

- 1 **Q. Coyne Evidence: Please indicate why Mr. Coyne would disagree with financial**
2 **theory that the best predictor of the long term return from bonds is the current long**
3 **term bond yield and that the yield curve is the best predictor for future bond yields?**
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- 5 A. Mr. Coyne finds the forecast long term bond yield is better suited for calculating a
6 forward-looking ROE estimate than current bond yields. Mr. Coyne believes that
7 consensus forecasts for bond yields, as he has used, convey important information to
8 investors regarding expectations for future interest rates over their relevant investment
9 horizon. The use of a forecast is especially appropriate when it is clear that the consensus
10 is that long term rates will deviate from their current historic lows. As stated by the
11 Board in the Decision and Order in P.U. 13(2013) at page 22: “It is regulatory practice in
12 Canada to use the forecast yield for the long-term Canada bond as a proxy for the risk
13 free rate in equity risk premium models.”