Weekly Updates Issue # 551

1. Weekly Markets Changes

[February 12, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
12,381.24 -382.8 -3.00%	1,864.78 -15.27 -0.81%	15,973.84 -231.1 -1.43%	4,337.51 -25.63 -0.59%	$0.7221 +0.37¢ +0.52%	$1,238.50 +64.40 +5.49%	$29.02 -1.98 -6.39%

2. ORPP could thwart young savers, says PMAC

[February 12, 2016] The Ontario Retirement Pension Plan may stymie young workers who want to save for a home, says PMAC.

The portfolio managers' association is asking the Ontario government to hold off on its planned provincial pension plan and try to work with the federal government to augment CPP. One of the reasons it doesn't support a provincial plan is the unintended effect it will have on some workers.

PMAC President Katie Walmsley says younger workers who want to buy a home may choose to lower their contribution levels to their employer plans — but if they drop them too much, and they'll have to contribute to ORPP, blocking savings efforts.

Workers can be served by pooled retirement pension plans, and an Ontario plan would be redundant, Walmsley argues. PMAC represents more than 220 investment management firms. While Walmsley notes that some of her members' work on public pension funds like the CPP, and would likely work on an ORPP, it doesn't affect the association's lack of support for the plan.

"I think, in either of these solutions, assets are moving around," she told Benefits Canada. "I think we're probably one of the most agnostic groups in terms of which direction it goes."

3. Promises kept and broken in Trudeau's first 100 days

[February 12, 2016] Promises, promises.

Justin Trudeau made 214 of them during last fall's marathon election campaign, according to TrudeauMetre.ca, a non-partisan, citizen-driven website that tracks if and when the prime minister delivers on his commitments.

As his Liberal government prepares to mark its 100th day in power Friday, the website reckons Trudeau has so far delivered on 13 promises, started 29 more and broken at least two.

While some of the website's conclusions are debatable, they underscore that despite a running start, the government has made barely a dent in a sweeping platform that promised transformative change on multiple fronts: stimulating the stagnant economy, transforming government and even overhauling how governments are chosen.

A number of big promises, such as a new child care benefit and massive infrastructure investments, are expected in the Trudeau government's maiden budget late next month.

Here's a look at what's been accomplished — or not — so far:

PROMISES KEPT

• A more open, accessible style of governance, working with provincial and municipal leaders and striking a less adversarial tone.

• A cabinet with as many women as men.

• A 20.5% income tax rate for Canadians earning between $45,282 and $90,563, down from 22%.

• A new 33% tax bracket on income of more than $200,000.

• Restore the mandatory long-form census.

• Unmuzzle scientists.

• An arm's-length advisory body to recommend merit-based nominees for the Senate

• Withdraw Canadian fighter jets from Syria and Iraq. This week, Trudeau said the jets will be coming home by February 22 while the government beefs up humanitarian aid and military support to train Iraqi ground forces.

• Improve access to and reduce the cost of prescription drugs. The federal government has joined the provinces in a cheaper bulk-buying scheme.

PROMISES IN PROGRESS

• Launch a national inquiry into missing and murdered indigenous women. The government has so far set up a consultation process to determine how best to conduct the inquiry.

• Establish a Pan-Canadian framework for combating climate change. Trudeau has met with the premiers and led a delegation to the UN climate summit in Paris to signal Canada would no longer be a "laggard" on global warming. But the government has not yet committed to a more ambitious target for cutting GHG emissions — or a plan for achieving it.
• Re-establish public trust in environmental assessments of resource-based projects. While it develops new rules, the government has introduced an interim process — including new environmental hurdles and consultations with Aboriginal Peoples — for projects that are already under regulatory review, such as the proposed Energy East pipeline.
• Reform the operation of Parliament, including empowering backbenchers with more free votes, a weekly prime minister's question period, more open board of internal economy meetings and an end to omnibus bills.
• Repeal anti-union legislation passed by the Conservative government. Bill introduced in Parliament.
• Scrap legislation unilaterally changing the sick leave program for public servants, while contract negotiations were ongoing. Bill introduced.
• Create a parliamentary oversight committee on national security operations. A chairman has been appointed — Liberal MP David McGuinty — but no committee as yet.
• Reopen nine Veterans Affairs offices closed by the previous Conservative government
• Clarify rules governing political activities by charitable groups to end alleged harassment by the Canada Revenue Agency. The government is winding down the political-activity audits of charities that were launched in 2012.

EXPECTED IN THE FEDERAL BUDGET

• A new, tax-free monthly child care benefit that Liberals say will be more generous for most parents but reduced or phased out entirely for high income earners.
• The first phase of an additional $60 billion over 10 years in infrastructure spending. The platform promised an extra $5 billion this year.
• A number of first instalments of promised multi-year funding: $750 million for post-secondary student grants; $300 million for jobs and skills training; $300 million for business innovation; $250 million for First Nations education; $325 million for pensions for injured veterans and other programs and services for vets.
• Scrap income splitting for couples with children.
• Roll back to $5,500 the $10,000 annual limit on tax-free savings account contributions.

PROMISES BROKEN (or likely to be)

• Bring in 25,000 government-assisted Syrian refugees by the end of last year, at a cost of $250 million. Logistical hurdles and security concerns forced the government to extend the schedule and inflate the price tag. It is now aiming to bring in 25,000 by the end of February, only about 15,000 of them government-assisted refugees, the rest privately sponsored. It intends to bring in another 10,000 government-assisted refugees by the end of the year. Estimated cost: $678 million over six years.

• Immediately implement firearm-marking regulations to help police trace guns used in crime, postponed by the Conservatives last August. A briefing book prepared for Trudeau indicated the government had planned to meet the promise in its first 100 days.

• Run deficits of less than $10 billion in each of the first three years of its mandate, still reducing the debt-to-GDP ratio each year and balancing the books in the final year. Trudeau has acknowledged the deficit will exceed $10 billion this year and that it will be difficult to balance in the fourth year.

• The tax break for middle-income earners was to be revenue-neutral, paid for by hiking taxes for the wealthiest one per cent. In fact, it will cost the federal treasury $1.2 billion a year.

• Trudeau's verbal promise to "restore" door-to-door home mail delivery. The Liberals have reverted to the platform's more cautious wording: stop the Conservative plan to end door-to-door delivery and launch a review of Canada Post.

STILL TO COME

• Replace Canada's first-past-the-post electoral system by the next election. An all-party committee is to examine options and recommend a replacement by mid-2017.

• Reform election laws: repeal controversial elements of the Fair Elections Act, restore the independence of elections watchdogs, create an independent commission to organize leaders' debates during campaigns, limit party spending between elections.

• Ban partisan government advertising; appoint an advertising commissioner to help ensure government ads are non-partisan.

• Legalize marijuana. Little has happened beyond rookie Liberal MP and former Toronto police chief Bill Blair being tapped to lead the effort.

• Overhaul the Access to Information Act, to make government open "by default."

• Reduce the small business tax rate to 9% from 11%.

• Employment insurance reforms, including halving the waiting period for collecting EI, reducing premiums, flexible and accessible compassionate care benefits, more flexible parental leave.
• Restore the age of eligibility for old age security and guaranteed income supplement to 65.
• Work with the provinces to enhance Canada Pension Plan benefits.
• Establish a new nation-to-nation relationship with First Nations, including implementing all 94 recommendations of the Truth and Reconciliation commission.
• Negotiate with the provinces a new health accord, with a long-term agreement on funding that includes an extra $3 billion over four years for improved home care services.
• Amend controversial anti-terrorism legislation to, among other things, ensure legal protests or advocacy can't be construed as terrorist activities and institute a sunset clause requiring review of new measures after three years.
• Scrap the planned $44-billion purchase of 65 F-35 stealth fighter jets, launch an open and competitive bidding process, reallocating the savings to the navy.

4. Trudeau's first budget will show deficit

[February 12, 2016] Prime Minister Justin Trudeau is backing away from a campaign vow to balance the public books before the end of his government's four-year mandate—a pledge that was central to the Liberal election platform. As a result of a weakening economy, the government's upcoming 2016-17 budget plan will show a deficit larger than the Liberals' promised $10-billion shortfall cap, Trudeau told Montreal's La Presse newspaper.

But, just how big that deficit will be remains unclear. If the economy continues to deteriorate, it will be difficult for the Liberals to live up to their pledge to balance the books in 2019-20, Trudeau said in the interview published Thursday.

That's in contract to about two months ago when Trudeau insisted the Liberal plan to make good on its key balanced-budget promise was cast in stone.

The doubts raised now by Trudeau offer a glimpse of the fiscal pressure faced by the Finance Department as it crafts the government's first federal budget, expected late next month. "If we look at the growth projections for the next three or four years, it will be difficult (to return to balance)," Trudeau was quoted by La Presse as saying. "But everything we're doing is aimed at creating economic growth. When predicting the level of growth four years in advance, governments often miss the target."

Trudeau said the Liberal government still intends to fulfil its other, more flexible “fiscal anchor,” which is lowering the debt-to-GDP ratio in every year of its mandate. By zeroing in on debt-to-GDP, economists say the Liberals could run annual deficits of up to $25 billion in the coming years and still push the ratio downwards—as long as the economy grows at a decent pace.

The Liberals have promised to run deficits in the coming years in order to be able to spend billions on projects like infrastructure, which they predict will create jobs and help revive the economy.

Along with infrastructure spending, the Liberals have also pointed to their other economy-boosting plans. They include cutting taxes for middle-income earners, which are offset in part by raising taxes on the highest earners. Also, the Liberals are revamp child benefits so they help more families.

Those measures, however, will lower revenues destined for the public treasury over the coming years. At a news conference later Thursday, Trudeau dodged questions about whether his government would be able to balance the budget in four years.

“We continue to recognize that the Canadian economy is facing real challenges in terms of growth, in terms of jobs for the middle class,” Trudeau said after a meeting with UN Secretary General Ban Ki-moon.

“Our entire framework is about turning around the low-growth rates that Canada has been facing. And we’ve seen, with falling oil prices, that there is a trajectory that continues to look difficult for Canada.” Ottawa’s goal is to generate the kind of growth that will benefit not just the federal balance sheet, but the entire economy, he added.

But, during the fall election campaign, Trudeau promised to keep deficits below the $10-billion mark in 2016-17 and 2017-18 unless the economic situation got radically worse.

In a statement, Interim Conservative leader Rona Ambrose has blamed “out-of-control Liberal spending” for breaking the $10-billion deficit promise. “Unfortunately, it is today’s Canadian families, and generations to come, who will pay the price for Liberal mismanagement.”

In recent months, the Canadian economy has sputtered in large part due to the steep drop in commodity prices. On Wednesday, a National Bank of Canada report said the country’s fading economic prospects could put the Liberal government on track for $90 billion in deficits over its four-year mandate.

5. Morgan Stanley to pay billions for role in financial crisis

[February 11, 2016] Federal and state authorities have reached a US$3.2 billion settlement with Morgan Stanley over bank practices that contributed to the 2008 financial crisis including misrepresentations about the value of mortgage-backed securities.

The nationwide settlement, negotiated by the working group appointed by President Barack Obama in 2012, says the bank acknowledges that it increased the acceptable risk levels for mortgage loans pooled and sold to investors without telling them.

Authorities say loans with material defects were included, packaged into the securities and sold.

For New York state, the settlement includes US$400 million of mortgage reductions and other consumer and community relief and US$150 million in cash. State Attorney General Eric Schneiderman is co-chair of the working group.

Morgan Stanley says it previously reserved funds for all settlement amounts.

6. Don’t depend on a boost from the BoC

[February 11, 2016] Changing global demographics — not monetary policy — are the main drivers of low interest rates in many of the world’s largest economies, finds a study by the Fraser Institute.

“Monetary policy is having less and less impact on interest rates in developed economies such as Canada because the demographic relationship between borrowers and savers has changed dramatically,” says Michael Walker, author of Why Are Interest Rates So Low? a study that develops a new model of how interest rates are determined.

For most of the 20th century, there were many more borrowers than savers. Subsequently, interest rates were high to encourage more saving and ration the scarce funds to borrowers.

Today, however, the opposite is true. There’s a dearth of borrowers—so savers are relatively more numerous.

According to the study, the existence of relatively more savers attempting to invest their funds is the main factor affecting interest rates—not monetary policy conducted by the Bank of Canada or the Federal Reserve.

The study compiles financial and demographic data for 29 countries that account for nearly 90% of the world’s economic output. Walker’s new model of how interest rates are determined differs from popular, yet faulty, economic models, which rely on the use of “typical households” to project economy-wide responses to factors thought to influence interest rates.

Relying on these faulty models, many analysts have predicted that interest rates will return to normal levels sometime soon. And central banks have tried to “talk up” interest rates. Meanwhile, rates in most of the major economies continue to be very low.

“The objectives and behaviour of ‘typical households’ in Canada and most of the world is dramatically different today than when these now-faulty models were constructed, so it’s no surprise that most private analysts and central banks have incorrect expectations,” Walker says.

7. OSC approves record no-contest settlement with CI Investments

[February 10, 2016] The OSC has approved a no-contest settlement agreement with CI Investments Inc. in relation to a matter that CI self-reported to the OSC and that resulted in investors buying and selling units at an understated value.

The settlement involves approximately $156.1 million being returned to harmed investors – the largest amount of investor compensation to date in an OSC no-contest settlement.

This settlement follows allegations by OSC Staff that CI’s system of controls and supervision, and its monitoring and oversight of an outsourced service provider, were not sufficient to address the unique cash collateral feature of certain funds and to ensure that interest earned in related accounts was recorded and included in the NAV.

Staff allege that these inadequacies led to the NAV being understated and that this error was not promptly identified and corrected. Staff do not allege, and have found no evidence of, dishonest conduct by CI.

While having neither admitted nor denied the accuracy of the facts and conclusions of OSC Staff, CI has agreed to the settlement and intends to compensate harmed investors a total of approximately $156.1 million.

In addition, CI has made a payment of $8 million to advance the OSC’s mandate of protecting investors, plus a further payment of $50,000 to be allocated toward the costs of the investigation.

After reporting this matter, OSC says CI provided prompt, detailed and candid co-operation. CI has also taken action to address inadequacies in its systems of controls and supervision. Further, as part of this settlement agreement, CI will be required to report to the OSC on its progress in developing enhanced supervisory and monitoring systems.

“Investors rely on investment fund managers to oversee the accurate calculation of NAV and fund performance to assist investors in making informed investment decisions," says Tom Atkinson, Director of Enforcement at the OSC. "[W]here this does not happen, we will take enforcement action."

Comment from CI Investments

In a release, CI Financial states that it's set aside $10.75 million to remediate the administrative error that is the subject of the settlement agreement. This amount includes the cost of the voluntary payment CI agreed to make to the OSC.

CI further states that the settlement agreement "is in respect of an administrative error that CI Investments discovered in April 2015 and reported to the Ontario Securities Commission. As a result of this error, approximately $156.1 million of interest that had accrued in the bank accounts of seven CI Investments mutual funds had not been properly recorded as an asset in the accounting records of those funds. As a result, the NAVs of these funds, and any funds that had invested in these funds, had been understated for several years. The accumulated interest is in bank accounts owned by the mutual funds and at all times remained in those bank accounts as an asset of these funds and was never co-mingled with the property of CI Investments."

About half of affected retail investors will receive payments of $100 or less.

CI states it "has already undertaken enhancements to its systems and processes to help prevent similar errors from occurring in the future" and has a remediation plan in place.

8. Vancouver real estate agents under fire over 'shadow flipping'

[February 10, 2016] British Columbia's government is issuing a sharp warning to the self-regulated real estate industry after allegations of fraudulent and unethical practices by some Metro Vancouver real estate agents.

Finance Minister Mike de Jong said he is writing to the Real Estate Council of B.C. and the superintendent of real estate to ensure that professional conduct requirements are being followed.

"Realtors are privileged to be part of a self-regulated profession. That is a privilege," de Jong told reporters in Victoria on Tuesday. "Our expectation is that they will govern themselves and conduct themselves in a way that is respectful of that."

The allegations, which first emerged in media reports and from Opposition politicians, cast new scrutiny on the self-policing of the real estate industry. The council is made up of realtors and regulates licensed agents in B.C.

Some real estate agents have allegedly been "shadow flipping," or exploiting a contract clause that allows a property to be resold multiple times before the closing date. The practice increases the final price by hundreds of thousands and allows the agent to collect commission on each sale.

Only the final buyer pays the property transfer tax, meaning B.C. is potentially losing out on millions in tax revenue.

Asked what the province will do to prevent the practice, de Jong said the "real potential sin" is real estate agents who are not protecting the interests of their clients. It's up to the real estate council to take action, he added.

"It's why the council exists. If they're not up to the job, then we'll make some further decisions."

The government has promised measures in next week's budget to address concerns about housing supply, pricing and affordability.

The council announced Tuesday that the superintendent of real estate, Carolyn Rogers, will chair an independent advisory group to investigate business practices and regulation of real estate agents.

Rogers said that like the council, her role is to ensure the public interest is protected and confidence in the real estate sector is maintained.

"I look forward to working with the members of the advisory group on this important assignment and responding in a manner that assures the public that they can have full confidence in the integrity of the sector," she said in a statement.

The advisory group will include representatives from the legal profession, academia, and the business community. An interim deadline of April 8 has been set for initial recommendations.

David Eby, housing critic for the Opposition New Democrats, said the superintendent and council have failed in their responsibility to oversee the industry and should not be leading the investigation.

"Here you have two bodies that are clearly part of the issue leading the investigation into themselves, and that is not an adequate response," he said.

Eby sent two letters last month to the council after a real estate agent came forward as a whistleblower. The council initially declined to investigate, saying in a Jan. 19 letter that "no specifics have been provided that would suggest that your informant's concerns are warranted."

The council announced Monday it would set up the advisory group, hours after Eby publicly called for a formal arm's-length inquiry.

Tsur Somerville, an associate professor at the University of British Columbia's Centre for Urban Economics and Real Estate, said it's not surprising the council initially decided it couldn't investigate without a specific complaint.

“The council is more set up for disciplining individual agents for egregious behaviour and not necessarily for widespread restructuring of things that pertain to the industry.”

9. Sask. wants federal gov’t to pay laid-off oil workers to clean old wells

[February 9, 2016] Saskatchewan wants the federal government to bankroll a program that would see oil and gas workers who have lost their jobs clean up abandoned and dormant wells.

Premier Brad Wall says it would help stimulate employment in the oil-and-gas sector and accelerate environmental cleanup of wells that are no longer capable of production.

Wall has pitched the proposal, which would cost Ottawa $156 million, to Prime Minister Justin Trudeau.

“Here is a chance for us to actually put people back to work in the energy services sector and continue with the cleanup (of suspended wells), perhaps at a more accelerated rate,” Wall says.

He estimates the program would generate 1,200 jobs and speed up the decommissioning and reclamation of 1,000 non-producing wells in Saskatchewan over the next two years.

The government estimates there are more than 20,500 “suspended” wells in the province that are currently not producing, many of which are waiting to be decommissioned and reclaimed.

Work would include safe removal and disposal of old equipment, remediation of any spills, covering wells in concrete to eliminate venting of greenhouse gases such as methane and revegetation of the land.

The federal government has indicated it is considering the proposal, Wall says. “I look forward to a favourable response.”

Officials in the Prime Minister’s Office were not immediately available for comment.

Saskatchewan’s proposal is the brainchild of Matt Cugnet, president of Valleyview Petroleums Ltd., a family-owned exploration and production company in Weyburn. Cugnet says the service sector has been hit hard by the economic downturn caused by low oil prices, forcing his and other companies to lay off trained workers with lots of experience.

He notes hiring those workers to deal with suspended wells would help the economy and the environment. “You can pay people to sit home on employment insurance or you can pay them to create value.”

It would also encourage workers to not move away from the region in search of other jobs, he suggests. Employees will be needed when the price of oil and the industry's prospects bounce back. “We are trying to hold on to our people as best we can. Otherwise we lose their skillset, knowledge and experience.”
Cugnett shared his idea with the member of the legislature for the Weyburn area, who presented it to the provincial government.
The Alberta government says industry should cover costs related to remediating abandoned wells.
“We would welcome federal assistance to address orphaned wells, however, our priority right now is investing in infrastructure to create jobs and stimulate the economy through the downturn, which has been the primary focus of our discussions with the federal government,” says Matthew Williamson, an official in Premier Rachel Notley's office.
Energy companies should cover the cost of cleaning up old wells, says Larry Hubich, president of the Saskatchewan Federation of Labour.
Hubich declined a request for an interview.

10. Manulife introduces insurance that rewards clients for healthy living

[February 9, 2016] Manulife Financial Corporation has reached an agreement in Canada with The Vitality Group to introduce life insurance that rewards people for healthy living.
Customers who choose this new insurance will have opportunities to save on their insurance premiums, and earn rewards and discounts for taking steps to improve their health. Members will receive personalized health goals and can log their activities using online and automated tools, which are integrated with wearable fitness technology.
How it works
After completing the application process, new members will take an online Vitality Health Review to determine their Vitality Age, an indicator of overall health that may be higher or lower than their actual age, which can improve over time as they work toward living a healthier life.
After their policy is issued, members will begin accumulating points when they complete health-related activities like exercising, getting an annual health screening or a flu shot. The number of points a policyholder earns over the course of a year determines his program status level. The more involved he is in working towards a healthier lifestyle, the more points he can accumulate to earn other rewards and discounts from leading retailers.

During the first half of 2016, Vitality and Manulife will be developing the full scope of the Canadian program, which includes collaborating with other retailers for the rewards component.

Have a nice and fruitful week!