

1 **Q. Reference pages 29-30: ERP Estimates: Please indicate the basis for using a risk**
2 **premium of actual equity returns over a bond yield, rather than a bond return.**
3 **Please provide citations to published research in peer refereed academic journals**
4 **(not consulting reports) that would support a mismatching of returns with yields as**
5 **is indicated in Table 15.**

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7 A. The *GOVERNMENT OF CANADA MARKETABLE BONDS - AVERAGE YIELDS -*
8 *OVER 10 YEARS* report from 1919-2011 available from the Bank of Canada website was
9 used as the source for the bond information in the Historical ERP. Mr. MacDonald notes
10 that bond yields are referenced for use in the calculation of the equity risk premium in a
11 number of the studies in *Rethinking the Equity Risk Premium 2011*, published by the
12 Research Foundation of the CFA Institute, including *The Equity Risk Premium*, by Roger
13 G. Ibbotson. This paper is referenced as *u* in Mr. MacDonald's Scope of Work on page
14 44 of his written evidence.