

Q. McShane Evidence - Trends in capital markets, pages 27-49

- a. Is Ms. McShane aware of the recent comments of the Governor of the Bank of Canada that “the Canadian financial system is firing on all cylinders”?**
- b. Can Ms. McShane provide any referenced data to indicate that the Canadian financial system was firing on all cylinders at any time in 2009?**
- c. Can Ms. McShane confirm that the Government has had to introduce three successive rounds of tightening in the mortgage market as consumer borrowing remains very strong in Canada?**
- d. Can Ms. McShane confirm that the Canadian banks recently reported record profits and no Canadian banks had to be bailed out by OSFI?**
- e. Can Ms. McShane agree that if the Board agrees with her that the situation is similar to 2009 then the then ROE of 9.0% is fair and reasonable and not her recommended 10.50%?**

- A.**
- a. Yes. However, Mr. Carney’s full statement included the proviso, “That said, the world’s a very dangerous place at the moment.”
 - b. The Canadian financial system was not “firing on all cylinders” during 2009, but, as of the end of the oral portion of the 2010 GRA, it had improved demonstrably since the peak of the financial crisis.
 - c. The changes announced this past July were the fourth round of rule changes since 2008. Confirmed that the tightening was due to strong consumer borrowing and, in fact, the concern that Canadian consumers have continued to take on too much personal debt, making them vulnerable to increases in interest rates. The most recent data released by Statistics Canada through the second quarter of 2012 showed the household debt to income ratio hitting an all time high.
 - d. Yes, Ms. McShane is aware that Canadian banks have recently reported record profits, consistent with the continued borrowing by Canadian consumers. No Canadian banks were bailed out during the financial crisis.
 - e. As stated in response to CA-NP-366 h, as regards how the PUB should approach the requested ROE, in Ms. McShane’s view, the Board should always consider the evidence from first principles.