT WATCHMAN: Okay. So early implementation is permitted, correct?

MR. MARK GIESBRECHT (by Teams): No, it is not. Well, it -- it's not permitted for -- for OSFI regulated entities.

MR. ROBERT WATCHMAN: Thank you. Can you confirm that MPI has completed the high-level quantitative modelling that was the earlier IR?

MR. MARK GIESBRECHT (by Teams): Yes, we do have some preliminary high-level impact assessments.

MR. ROBERT WATCHMAN: And if we could turn to page 5 of the current IR that's on display, Kristen. Thank you.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: And if we go down toward the bottom of that page under -- under the topic of Quantitative Assessment, and just before the bullets, it says:

"MPI has identified the following quantitative adjustments upon transition to IFRS-9 and IFRS-17 that will have a financial impact. First being the deferred policy acquisition costs, or DPAC, will be written off upon transition to IFRS 17, after which they will be expensed as incurred."

Correct?

MR. MARK GIESBRECHT (by Teams): Yes.

MR. ROBERT WATCHMAN: Top of the next page:

"Non-marketable MUSH bonds. Accounting measurement will change for amortized cost to fair value through profit and loss, meaning that any unrealized gains or losses at transition date will be recognized through retained earnings."

Correct?

MR. MARK GIESBRECHT (by Teams): Correct.

MR. ROBERT WATCHMAN: And:

"Actuarial valuation. New methodology to determine the claims discount rate using the risk-free discount rate, plus a liquidity premium."

And finally:

"Actuarial valuation replace IFRS-4 provision for adverse deviation with IFRS-17 risk adjustment for non-financial risks."

Correct?

MR. MARK GIESBRECHT (by Teams): Yes.

MR. ROBERT WATCHMAN: Now, if we could just scroll below the next figure, Kristen, to get some explanation.

"The transitional adjustments in Figure 1 will impact retained earnings and the capital of MPI. Currently, MPI expects a positive financial impact as a result of adopting the accounting standard

IFRS-17.

Subsequent to transition date and on an ongoing basis, MPI expects there to be negligible impact on rate-setting since rates will to be cont -- continue to be on a based on accepted actuarial practices and, therefore, is largely independent of accounting presentation changes."

Now, if we could just scroll back up to that Figure 1, Kristen. Thank you.

So what you're noting in this figure is the effect of the DPAC write-off will be a reduction of 63.8 million in assets, correct?

MR. MARK GIESBRECHT (by Teams): Correct.

MR. ROBERT WATCHMAN: But there will be a 70.8 million increase for MUSH fair value?

MR. MARK GIESBRECHT (by Teams): Yes.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: And on the liabilities column, under liabilities column, the claims discount rate will decrease 150 million?

MR. MARK GIESBRECHT (by Teams): Yes. And it is also very important to note that these are as at a point in time estimates, which will fluctuate based on changes in prevailing interest rates.

And so, that's based on inputs between June of 2021 and the claims discount rate was back in August of 2020.

So I just wanted to preface this that it -- it will change and it could change materially before the date of adoption.

MR. ROBERT WATCHMAN: And so, as of that information, the total impact on retained earnings would be an increase of 157 million, correct?

MR. MARK GIESBRECHT (by Teams): Yes. As of right now, we are expecting -- if things stay similar to what they are now, we would expect a favourable impact on transition.

MR. ROBERT WATCHMAN: And if that holds true, or something like it, this would increase capital available for future rebate?

MR. MARK GIESBRECHT (by Teams): That is correct.

MR. ROBERT WATCHMAN: Now, as the yield rate used for financials will change, does that not have an impact on accepted actuarial practise ratemaking?

MR. MARK GIESBRECHT (by Teams): Yes. As yields change, that input would be adjusted. But that would be the case regardless of what the accounting treatment is.

MR. ROBERT WATCHMAN: If the discount rate is greater than the yield available on assets, how does that affect the annual income statement?

MR. MARK GIESBRECHT (by Teams): Sorry, can you repeat that?

MR. ROBERT WATCHMAN: If the discount rate is greater than the yield available on assets, how does that affect the annual income statement?

(BRIEF PAUSE)

MR. MARK GIESBRECHT (by Teams): Okay. You're getting pretty technical here. So just one more time for me, please. The discount rate for the liabilities is lower than for the assets?

MR. ROBERT WATCHMAN: Is greater than the yield available on assets.

MR. MARK GIESBRECHT (by Teams): So yeah -- so I think that gets to the traditional impact, which we expect, right here, would be a favourable impact.

After we adopt, you know, we do expect that there is going to be less direct correlation and linkage, you know, between the asset and liabilities side, which could introduce more volatility than there is under the current scheme.

But I think it's more of a transitional impact than it is of an ongoing impact.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: Kristen, if we could turn to Information Request PUB-MPI-2-7. And I'd like to turn to page -- top of page 5, please.

And in that chart, we can see that the discount rate for IFRS-17, in the last column, at March 31, 2021, is 3.27 percent?

MR. MARK GIESBRECHT (by Teams): I see that there, yes.

MR. ROBERT WATCHMAN: And the equivalent claims discount rate at 2021/'22 Q4 is 2.83 percent, which is forty-eight (48) -- forty-four (44) basis points lower?

MR. MARK GIESBRECHT (by Teams): Sorry, I don't see two-point-eight-three (2.83) on this particular page.

MR. ROBERT WATCHMAN: Sorry. If we could hold that -- hold one finger on that page, Kristen, and then go to the application Part 7 Investments. Specifically, INV-3.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: And we see there, in line 4, if we go over about six or seven columns, the claim discount rate for the 2022 GRA.

MR. MARK GIESBRECHT (by Teams): Okay.

MR. ROBERT WATCHMAN: So that's the two-point-eight-three (2.83).

So the IFRS-17 discount rate shows 3.27 percent at March 31, 2021. And the equivalent rate for the fourth quarter of 2021/'22, in the INV-3, is two-point-eight-three (2.83). That's forty-four (44) basis points lower, correct?

MR. GLENN BUNSTON: Yes, that's correct. I think this comes back -- it links back to one of your earlier questions about whether there would be a static spread applied to the -- to determine the yield curve.

And I think we're -- we're still

looking at that. And it seems unlikely. It may not be static and it may be less than fifty (50) basis points.

So that's something that's still being studied. In the -- in the previous IR response that you were referencing, I think we had used a fifty (50) basis point assumption there. But that -- that's not been finalized.

MR. ROBERT WATCHMAN: Can you tell the Board just, is MPI comfortable with the discount rate on claims liabilities that could be greater than what it can earn on investments?

MR. GLENN BUNSTON: I think we would like the two (2) to be as close together as possible. And that would be the goal in constructing the discount curve and that's part of the challenge in selecting assumptions in -- in looking at that -- building the yield curve for discounting.

And I will say also that the response that -- to that last IR that you were referencing was using a bottom-up approach. We are also looking at the top-down approach. The two (2) theoretically should get you to the same point, but we're still evaluating both of those and haven't made a final decision as to which one we'll use.

MR. ROBERT WATCHMAN: Now, did MPI prepare a working paper analysis supporting its decision to the write off of DPAC?

MR. MARK GIESBRECHT (by Teams): Yes, there is a position paper. Yes.

MR. ROBERT WATCHMAN: Can that be provided to the Board?

MR. MARK GIESBRECHT (by Teams): Yes. We're -- our hope is that we can finalize all of our papers and have them appropriately approved by our Board and -- and, in due course, submit, in its wholesome completeness, all of our papers to the PUB.

MR. ROBERT WATCHMAN: And can the Corporation provide any assurances that the decision to expense policy acquisition costs as incurred will not result in fluctuations in net income?

MR. MARK GIESBRECHT (by Teams): Yes.

MR. ROBERT WATCHMAN: Now, if MPI had chosen rather than to writeoff the DPAC, but rather amortize the 63.8 million, over what period of time would it have been amortized?

MR. MARK GIESBRECHT (by Teams): I'll just -- I'll look to my back row. Approximately over the course of one (1) year.

MR. ROBERT WATCHMAN: Does MPI have

the systems in place to track DPAC required disclosure, insurance contract liabilities, and owners' contract assessments?

MR. MARK GIESBRECHT (by Teams): That's where we're currently in the works of -- of assessing. Currently, we do not and so we're assessing what makes the most sense for the organization and -- and we'll determine that as we go through our assessment.

MR. ROBERT WATCHMAN: And can you indicate why you believe it was necessary to make the -- the election to writeoff?

MR. MARK GIESBRECHT (by Teams): Yes. In terms of simplicity, in terms of the requirements, in terms of ongoing reporting and disclosures. So there is a one time impact on transition. However there -- the impact going forward, really, isn't overly substantial.

MR. ROBERT WATCHMAN: And was this approach recommended to MPI by an external consultant?

MR. MARK GIESBRECHT (by Teams): It was discussed and our understanding is that it is a consistent approach with many of our peers.

MR. ROBERT WATCHMAN: Okay. Thank you. Madam Chair, I'm wondering if I might have five

(5) minutes just to review my notes.

THE PANEL CHAIRPERSON: Certainly.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: Thank you, Madam Chair. Thank you, panel. Those are all my questions.

THE PANEL CHAIRPERSON: Thank you, Mr. Watchman. It's just past ten after 2:00. What I propose is that we take the afternoon break now until 2:25. And just a reminder that we will have to wrap up this afternoon at 3:45.

MR. STEVE SCARFONE: Yes. And, Madam Chair, I was advised, if it's agreeable to the Board, that the -- and perhaps the Board was already thinking this way -- that the panel scheduled for tomorrow morning wouldn't start until tomorrow morning. Because I don't believe they're quite ready, if we were going to start this afternoon.

THE PANEL CHAIRPERSON: Sure. That's fine, Mr. Scarfone.

MR. STEVE SCARFONE: Okay.

THE PANEL CHAIRPERSON: And, Ms. Dilay, if you can hear us, if you can come in and set up in the Hearing, then that would be great. Thank you.

--- Upon recessing at 2:12 p.m.
--- Upon resuming at 2:31 p.m.

THE PANEL CHAIRPERSON: Thank you, Ms. Dilay.

CROSS-EXAMINATION BY MS. KATRINE DILAY:

MS. KATRINE DILAY: Thank you, Madam Chair. Good afternoon, Mr. Bunston. It's nice to see you again this year.

MR. GLENN BUNSTON: Good afternoon.

MS. KATRINE DILAY: So, I -- I think most of my questions will be for Mr. Bunston, but of course Mr. Giesbrecht should feel free to respond if he would be best suited.

Mr. Bunston, you'll agree that MPI is a Crown monopoly operating a compulsory insurance program with significant long-tailed claims related to its personal injury protection plan?

MR. GLENN BUNSTON: Yes, that's accurate.

MS. KATRINE DILAY: And, generally speaking, you'll agree that the composition of MPI's investment portfolio impacts investment returns.

MR. GLENN BUNSTON: Yes, absolutely.

MS. KATRINE DILAY: And the risk that MPI takes in its portfolio composition, can also impact returns?

MR. GLENN BUNSTON: Yes.

MS. KATRINE DILAY: And, in turn, MPI's investment returns impact its revenue requirement?

MR. GLENN BUNSTON: They do, yes.

MS. KATRINE DILAY: And MPI's revenue requirement then informs the overall rate that MPI charges ratepayers. Correct?

MR. GLENN BUNSTON: That's correct.

MS. KATRINE DILAY: So, as a result, you would agree that it would be reasonable for ratepayers to look to MPI to do the best it can with respect to its investment portfolio?

MR. GLENN BUNSTON: Absolutely. Yeah.

MS. KATRINE DILAY: And that would include having a balance between maximizing returns and minimizing risk, consistent with appropriate risk tolerances for a Crown monopoly operating a compulsory insurance program with significant long-tailed claims related to its personal injury protection plan?

MR. GLENN BUNSTON: Agree.

MS. KATRINE DILAY: And when we talk about returns and risks, the relevant returns and risks that matter are those at the total portfolio level, whether that's for Basic or pension portfolios for example?

MR. GLENN BUNSTON: Yes, our Basic line of business consists of the investments within the Basic portfolio, the -- the retained earnings portfolio and the employee future benefits portfolio, so yes.

MS. KATRINE DILAY: Thank you. And having due regard for an MPI -- sorry -- it will be fair to assume that MPI has also due regard for the costs of maximizing returns and minimizing risks. Correct?

MR. GLENN BUNSTON: Correct.

MS. KATRINE DILAY: And you'll agree that one can look at different asset allocation or asset mixes between equities, bonds and other assets that give you maximum returns for a chosen level of risk?

MR. GLENN BUNSTON: Yes. A portfolio can include allocations to all of those asset classes, yes.

MS. KATRINE DILAY: And you would agree that for MPI risk is defined not -- defined not just in terms of the assets only but in relation to the liabilities as well.

MR. GLENN BUNSTON: Absolutely, yeah.

MS. KATRINE DILAY: And MPI refers to the -- uses the term 'surplus volatility' to refer to the difference in the value of the assets and liabilities?

MR. GLENN BUNSTON: That'S right.

MS. KATRINE DILAY: And surplus volatility is the most important measure of risk for assets backing claims liability?

MR. GLENN BUNSTON: Surplus risk is -- is the risk that -- that is the most important risk, yes.

MS. KATRINE DILAY: And you'll agree that one (1) of the risks to MPI's surplus is inflation?

MR. GLENN BUNSTON: Inflation is one (1) of the risks, yes.

MS. KATRINE DILAY: You'll agree that MPI has liabilities, such as insurance claims and pensions to pay?

MR. GLENN BUNSTON: We do.

MS. KATRINE DILAY: And those liabilities are exposed to inflation risk. Correct?

MR. GLENN BUNSTON: Some of them are, yes.

MS. KATRINE DILAY: So, if realized inflation is higher than expected, liabilities will rise more than expected?

MR. GLENN BUNSTON: Correct.

MS. KATRINE DILAY: So, as a result, if the assets backing these liabilities do not provide sufficient inflation protection, then it is possible that liabilities may rise faster than the asset values?

MR. GLENN BUNSTON: It's possible that the liabilities could increase more than the assets. Yes.

MS. KATRINE DILAY: And in that case, surplus will fall?

MR. GLENN BUNSTON: That would negatively impact the surplus. Yes.

MS. KATRINE DILAY: Leading to higher insurance premiums in the future?

MR. GLENN BUNSTON: Potentially, yes.

MS. KATRINE DILAY: And you'll agree that MPI's portfolios have bonds that are exposed to inflation risk? Correct?

MR. GLENN BUNSTON: Our portfolio has -- contains nominal bonds that are exposed to inflation risk, yeah.

MS. KATRINE DILAY: Thank you. So, to confirm, those -- those would be nominal bonds, that's the term that is used?

MR. GLENN BUNSTON: Yes.

MS. KATRINE DILAY: As opposed to real return bonds?

MR. GLENN BUNSTON: Correct.

MS. KATRINE DILAY: And if realized inflation is higher than expected, those nominal bonds will earn less than expected?

MR. GLENN BUNSTON: If inflation is higher than expected, the cash flows from the nominal bonds will have less purchasing power than otherwise expected.

MS. KATRINE DILAY: You'll recall that Mr. Valter Viola was an independent expert retained by CAC Manitoba in the 2017 GRA?

MR. GLENN BUNSTON: I recall Mr. Viola. Yes.

MS. KATRINE DILAY: And subject to check, do you recall that he had eighteen (18) recommendations in that GRA?

MR. GLENN BUNSTON: Yes, I recall he had many recommendations.

MS. KATRINE DILAY: And these eighteen (18) recommendations were accepted by the Public Utilities Board in that MPI was directed to obtain an updated asset liability management study, which was to address each of the eighteen (18) recommendations?

MR. GLENN BUNSTON: Yes, I recall that.

MS. KATRINE DILAY: And you'll agree that since that time there have been a number of changes to MPI's investment portfolio?

MR. GLENN BUNSTON: Well, we embarked on an asset liability management study with the assistance of Mercer and we made numerous changes to our investment strategy as a result of that, to one of which was segregating our portfolio from one (1) into five (5), amongst other changes. Yes.

MS. KATRINE DILAY: And you'll agree another one of those changes was less Canadian equity concentration?

MR. GLENN BUNSTON: Yes. We reduced our allocation to Canadian Equity and eliminated US equity exposure and added significant allocation to global equities as well.

MS. KATRINE DILAY: And another way of saying that would be international diversification?

MR. GLENN BUNSTON: Yes. We selected in -- equity investments outside of -- outside of North America.

MS. KATRINE DILAY: And you'll agree it was not just the portfolio that changed, but also the framework or the basis for optimizing the portfolio during the course of the asset liability management study that changed as well.

And I can specify, if you'd like, specifically the previous study was completed by Aon and was optimized based on accounting metrics.

Is that right?

MR. GLENN BUNSTON: That's correct.

MS. KATRINE DILAY: And the following study by Mercers was optimized based on market value metrics by adopting a liability benchmark portfolio?

MR. GLENN BUNSTON: That'S right.

MS. KATRINE DILAY: Generally speaking, Mr. Bunston, you'll agree that an asset liability management study is important?

MR. GLENN BUNSTON: Yes, they are important.

MS. KATRINE DILAY: The asset liability management study informs the asset allocation decisions of the Corporation?

MR. GLENN BUNSTON: Yes. It informs asset allocation decisions, as well as interest rate risk mitigation decisions.

MS. KATRINE DILAY: And it also informs the equity bond split, which would be a type of asset allocation decision?

MR. GLENN BUNSTON: That's right.

MS. KATRINE DILAY: And the asset allocation could be described as the key driver of return and risk. Correct?

MR. GLENN BUNSTON: Asset allocation, yes, is -- is definitely one (1) of the most important decisions in determining returns.

MS. KATRINE DILAY: And you'll agree that the purpose of an asset liability management study is to look at the mix of assets, with the output being a long-term policy mix that provides a return that is sustainable over the long term at a reasonable level of risk.

MR. GLENN BUNSTON: The purpose would be to select the portfolio that maximizes the return at the risk level selected. The risk level is determined by our board of directors and by our investment committee. They -- they determine the risk appetite of the Corporation.

MS. KATRINE DILAY: And you'll agree that MPI's most recent Asset Liability Management Study was based on a nominal liability benchmark, correct?

MR. GLENN BUNSTON: Yes, that's right.

MS. KATRINE DILAY: And in plain language, this means that it assumed zero inflation volatility, or in other words it assumed inflation was always going to be at 2 percent, correct?

MR. GLENN BUNSTON: That is correct.

(BRIEF PAUSE)

MS. KATRINE DILAY: And I appreciate you talked about inflation this morning in your presentation, but I'd like to just confirm a few items, if you'll bear with me.

You'll agree that in the last year and a half we have seen higher levels of inflation than prior to the onset of the pandemic?

MR. GLENN BUNSTON: Yes, that's true.

MS. KATRINE DILAY: And I'd like to

turn to the IR, CAC-MPI-1-82.

(BRIEF PAUSE)

MS. KATRINE DILAY: And I'll be turning to page 2 specifically, which will still be the preamble of that Information Request.

(BRIEF PAUSE)

MS. KATRINE DILAY: Sorry, Ms. Schubert, it should be 1-83. I apologize if I misspoke. Thank you. And could we go up the page a little bit? Thank you very much.

And so you see here that in this Information Request we made reference to an article from the Mercer's website?

MR. GLENN BUNSTON: I see that, yes.

MS. KATRINE DILAY: And you'll agree that Mercers was the company that conducted the last Asset Liability Management Study for MPI?

MR. GLENN BUNSTON: Yes, Mercer assisted us with completing our last ALM study.

MS. KATRINE DILAY: And just focussing on, I guess the third paragraph of the italicized excerpt, do you see there that the excerpt says:

"For 2021, we expect a material pickup in inflation because of pent-up demand, the size of which being subject to the reopening schedule of each country?"

MR. GLENN BUNSTON: I see that, yes.

MS. KATRINE DILAY: And the paragraph just before, you see there the excerpt that says:

"We have been recommending since last year that investors should prepare for a wider range of inflation for the decades to come, including inflation surprises."

You see that?

MR. GLENN BUNSTON: I do see that.

MS. KATRINE DILAY: And based on these excerpts, would -- would it be your understanding that when Mercers refers to a wider range of inflation, could that be described as inflation volatility?

MR. GLENN BUNSTON: I would think so, yes.

MS. KATRINE DILAY: And if we go down the page a little bit, Ms. Schubert. And I apologize, it might be on the next page. Thank you.

If we look at the last italicized paragraph on this page here, you see the excerpt that says:

"A review of an inflation sensitive sleeve is prudent to ensure that portfolios can withstand sustained higher inflation, as well as inflation surprises over the next decade."

MR. GLENN BUNSTON: I see that.

MS. KATRINE DILAY: And then the excerpt goes on to say that:

"Mercers, last year, in addition to the allocation to real assets in their strategic reference model portfolios, introduced an inflation-sensitive sleeve consist -- consisting of inflation linked bonds."

Correct?

MR. GLENN BUNSTON: Yes, that's what it says.

MS. KATRINE DILAY: And that:

"Building a robust inflation-sensitive sleeve is a prudent step to face the policy uncertainty of the next decade."

Do you see that?

MR. GLENN BUNSTON: I do see that.

MS. KATRINE DILAY: And would you understand this statement by Mercers to mean that they are recommending to their clients to ensure that portfolios can withstand higher inflation, as well as inflation volatility over the next decade?

MR. GLENN BUNSTON: Yes, I think that they are recommending to select investments that can hedge against inflation and inflation volatility.

MS. KATRINE DILAY: And you'll agree it's possible that Mercers would not be the only firm of its kind making certain recommendations to their clients in the face of this uncertainty with respect to inflation?

MR. GLENN BUNSTON: I'd be surprised if they were the only one making that recommendation.

MS. KATRINE DILAY: And then if we keep going in the preamble here, you see their reference to the Bank of Canada's stance in inflation from a Globe and Mail article?

MR. GLENN BUNSTON: Yes, I see that.

MS. KATRINE DILAY: And just pointing

to the very first paragraph, you see the excerpt to that states:

"As the economy emerges from the pandemic, the Bank of Canada is signalling that it will not only tolerate inflation above its 2 percent target into 2024, it fully expects it, and that you might want to forget what you thought about the Bank of Canada's inflation target for the next few years. Think of 3 percent as the new 2 percent."

Do you see that excerpt?

MR. GLENN BUNSTON: I do see that.

MS. KATRINE DILAY: And so, you'll agree that, as we speak, there are important policy debates in Canada and the United States grappling with the issue of inflation and whether it can be expected to be more material than it has been since the early 1990s?

MR. GLENN BUNSTON: Yes, I think central banks are considering what is an appropriate level of inflation for them to -- to accept and an appropriate policy response to that inflation.

I think the market's expectation is

that the Bank of Canada will start to hike interest rates in the second half of 2022. And also that the Bank of Canada continues to think that the current levels of inflation will be transitory, in -- in their own words, and that they are tied to the -- the economies reopening after the pandemic. And that they think that those will fade as consumers adjust to the reopening of the economy.

MS. KATRINE DILAY: Thank you for that response.

But you'll agree that Mercers did indicate in the excerpt we saw, that inflation surprises could be for the next decade, correct?

MR. GLENN BUNSTON: Yes, that's -- that's Mercer's opinion.

MS. KATRINE DILAY: And, Mr. Bunston, you'll agree that a real liability benchmark would better reflect inflation volatility and real interest rate risk?

MR. GLENN BUNSTON: Yes, a real liability benchmark would better reflect the inflation risk associated with -- with liabilities.

MS. KATRINE DILAY: And a real liability benchmark would reflect real interest rate risk net of inflation, correct?

MR. GLENN BUNSTON: Yes, that's correct.

MS. KATRINE DILAY: And this is contrasted with the nominal liability benchmark that MPI chose in its most recent ALM study?

MR. GLENN BUNSTON: Yes, we selected the -- the nominal liability benchmark because we have reserves to -- to protect us from inflation, and those reserves assumed a 2 percent inflation rate.

MS. KATRINE DILAY: And just to confirm, a nominal -- nominal liability benchmark does not reflect the impact of inflation on interest rates, correct?

MR. GLENN BUNSTON: Correct.

MS. KATRINE DILAY: And generally speaking, you'll agree that real return bonds are bonds that provide inflation protection?

MR. GLENN BUNSTON: Yes, the -- the principle and interest payments are adjusted for inflation. So the purchasing power of the investment is -- is preserved by investing in a real return bond.

MS. KATRINE DILAY: And I apologize if I'm just going to confirm what you said, but -- so the reason -- you'll agree that the reason real return bonds provide inflation protection is that their value changes inversely with real interest rates?

MR. GLENN BUNSTON: Well, their value changes with inflation.

MS. KATRINE DILAY: And so real return bonds would be contrasted with -- my apologies.

And you'll agree that currently MPI does not have any real return bonds in its portfolio, correct?

MR. GLENN BUNSTON: We do not have any real return bonds at this time, no.

MS. KATRINE DILAY: And generally speaking, you'll agree that capital market assumptions are important inputs to the Asset Liability Management Study?

MR. GLENN BUNSTON: Yes, capital market assumptions are one (1) of the key inputs into -- to an Asset Liability Management Study.

MS. KATRINE DILAY: And examples of capital market assumptions would be expected returns, volatilities, and correlations for different asset classes, as well as inflation levels and volatilities?

MR. GLENN BUNSTON: That's right.

MS. KATRINE DILAY: And you'll agree generally that there is high economic and market uncertainty relating to COVID-19?

MR. GLENN BUNSTON: Yes, COVID-19 is throwing significant uncertainty into economies and investment markets.

MS. KATRINE DILAY: And as a result, capital market assumptions that were used around four (4) years ago, for example, might need some refreshing, correct?

MR. GLENN BUNSTON: Yes, I would agree.

MS. KATRINE DILAY: And I have some questions about the shadow portfolios that MPI has in place. And I'd like to just take us to PUB Order 159/18 at page 89, and just looking at the -- the paragraph, the full -- the first full paragraph on this page.

And is it your understanding that it was in this PUB Order that the Public Utilities Board ordered MPI to implement or set up shadow portfolios? And maybe -- would you like confirmation of which Board Order this is?

MR. GLENN BUNSTON: Yes, please.

MS. KATRINE DILAY: Kristen, could we just go to the bottom? Thank you.

(BRIEF PAUSE)

MR. GLENN BUNSTON: Yes, I believe it was this Board Order where the shadow portfolios were -- were ordered by the Board.

MS. KATRINE DILAY: And if we look six (6) lines from the start of this paragraph, do you see the words "to that end"?

MR. GLENN BUNSTON: Yes, I do.

MS. KATRINE DILAY: And so just reading this -- this sentence, you'll agree that the goal of the shadow portfolios was to assist the Public Utilities Board in testing the reasonableness of the Corporation's portfolio in terms of providing optimal returns?

MR. GLENN BUNSTON: I see that.

MS. KATRINE DILAY: And if we look at the beginning of this paragraph, is it your understanding that the PUB had referred to the commentary by Mr. Valter Viola that the Corporation should have a full portfolio designed to mitigate longer horizon risks and achieve higher returns by taking on different risks in a prudent fashion?

(BRIEF PAUSE)

MS. KATRINE DILAY: And I'll just --

it's just the first sentence that we see on the screen here.

MR. GLENN BUNSTON: Yes, I see that.

MS. KATRINE DILAY: And the PUB also stated:

"It may be the case that the Corporation has foregone an opportunity to hedge against long-term risks by rejecting real return bonds and reducing real assets."

Correct?

MR. GLENN BUNSTON: Yes, that's what it says.

MS. KATRINE DILAY: And so turning to the shadow portfolio material that MPI provided -- that MPI has provided, if we could turn to the 2020 GRA. It's part 6, which is the investments chapters, attachment A. And, Kristen, maybe we can just go to the start of this document. Thank you.

You'll confirm that this is a document prepared by Mercers relating to the shadow portfolios that were ordered by the Public Utilities Board in the 2019 GRA?

MR. GLENN BUNSTON: Yes, that's correct.

MS. KATRINE DILAY: And, Ms. Schubert, if we could please turn to page 8 of the attachment.

(BRIEF PAUSE)

MS. KATRINE DILAY: So, generally speaking here, this slide is referring to what we identify as the Basic -- the shadow portfolio 1 for Basic, correct?

MR. GLENN BUNSTON: That's right.

MS. KATRINE DILAY: And if we look at the table, and if we look at the second row from the right which is called Basic.3, you'll confirm that this was the policy portfolio chosen by MPI following the Mercers asset liability management study?

MR. GLENN BUNSTON: Correct.

MS. KATRINE DILAY: And then if we look at the very last column which is highlighted by a red dotted line entitled Basic.5, this is the shadow portfolio 1, correct?

MR. GLENN BUNSTON: Yes, that's right.

MS. KATRINE DILAY: And we see there the black kind of box at the top. It's referred to as a bond portfolio with real return bonds and modest credit risk?

MR. GLENN BUNSTON: Correct.

MS. KATRINE DILAY: And just to clarify, when we look back at the table and we look at the first column which is called 2017 Current, this referred to MPI's portfolio implemented following the Aon study which was prior to the Mercers study, correct?

MR. GLENN BUNSTON: Yes, that's right.

MS. KATRINE DILAY: So while it's named 'current', it's not current today, correct?

MR. GLENN BUNSTON: It's not current now. It was current at the time of this study being prepared.

MS. KATRINE DILAY: Thank you for clarifying that. So going back to the last two (2) columns, and if we look at the bottom, specifically the third row from the bottom which is expected ten (10) year return, you see that?

MR. GLENN BUNSTON: I do.

MS. KATRINE DILAY: So you'll agree that for both the chosen policy portfolio which is Basic.3 and the shadow portfolio 1, the expected ten (10) year return is the same at 3.1 percent, correct?

MR. GLENN BUNSTON: That is correct.

MS. KATRINE DILAY: And just to

clarify, the expected ten (10) year return would be the profit that is expected to be realized from this investment portfolio over a ten (10) year period?

MR. GLENN BUNSTON: Well, that would be the total realized rate of return including capital gains and income over that ten (10) year period.

MS. KATRINE DILAY: Thank you. And then if we look at the row just under, you see that it says, "Surplus volatility"?

MR. GLENN BUNSTON: Yes, I see that.

MS. KATRINE DILAY: And we see that the surplus volatility is lower for shadow portfolio 1 at 3.2 percent as compared to 4.5 percent for the chosen policy portfolio which is Basic.3?

MR. GLENN BUNSTON: Yes, that's correct.

MS. KATRINE DILAY: And we've already discussed this, but MPI uses the term 'surplus' to refer to the difference in the value of the assets and liabilities?

MR. GLENN BUNSTON: Yes. The surplus is the -- the difference between assets and liabilities.

MS. KATRINE DILAY: And then 'surplus volatility' would refer to the volatility in the difference -- of the difference in growth rates between assets and liabilities?

MR. MARK GIESBRECHT (by Teams): It's the -- the variability of the surplus, yes.

MS. KATRINE DILAY: And so that surplus volatility was the measure of risk for optimizing the asset mix backing claims liabilities in the asset liability study, correct?

MR. GLENN BUNSTON: That's correct.

MS. KATRINE DILAY: And if we go to the next slide, which is -- or page -- page 9 of this appendix, so you'll agree that risk is on the bottom here of this table?

MR. GLENN BUNSTON: Yes.

MS. KATRINE DILAY: And then the expected return would be on the left side?

MR. GLENN BUNSTON: Yes, that's right.

MS. KATRINE DILAY: And so here we see that Basic.5, which is that -- I think it's purple dot which is the shadow portfolio 1 is lower on the risk scale as compared to Basic.3, which is the chosen policy portfolio, correct?

MR. GLENN BUNSTON: That's correct.

MS. KATRINE DILAY: But they are the same expected return?

MR. GLENN BUNSTON: They're very close in return.

MS. KATRINE DILAY: So I'd like to turn now to CMMG-MPI-2-14, and thank you, Ms. Schubert.

So this is the appendix to CMMG-MPI-2-14A. Do you see this, Mr. Bunston?

MR. GLENN BUNSTON: I do.

MS. KATRINE DILAY: Bunston, pardon me. And so you'll agree that this appendix shows the shadow portfolio returns and the actual portfolio returns?

MR. GLENN BUNSTON: Yes, it does.

MS. KATRINE DILAY: And if we look at page 7, this is a summary of the returns for July 2020 to July 2021?

MR. GLENN BUNSTON: That's correct.

MS. KATRINE DILAY: And if we look at shadow portfolio P1 Basic, this is the same shadow portfolio 1 we looked at earlier in the Mercers slide?

MR. GLENN BUNSTON: Yes. This is essentially our current allocation port -- to fixed income in the Basic claims portfolio with I believe a 24 percent allocation to real return bonds.

MS. KATRINE DILAY: Thank you for

clarifying that. And if we look to the returns in terms of percentages, the return indicated here for that portfolio was minus 2.48 percent?

MR. GLENN BUNSTON: Yes, that's right.

MS. KATRINE DILAY: And then if we compare that to the passive return on the Basic portfolio, that was minus 3.61 percent?

MR. GLENN BUNSTON: Yes. So that's a theoretical portfolio of our current asset allocation, assuming we invested passively in each asset class and earned the benchmark return in each asset class.

So we see that that return is 1.13 percent lower than the -- the P1 shadow portfolio with real return bonds.

MS. KATRINE DILAY: And -- and then I think your response then leads us to look at the actual return on the Basic portfolio which was minus 0.86 percent, correct?

MR. GLENN BUNSTON: Right. That's the actual return on our portfolio over this twelve (12) month period, and we see that that return -- that outperformed the benchmark by a hundred and sixty-three (163) basis points.

MS. KATRINE DILAY: And is the difference between the passive return and the actual return that the actual return included active management?

MR. GLENN BUNSTON: Yes, it included active management. It included manager selection decisions and their security selection decisions.

MS. KATRINE DILAY: And just to -- to refer back to our earlier discussion, you'll agree that, as per the slide we looked at from the Mercer's appendix, expected returns were held constant for both the chosen policy portfolio and Shadow Portfolio 1, correct?

MR. GLENN BUNSTON: Could you rephrase that?

MS. KATRINE DILAY: As per the slide we looked at from the Mercer's appendix, the expected returns were held constant for the chosen policy portfolio for Basic and for Shadow Portfolio 1, correct?

MR. GLENN BUNSTON: I think what you're asking is, were the returns for each asset class the same across the two (2) different portfolios, in which case they were. They both assumed passive investment in each asset class and, therefore, the same returns within each asset class --

MS. KATRINE DILAY: Which was that --

sorry, I --

MR. GLENN BUNSTON: Between the two (2) -- mostly between all of the portfolios that were projected.

MS. KATRINE DILAY: And that was the 3.1 percent that we had seen on that slide, correct?

MR. GLENN BUNSTON: Right. That was the projected total return for the portfolio selected and the portfolio that included real return bonds.

MS. KATRINE DILAY: But you'll agree that what we had looked at from the Mercer slide, the surplus volatility was different between the two (2) portfolios, correct?

MR. GLENN BUNSTON: Correct.

MS. KATRINE DILAY: And you'll agree that in this appendix MPI does not report realized surplus volatility, it just reports returns, correct?

MR. GLENN BUNSTON: That's correct.

MS. KATRINE DILAY: And if we were to measure surplus volatility, would it be fair to say that the first step would be to take the difference in returns relative to the liability benchmark portfolio?

MR. GLENN BUNSTON: Yes, I think that would be one (1) way to -- to measure it.

MS. KATRINE DILAY: And then the

second step would be to calculate the standard deviation for volatility of the difference in returns over time.

Is that correct?

MR. GLENN BUNSTON: Could you repeat that?

MS. KATRINE DILAY: The second step in calculating or measuring surplus volatility would be to calculate the standard deviation or volatility of the difference in returns over time?

MR. GLENN BUNSTON: Yes, that's right.

MS. KATRINE DILAY: And this standard deviation could easily be done in an Excel spreadsheet, correct?

MR. GLENN BUNSTON: It could with the -- with the requisite data, yes.

MS. KATRINE DILAY: And given MPI's low tolerance for surplus volatility, you'd agree that reporting the surplus volatility realized since inception would enable the Public Utilities Board to better assess the shadow portfolio's risk-adjusted returns, as compared to the policy portfolio's risk adjusted returns?

MR. GLENN BUNSTON: Could you repeat that?

MS. KATRINE DILAY: Certainly. Given MPI's low tolerance for surplus volatility, you'll agree that reporting the surplus volatility realized since inception would enable the Public Utilities Board to better assess the shadow portfolio's risk-adjusted returns, as compared to the policy portfolio's risk-adjusted returns?

MR. GLENN BUNSTON: Yes. I think risk-adjusted returns are more informative than -- than returns that are not risk adjusted.

MS. KATRINE DILAY: And, in fact, the reporting that is included in this appendix to CMMG-MPI-2-14A only tells half the story because realized surplus volatility is not reported, correct?

MR. GLENN BUNSTON: Surplus volatility is not shown here, no.

MS. KATRINE DILAY: And if the calculations revealed that the surplus volatility was lower for Shadow Portfolio 1, as compared to the policy portfolio, you'd agree that that would mean the Shadow Portfolio 1 would have realized higher risk-adjusted returns?

MR. GLENN BUNSTON: That is possible, yes.

MS. KATRINE DILAY: And this would be

because of higher returns and less surplus volatility?

MR. GLENN BUNSTON: That's correct.

MS. KATRINE DILAY: But currently we don't have that surplus volat -- volatility information, correct?

MR. GLENN BUNSTON: That information is not shown here, no.

MS. KATRINE DILAY: And is that something MPI would be able to provide?

MR. GLENN BUNSTON: It's not information that we have readily available, but it's something that we could -- could work towards.

MS. KATRINE DILAY: And we agreed that -- that it is possible to be calculated in an Excel spreadsheet, correct?

MR. GLENN BUNSTON: It could be calculated in a spreadsheet, I'm sure, yes.

MS. KATRINE DILAY: And so would MPI be able to provide the surplus volatility statistics for the shadow portfolios, as compared to the policy portfolio from inception until the most current date available?

MR. STEVE SCARFONE: I think -- I think the only concern would be in what -- in what time frame are you -- is the expectation that the --

that the data would be provided. Before the end of this hearing, by next year?

MS. KATRINE DILAY: I mean, I personally -- yeah, before the end of the hearing would be our -- our preference as it would assist in informing our client's recommendations regarding MPI's investments.

(BRIEF PAUSE)

MR. STEVE SCARFONE: So, Ms. Dilay, Mr. Bunston doesn't at this time know how long that might take. He said there is some work that's involved.

So what I would suggest is MPIC could take the undertaking under advisement. Mr. Bunston would, at the end of the day, speak to his team and get a better sense of how long that might take and whether we could commit to providing that -- that data by the end of the hearing.

MS. KATRINE DILAY: Certainly, Mr. Scarfone. I think that's reasonable. Perhaps what I could do is read sort of the full undertaking in terms of what we would be looking for for the record, and then Mr. Bunston could check with his team.

So we would be asking MPI to please provide surplus volatility statistics for the shadow portfolios, as compared to the policy portfolios, from inception, which was, our understanding is March 2019, until the most current date available on a monthly basis, including both the calculation and underlying data for the calculations.

And for great clarity, this data would include the monthly time series of returns of shadow policy and liability benchmark portfolios.

MR. STEVE SCARFONE: Yes. So, the Corporation will take that under advisement and advise tomorrow.

MS. KATRINE DILAY: We appreciate it. Thank you, Mr. Scarfone.

--- UNDERTAKING NO. 40: MPI to provide surplus volatility statistics for the shadow portfolios, as compared to the policy portfolios, from inception until the most current date available on a monthly basis, including both the calculation and underlying data for the calculations. This data would include the monthly time series of returns of shadow policy and liability benchmark portfolios. (UNDER ADVISEMENT)

CONTINUED BY MS. KATRINE DILAY:

MS. KATRINE DILAY: Thank you, Mr. Bunston. We can go to a reference, if you'd like.

But you'll agree that MPI will evaluate inflation risk in relation to the various asset portfolios, liabilities, and surplus in the upcoming Asset Liability Management Study?

MR. GLENN BUNSTON: Yes, we plan to evaluate the risk of inflation versus the impacts of inflation on our assets and liabilities in the upcoming study, yes.

MS. KATRINE DILAY: And you'll agree that MPI's next Asset Liability Management Study will be conducted in early 2022?

MR. GLENN BUNSTON: Yes, we plan to -- to start on the study in early 2022.

MS. KATRINE DILAY: And MPI has indicated that the work will likely take six (6) months, correct?

MR. GLENN BUNSTON: That's correct.

MS. KATRINE DILAY: And once complete, MPI has indicated that recommendations must be approved by the Investment Committee?

MR. GLENN BUNSTON: That's right.

MS. KATRINE DILAY: And, as a result, the approved strategy will not be ready to be included in the 2023 GRA filing, but likely can be provided prior to the start of the hearing?

MR. GLENN BUNSTON: That's what we wrote in the application. It depends, I guess, on how long it takes to do the actual work and when we're able to start the study.

We have drafted the RFP for the study. As you know, it takes some time to work through the RFP process, but we plan to do that over the next couple of months, and to select the consultant sometime in December, ideally by the end of December, and start working with the consultant shortly thereafter.

So, depending on how long it takes to -- to finish the RFP process, we'll start working with the consultant as soon as they're selected and in place.

And, again, based on the last three (3) studies that I personally was involved with at MPI, I know that a significant amount of work is involved for both MPI's internal investment team, as well as for the consultant selected. And it is, as you pointed out, important work for selecting the asset allocation for the Corporation. So we want to make sure that we allow sufficient time to -- to do that work and that we don't rush through it.

But our goal is certainly to -- to have that work finished in time for the -- for the GRA next year, and we are working towards that.

MS. KATRINE DILAY: Thank you, Mr. Bunston. You'll agree that if the Asset Liability Management Study is only filed prior to the start of the hearing and not with the filing, the Public Utilities Board and Interveners may not have an opportunity to ask information requests on the study?

MR. GLENN BUNSTON: Yes, I understand that. And -- and, like I said, that's why we're working towards having it done prior to the filing of the GRA so that it can be included there, which would be our preference.

MS. KATRINE DILAY: Thank you. And just staying on this topic, Ms. Schubert, if we could turn to CAC-MPI-1-84.

And looking at the preamble here, if we go down a little bit -- if you could keep going, Ms. Schubert, there should be a reference to the Public Utilities Board Order 130 of '17.

Thank you. Right there would be perfect.

So, Mr. Bunston, I'll just give you a couple seconds to -- to review the excerpt here from PUB Order 130 of '17.

(BRIEF PAUSE)

MS. KATRINE DILAY: And, Kristen, I think the excerpt also goes a little bit on the next page, as well.

(BRIEF PAUSE)

MS. KATRINE DILAY: And, Mr. Bunston, you'll agree that PUB in this expert -- in this excerpt, pardon me, was commenting on MPI's view in 2017, that it would be able to complete the ALM study process in under three (3) months rather than six (6) months.

Is that your understanding?

MR. GLENN BUNSTON: That's what we wrote here, yes.

MS. KATRINE DILAY: And sorry, just to confirm, this was the Public Utilities Board order summarizing MPI's position, correct?

MR. GLENN BUNSTON: Yes, that's right.

MS. KATRINE DILAY: And is it your understanding that a firm like Mercer's does a lot of these asset liability management studies for various companies or public entities?

MR. GLENN BUNSTON: Yes, I think Mercer does many ALM studies.

MS. KATRINE DILAY: And based on MPI's experience in 2017, referred to in the excerpt we just saw, you'll agree that a firm such as Mercer's could complete an ALM study in under three (3) months, correct?

MR. GLENN BUNSTON: It's possible, yes.

MS. KATRINE DILAY: I'd like to now turn to the topic of investment income forecasting. And I'll just have one (1) more topic after this one.

Generally speaking, you'll agree that evaluating the predictive ability of a forecast is important?

MR. GLENN BUNSTON: Yes, I agree.

MS. KATRINE DILAY: As well as assessing the nature of the errors after the fact?

MR. GLENN BUNSTON: Yes, looking at the -- assessing the accuracy of the forecast is important, yes.

MS. KATRINE DILAY: And would this involve looking back at actual observed history and comparing the predicted values with actuals?

MR. GLENN BUNSTON: Yes.

MS. KATRINE DILAY: And analysis of the errors in the forecast can then be used to gain insight on the forecast's performance?

MR. GLENN BUNSTON: Correct.

MS. KATRINE DILAY: And, generally speaking, you'll agree that the purpose of analyzing the nature of forecast errors is to draw insight from the failings of the current forecast methods and improve the forecasting techniques?

MR. GLENN BUNSTON: I would agree.

MS. KATRINE DILAY: And turning to the investment income forecast more specifically, you'll agree that MPI uses its investment income forecast as part of the determination of the revenue requirement for the test year?

MR. GLENN BUNSTON: It's used to forecast our investment income, which is a portion of our total income, which determines how much revenue we would need from customers to offset the expected costs.

MS. KATRINE DILAY: So when MPI forecasts an investment income amount that is under the actual amount, that is realized, ratepayers still paid -- are still paying rates reflective of the forecasted amounts, all else equal. Correct?

MR. GLENN BUNSTON: Right. And the reverse would be true as well. When returns exceed the forecast, the rate charged would be too low.

MS. KATRINE DILAY: I appreciate that. And so, when -- in other words -- and to -- for clarity, when MPI under forecasts investment returns, ratepayers must pay more of the revenue requirement, all else equal?

MR. GLENN BUNSTON: Correct. And the reverse is true as well.

MS. KATRINE DILAY: Thank you. And generally, you're aware that the issue of investment income forecasting was discussed during the 2021 GRA last year?

MR. GLENN BUNSTON: I think investment forecasting has been discussed at every Hearing, so yes.

MS. KATRINE DILAY: Thank you. And if we could turn -- just to refresh our memories, if we could turn to CAC-MPI-1-50 from the 2021 GRA which was last year. And if we look at the response, starting with 'B'. Thank you, Ms. Schubert.

And so you'll agree that MPI indicated here that the Canadian equity total return assumption is not frequently tested to support its validity.

Do you see that?

MR. GLENN BUNSTON: I see that. Yeah.

MS. KATRINE DILAY: And then, at the end of the -- the response to 'B', MPI indicates that the methodology employed by MPI has been approved by the PUB, correct?

MR. GLENN BUNSTON: Yes.

MS. KATRINE DILAY: And in response to 'C', the same answer is provided with respect to the global equity and global low volatility total return assumptions not being frequently tested to support their validity, correct?

MR. GLENN BUNSTON: Yes, that's right.

MS. KATRINE DILAY: And, similarly, in response to 'D', the same response is provided with respect to real estate pooled funds?

MR. GLENN BUNSTON: It is, yes. Actually, going back up to the response to 'C', I do note that we did look at Mercers capital market assumptions in May of 2020. And that their capital markets assumptions were very close to the assumptions that we used at that time. So they were checked against Mercers current assumptions and are very close.

MS. KATRINE DILAY: And then, just going back to the answer to part 'E', similarly the total return assumptions for infrastructure is not frequently tested to support its validity. Correct?

MR. GLENN BUNSTON: Correct. We used CPI plus a spread of 5 percent, which is a common benchmark used for -- for infrastructure investments for Canadian institutional investors.

And if we could to another Information Request from the 2021 GRA, CAC-MPI-2-18A.

(BRIEF PAUSE)

MS. KATRINE DILAY: And if we could go a bit lower, Ms. Schubert. We can keep going a little bit, please.

(BRIEF PAUSE)

MS. KATRINE DILAY: My apologies. I might have gotten the wrong reference. Kristen, does the answer keep going on the next page, by any chance?

(BRIEF PAUSE)

MS. KATRINE DILAY: That's fine. I think I will skip this question. My apologies.

And if we could turn to CAC-MPI-1-82,in the current GRA, the 2022 GRA.

(BRIEF PAUSE)

MS. KATRINE DILAY: Thank you, Ms. Schubert. And, Mr. Bunston, is it your understanding that after being asked an Information Request by CAC, MPI provided an analysis of the validity of return assumptions for each asset class, and this is what we see here?

MR. GLENN BUNSTON: Yes. My understanding is the CAC used the data that we provided and calculated differences and forecast errors.

I will point out that there actually was an oversight on our part in this. And I think we planned to actually file an update.

MS. KATRINE DILAY: I believe it was filed.

MR. GLENN BUNSTON: It was filed, okay. Yes. So the -- the MUSH returns were omitted or incorrect in the first two (2) years and should have been, I think, 5.2 and 5 percent.

MS. KATRINE DILAY: Thank you for that.

So we're going to maybe take it a little bit slower. So just focusing on the appendix here that we have before us and confirming what we see.

So am I correct in saying that this analysis, essentially, compares the forecasted and actual returns by asset class from 2013/'14 to 2020/'21 to get an annual variance by asset class?

MR. GLENN BUNSTON: That's right. Yes.

(BRIEF PAUSE)

MS. KATRINE DILAY: And if we look at page 2, which Ms. Schubert, of course, already has ready. And if we look at the -- thank you -- if we look at the column for the year 2020/'21 -- so that's the last column. And we look at Canadian MUSH returns, which is the fourth row from the top.

You'll agree that the difference here was 0.07 -- correct -- percent?

MR. GLENN BUNSTON: Yes. Seven (7) basis points difference, you're right.

MS. KATRINE DILAY: But if we look two (2) rows down from there, which is for the Canadian equity returns in 2020/'21, you'll agree the difference here was 48.96 percent, correct?

MR. GLENN BUNSTON: Yes. Equities are a very volatile asset class, so we can see here the variance on equities is -- is high in some years.

MS. KATRINE DILAY: And so, can you confirm that the variances we see in this table are the difference in actual to forecast returns?

MR. GLENN BUNSTON: That's right.

MS. KATRINE DILAY: And so, it's not the percentage error, correct?

MR. GLENN BUNSTON: It's not.

MS. KATRINE DILAY: And subject to check, you'd agree that in order to get the percentage error, we would have to subtract the forecast from the actual, then divide by the forecast?

MR. GLENN BUNSTON: That's right.

MS. KATRINE DILAY: And so, by way of example, if we were to take the Canadian equity return in 2020/'21 -- which we just looked at -- we would take the actual return for Canadian equities, which is actually in the first table in this appendix -- if we could go back one page, Ms. Schubert.

So we would look at the 55.76 percent actual return for the Canadian equity returns first, correct?

MR. GLENN BUNSTON: That's right.

(BRIEF PAUSE)

MS. KATRINE DILAY: And then, if we look at the forecasted return, which is that second table on this page, for that particular asset class, Canadian equity returns, the forecast was 6.80 percent?

MR. GLENN BUNSTON: Right. Yeah. So

56 percent, less six-point-eight (6.8), gives us a difference of -- what's it -- forty-nine (49).

MS. KATRINE DILAY: So, I guess, I'm looking for the kind of overall numbers. So if we were to calculate the forecast error, it would equal 720 percent. Is that right?

MR. GLENN BUNSTON: That's correct.

MS. KATRINE DILAY: And you -- you referred earlier to a graph or a scatter plot that was prepared by one of our advisors to assist in cross-examination.

And I assume, based on your response, that you are aware we provided this to MPI in advance of today?

MR. GLENN BUNSTON: Yes, I have seen it.

MS. KATRINE DILAY: And you've had a chance to review it?

MR. GLENN BUNSTON: I have, yes.

MS. KATRINE DILAY: And is it your understanding -- and, Ms. Schubert, maybe we could pull -- pull up the scatter plot.

And so, is it your understanding that this shows the forecast error per asset class since the year 2013/2014?

MR. GLENN BUNSTON: Yes, for those -- for as far back as the asset classes have history. Some of them only have two (2) years of history. Others have up to eight (8) years of history, yes.

MS. KATRINE DILAY: And this scatter plot was prepared using the data that MPI provided in response to CAC-MPI-1-82, Appendix 1, that we just looked at, correct?

MR. GLENN BUNSTON: I believe it was, yes.

MS. KATRINE DILAY: And apart from the issue that you did raise regarding the revision that MPI filed today, were there any issues with the calculations or the data used to prepare this scatter plot?

MR. GLENN BUNSTON: I don't think that there was.

MS. KATRINE DILAY: And I just want to -- at a high level, you'll agree that some asset classes are more variable in terms of forecast error. Specifically, if we look at equities -- Canadian equity, U.S. equity, and global equity, as well as marketable bonds. You'll agree with that?

MR. GLENN BUNSTON: Yes. Certainly, Canadian equities has the -- by far, the largest errors -- forecasting errors here. But equities in general are volatile and difficult to forecast.

So we see all four (4) equity asset classes have significant errors here in terms of forecasting. And similarly, marketable bonds, less volatility than equities, but there are standard errors there as well.

MS. KATRINE DILAY: And the reason we know that these asset classes are more variable are because the data points are just more spread out, correct?

MR. GLENN BUNSTON: That's right.

MS. KATRINE DILAY: And some of the asset classes here are fairly stable or more stable in terms of forecast error. For example, if we look at pooled real estate, infrastructure, and MUSH, would that be right?

MR. GLENN BUNSTON: Yes. The forecast errors for those asset classes are much smaller than for equities.

MS. KATRINE DILAY: And we know this because the data points are more clustered together, correct?

MR. GLENN BUNSTON: Correct. They're -- they're clustered closer to the zero percent line.

MS. KATRINE DILAY: And if we could go back to the response to CAC-MPI-1-82. And if we look to the -- the actual IR itself, the response to 'B'.

(BRIEF PAUSE)

MS. KATRINE DILAY: Thank you, Ms. Schubert.

And so, you'll agree that, in response to this IR, MPI concludes that, overall, the results show low variance between the actual returns and the forecasted returns?

MR. GLENN BUNSTON: Yes.

MS. KATRINE DILAY: And you'd agree that your conclusion -- or MPI's conclusion relies on the table that is provided at the end of the Appendix 1?

MR. GLENN BUNSTON: Yes, that's right.

MS. KATRINE DILAY: But you'll agree that the table in Appendix 1 shows -- sorry. You'll agree that the table includes average variance over the time period studied, correct?

And maybe we can turn to that -- I apologize for jumping around, Kristen. If we could look to the last table in this appendix. Thank you.

And so, you'll -- if we look at the very last table here, you'll agree this table is including average variance over the time period studied, correct?

MR. GLENN BUNSTON: That's correct.

MS. KATRINE DILAY: So it does not reflect how variable the variance might be from year to year, correct?

MR. GLENN BUNSTON: That's true.

MS. KATRINE DILAY: And, Ms. Schubert, if we could look to CAC-MPI-2-30, Part 'C'.

(BRIEF PAUSE)

MS. KATRINE DILAY: And, here, you see that MPI responded it is not aware of any forecasting techniques that may have produced better results, correct?

MR. GLENN BUNSTON: Correct.

MS. KATRINE DILAY: And, generally, and without going into details, are you aware of economic scenario generators?

MR. GLENN BUNSTON: I am generally aware of them, yes.

MS. KATRINE DILAY: Is it your

understanding that these are computer-based models that simulate future interest rate paths, including yield curves?

MR. GLENN BUNSTON: Yes, I think forecast of interest rates would be one output of a economic scenario generator.

MS. KATRINE DILAY: And, generally, are you aware of market-based forecasts?

MR. GLENN BUNSTON: Generally I'm aware of them, yes.

MS. KATRINE DILAY: And is it your understanding that modern financial markets have developed a number of prediction market that establish the value of a commodity at some future point in time?

MR. GLENN BUNSTON: Well, I think investors are always trying to predict the future and those that are successful are few and far between. But that's the goal of all investors.

MS. KATRINE DILAY: And in terms of what I just referred to in terms of prediction markets, is it your understanding that these are commonly referred to as futures contracts?

Are you aware of that?

MR. GLENN BUNSTON: Sorry, could you rephrase the question?

MS. KATRINE DILAY: Is it your understanding that modern financial markets have developed a number of prediction markets that establish the value of a commodity at some future point in time, and this is referred to as futures contracts?

MR. GLENN BUNSTON: Yes, a futures contract is where two (2) parties agree to buy or sell an asset at -- at a future date. And -- and set at that price -- in -- today at the current -- yes.

MS. KATRINE DILAY: And what we've just referred to would be one (1) type of market-based forecast?

MR. GLENN BUNSTON: Yes, futures contracts could be used to -- to forecast future prices.

MS. KATRINE DILAY: And would you agree that historical results as a predictor of future performance is another approach to forecasting investment returns, generally speaking?

MR. GLENN BUNSTON: Historical prices, yes, could be used for forecasting.

MS. KATRINE DILAY: And this is the approach currently employed by MPI for the Canadian Equities Return Assumption, correct?

MR. GLENN BUNSTON: Yes, that's right.
MS. KATRINE DILAY: And another approach is naive forecasts and assumed forecasts?
MR. GLENN BUNSTON: I'm not familiar with assumed forecasts. I don't know, maybe you could provide a definition?
MS. KATRINE DILAY: Maybe let's just stick with the -- the -- another approach is naive forecasts. Correct?
MR. GLENN BUNSTON: That's right.
MS. KATRINE DILAY: And this is currently employed by MPI in interest rate forecasting, as well as with the real estate and infrastructure fund, as well as some O&M forecasts?
MR. GLENN BUNSTON: Well, for real estate and infrastructure, we use banks to forecast inflation and the forecasted return is -- is based on inflation plus a spread.
MS. KATRINE DILAY: And -- but to confirm, and I apologize my question was -- was long, the naive forecast is currently employed by MPI in interest rate forecasting. Correct?
MR. GLENN BUNSTON: That's right.
MS. KATRINE DILAY: And essentially a naive forecast is a static forecast based on today's

value of a variable, or some other static assumption?

MR. GLENN BUNSTON: Yes, that's right.

MS. KATRINE DILAY: Just two (2) or three (3) more questions to finish up. I have a couple questions that are clean-up crosses from the Expenses panel.

Ms. Schubert, if we could turn to CAC-MPI-1-82, Appendix 1, that we looked at earlier and specifically the last table in this document, on page 2.

And I think you've already agreed to this, but just so I can confirm, again, for myself, you'll agree that the first column in the last table here that we see summarizes MPI's average performance of its investment asset classes since 2013/14?

MR. GLENN BUNSTON: Yes, that's correct.

MS. KATRINE DILAY: And just to confirm what the -- in terms of the numbers, the lowest number that we see there would be private debt at 1.17 percent. Correct?

MR. GLENN BUNSTON: That's the lowest number there, yes.

MS. KATRINE DILAY: Madam Chair, if I could have just a few seconds to review my notes and I think those might be all of my questions.

THE PANEL CHAIRPERSON: Certainly. Thank you.

(BRIEF PAUSE)

MS. KATRINE DILAY: Madam Chair, those are all of my questions for the investment panel. Thank you very much for your answers.

THE PANEL CHAIRPERSON: Thank you, Ms. Dilay.

Mr. Scarfone, our counsel has indicated, in discussions with Ms. Meek, that she may take an hour, so that will put us well past our end of day as we discussed earlier. So, I propose that we start with Ms. Meek tomorrow morning.

Perhaps counsel could discuss what that might mean in terms of Thursday's panel because it may run over. So, I'm not sure what day would be the appropriate day then to continue with the DSR VFH panel, so perhaps we could hear back from everybody tomorrow morning. Thank you.

--- Upon adjourning at 3:34 p.m.

Certified Correct,

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Wendy Woodworth, Ms.