

Fourth Session - Thirty-Eighth Legislature
of the
Legislative Assembly of Manitoba
Standing Committee
on
Public Accounts

Chairperson
Mr. Jack Reimer
Constituency of Southdale

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MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Eighth Legislature

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LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

Wednesday, December 7, 2005

TIME – 6 p.m.

LOCATION – Winnipeg, Manitoba

CHAIRPERSON – Mr. Jack Reimer (Southdale)

VICE-CHAIRPERSON – Mr. Jim Maloway (Elmwood)

ATTENDANCE – 11 QUORUM – 6

Members of the Committee present:

Hon. Mr. Selinger

Messrs. Cummings, Dewar, Hawranik, Ms. Korzeniowski, Messrs. Lamoureux, Maguire, Maloway, Reimer, Santos, Swan

APPEARING:

Hon. Jim Rondeau, Minister of Industry, Economic Development and Mines

Hon. Gord Mackintosh, Minister of Justice and Attorney General

Mr. Leonard Derkach, MLA for Russell

Hon. Jon Gerrard, MLA for River Heights

Mr. Jon Singleton, Auditor General of Manitoba

Mr. Hugh Eliasson, Deputy Minister of Industry, Economic Development and Mines

MATTERS UNDER CONSIDERATION:

Auditor General's Report – Examination of the Crocus Investment Fund, May 2005

* * *

Mr. Chairperson: Good evening. Will the Standing Committee on Public Accounts please come to order.

Due to extremely tight time frames, between the time of the meeting being announced in the House and the start of the meeting, letters were not sent out to committee members requesting submissions for agenda items or questions regarding detailed answers.

During the meeting of the Standing Committee on Public Accounts on December 10, 1991, the committee adopted certain recommendations of the Auditor General regarding the operations of the

Public Accounts Committee. The recommendations included the use of a working agenda and the provision of notice of questions requiring detailed answers in advance of the meeting wherever possible.

In the Rules Committee meeting held this afternoon, the consensus on the Rules Committee was to do away with this process and keep the new agenda process as simple as possible. The wording in the December 10, 1991, committee report was as follows: That the committee consider adopting a working agenda. With the adoption of the new rules pertaining to the Public Accounts Committee this afternoon the new rule states the Chairperson and Vice-Chairperson must set the agenda for the meeting and provide a copy of the agenda to the Government House Leader before the meeting is called.

I am thinking that the December 10, 1991, process is now redundant.

As was indicated in the announcement, this committee will sit no later than 9 p.m. this evening. I would like to remind all members in attendance, in accordance with our rules, speaking times in standing committees is 10 minutes.

I would now invite the Honourable Minister of Industry, Trade and Mines if he was wanting to make an opening statement, and please introduce his officials in attendance.

Hon. Jim Rondeau (Minister of Industry, Economic Development and Mines): Mr. Chair, I am pleased to respond to the Auditor General's recommendations on the administration matters related to the examination of the Crocus Investment Fund.

I am joined by my Deputy Minister, Hugh Eliasson.

Mr. Chairperson: Thank you, Mr. Minister.

Does the critic for the official opposition have any opening statements?

Mr. Gerald Hawranik (Lac du Bonnet): Yes, I do, Mr. Chairperson. I would like to, first of all, make it perfectly clear that whenever I refer, or my

colleagues refer, to the word "minister," we are not necessarily referring to a particular minister. We are referring to the office whenever we make questions, unless we say otherwise.

There are some very serious questions that demand some serious answers, and truthful answers, and answers that we expect, when we ask a question, to be as complete as possible. Of course, we recognize that this hearing is not under oath, but questions and answers are recorded and they are going to be available to others. It is a public matter, a public record, particularly answers. Others may use them to judge your truthfulness and completeness in subsequent hearings where you may be required to provide testimony under oath, and I see that there are at least three opportunities in the future where there will be testimony under oath to test the truthfulness and completeness of your answers. First, it could be in the examination for discovery. The Crocus shareholders, of course, have started a \$200-million lawsuit, and while the lawsuit may not involve those personally at the table, what could happen is that those who are so-called interested parties can be drawn into an examination for discovery, and examination for discovery is under oath.

I would like to draw attention as well to the fact that there is also the trial, not only the examination for discovery, but the trial. Anyone in the department, I feel, is fair game to be subpoenaed to give evidence under oath, if that occurs in a trial, including ministers and deputy ministers.

Thirdly, we have made a commitment as a PC government to a public inquiry, if we become government, and certainly that is going to be under oath as well.

It is also possible that the Province could be named as a defendant at some point in time in any event, and what you say in the examination and for discovery and trial, if you are still called to testify, if you are called to testify that will be under oath and, of course, that could be compared to any evidence that you give here that is a matter of public record. Therefore, I feel that it is extremely important that anyone who is asked a question, certainly, gives complete answers because those answers will be recorded.

Having said that, I think it is important that all Manitobans have a public inquiry with respect to the Crocus issue. Otherwise, this is really the end of labour-sponsored funds in Manitoba as we know it. It is difficult enough to raise investment capital in

Manitoba, and I think we have to clear the air in terms of who is responsible. From my point of view, it may be one person responsible, two people responsible, a whole group of people, I do not know. Maybe the process is at fault. But I think it is important that we come to some kind of conclusion in terms of getting at the root of the problem; what really went wrong in Crocus, because if we do not do that, that could be the end of labour-sponsored funds in Manitoba.

* (18:10)

Thirty-four thousand Manitobans deserve an answer. In fact, out of those 34 000 people that deserve an answer, 40 percent of them are union members. The current investigations—and I have heard it from members opposite many times that there are investigations going on; we do not need a public inquiry. Well, I would beg to differ with that.

Members opposite point to the fact that there is an RCMP probe going on. The RCMP probe that is going on is only investigating criminal activity; that is it, not trying to find who is responsible for this disaster in Crocus.

The Auditor General's report is pointed to, and, in my view, we have many questions with regard to the report, and that is why we are having the committee hearing this evening. I believe that it creates sometimes more questions than answers.

The Securities Commission is pointed to, but the Securities Commission is not charged with looking at what went wrong at Crocus and finding out the root problem. They are simply looking at the conduct of board members.

No one is investigating the government's role in the Crocus scandal and that is the problem. All Manitobans deserve answers. Union members across this province deserve answers. Crocus shareholders deserve answers. The investment community deserves answers.

We need those answers to restore the confidence in our capital markets and answers need to be given as to what went wrong. For that very reason I would expect, and I would hope, that members opposite would, of course, call a public inquiry.

Mr. Chairperson: I thank the member for those opening comments.

Does the Attorney General have any opening comments you would like to put on the record?

Floor Comment: Auditor General.

Mr. Chairperson: Auditor General, pardon me.

Mr. Jon Singleton (Auditor General): I thought I had a sudden job change there.

Thank you, Mr. Chair. I do not think that I will attempt to provide an overview of this report for the committee. The report is far too long and complex, and I think would take away time from committee members who no doubt have some questions they would like to pose to me or others.

But I would like to just take this chance to put on the public record my extreme appreciation for the team that pulled this audit off. I think it was an incredible job, well done in an extremely time-compressed period. I am very proud, personally, of what our office has accomplished in generating this report. I hope the committee finds it useful as it carries out its important work.

Mr. Chairperson: I thank the Auditor General for those remarks.

Just as a matter of housekeeping, I was reminded that in reading off the preamble when we first opened up, I mentioned that the committee used to ask for working agendas to be sent out and then adopted. It was recommended at the meeting this afternoon that this be scrapped. Is that the consensus of the committee? *[Agreed]*

We will now open up the floor for questions.

Mr. Hawranik: My question is to the Deputy Minister of Industry. After assurances from the government that valuations that were published by the Crocus Fund were accurate, Manitobans continued to invest their retirement funds in Crocus. In 2001, the Minister of Industry brought legislation to the House that gave the minister broad powers to demand information from the fund at any time.

Can the deputy minister indicate if the government has used any of those powers prior to the halt in the trading of shares in Crocus in December of last year?

Point of Order

An Honourable Member: Point of order, Mr. Chairperson.

Mr. Andrew Swan (Minto): Now, this is a historic night because this is the first time we are having a Public Accounts Committee using the new rules

which have been agreed to. I think the rules are quite clear, certainly, that for the first time deputy ministers can be questioned, but that there are some limitations on that. The question must be on matters related to the Auditor General's report recommendations and related matters of administration within the department.

It may be that Mr. Hawranik's question is appropriate, but I think it is going to be helpful so that we are not stopping the proceedings if he could perhaps direct his question or frame his question on a particular item contained in the Auditor General's report.

Mr. Chairperson: I think that Mr. Swan has pointed out in regard to we are now working under some new rules and some new guidelines. What he did mention was in regard to policy, and policy should be directed to the minister and not to the deputy minister.

Mr. Hawranik: On the point of order, Mr. Chairperson, still on that point of order, I cannot see how my question that related to whether or not the powers that were given to them in 2001 were used has anything to do with policy. My question is were those powers used prior to the halt of trading. What has that got to do with policy?

Mr. Chairperson: As a point of procedure, the member did not have a point of order so we will continue on with the proceedings.

Mr. Hugh Eliasson (Deputy Minister of Industry, Economic Development and Mines): In the preamble to your question you stated that the government gave assurances that the valuations were correct, and I am not familiar in what way the government did that.

There were several changes made to the legislation in 2001. Certain monitoring and compliance procedures were put into place. One of the things that was done in 2001 was an introduction of a formal reporting mechanism on the extent to which funds were meeting their pacing obligations. That certainly was part of the act in 2001 that was put in place.

If you were referring to the powers of the minister to appoint an authorized person under the act, the first time to my knowledge that was done was when the minister granted that status to the Auditor General.

Mr. Hawranik: Yes, thank you for that, Deputy Minister. My question again is to the deputy minister. The minister, first of all, in 2001, when debating those amendments, indicated that it is important that the amendments provide audit and inspection powers as well as powers to facilitate obtaining information.

With respect to those comments, what exactly was done by the department? What happened in the department? What kind of monitoring did the department do after 2001, exactly?

Mr. Eliasson: The monitoring regime that the department undertook was a completion of an information return that indicated the extent to which the fund satisfied its pacing requirements for the annual pacing test which required them to invest 70 percent of new monies raised within 24 months of the end of the selling period.

It monitored and reported on the extent to which they had met their obligations on a 60 percent maintenance test, that 60 percent of the value of the companies in their portfolio satisfied the eligibility criteria. It monitored the extent to which the small investment test was made where 14 percent of new monies raised had to be made in investments of under \$2 million, and it reported on the annual selling limit and the extent to which they fell within the annual selling limit. That was the information return.

The department also monitored the audited financial statements on an annual basis and interim financial statements on a six-month basis to determine the extent to which the reserve requirement was met. The department requested information from the fund on various occasions to clarify and fill out the questions that officials in the department had. The department also reviewed the annual prospectus to ensure that the valuation process that was required in the act was disclosed in the prospectus in a way that met the requirements of the act. So that is sort of an overview of the formal monitoring process that was in place. Department officials and Crocus officials were in regular contact over a variety of issues and discussed those on a regular basis.

*(18:20)

Mr. Hawranik: Was the Crocus Fund co-operating in providing information to the department at all times since 2001?

Mr. Eliasson: Crocus was, at times, fairly aggressive in its relationship with government. We have had experience with a large number of businesses, and many people have a different sort of style in dealing with government. Crocus would fulfil requirements that were put to them, but not always willingly.

Mr. Hawranik: In what areas were they not willing to provide information, or hesitant to provide information?

Mr. Eliasson: I think that officials in the department had difficulty in things like the information return in arriving at a format that sort of met the government's requirements, as well as did not impose an inordinate burden on the funds.

Mr. Hawranik: How many years were those information returns lacking in completeness and clarity?

Mr. Eliasson: Prior to the legislation in 2001, there was not a formal reporting structure for the items covered by the information return. After 2001, it took some time to get a form in place that Crocus would report on. But they did provide information returns for 2001, 2002 and 2003 and the requirement for the 2004 report fell after the stopping of trading on December 10, so that report has not been filed.

Mr. Hawranik: I note that there is another labour-sponsored fund in Manitoba, that being ENSIS. Did you have difficulty from ENSIS with respect to reporting in 2001, 2002 and 2003?

Mr. Eliasson: You know, I think it took some time with both funds to get a form of report that met the needs of government, but once that was done, ENSIS completed them, and is continuing to complete them.

Mr. Hawranik: The 2001, 2002 and 2003 reports, do they currently fulfil the needs of government and the requirements of government, the ones that are reported to date?

Mr. Eliasson: Yes. That report measures sort of the extent to which the public policy objectives for the fund were being fulfilled in the areas that I outlined. The 70 percent placement of new money test, the 60 percent maintenance test, the small investment test and the annual selling limit, and those forms do provide that information to the government.

Mr. Hawranik: Did the report that was filed in those three years by Crocus, were they filed all at the

same time after they were complete, or did they file them at different times and, if so, when?

Mr. Eliasson: I do not know the answer to that question.

Mr. Hawranik: This is an idea whether or not all three of them were completed at the same time.

Mr. Eliasson: I do not know if they were all completed at the same time or if they came in two groups or three groups.

Mr. Hawranik: I ask the minister whether or not those three reports were completed at the same time or whether they were completed at different times to the satisfaction of government.

Mr. Rondeau: I can endeavour to get that information to you. I do not know right offhand.

Mr. Hawranik: I ask the question again of the deputy minister. With respect to the information that was requested back and forth between the department and Crocus, I note, of course, that ENSIS is also a labour-sponsored fund, was the contact between the department and Crocus more frequent with Crocus than it was with ENSIS?

Mr. Eliasson: You know, the contact occurred primarily between an account manager in our financial services area and then the officers of the two funds and, you know, I would not have any gauge of the frequency of the contact of one versus another.

Mr. Hawranik: Again, to the deputy minister, would you tell me who the account manager was in charge of the Crocus file?

Mr. Eliasson: For most of the period it was Katherine Johnson. *[interjection]* Katherine.

Mr. Hawranik: Now, the government, of course, appoints a director to the board of Crocus to protect the shareholders, of course, of Crocus, because that is the function of any board member of any corporation. Can the deputy minister advise me whether or not there were any issues raised within his department by either John Clarkson or Ron Waugh since 2001 with respect to Crocus?

Mr. Rondeau: As that would be brought more to the minister's attention, because there was nothing ever brought to my attention regarding Crocus. As you know, they have, all the board members have a fiduciary responsibility to the board. They have a

fiduciary responsibility to the board to keep confidential their work on behalf of the board.

Now, as you know, in Bill 51, when we revised and made some changes to the Crocus and labour-sponsored venture capital fund, what we did was we followed the Auditor General's recommendations, but said that the original set-up of the labour-sponsored funds back in 1992-93 were in error, and what we needed to do was make sure that the general interest should be the shareholders. And so what we did in the bill to amend the labour-sponsored venture capital fund act is we changed it where there was no longer a government representative, because even though they had a fiduciary responsibility to the board and to the act and confidential balloting to the board and to the act, what we did was we said that looks like an apparent contradiction, so therefore, we followed the Auditor General's suggestion. What we did was we changed that. So there is no longer, as you can read in the Auditor General's report, he suggested that we should remove that person, because there might be an apparent conflict of interest, although there was not in any way any correspondence regarding what happened at the board, or decisions of the board, to the government, and I repeat there was no discussion from what happened in the board to the government. The Auditor General, in his report, recommended that that be amended.

In Bill 51, we assured that we no longer have a government appointment. That appointment goes to the Class A shareholders, the people who have invested the money in the fund and, as you know, that is appropriate corporate governance, and we follow the Auditor General's recommendation in that regard.

Mr. Hawranik: I ask the deputy minister whether or not John Clarkson is an employee, first of all within his department, and whether he was a board member at Crocus.

Mr. Eliasson: John Clarkson is currently the Deputy Minister of Energy, Science and Technology. He was a board appointment to Crocus. When he was first appointed to the board, he was an assistant deputy minister on the Science and Technology side within the department.

* (18:30)

Mr. Hawranik: Can the deputy minister indicate whether Ron Waugh is, or was, an employee of

Industry and whether he was an appointment to the board of Crocus?

Mr. Eliasson: Ron Waugh is a project manager within our industry consulting division in the department and he replaced Mr. Clarkson on the board.

Mr. Hawranik: Did the deputy minister ever have any conversation with Mr. Waugh with respect to any of the issues that Crocus was facing at any time?

Mr. Eliasson: Within the department we established a protocol that the government representative on the board, in order to not conflict them in any way or compromise their requirements to maintain the confidentiality of information that came into their possession as a consequence of their board appointment, to not discuss anything to do with Crocus with the government board appointee.

Mr. Hawranik: You may have had a protocol established within your department, but in fact did you have any discussions with Mr. Waugh with respect to what happened at Crocus at any time?

Mr. Eliasson: I have had no discussions with Mr. Waugh about anything that was not in the public domain regarding Crocus.

Mr. Hawranik: Did you have any discussions with the Minister of Industry with any aspect with respect to Crocus in terms of what was happening at the Crocus file and with respect to the Crocus scandal?

Mr. Rondeau: Again, when we are talking about the recommendations from the Auditor General in the report, what we are talking about is whether the people on the board broke their fiduciary responsibility to the Crocus Investment Fund board or did anything improper in their relations.

I am sure the deputy minister has more than answered that question where he has responded that there was no—

Point of Order

Mr. Chairperson: Point of order, Mr. Derkach?

Mr. Leonard Derkach (Russell): Mr. Chair, unfortunately the minister does not have the right to set the rules for this committee. Those rules are established at a Public Accounts Committee level, were endorsed by the Legislature and were passed in the Legislature. So the minister cannot dictate what questions he wishes to shield from the deputy minister.

The deputy minister is required to answer the questions as they are put. In fact, as long as they are questions of administration that are connected to the topic, the public account that is before us, then the deputy has an obligation to answer them. If they are questions of policy, then, of course, the minister can answer them.

I believe the question was put to the deputy minister, and should be answered by the deputy minister. Thank you.

Mr. Chairperson: Mr. Swan, on the same point of order.

Mr. Swan: Mr. Chairperson, there certainly is a right to ask questions of the deputy minister, but that right to ask those questions flows under section 118.1(2) of the rules, which states that there can be questions "on matters related to the Auditor General's report recommendations and related matters of administration within the department."

I have not objected to the last number of questions that Mr. Hawranik has been asking, but this is not free rein, so to speak, to ask questions of the deputy minister. Again, I think it would be appropriate to make the objection and suggest that the question should specifically relate to a recommendation that comes out of the Auditor General's report—*[interjection]*

Sorry, Mr. Chairperson, 118 is very clear as to the scope. I think Mr. Hawranik has been asking some questions around that. We have not stepped in at this point because we want this to proceed and allow Mr. Hawranik to have his chance to ask the questions. However, if that is the approach that the member from Russell wants to take, then we can, certainly, raise more points of order with respect to where these questions are coming from. I would prefer not to do that.

Mr. Chairperson: Mr. Derkach, on the same point of order?

Mr. Derkach: Well, on the same point of order, Mr. Chair, I do not take kindly to threats coming from across the way. As a matter of fact, if you really look at the question that was posed, there was nothing wrong with the question. It had specifically to do with the issue of Crocus. It was posed to the deputy minister, and there was a question with regard to a conversation the deputy minister may have had regarding issues in Crocus with the minister. That is a legitimate question. It is a related matter. The deputy has the right to answer that question. Now it

is for the members opposite to try to circumvent the process. That is just not right in accordance with the rules that we just agreed to and passed.

Mr. Chairperson: Mr. Lamoureux, on the same point of order?

Mr. Kevin Lamoureux (Inkster): Yes, on the same point of order, Mr. Chair, I do want to reinforce the comments that the member from Russell has put on the record. You know, I think that because we are venturing into a new era of Public Accounts, my interpretation of what was passed is very similar to, if not identical to, what the member from Russell is talking about. I think that, if we take a look at past Public Accounts, the scope of questions, as long as it is relating to the report, has always been allowed for, and I think that we need to keep with that and work with the rules that were in fact passed, recognizing that we have a real opportunity here to make some very positive changes in Public Accounts. So I do not want to see limitations being put on, much like the member from Swan River made reference earlier this evening, trying to limit a question. I do not think that one was appropriate, and, ultimately, the deputy minister was able to answer the question.

I would argue the same thing in this case, that the member is in fact within his right to ask those questions, and we look forward to an answer from the deputy minister.

Mr. Chairperson: I will allow the minister to comment on it.

Mr. Rondeau: What I was going to say is, Mr. Chair, if you are asking about the policy about the board, about board representation, about discussions on board, that is something that we had a policy of. If you are asking the deputy minister about whether he had any discussions with employees in the department or other people about their board responsibilities and did they report to the board, then that would be one question. Now, what I was going on to say is that he will be happy to respond with and I would be happy to have him response with, but the policy—

Some Honourable Members: Is he speaking to a point of order?

Mr. Chairperson: We are on a point of order. *[interjection]* Yes. He is speaking to the point of order.

Mr. Rondeau: Yes, and all I was going to say is that if it is the policy of the department, that is great. If it was a discussion as far as giving advice to the minister in my role as minister, deputy to minister, it would not be appropriate for him to discuss. However, if it has to do with him in the administration of the department in his roles, then that would be different. Now, what I was saying is that we had a policy in the department which made sure that all board members understood their role, understood the expectations and did not contravene the policy.

I guess the line that is in question, which is in section 118.1(2), the line, "The deputy minister may be questioned on matters related to the Auditor General's report recommendations and related matters of administration within the department." It is the interpretation of "administration within the department," I guess, where we are having a bit of a situation. Maybe, as a suggestion, Mr. Hawranik could re-ask the question just so we have it back to what was exactly asked of the deputy minister.

* * *

Mr. Hawranik: Perhaps, maybe, I will ask the question of the minister, and then proceed to the deputy minister following.

I ask the minister: Did you have any conversations with your deputy minister respecting any issue with respect to Crocus and, in particular, with respect to valuations?

*(18:40)

Mr. Rondeau: In the whole issue of valuations, it was never the department's job to provide valuations or to assure the public of the valuations at Crocus. Our public policy initiatives were to ensure that the labour-sponsored venture capital funds invested in the province took the money and invested in the province. We had a maintenance test; we had a pacing test, and we had the requirement to have a liquid reserve. Those are the things that we did and those are the things that we followed. In my tenure as minister, we did not discuss the valuation issue in Crocus as far as it being an issue.

Mr. Hawranik: I do not care whether it was your responsibility with respect to valuations or not. My question is specifically whether you had any discussions with your deputy minister with respect to valuations of Crocus shares with your deputy minister. Yes or no?

Mr. Rondeau: Actually, Mr. Chair, it was only the Leader of the Opposition (Mr. Murray) who gave the strongest assurances that the valuations were fair and appropriate. In fact, we have Mr. Loewen who said that he was happy with and was satisfied with the way that the shares were valued. Basically, what the report has said, the Auditor General's report has said, is that it was not the government's job, it was not the government's duty, to value the shares. Our job was to set up the law. The valuation was a responsibility for the Crocus Investment Fund, and the administration of the Crocus Investment Fund, that was their job. Their job was to set up a valuation system and our job was not to assure the valuations. Our job was to ensure that they had a system. If you read the prospectus, it will show that they had a valuation system. So the Auditor General's report is very clear that the government is not responsible for valuation.

Mr. Hawranik: Mr. Chair, the answers are beginning to sound like the answers we get in Question Period. So that is the reason why the rules were changed in the first place. So I ask the deputy minister: Did you have—*[interjection]* They were not changed to give answers, is that what you said?

An Honourable Member: They were not changed to get different answers.

Mr. Chairperson: Order, please.

Mr. Hawranik: You are not recognized here. I am recognized. Just hold on.

Mr. Chairperson: Order, please.

Mr. Hawranik: I ask the deputy minister the same question. Did you have any conversations with respect to valuations of shares in Crocus with the minister?

Point of Order

Mr. Chairperson: Mr. Swan, on a point of order.

Mr. Swan: Now, again, there are not restrictions, or very little restriction, on what the member can ask the minister. Again, there are certain restrictions on what can be asked of the deputy minister and my point of order is that this is not a matter specifically related to in the Auditor General's report recommendations nor is it a related matter of administration within the department. *[interjection]*

There is nothing preventing Mr. Hawranik from asking questions of the minister, but if he chooses to question the deputy minister, there is limited scope for those questions within section 118.1(2).

Mr. Chairperson: Mr. Hawranik, on the same point of order.

Mr. Hawranik: On the same point of order, Mr. Chair, I am asking a question that is clearly within the knowledge, the personal knowledge, of the deputy minister. I am not asking him to guess at an answer. I am asking him specifically what happened in the department and what discussions he had.

When I look at the rule change, it says "related matters of administration." Certainly, this is part of administration within the department. It clearly is not policy. I am not asking him to tell me what the policy of the government is or whether or not they believed that an issue ought to be treated in one way as opposed to another and why they thought that. I am asking something clearly within the personal knowledge of the deputy minister and something which he participated in.

Mr. Chairperson: Mr. Minister, on the same point of order.

Mr. Rondeau: On the same point of order, Mr. Chair. Parliamentary tradition has it where the conversations, advice, between minister and deputy have always been confidential. They have been discussed, and, as I said, they are not matters of public record. It is advice to the minister.

Hon. Greg Selinger (Minister of Finance): I am thinking this sentence in 118.1(2) is becoming the contentious sentence and how we understand it. As I understand it, the deputy minister may be questioned on matters related to the AG's report, recommendations and, the conjunction "and," related matters of administration.

The point that the member from Lac du Bonnet makes, that it is a matter within his knowledge, is completely irrelevant to that sentence. The only thing relevant to that sentence: is he asking a question related to matters of administration specific to the Auditor General's report recommendations? I fail to see how the question has any relationship whatsoever to an Auditor General recommendation and a related matter of administration, when the Auditor General's report clearly stated that valuations were not the responsibility of the Department of Industry.

Mr. Chairperson: I am listening to advice from both sides of the table.

Mr. Derkach, on the same point of order.

Mr. Derkach: Mr. Chair, the question was fairly straightforward. The question has to do with a matter that is within the administrative capability and responsibility of the deputy minister, and I am sure that the deputy minister would want to answer that question quite directly and quite truthfully. However, before the deputy minister can get to his answer, it appears that members on the government side of the House want to prevent him from answering that question.

Mr. Chair, the rules were changed for a reason, and it was to allow those who are in charge of the administration of a department to be able to be questioned and to provide answers truthfully and accurately to a committee of this Legislature.

The question relates specifically to the matter of the Auditor's report which has to do with Crocus. If the deputy minister decides not to answer the question, that is one matter. But, Mr. Chair, we specifically worked on the rules with the Government House Leader (Mr. Mackintosh) and arrived at an agreement where matters relating to the report and relating to administration of the department, as it relates to that area of responsibility, can be directed to the deputies and they are obliged to answer those questions.

Now, Mr. Chair, this is not a question of policy. So, therefore, the minister cannot be interrupting and cannot be jumping in to answer those questions because those questions are not posed to him. The questions are posed to the deputy minister of the department and they are within his scope of responsibility.

Mr. Chairperson: I must point out, I think I have heard from both sides, I will point out that, as has been mentioned, there was a fair amount of discussion back and forth regarding the rules with the two House leaders, the deputy chair and myself. There was sort of a sense that we were trying to work towards getting these rules off so that we can sort of evaluate them down the road, work under some new rules. There was a certain amount of mutual understanding, if you want to call it, between the House leaders and the deputy chair and myself that we would try to make these work.

In particular, the one section that we are talking about in regard to questioning of the deputy minister, and there was a fair amount of discussion on this, I must say that there was a recognition that this is new ground, new area that we are going down, and the

fact that we did not want to put the deputy ministers into jeopardy of questioning.

But, in looking at this particular line, there was a fair amount of discussion on having it in there saying that "related matters of administration within the department," leaving it to the idea that the deputy minister could be questioned in that particular area. That seemed to be the impression that I had when we were talking about these rule changes, and I believe the deputy chair, we talked about these. To rule that it is in or out of order, I think, maybe we should try to work around this question or to try to get whether there is an understanding, whether the deputy minister should answer the question.

*(18:50)

So I am sort of looking for words, and I am looking for the ability to make this committee keep working and functioning, because I think if we stop right now with this, saying that it does not relate, I think that we are going to stop a lot of the questions that will go to the deputy minister. I would think that the question is in order for the deputy minister to answer, to see whether we can still work with this committee, to keep it functioning.

I would say that the point of order is in order, for Mr. Hawranik to ask the deputy the question. I think I have made myself clear.

Mr. Hawranik: My question, again, is to the deputy minister.

Were there any discussions between you and the minister with respect to Crocus with respect to the valuation of shares at any time?

Mr. Rondeau: As I said, I believe that the conversations between—Parliamentary traditions have the conversations between ministers and deputies as confidential, but I will answer that, if I am not interrupted again, that the specific valuations—

Point of Order

Mr. Chairperson: I do have another point of order.

Mr. Derkach: I am sorry, Mr. Chair. The question was posed to the deputy minister.

You just ruled, Mr. Chair, that Mr. Hawranik is entitled to ask the deputy minister the question. Now, it is up to the deputy minister to respond to that question, not the minister. That was the whole crux

of the agreement, was that deputy ministers can be questioned and need to respond to those questions.

Now, if the question is in order, which you ruled it is, posed to the deputy minister, the deputy minister is obliged to answer it.

Mr. Chairperson: I believe that was the intent.

* * *

Mr. Chairperson: I believe then we will ask Mr. Eliasson, or Mr. Hawranik did you want to ask the question one more time? Okay.

Mr. Eliasson: I do not recall having a discussion with the minister about the specific valuations of any of the Crocus companies. We did have discussions on the valuation process and the government's role in that.

Mr. Hawranik: I ask the deputy minister, in his response he indicated he did not have any discussion with the minister with respect to specific companies within the Crocus portfolio. Did you have any discussions with the minister with respect to the Crocus shares, the valuation of the Crocus shares as a whole, and if so, when did you do that? When did you have that discussion?

Mr. Eliasson: You know, I do not know that. We sort of talked in terms of specific share value or how that value was arrived at. We obviously talked around the issues of the devaluation of Crocus shares.

Mr. Hawranik: When did you talk about the devaluation of the Crocus shares?

Point of Order

Mr. Swan: I have to raise a point of order because, again, I have read the section, yet again, and the very clear requirement for a question to be put to the deputy minister is that it must be a matter which satisfies two categories. First of all, it has to be a matter related to the Auditor General's report recommendation and related matters of administration, but those matters of administration have to be tied to one of the recommendations in the Auditor General's report.

The member has a few hundred pages of report that he can ask about, but it has to be related to something contained in these report recommenda-

tions, and I do not believe that the question that my friend Mr. Hawranik, has asked satisfies the test.

The point that the member from Russell had made, that if it is not a question of policy, then it can be put to the deputy minister, is not appropriate. It has to be something which is within the wording of 118.1(2) and is requiring. The word "and" means it has to satisfy both of those tests. It has to relate to report recommendations and be a related matter of administration.

It cannot simply be anything which is into question of policy and, Mr. Chair, when I read this section, it is abundantly clear that the scope of questions that can be asked of the deputy minister, although it can provide many questions and a wide range of questions within the full ambit of the Auditor General's report, simply going on a fishing expedition on things which are not contained in the recommendations, that is not what this committee is about.

Mr. Lamoureux: Mr. Chairperson, I am growing concerned in the sense that prior to us passing those rules, we probably had one of the most useless Public Accounts Committee in the country. I think that we ranked right around the bottom. Then, I think, there was a sense of optimism that with these new rule changes there would be a higher sense of value to this committee, and I think you take away that value if you try to prevent deputy ministers or other witnesses from being able to answer questions.

I recognize that we are in new territory here, and I think we can give a little bit of leeway. But we have now had the Member for Minto (Mr. Swan) on three different occasions interrupt the proceedings through a point of order when legitimate questions are, in fact, being asked. There is nothing wrong with wanting to know if the deputy minister talked to the minister in regard to a particular issue. The minister, potentially, can compromise the deputy minister by interfering and putting some words on the record prior.

I think that what we want to do as much as possible is ensure there is more accountability through this committee. Let us let the deputy minister and the official opposition critic pose the questions and get on with this. We are going to have another point of order raised any time the member from Minto disagrees with the question, and I see this consuming a great deal of time. I think we should just allow the critic to ask the questions.

Hon. Gord Mackintosh (Minister of Justice and Attorney General): I am just very concerned about this debate because we want this to work, these new rules. It should be known that the phrase in question was a critical aspect of negotiations. Clearly, the intention was to have questions posed that dealt with how to deal with the recommendations, what actions have been taken on the recommendations and the administrative matters related to that, so that this committee does what it is supposed to do, and that is make sure that systems are changed so that the shortcomings that have been identified by the Auditor General do not happen again.

So it was within that spirit that that rule was negotiated after very, very extensive discussions, and the words and related matters of administration relate to the report recommendations. That was the very foundation of the conclusion in negotiations. I can tell you that was the ultimate part of negotiations.

Now, in terms of the application of that rule, it will depend on the recommendation that is being referenced in the line of questioning and whether the administrative matter relates to the recommendation. It is often a question of fact, I think.

Mr. Chairperson: Mr. Hawranik, on the same point of order?

* (19:00)

Mr. Hawranik: Yes, on the same point of order, Mr. Chair. I know that the Member for Minto is going to continually try this evening to stop the entire process, and probably try to make Public Accounts no different than it was prior to the rule change.

But it is not a two-part test. It says that we can maybe question the deputy minister on matters related to the Auditor General's report recommendations, and he may be questioned on matters related to related matters of administration within the department. It is not a two-part test. They are not exclusive of each other. It is two possible tests. It is not one test. There are two possible tests. Related matters to administration refers to the related matters within the Auditor General's report, and I refer to page 53 of the Auditor General's report where there is, in fact, a recommendation with respect to the review of the valuation of instruments, valuation, a valuation section, section 4.2(12), so it is a related matter. I am not sure what the objection is all about other than, of course, the government, again, is trying to stop the process and trying to stop questions that are relevant to this hearing.

Mr. Selinger: I think there is a fundamental misunderstanding in the language in 118.1(2). "The deputy minister may be questioned on matters related to the AG's report recommendations and related matters of administration," that is a two-part test. They do not stand independent of each other. They are linked together by the conjunction "and". If it was "or," it might be a little more ambiguous, although the word "related" would suggest that—*[interjection]* Even if it was "or," the word "related" would suggest that it still has to pertain to the Auditor General's report recommendations. So it is a two-part test. I think that was clearly understood when it was put together.

The other matter is that the member suggests that, even if it is not a two-part test, page 53 would suggest that it is in the report. There is no recommendation on page 53. It is a set of observations. Page 54, it is not obvious that there is a recommendation there either. Maybe the member would like to choose another page that would link it to valuations.

I think the point here is that we were trying to get a set of rules that allowed an Auditor General's report to be responded to by both the administration of the government and the elected officials of the government in such a way that the recommendations could be fruitfully followed up on, to correct the matters that were perceived to be and verified as being inappropriately handled by the administration and/or the government. This rule was not intended to allow for a broad-ranging fishing expedition on the part of a member to try to play "gotcha" between the deputy minister and the minister. I think that is not the purpose. The purpose is to try and find a way to ensure that these recommendations, that the Auditor General has made, come into practice in such a way that public administration is improved and policy-making is improved.

Mr. Chairperson: I will seek some advice from the Attorney General—

An Honourable Member: Auditor General.

Mr. Chairperson: Auditor General, I am sorry.

Mr. Singleton: Thank you, Mr. Chair. I do not want to intrude on the debate that is going on here about the new rule that you adopted, but I would point out to the committee that if the rule is referring to recommendations, we put all of our recommendations in one section towards the end of the report, starting on page 182—*[interjection]* Page 164,

I was looking at the recommendations to the department, that, at least, is where you would look for recommendations to be asking the deputy minister questions about how they are responding to those recommendations and what the plan is.

Mr. Hawranik: On the same point of order, Mr. Chair, new information.

Mr. Chairperson: On new information?

Mr. Hawranik: Yes. We want to point to a page number. How about page 174, where it refers to valuations, and it is within the Recommendations section of the report?

Mr. Chairperson: I think I will try to get some semblance of direction here. I appreciate the Auditor General's remarks because I believe it does indicate that the report we are dealing with is in section 118.1(2). It is regarding the Auditor General's recommendations. The Auditor General has said that the recommendations—and the deputy minister can answer questions in relation to the recommendations, and it also does say related matters of administration. I would suggest that, if the questions are in regard to the report's recommendations, those questions should be in order and could be directed to the deputy minister or the minister. I think that that possibly gives us some direction as to continuing asking questions here. So, if the questions are in regard to the recommendations from page 164, as pointed out by the Auditor General, to 187, I would believe we are in order to ask questions along those lines. So I will ask Mr. Hawranik to ask his question again.

* * *

Mr. Hawranik: Yes, Mr. Chair, thank you for that. I, again, point out that I hope that the member from Minto takes note of the recommendations starting on page 164 because, on page 174, valuation, clearly, is part of the recommendation section by the Auditor General.

Again, I ask the deputy minister whether he had any conversations with the minister with respect to not necessarily valuation problems or issues at Crocus within specific companies that Crocus invested in, but clearly with respect to the shares of Crocus as a whole?

Mr. Singleton: I just want to draw to your attention and the members of the committee that we broke down the recommendations, as recommendations, some for the Province, some for the Crocus Investment Fund, some for the Manitoba Securities

Commission. The particular area of recommendation that has been referenced here was recommendations that we made to the Crocus Investment Fund and really have nothing to do with the department.

Mr. Chairperson: I guess, what we are going to have to be guided by then is we are asking questions on this report. In questions directed to the deputies, they are in regard to the recommendations in the report that has been pointed out by the Auditor General. So I think that we can move on with this.

Mr. Rondeau: Just letting the entire committee know that the recommendations for the Department of Industry, Economic Development and Mines for this report are on page 182. The response from the department is 183, 184 and the top of 185. That is the material that went to the department that we are, the deputy minister is responsible for, and we can respond to.

Mr. Hawranik: I asked the deputy minister whether there were any conversations with respect to Crocus between himself and Mr. Waugh.

Mr. Eliasson: I have already answered that question. I said, no, not about anything that was not in the public domain.

Mr. Hawranik: I ask the deputy minister again, with respect to valuations at Crocus: When did you personally know about valuation issues at Crocus in terms of the Crocus shares?

Mr. Eliasson: After the first devaluation in September of 2004.

Mr. Hawranik: In 2001, the government brought in legislation and the legislation was to help with respect to the monitoring of the activities of the Crocus Fund to ensure that they were adhering to the provisions of the legislation and allegations were brought forward. It is public allegations. Again, for the deputy minister, there were public allegations made by the member from Fort Whyte with respect to the valuation issues at Crocus. Do you recall hearing those allegations?

Mr. Eliasson: No.

* (19:10)

Mr. Rondeau: Again, as per the recommendations here, there were no recommendations from the department on the valuation of Crocus Investment Fund. As far as the administration, from what I understand, Mr. Loewen was more interested in things like the MTS Centre, et cetera, and he did not

ever make any allegations public. What he did was he called a press conference and then he cancelled the press conference. Then he ended up buying shares and saying that he believed the valuations were accurate. That is what happened in that time.

Mr. Hawranik: Does the minister recall hearing the allegation by the member from Fort Whyte in 2002 respecting the issues around valuation of shares of Crocus?

Mr. Rondeau: What I know about 2002 was that the former member mentioned that he said that he believed that, with the information that was provided to him by Crocus, he felt that the valuation was fair. I would again like to quote Stuart Murray, a member that the person might be familiar with, who gave a strong assurance on February 15, 2002, on CJOB. He said, "Are you comfortable with the way that Crocus does their valuation?" He said, "Yes. The bottom line is we are satisfied with the valuations."

You will take note that, in the prospectus, it says that no one from government attests to the valuation and, if you take note again, in all there are five disclaimers, I believe, in the year 2002 prospectus, and the government has said, in no way do they validate the valuations of the fund. In fact, it was only two members from the Conservative Party that validated the valuations that Crocus provided. The government is not responsible for the valuations. That is something that the government gave as responsibility to the fund.

Mr. Hawranik: Clearly, those allegations were made in 2002, and I ask the minister whether he discussed any of those valuation issues, whether that became a topic with colleagues.

Mr. Rondeau: What I will again reiterate is that the government in no way stated or supported the valuations of the Crocus Investment Fund. In fact, the Leader of the Opposition (Mr. Murray) was the one who went furthest in supporting the valuations of the fund. It is not my job as minister, nor my job as a government member, to say whether the valuations were correct or not.

Our job was to set up that the fund had to have a valuation process and so what we did was, again, the Auditor General pointed out in his report, that we did have a valuation process. We expected the fund to have a valuation process. Our job as a government was to look at the public policy objectives. In hindsight, I know that there were a number of people who should have looked at the valuation, including

the officers, the board, the external auditors, the underwriters; there are lots of people who are responsible. Again, the department did have some monitoring as far as public policy objectives and, hopefully, in the future, we have made changes in Bill 51 and, in the future, we will make more changes to make sure that people have more confidence in the market.

Mr. Hawranik: I ask the minister, he heard of that allegation in 2002, so I take it that he did not take those allegations seriously. What did he do?

Mr. Rondeau: When Mr. Loewen had to cancel the press conference, I think what happened was two things happened when the press conference happened. First, there was some discussion about the valuations. Again, as a minister, you believe that the officers of the fund are doing their job. You believe that the auditors from the fund are doing their jobs. You believe the board of directors are doing their jobs. You believe that the underwriter, Wellington West, is doing its job in providing accurate information.

Again, I think that there were a lot of cases where people, we assumed, were looking at the valuations issues. Again, that might be something that the Manitoba Securities Commission is investigating, I do not know that falls—it is a quasi-judicial organization. But what happened in 2002 was the Leader of the Opposition, the Leader of the Conservative Party, I believe he is still the leader, is Stu Murray, and he gave a strong assurance that the valuations were correct.

Mr. Loewen, who I believe has a good, strong business background—in fact, he has been involved in business for a long time—got information from the Crocus management, the administration in Crocus, and he went on record saying that he was satisfied with the valuations.

The information that was provided to the auditor, everything else, we believed that the firm's auditor approved the valuations and that was the normal course of business. Nowhere did government ever say that they endorsed the valuations from the company and, in fact, the Auditor General in this report concludes that also.

Mr. Hawranik: Well, I ask the minister again: Did you or your department as a result of those allegations make any inquiries with respect to valuations of Crocus or of your department, or did you instruct your department to make any inquiries on your behalf with respect to the valuation issue?

Mr. Rondeau: The department did not have as a responsibility to endorse the valuations. The department required the fund to have an evaluation system. Again, the department required the fund to have an evaluation system. That did not mean the department corrected or approved or agreed with the valuations. The fund had an evaluation system. It is written in the prospectus, and I encourage you to read the prospectus.

What happened is that the funds officers, the board, the external auditor are the ones who are agreeing with the valuation. The government does not agree with the valuation. The goal of the department is to look at the public policy issues, the maintenance, the pacing and the small business test. We were not checking on the valuation.

Mr. Hawranik: Again, the same question the minister did not answer: Did you do anything? It does not matter to me whether you believe it is not in your role to do the investigation with respect to evaluations. The point is, what I am asking is whether the minister in fact, whether his department made any inquiries with respect to the valuation of Crocus shares at any time, particularly after the allegation was made by the member from Fort Whyte in 2002.

Mr. Rondeau: The information that is provided in the prospectus would have to do with that, and the accuracy of a prospectus has more to do with the sign-off by the auditor, the firm auditors. The MSC would check to make sure the accuracy of the prospectus is there, and the underwriter, who is Wellington West, is the underwriter of the shares, and so those are the normal courses of action.

The department would not check on whether the valuation is accurate. Again, we were to maintain the maintenance, pacing and the small business amounts of money that were invested. We were not checking to see if the valuation was correct. It was not our role.

Mr. Glen Cummings (Ste. Rose): My colleague asked earlier about the flow of reports coming into the department and whether or not there were any problems with reports coming from Crocus into the department.

As I recall the answer, and I do not want to put words in anybody's mouth, but the answers said there was some difficulty agreeing on the format, but then, with some additional prodding, the information came in. I see one recommendation on page 182. The

Auditor General is recommending that the department not complete the information returns on Crocus Investment Fund's behalf.

Can the deputy minister indicate whether that was a common occurrence that the department would have assisted in the completion of these returns to the department?

Mr. Eliasson: The account manager in the department assisted Crocus with the preparation of their returns. She did not do that with ENSIS.

Mr. Cummings: Why would the account manager have got involved to this depth?

Mr. Eliasson: She was attempting, I think, to assist Crocus in fulfilling their reporting requirements by filling out the form, but after the form was filled out, it was certified by the chief financial officer of Crocus.

* (19:20)

Mr. Cummings: Well, you see, that is where we got off the rails a few minutes earlier. I find it hard to believe that that type of in-depth work would have occurred, and that no one would have provided some information within the department as to how the evaluations were actually being made and what they were. What am I missing about this connection?

Mr. Eliasson: The information return was a form on which the funds reported on the extent to which they were meeting their pacing obligations. Under the legislative regime, they have a requirement to invest 70 percent of the new money that is raised within a certain time period in eligible Manitoba businesses. They also have a requirement to maintain 60 percent of their portfolio invested in those eligible businesses. They had a requirement to invest 14 percent of new money in small investments within a certain time frame, and they had the responsibility to report on their level of annual sales. None of those have anything to do with the valuation of particular companies within the portfolio or the share value of Crocus.

Mr. Cummings: So, just so I am clear on this, none of that would total up to the value of a portfolio that would indicate the value of the shares?

Mr. Eliasson: The valuation was a separate process. This was reporting on the extent to which the public policy objectives had been met.

Mr. Cummings: Was part of this because there was also a tax incentive for those who would invest?

Mr. Eliasson: The reason there were public policy objectives that had to be met to invest in Manitoba companies was because there was a tax credit granted as an incentive to invest.

Mr. Cummings: The deputy does not have to answer this, but the minister might want to: What would the tax benefit have been to Workers Compensation Board?

Mr. Rondeau: I believe that any investment that was done by the Workers Compensation Board was done on their behalf by their investments, and I would assume that it is done for whatever reasons they deem necessary. Every organization does their own due diligence. Every organization has their own reason to make an investment. I would never endeavour to make a guess as to why the Workers Compensation Board or any investor would make an investment in any mutual fund or fund. It is an organization's decision. It is an individual's decision.

If you read the prospectus, each prospectus talks about why you would invest in each one. Each mutual fund, each investment that you do in Canada has a prospectus. It has all the companies that you invest in. It has all the risks and returns, all the different issues in it. If you read the prospectus, you make a choice as to invest, it could be Workers Compensation Board or any other organization, looks at the investment requirements, looks at the information provided in the prospectus and makes their own individual decisions.

Mr. Cummings: Well, thank you. I thought maybe that question might have been ruled out of order.

At what date, approximately, did the minister, and what form did the information take to the minister in terms of the devaluation of the shares? I do not want to know the handwriting. I want to know in what form was he informed, and by whom was he informed of the devaluation of shares.

Mr. Rondeau: I believe that I read it and was e-mailed it that morning, or the time that it was actually right after the stop-trading, the day it was stopped, I was informed, I think, by phone. Are you talking about the stop-trading or the devaluation? *[interjection]*

Well, the devaluation, I had gone home, and I think I got a phone call on the way home or just when I got home.

Mr. Cummings: Well, Mr. Chairman, the minister was asking whether I wanted to know how he found

out about the devaluation or whether he found out about the stop trade. Can he tell me when he found out and how he would have found out about the devaluation? I am not sure. I think we mixed the two together there pretty well.

Mr. Rondeau: I found out from my office about the devaluation and the other, the stop trading. It would have been inappropriate for me to find out beforehand, so I found out as a matter of course, as a member of the public. I think my special assistant phoned me and that was the way I found out.

It is nice to know that the system where it is confidential till it was made public was what happened, and I can assure you that I found out when the rest of the public did.

Mr. Cummings: This asks the minister to express an opinion, so perhaps it will be ruled out of order, but does he believe that the stop-trade order should have come sooner?

Mr. Rondeau: That is something that the board of directors would be involved in, that the MSC would have been involved in. It is not something that the Department of Industry would be involved in. Again, our job was the public policy initiatives. We do not issue a stop-trading order. We do not get involved in any of those things.

The member should know that the board would have been responsible for conveying that information to the MSC. It would not have, in due course, provided that information to the Minister of Industry because, again, it is not our role. The Manitoba Securities Commission would be far, far better. We were looking after the promotion and the public policy objectives of the funds.

Mr. Larry Maguire (Arthur-Virden): I appreciate the fact that the minister is indicating that his role is more one of an administration side than to be more clear and protective of the fund; but, if you carry the answer that he just gave us to perhaps an extreme, I guess what he has just said is that, if the fund ended up going completely broke and had zero value left in it, he would not have cared because it would not have been his jurisdiction to ask any values for the valuation of the fund. Does he believe that to be correct?

Mr. Rondeau: The question was whether I would be involved in the stop-trading order. I would not be involved in the stop-trading order.

What has happened—and this is important as far as the Auditor General's report. I try to bring us back to the Auditor General's report. One of the things that we agree with is that the Department of Industry was responsible for the monitoring and the promotion and working with the funds. One of the strong recommendations from the Auditor General was the division of responsibility between a monitoring function and a promotion function.

What we have done in response to the Auditor General's report is we divided the two functions, so now there will be a function for monitoring. The function for monitoring will be in the Department of Finance, and there will be somebody responsible to monitor the fund. Then the Department of Industry will be involved in the promotion, the sponsoring, the working with the fund. That way, there will not be a conflict in roles.

We agree as government that there was too much trust as far as a relationship. This way, there can be a monitoring function in the Department of Finance that is separate. We believe that that is a very good recommendation from the Auditor General and we are following that because we believe it is the way to increase the confidence that the public has in the labour-sponsored venture capital funds.

Mr. Maguire: I guess I just go back to the minister again and say did he not have a representative on this board.

* (19:30)

Mr. Rondeau: I think that that has been gone over a number of times. If you look at the chair of the corporate governance structure in Canada, it was said that the board members did not have a—they had a fiduciary responsibility to the board. They did not have a reporting or fiduciary responsibility to government, and so what happened was, as the deputy minister explained, we had gone through that policy. We made sure that people who were government reps on the board, made sure they understood the responsibility.

We, again, agree with that recommendation from the Auditor General that it seemed strange that we would have a government representative on the board. That was established in 1992-93 by Mr. Stefanson, who was then minister, and also, I cannot remember, the other Conservative minister who set up the fund, and Mr. Filmon had said that it was

very, very appropriate they set up the fund with a government representative. In fact, it had two government representatives in the nineties.

We changed that, and then what we have done in listening to the Auditor General, we followed his recommendations. We have eliminated the government rep, because it seemed passing strange that we would have a government rep that was not able to report to us as government. We appointed the rep. He had a fiduciary and confidentiality to the board, not to government. He could not legally report to government, and the deputy has said before the committee that they did not report to the minister of government as to what was going on on the board. We have changed, followed the Auditor General's recommendations; we have eliminated the government board member. What we have done is made sure that the Class A shareholders, the people who put money in the fund, have more board representation. I think it was sad that in the nineties when they were set up they did not have more Class A shareholders' representation. We have endeavoured to change that to make sure that the Class A representatives, the ones who put money into the fund, are on the board, are on the committees and doing the work on behalf of the shareholders.

Mr. Maguire: So can the minister tell me what kind of a connection he would have had that he would not have at least asked the government representative on that board to provide him with some kind of valuation for the value of the fund, or did he not care whether it went to zero? If you do not care whether it goes to zero, you do not care about the shareholders who put their money into it, and those are the Manitobans who are out there investing in the fund.

Mr. Rondeau: Mr. Chair, the board representative, the person that the government put on the board, did not have the right, could not legally report to me as to what was going on on the board. It would have been wrong, it would have been illegal, for him or her to report to me. Now, I can assure you that the Department of Industry's representative, one of the things that did happen is, when the person was made as a government appointment on the board, there was a communication with them to understand their fiduciary and legal responsibilities. So, when they were appointed as the government rep on the board, they were told that they could not report to the minister. They could not tell the minister or government what was happening in the Crocus board.

Now, that has been gone over. I cannot remember the gentleman's name, but he is the director of the corporate governance association in Canada, he has repeatedly said that they agree that they did not have a way, they could not legally report to government. So what you said was that they should have. No, they could not have. Legally, they could not have done that. Now, they might have done it in the nineties. I can assure you, because of the fiduciary responsibility, the legal responsibility, we assured that they did not report to the government. Board members did not report to government.

Now, what we have done, again, that sounded passing strange, and to me as minister, when I was told that they could not report to me and it did not make sense, I asked and I was assured that this is appropriate governance policies and we followed them to the letter. Now, the Auditor General looked at this and said, "This is passing strange. We should have better representation by the shareholders." I agreed, fully agreed, and so in Bill 51 we made sure that the Class A shareholders had better representation. What is better is we made sure that the Class A shareholders also had representation on all the board committees including investment committee, including the valuation committee, all those committees. I believe that the Auditor General was bang on, that we needed to have better representation of shareholders, and in hindsight, I wish it would have been done in the nineties or when they were set up, but we could only do what we did when we did.

Mr. Maguire: Well, I guess to carry it to the extreme the other way, Mr. Chairman, then I would have to ask the minister if he believes that he should have had all just appointed shareholders from those areas, or elected shareholders in those areas, and no government representative, even in spite of the fact that the government is giving out a 15 percent tax credit on that area. I mean, where does he get his, you know, where is there any tie to responsibility for the money invested in the assurances of the persons on the board?

Mr. Rondeau: Well, I know it was set up that way in 1993. It was set up where there were two government reps on the board. Now, I do not know why they did it that way. It was just established that way. What happened was that in order to make sure that we were getting good value for the 15 percent tax credit, what we did was we ensured that the maintenance, which means they were investing 70 percent of the money into companies eligible, the

pricing, where it was invested in Manitoba companies, that was taking place, and invested small investments. So under \$2 million was being invested.

So, by sitting there saying, "Can we assure it?" if we looked at the maintenance, the pricing and the small investments, we could assure that we were getting value for our 15 percent tax credit. Now, can we be assured? Yes, if we assure that we still have good pricing of the investment into Manitoba businesses and we are collecting money from Manitobans and investing in Manitoba businesses, growing the economy, creating more venture capital and more employment, that would be worth the 15 percent tax credit that we offer from the Province.

So what we have done is, in 2001, we have now a test where they provide material, reports, to make sure that the government is getting the value for their 15 percent. I think that it is really appropriate that we have much higher representation of the Class A shareholders, the ones who invested the money. Not the government, but the Class A shareholders.

Mr. Lamoureux: Mr. Chairperson, I am wondering if the deputy minister could tell me what he believes would be the disadvantages of championing a program while at the same time monitoring it.

Mr. Chairperson: I would think that that is more of a policy question.

Mr. Rondeau: That is a policy question. I can answer it.

Mr. Lamoureux: No, I asked for the deputy minister.

Mr. Chairperson: I think that the question may be better directed to the minister because of it being a policy question. I think that, in the rules, you know, we have asked that the deputies not be involved with the policy questioning. So maybe you could re-question that, or ask the question again, just for clarification.

Mr. Lamoureux: I guess what I am looking at is a part of the recommendations, deals with the department having an assessment of the advantages and disadvantages of championing a program while monitoring the program, and I think that it would be helpful to know, from the departmental view, if he could give examples of what would be advantageous and what would be disadvantageous.

* (19:40)

Mr. Rondeau: The advantages of having a separate group would be—one of the recommendations, or one of the discussions that the Auditor General had was that too much trust was placed on it and there were conflicting roles where we are trying to promote, the Department of Industry was trying to promote, labour-sponsored venture capital funds and at the same time they were trying to do the monitoring of those funds. We, again, believe that that is something that we should very quickly react to, so in Bill 51 I believe, we started the process where we were going to divide the monitoring with the promotion so what we said is that we are intending to move the monitoring into the Department of Finance. Part of that was the basis that if you are working with someone to promote the fund and you are also trying to monitor it, you might not use as strong efforts to monitor the fund. So what we are saying is that we want to make sure that it is appropriately monitored, and so we are going to be moving the whole monitoring into the Finance Department. Now, we believe that is a strong recommendation and one that we are acting upon. The other thing is, we believe that it is one that gives more comfort with the general population.

Mr. Lamoureux: Again, it is to the deputy minister. When you administer a program, to what degree would you actually be expected to report on it? Like, you are watching over a program, is there a point in time in which the deputy minister would be obligated to raise the issue with the minister?

Point of Order

Mr. Chairperson: Mr. Swan, on a point of order.

Mr. Swan: Yes, a point of order. Again, this is a question being posed to the deputy minister, and I am not sure I understand the member from Inkster's question to begin with, but I believe he is asking a hypothetical question of policy, which he can ask the minister, but under these rules he cannot ask the deputy minister.

Mr. Chairperson: Maybe I could just ask Mr. Lamoureux to rephrase the question then, please.

* * *

Mr. Lamoureux: Thank you, Mr. Chairperson. Could the deputy minister indicate at what point in time or to what degree do you bring something to the minister when you are made aware of a program which you are responsible for monitoring?

Point of Order

Mr. Chairperson: Mr. Swan, on a point of order?

Mr. Swan: Again, it is a hypothetical question. It is not a question being put to the deputy minister of any particular event, or anything dealing with the recommendations or any matter of administration. This is a general question without any context, without any facts to support it. It is simply a shot in the dark by the member from Inkster and it does not follow the rule that has been negotiated.

Mr. Chairperson: Mr. Lamoureux, on the same point of order.

Mr. Lamoureux: Mr. Chairperson, I think that it is really important for us to recognize here that there is nothing wrong with asking the deputy minister at what point in time from an administrative point of view when an issue becomes an issue in which it should be brought to the minister's attention. Is there not a point in time, or what triggers it? Does the deputy minister, for example, do nothing? We are talking about the Crocus, so everyone here is aware that that is the issue that we are referring to, so to say that it is out in left field is just bizarre. I think it is a legitimate question to ask an administration, the public administration, to what degree do they bring issues to the minister's attention. Nothing wrong with that.

Mr. Chairperson: I am going to search back into when I was a minister and sort of rely on that there is a rapport, there is a system that is set up between a minister and a deputy where the deputy will come forth with situations that he feels appropriate that the minister should be aware of. I do not believe there is a set procedure as to when the deputy feels that he has to be obligated to tell the minister of everything and anything that happens. I can only relate to when I was a minister. I can only think that that would be more or less standard procedure within the deputies and the ministers and all departments where the rapport and the reporting is not an everyday affair of everything that goes through that department, but, when the deputy feels it is important, he will bring it to the minister's attention. Now, if the minister would like to talk further on that.

Mr. Rondeau: I can respond as far as the policy issues if you want, Mr. Chair. Basically, I can say that there was no issue—*[interjection]*

Mr. Chairperson: Okay, I will just try to clear up this point of order. I believe Mr. Cummings, on the

same point of order. Mr. Lamoureux, on the same point of order.

Mr. Lamoureux: On the same point of order, Mr. Chairperson.

This has nothing to do with policy. What it has to do with is, as with what you said, Mr. Chairperson, using your experience, that is the type of answer that I was expecting from the deputy minister just to gain an insight from a deputy minister's perspective, and I do not believe that there was anything wrong with the type of answer that you had given. I think that it is important to note, you know, is this not the prevailing way of doing it from the deputy minister's perspective. It is not a trap question or anything of that nature.

Mr. Chairperson: Mr. Swan, on the same—I believe that we do not want to get too far down the road with all these points of order, but I will allow Mr. Swan one more time.

Mr. Swan: I think on this point of order we cannot forget this procedure is something which has come about as a result of the efforts of the Auditor General and his staff. I think that, when I raised objections with the official opposition's questions, the Auditor General answered fairly appropriately to suggest that there are a number of recommendations, and I think after that time the official opposition then targeted their questions in an appropriate manner.

I do not see that what the member from Inkster is asking falls in any way under the specific rules set out in section 118.1(2) of the rules. So the member from Inkster has asked a hypothetical, loose question that cannot possibly be directed to the deputy minister. The objective of this hearing is not to allow the member from Inkster or anyone else to abuse the deputy minister. The purpose is to go after what is contained in the Auditor General's report, in this case the specific recommendations the Auditor General has made for the Province of Manitoba, and it is appropriate to ask questions of the deputy minister dealing with matters related to those recommendations and related matters of administration that tie back to those recommendations. The member from Inkster does not touch upon that in the question that he has posed.

Mr. Chairperson: Okay. On the same point of order, Mr. Hawranik.

Mr. Hawranik: Same point of order. I do not believe, Mr. Chair, that you ruled in respect of the Rule 118.1(2). I did not hear anything in your ruling

which indicated that and is just a one-part test, is inclusive with the first part of the sentence. I do not believe that you have ruled that the deputy minister can be questioned on matters related to the Auditor General's report recommendations and being inclusive with related matters of administration.

I think those are not a two-part test. I think that they are exclusive of each other that the—if you read it, the deputy minister may be questioned on matters related to the Auditor General's report recommendations. Okay. And the deputy minister may be questioned on related matters of administration within the department related to the Auditor General's report, not necessarily to the Auditor General's report recommendations. I do not believe that you have ruled with respect to that. I think the only thing you have ruled on is certainly with whether or not my question was within the recommendations section of Industry, Economic Development and Mines.

Mr. Chairperson: Maybe the Member for Inkster, Mr. Lamoureux, you could ask a direct question because it can be interpreted as a bit of a hypothetical question, but if it can be more specific I think that we can move on with the questioning.

* * *

*(19:50)

Mr. Lamoureux: Mr. Chairperson, I will go to page 182, second recommendation. The members can read it specifically and make reference to clause 118. You will find that in fact it deals with the recommendations and it definitely deals with the matters of administration on both occasions.

The question that I have specifically to the deputy minister is when does the deputy minister determine when to bring an issue that has come to the deputy minister's or the department's attention. Is it his own or her own discretion, is it a discretionary thing? Is it like the Chairperson said when he was the minister? How does the administration deal with that issue?

Mr. Rondeau: If you read that second 2, it says, "the recommendations for department of monitoring." I assume that that is the question that you are asking, when did we decide to move the monitoring from the one department into two departments? What happened was, once we got the Auditor General's report, we concurred with the Auditor General's report that it was necessary to move the monitoring from the Department of Industry into Department of

Finance. So that was when we decided to do that. That was discussed right after the Auditor General's report. We believed that we needed to do this. We discussed the processes with the deputy on how we would make sure that this was done appropriately, so we have sent it to the implementation committee.

Mr. Lamoureux: Mr. Chair, out of respect for my colleagues in opposition, I do not want to consume more time because I know there are other questions.

Having said that, I do not understand how the government members want to make a mockery of this committee. That is what you are doing. You are not allowing legitimate questions to be answered by the deputy minister. You are taking out of context what it is that is being said. There is nothing wrong with posing a question that I have posed on several occasions now. I do not understand why you just do not let the deputy minister answer the question. If you are going to censor every question that the opposition asks and then run interference because you do not like the question or you feel uncomfortable about the question, to use policy, you could use the policy argument on virtually any and every question that is asked inside the committee.

Mr. Chairperson, if the deputy minister will be allowed to answer the question, I would appreciate it. If the government members do not want to allow the deputy minister to answer the question, then I have no further questions.

Mr. Rondeau: If the honourable member, Mr. Chair, would ask a specific question, not on policy, but say: What did you do, Mr. Deputy Minister, what did you do when the Auditor General's came through, how did you implement the Auditor General's report, how did you take this recommendation and implement it? The deputy minister, I am sure, would be happy to answer.

I answer if you ask a more ambiguous question, not a specific question. If it is a question on policy, as per the agreement, I would be answering it. Now, if you ask a specific question as what the Deputy Minister of Industry, Economic Development and Mines did, he would be happy to answer and I would be happy to have him answer.

Mr. Lamoureux: To the deputy minister: What did you do when you first found that there were some serious problems with the Crocus Fund?

Mr. Eliasson: Are you referring to the first devaluation of shares or are you referring to the cease-trading?

An Honourable Member: Both.

Mr. Eliasson: When the shares were first devalued in September 2004, the new share price was posted on the Crocus Web site, I believe, on a Friday. Friday night, a briefing was provided to the minister to let him know that that had occurred. So it was done within hours after the public disclosure of the devaluation.

Mr. Lamoureux: That is fine.

Mr. Hawranik: Yes, I would like to ask the deputy minister, in getting back to the forms that he filled out for Crocus in 2001, 2002, 2003, or the department had filled out, pardon me. Can the deputy minister advise who asked that the forms be filled out by the department?

Mr. Eliasson: I do not know. That would have been a discussion between the account manager and the officer at Crocus.

Mr. Hawranik: Can the deputy minister indicate to me how complex the form really was? Was it a very complex form to be completed?

Mr. Eliasson: One of the observations in the Auditor's report that we have taken to heart is that the entire pacing regime is a very complex regime. Each fund has a fiscal year that they have audited financial statements for. The pacing requirements relate to a different period of time, a selling season, so there are two different periods of overall reporting. The reporting-on-pacing requirements do not align with the same time period for which the fund has audited financial statements.

The test was on a monthly basis which is horrendously detailed and complex. There are two fundamental pacing tests as well, a pacing test, a maintenance test, a small-business small-investment test, all of which create a very complex reporting environment with lots of rules associated with it. So one of the items that is being considered by the implementation team that the government established in June of 2005 is a simplification of both the test and the reporting requirements associated with it.

Mr. Hawranik: I ask the deputy minister again: Did Crocus refuse at any time to fill out those forms?

Mr. Eliasson: I do not know that they refused. I mean, they were not overly anxious to do it, and I think the account manager, you know, I can only guess as to her motivation, but I think in an effort to sort of get things done, filled out the forms in the same way that someone might be assisted in filling

out their income tax return. But, at the end of the day, just like your income tax return, no matter who prepares it, you sign off on it, and at the end of the day, the chief financial officer signed off on the information return.

Mr. Hawranik: If the form is not filled out correctly or is not filled out on time, is there any penalty that is assessed by the department on any particular company for not filling out those forms on time?

Mr. Eliasson: There is a penalty for not fulfilling the pacing obligations and the maintenance obligations, and the way of determining whether that was done or not was through a completed form.

I am not sure that there is a specific penalty for filing the form late, but if you do not satisfy the pacing requirements, there certainly are penalties.

Mr. Hawranik: Did they satisfy the pacing requirements on the form? Was that late in your opinion?

Mr. Eliasson: They provided the forms. After the legislation came in, I think it took about a year to develop the form, and from that point on I think that they were filed. I do not have the exact dates and I do not know if they all came at once.

Mr. Hawranik: Did ENSIS complete the form by themselves?

Mr. Eliasson: Yes, they did.

Mr. Hawranik: If they completed the form by themselves, did they complete the form by themselves on time?

Mr. Eliasson: I do not know the filing dates of the ENSIS forms.

Mr. Hawranik: Are you aware of any difficulty that ENSIS had with completing those forms?

Mr. Eliasson: I think at the outset they had the same difficulty that Crocus had, that it was a very complex reporting structure. It is a complex test, so it took quite some time to get a reporting mechanism in place that satisfied the requirements of government without placing an overly onerous burden on the funds.

* (20:00)

Mr. Hawranik: It seems that Crocus was not anxious to complete those returns, and you obviously knew that at the time. Did you alert the minister responsible that they were not anxious to complete those forms?

Mr. Eliasson: We would have had discussions with the minister on sort of the overall relationship with Crocus and that would be an issue that would be addressed.

Mr. Hawranik: I take it, then, from your answer, you did relate a concern that you may have had that Crocus was not anxious to complete those returns. Was there any concern expressed by the minister?

Mr. Eliasson: Once we got a form in place that was agreed to by all the parties, then the filing process was not a big issue.

Mr. Hawranik: I note from the Auditor General's report, it indicates that there was sufficient red flags to justify a detailed review of Crocus in the latter part of 2002. Did you, as deputy minister, see it that way as well?

Mr. Rondeau: As the Auditor General's report said, that an e-mail between an official in the Finance Department and that was sent to a person in the Industry Department, it did not go to the minister. It was an e-mail between two departmental officials and it was in their normal daily functions. It did not get sent; that "flag" was not sent to the minister.

Mr. Hawranik: Clearly, the Auditor General made the clear statement that there were flags. There were enough flags to justify a detailed review in 2002. The Department of Industry had an obligation to monitor the fund and the red flags, certainly, at least some of those red flags, would have been obvious to any minister, such as repeated requests for legislative reviews to solve Crocus's problem.

Does the minister agree that there were enough red flags to justify a detailed review of Crocus in the latter part of 2002?

Mr. Rondeau: When one is looking at the red flags, as stated in the Auditor General's report, what this was was an e-mail from one official to another official.

The requests for legislative changes had to do with maintenance, pacing and those types of things. Now, as was discussed by the deputy minister just earlier, you can all see, and what was raised, was that it was a complex issue, the maintenance, the pacing, et cetera, and the requests for change had to do with the whole process of maintenance and pacing of the investments.

What we are going to do in the new legislation is make sure that it is not an onerous task to figure out these tests. What we want to make sure is that it is

easier to find out that the money has been invested into Manitoba companies and into Manitoba investments, and that the reporting is not onerous, that it is simplified, there is no confusion. As was mentioned in the Auditor General's report, there was confusion as to how soon the money had to be invested. Well, let us make it simple, make it simple so people understand what is happening with their investments and it is simple to report.

So we have sent those issues to the implementation committee. They are going to report back. We are going to make sure that it is simple, understandable, so that all people understand what is expected of them. The processes are easy to do, and I think it is really good that we are talking about what we need to do in the future.

What is nice to know is that in 2001 there was a reporting system put in. Yes, it took a little while to put in, but prior to 2001 there was no official reporting system to government, so there was no reporting. Rather than that, rather than pretending that there was no issue or no problem, in 2001, we established the first reporting on monitoring and pacing. That is an important thing because before that the government was investing money in a tax credit that started out at 20 percent, then it went down to 15 percent, and they did not know if the public policy objectives of the legislation were being adhered to. They did not know whether they were getting bang for the buck.

In 2001, when we set up the reporting system, we started to find out whether there was appropriate maintenance and pacing, whether the 15 percent tax credit was being used to invest in Manitoba businesses at the appropriate rate, at the appropriate time. That is good public policy and that is what we did.

So in 2001, yes, it took a little while to work out the system because we wanted to work with them. We wanted to work with ENSIS and Crocus. It was a complicated system. It was the system that we inherited from the previous government, and so what we did was we made a step in 2001 to improve it. Yes, the system might not have been perfect, but it was a lot better than no reporting, no accountability, under the previous government. Then we set up the reporting, and then we started to move forward.

The system might not have been perfect. We might have had to work to try to make it better, but with the Auditor General, he has very specific

recommendations on what we can do in the future. We have worked with the implementation committee so that we get a good simple way of making sure the public policy objectives of labour-sponsored venture capital are adhered to. We are getting bang for our buck as far as the 15 percent, and we make sure that we move forward and people know what they are investing in.

Mr. Hawranik: I refer to, and I am going to be asking this question of the deputy minister. I refer to the recommendations of the Auditor General, the second last one, it says that as part of a comprehensive monitoring program, Industry, Economic Development and Mines, his recommendation is that they confirm Crocus's compliance with critical provisions of The Crocus Investment Fund Act. The e-mail that is referred to, in 2002, that the minister just referred to, referred to repeated requests for legislative changes. That was one of the reasons why they asked for a review.

The Auditor General's report indicates, "However, there were sufficient red flags to justify a detailed review of Crocus in the latter part of 2002." That e-mail referred to repeated requests for legislative changes and legislative changes were required to make sure that Crocus complied with The Crocus Investment Fund Act, so I ask the deputy minister, was any review recommended by any member of your department at any time?

Mr. Rondeau: As I said before, Crocus and ENSIS—

Point of Order

Mr. Chairperson: Mr. Hawranik, on a point of order.

Mr. Hawranik: Mr. Chair, I specifically asked the question of the deputy minister. I asked him the question. I did not ask the minister the question. I went through great lengths to prove that, in fact, the question was within the scope of Section 118.1. It has to do with legislative changes. The e-mail request was with respect to legislative changes. One of the recommendations is that the Auditor General recommends that the industry confirm Crocus' compliance with critical provisions of The Crocus Investment Fund Act. The reason for the legislative changes was the fact that they were not complying with The Crocus Investment Fund Act. So, certainly, it is a related matter of administration within the Auditor General's report recommendations. I ask the deputy minister to answer that question.

Mr. Rondeau: Point of order. Oh, that was not a point of order, that was just a question.

Mr. Chairperson: I am not too sure. There was no point of order.

* * *

*(20:10)

Mr. Eliasson: In June of 2005, the government made the decision to split the monitoring and compliance responsibility and the policy and promotion responsibility from the funds into two departments, one into the Department of Finance for monitoring compliance, and leaving the policy and promotion responsibility with the Department of Industry, which is the response to several of the recommendations that deal with the monitoring and compliance regime and flows out of the very first recommendation that the Auditor General made, that senior government should consider splitting this role. They considered it and decided to do that.

At the same time, the government appointed an implementation team that is composed of four individuals, an individual who is a retired senior partner from Deloitte's, the chief executive officer of the Manitoba Lotteries Corporation, the Deputy Minister of Finance and the Deputy Minister of Industry. That implementation team has been working since June of 2005 to fulfil their terms of reference, which the government requested, that the team examine further legislative changes that were required to strengthen the legislative regime governing the operation of funds and to determine the best way to give effect to the government's decision to split the monitoring and compliance function from the policy and promotion function and develop the set of guidelines for the Department of Finance on how that monitoring and compliance function would be carried out. That implementation team is set to report very soon, by December 10 at the latest, or 12, I think, at the latest. That report will deal with the monitoring and compliance function to fulfil the recommendations from the Auditor General.

Mr. Hawranik: Clearly, the Auditor General, in a matter of months, doing an audit of Crocus, knew and made the recommendation that there were sufficient red flags, which included repeated requests for legislative changes, to justify a detailed review of Crocus in the latter part of 2002. Did your department also come to that conclusion?

Mr. Eliasson: Not at that time, no.

Mr. Hawranik: Why not?

Mr. Rondeau: Mr. Chair, the question, "Why?" would be okay, but he said, "Why not?"

What we have seen in the Auditor General's Report is there was one e-mail between one person in Finance to one person in Industry that talked about requests for change, and the changes were not on valuation. The changes were not on the valuation or how much the shares were worth. The request for changes was on maintenance and pacing, and so maintenance is the 70 percent rule, and the pacing, and what was interesting about the Auditor General's Report, if you read it, is that the Auditor General's report says that they were not off line on maintenance or pacing but they were requesting changes. Now, if one looks back, in hindsight, one might see a connection, and I see that the Auditor General looked back into a number of different people's offices and into other different departments and said there were issues.

The Department of Industry, you asked the Deputy Minister of the Department of Industry whether they believed there was an issue there, and the deputy minister said that at the time there were no issues that they could see, because the requests were not for changes on the valuation but for pacing and maintenance.

Mr. Hawranik: Yes, again, my question to the deputy minister. Clearly, the Auditor General, in a matter of months, walked into Crocus, looked at the repeated requests for legislative review and came to the conclusion that that was one of the red flags that would justify a detailed review of Crocus in the latter part of 2002. Why did the department not come to the same conclusion? What stopped you from coming to that same conclusion?

Mr. Eliasson: The Auditor's report is fairly clear on its review of the role of Industry, Economic Development and Mines as the promoter of the funds, as the monitor of the funds, as a co-investor with the funds, providing policy advice on capital markets and promoting the stimulation of the availability of capital and came to the conclusion that five hats is too many hats for one department to be wearing. If you are wearing five hats, then there is an inability to perform all five functions in a fully adequate way.

That is a recommendation that the government has accepted and has divided the responsibility for monitoring and compliance from the responsibility

for the policy and promotion. That decision was made as a follow-up to the Auditor's recommendations in June 2005.

Mr. Hawranik: I ask the deputy minister clearly: Does he agree that it is one of his department's duties to ensure that these kinds of funds comply with legislation?

Mr. Eliasson: The department administers The Labour-Sponsored Venture Capital Corporations Act and The Crocus Investment Fund Act and had the responsibility for monitoring the compliance with that legislation. That was one of the five hats that the department wore. That the Auditor General suggested that the monitoring role was not sufficiently emphasized, that is a recommendation that the government has accepted, and that is why the monitoring and compliance role is being established in the Department of Finance, separate from the policy and promotion role that exists in the Department of Industry.

Mr. Hawranik: Clearly, it is the department's duty to monitor compliance for legislation. It is clear. That is your duty in the Department of Industry. These repeated requests for legislative change came as a result of Crocus not being able to comply with the existing legislation. Would you not see that as a red flag for the department, causing you, just as the Auditor General has said, that it is a red flag that could possibly justify a detailed review in the latter part of 2002?

Mr. Eliasson: Crocus pursued legislative changes associated with their acts. ENSIS pursued legislative and regulatory changes associated with their operations. The economic environment within which the funds operate is constantly changing. It is not unusual for bodies that are legislated to suggest that there are alternate forms of legislation that would be more complementary to their activities. The kind of changes that Crocus was persistent in pursuing related to the maintenance and pacing test primarily, and that has nothing to do with the investment performance of the fund or the valuations of the fund. So that, in itself, did not raise a red flag in the department.

Mr. Hawranik: The Auditor General indicates in his report that one of the red flags is a repeated request for legislative change. That is what he says in the report; a repeated request for legislative change was one red flag. Would you have regarded that as a red flag as well?

Mr. Eliasson: I am not quite sure what the definition of a red flag is.

Mr. Hawranik: A warning, something that would cause you to ask for a detailed review of Crocus in 2002.

* (20:20)

Mr. Rondeau: Often, we get legislative requests, requests for legislative changes. I know that we often hear of people from all sorts of industries who talk to me about changes they would like to see. One of the most repeated changes is change in tax regime. If every time someone said that they needed lower taxes, there was a red flag, then a number of people in your party would be covered in red.

We have repeated requests for legislative change from the mining industry, from the oil and gas industry. We have repeated changes in the manufacturing industry and, because people are asking for changes in legislation or taxes or regulations or anything else that does not necessarily raise a red flag. What happens is that if people ask specific questions about wanting change, then you would say, "Okay, what change do they want to do?" In these cases, they wanted changes in the pacing and maintenance test. In other words, they wanted to make sure that they did not want to have to invest if there was no specific deal to invest in, and that would have been the pacing. They wanted to make sure the pacing was simplified.

Now those changes do not necessarily mean the fund is in trouble. What it means is they want something simpler; they want something better or an easier way of dealing with business. We, as a policy, every time someone sits and talks to the government and wants something, that does not mean that they are doing something or the business is going to collapse. What it means is that they want a change to benefit themselves, or benefit their operations, and that does not necessarily raise a red flag or caution.

Mr. Hawranik: Clearly, I asked the question of the deputy minister, not the minister, and the minister continues to try to stall the process, to try to ensure that—[interjection] I am not asking you the question. Do not answer it. I never asked you.

Clearly, the Industry Department, I ask the deputy minister, with legislative changes, is the Industry Department, with legislative changes respecting the act, is the department always involved?

Mr. Eliasson: Can you repeat the question?

Mr. Hawranik: Yes. Is the Industry Department always involved with respect to legislative changes in the act that it administers?

Mr. Eliasson: The department would certainly play a part in legislative changes.

Mr. Hawranik: You play a part in all legislative changes?

Mr. Eliasson: There is a function that the department plays in terms of change in legislation. Obviously, it is the Legislature that changes the legislation.

Mr. Hawranik: You are consulted, though, as a department with respect to legislative changes, I take it from the minister.

Mr. Eliasson: Yes.

Mr. Hawranik: Certainly, if you are consulted with all legislative changes, the Auditor General made the point in his report that there were repeated requests for legislative changes by Crocus. Certainly, you would have seen those repeated requests for legislative changes; you would have been involved, likely, in a consultation basis with drafting the legislation, with interpreting the legislation. I ask the deputy minister: Because the Auditor General thought that that was a red flag that would justify a detailed review in the latter part of 2002, why did the department not come to that same conclusion?

Mr. Eliasson: I think I already answered that. Crocus was not unique in requesting legislative changes. ENSIS also requested legislative and regulatory changes. Legislative changes have been made in the past, and they will be made in the future because the environment within which the funds operate is changing. The government's expectations have obviously changed, and Bill 51 addressed that. So there will be continued legislative change. The implementation team is examining legislative change and will recommend further legislative change, so that did not raise a red flag for the department.

Mr. Hawranik: So I take it from your answer, if you could confirm to me, Mr. Deputy Minister, that you thought that those repeated legislative requests for changes in legislation did not justify in your view, and the department's view, a detailed review of Crocus in the later part of 2002?

Mr. Rondeau: As a policy answer, what had happened was there were repeated requests—

Point of Order

Mr. Hawranik: Point of order, Mr. Chair.

Mr. Chairperson: Mr. Hawranik, on a point of order.

Mr. Hawranik: Point of order, Mr. Chair. I clearly asked the deputy minister to answer that question. I did not ask the minister and it is not a matter of policy. It is not a matter of policy at all. It is clearly within the knowledge of the deputy minister and the knowledge of the deputy minister within his department.

I am asking him what reaction he could have had or what reaction the department could have had with respect to the repeated requests for legislative change and whether he agrees with the Auditor General with respect to that being a red flag that was sufficient enough to justify a detailed review in the latter part of 2002.

I did not ask the minister. I asked the deputy minister.

Mr. Chairperson: Mr. Swan, on the same point of order.

Mr. Swan: On the same point of order, the Member for Lac du Bonnet (Mr. Hawranik) is now asking the deputy minister effectively the same question for the third time. Certainly, the reason why we have agreed upon changing these rules is to expand the scope of the questioning, to have deputy ministers attend, but the purpose of having deputy ministers attend is not to subject them to abuse of the process by the opposition members.

The question has already been asked. It has been answered on two separate occasions, and, Mr. Chair, you recognized the minister who certainly has the right to answer the question.

Mr. Chairperson: Mr. Derkach, on the same point of order.

Mr. Derkach: Mr. Chair, we see the government paranoid at what questions are being asked of the deputy minister. The deputy minister is quite prepared to answer these questions.

Mr. Chair, it is not the member from Minto who is going to direct this committee as to questions and when and how they are asked. There are some rules in place here. There is nothing in the rules that says a question should only be asked or can only be asked a certain number of times.

Now, Mr. Hawranik is not a novice in this game, Mr. Chair. Mr. Hawranik knows what he is doing. He has asked an administrative question of the deputy. When we developed the rules, there was nothing in the rules that said that the minister can or may jump into the fray when a question is asked of the deputy minister.

If the minister is addressed as the witness, then the minister can answer. In this case, the witness that is being asked the question is the deputy minister. I think the rules are fairly clear and the intent of the rules is fairly clear, that witnesses called before this committee could either be the deputy or the minister and could both appear but not in a way in which the minister would jump in front of questions that are not posed to him or her.

Mr. Chairperson: On the same point of order, Mr. Minister.

Mr. Rondeau: Mr. Chair, on the same point of order, the reason I jumped in was not because—why I jumped in was because the Auditor General's report was very specific. He said that, taken together, all these instances, all these issues were red flags, not separate.

So in the one case asking for requests might have been one issue. Another issue came, another issue, but they were not all with one person or with one department. So all these issues taken together should have raised a red flag.

Why I jumped in was that the deputy minister might have been aware of the repeated requests for legislation, but he might not have been aware of the e-mail. He might not have been aware of other issues, so why I jumped in was because under the deputy minister's roles and responsibilities he may have been aware of the repeated legislative changes, but he might not have been aware of the other issues, which, taken together, should have raised red flags. That meant, as the Auditor General said, it was not just one issue. It was different issues in different parts of the department, different departments that might have raised red flags.

* (20:30)

Mr. Chairperson: We are into these trial committee meetings, and I guess they are a trial because there is the back and forth of interpretation.

A lot of times these things can be worked through if there is a rephrasing of the question sometimes, and then sometimes you get past the

hurdle of trying to get into points of order and everything. I think that we have gone down that track a few times now because the interpretation of matters related to administration within the department have been interpreted both ways tonight already.

But I will ask Mr. Hawranik whether he feels that maybe there is a way that he can phrase the question so that the deputy can answer the question.

* * *

Mr. Hawranik: Yes, I ask the deputy minister: Does he disagree with the Auditor General when he says that there were sufficient red flags to justify a detailed review in the latter part of 2002?

Mr. Eliasson: I do not agree that there were sufficient red flags, that I was aware of in 2002 to justify a review.

Mr. Hawranik: You do not agree that there were sufficient red flags. I look at the red flags, repeated requests for legislative amendments. You knew about that. Clearly, you knew that there were repeated requests for legislative amendments. There was an analysis by Industry, Economic Development and Mines predicting a liquidity problem. Clearly, you said that you knew about that.

So those are two areas that the Auditor General indicates there were red flags within the department that should have raised enough red flags to justify a detailed review in the latter part of 2002.

So I ask you again: Do you disagree with the Auditor General that there were sufficient red flags to justify a detailed review in the latter part of 2002?

Mr. Chairperson: Before Mr. Eliasson answers, I believe the Auditor General may have some comments for clarification.

Mr. Singleton: I would just like to sort of give my perspective on framing this particular issue so that the process can be fairly addressed. Our point was that there were a number of red flags, that if an individual knew about all those red flags we thought they should have formed a conclusion that it was worth taking a closer look at Crocus.

We were not able to determine whether any one individual was aware of all these red flags, which ultimately led us to the recommendation, which has already been discussed tonight, that we thought because the department was wearing so many hats, they were not focussed enough on the monitoring function and had not appropriately resourced the

monitoring function to do an effective job of that, which would certainly be a contributing factor to individuals within the department not being aware of all the red flags that were in place.

That is why we recommended, and I am glad to see that the government has acted on that, to separate the roles so that the person who is in charge of monitoring can focus fully on that responsibility and put the pieces together of little indications here or there that might be a problem.

Mr. Chairperson: Thank you very much, Mr. Singleton. Mr. Hawranik, then?

Mr. Hawranik: I asked the deputy minister in terms of the headings in terms of the reasons for why the Auditor General thought that there were sufficient red flags to justify that detailed review, and there are three headings.

First of all, repeated requests for legislative amendments. I ask the deputy minister, were you aware of those repeated requests for legislative amendments?

Mr. Eliasson: I was aware of Crocus' requests for amendments that were addressed to our department.

Mr. Hawranik: I ask you again, Mr. Deputy Minister, it indicates that there was an analysis by Industry, Economic Development and Mines which predicted a liquidity problem. Were you aware that there was a liquidity problem at any time at Crocus?

Mr. Eliasson: That references an e-mail from one official in the department to an official in Finance, and I did not see that e-mail until it was referenced in the Auditor's report and requested a copy of it.

Mr. Hawranik: Would you agree though that your department, in fact, knew about this liquidity problem?

Mr. Eliasson: Our department was aware that Crocus needed to address their redemption issue. There were a variety of ways that Crocus could address that. One was through changing the legislation regarding pacing requirements, another was through a more aggressive divestiture strategy, and that was something that we were in discussion with them on continually.

Mr. Hawranik: Clearly, it says, "A senior account manager within Industry reviewed information provided by the fund and the manager observed that unless Crocus divested sufficient investments to fund redemptions, they would run into liquidity problems

as early as 2002-2003." Are you denying that the senior account manager is not within Industry, or are you willing to agree that, in fact, someone in your department knew that there were liquidity problems?

Mr. Eliasson: Your reference is to an e-mail from an employee in the Department of Industry to an employee in the Department of Finance. The first time I saw that was when I saw reference to it in the Auditor's report and requested a copy of it.

Mr. Hawranik: Clearly, I did not ask you whether you saw it. I asked you whether or not your department knew that there were liquidity problems. Someone in your department knew that there were liquidity problems.

Mr. Eliasson: Someone?

Mr. Hawranik: Yes, a senior account manager.

Mr. Eliasson: Someone in the department performed a barely cursory analysis and sent the conclusions of that to an official in the Department of Finance. The first time I saw that was when it was referenced in the Auditor's report.

Mr. Hawranik: But your department knew that there were liquidity problems. Would that be correct?

Mr. Eliasson: The department was aware that Crocus needed a strategy to deal with redemptions on a going-forward basis and was in discussions with them for several years on a continual basis as to how they were to address that. Crocus continually pursued sort of legislative changes on the pacing requirement as one solution, but they also had other solutions that they had developed that included a more aggressive divestiture strategy.

Mr. Hawranik: The third red flag by the Auditor General and the Auditor General's report was, and we are talking about all three now, Industry had concerns over Crocus's long-term plans. Industry officials had meetings with Crocus. Industry officials indicated that these plans gave rise to policy in practical matters, but they have been cleared by those in higher authority. So, obviously, Industry knew about the concerns over Crocus' long-term plans. Would you agree with that?

Mr. Eliasson: Crocus, at the end of a meeting with officials in the department, and the agenda for that meeting did not deal with their long-term plans where there were technical items that were under discussion, at the end of that meeting they had a

discussion on their vision of what Crocus could be in 10 or 15 years. That included, sort of, managing a variety of funds and becoming a much larger player in the venture capital industry in Manitoba. Based upon that, officials had some concerns. But they were not immediate; we have to do something about this tomorrow. They had to do with sort of a 10 or 15-year vision for the fund.

* (20:40)

Mr. Hawranik: Clearly, the red flags that were detailed by the Auditor General in his report, first of all, there was repeated requests for legislative amendments. It had to have gone through the department, had to have been analysed by the department. The analysis by the second red flag, analysis by Industry predicting a liquidity problem, clearly a senior account manager within the report within Industry knew that. Whether you knew it or not is another matter, but clearly someone in the department knew. Clearly, Industry officials, the third red flag, had concerns over Crocus's long-term plans. It is clearly within the Auditor General's report.

So I ask the deputy minister, when the Auditor General said that there were sufficient red flags to justify a detailed review in the latter part of 2002, would he disagree with that?

Mr. Eliasson: I think the Auditor General in his comments was very clear that all those things taken together, if one person was aware of all those things, then that may have been sufficient grounds to launch some sort of review, but the fact of the matter is that I do not think that there was one person that was aware of all those things.

Mr. Hawranik: Clearly, your department knew all of those things and clearly the Auditor General said there were enough red flags to justify a detailed review of Crocus. You, as the deputy minister, would you not have seen all of those red flags? Would you not have discussed those items with members of your department?

Mr. Eliasson: I answered the question already, that some of those red flags I had not seen before they were mentioned in the Auditor's report.

Hon. Jon Gerrard (River Heights): Yes, there was significant overlap, I understand, between the investment committees and Crocus, which is what we are concerned with, and the investment committee of the Workers Compensation Board. I

ask the deputy minister: When did the deputy minister first become aware of this overlap?

Mr. Rondeau: Maybe the leader of the unidentified party would like to note that one of the recommendations was to make sure that the boards all had an investment committee and one of the discussions that the Auditor General did was suggest that we make sure that the investment committee is a board committee. That is the first one. Under the Tory government, under the legislation that was set up and under the formats that were set up for labour-sponsored venture capital, the investment committees and the valuation committees, et cetera, were not direct board committees. They did not have representation from the Class A shareholder, the investor.

We took that to account. We looked at the administrative structure of these boards, of the committees, and we followed the Auditor General's recommendations, which were very astute, because what he said was we should look at the best governance model possible and we did. So we made sure that the investment committees were reporting to the board and they were board committees that had representatives from the Class A shareholders. That is what we did and that, I think, is very, very good.

As I said earlier, as far as any investment, any organization, any person, is welcome to make any investment. You read the prospectus, you look at what it has done and each organization, whether it is an individual, whether it is a business, whether it is an institutional investor, they make their own investment decisions based on their own criteria and their own due diligence.

Mr. Gerrard: My next question deals with the fact that the Department of Industry, of course, was involved in economic development. Crocus was viewed as a vehicle for economic development and promoting the development of Manitoba industries, and of interest, in terms of the recommendations related to the investment portfolio of Crocus, was the significant overlap in certain investments with those investments being made by the Workers Compensation Board.

I would ask the deputy minister when he first became aware that there were investments being made by Crocus and the Workers Compensation Board in the same area.

Mr. Rondeau: Maybe the member does not understand the fact that the government does not direct the investments of either the Workers Compensation Board, which has an investment committee, or Crocus, which has an investment committee. We do not make the investments; we do not manage the company. What happens, these are independent organizations. They do not report to the government. The Crocus board and the ENSIS board have an independent board of directors.

Now, what they have got is a better system. Previously, they had an investment committee that was not a board committee. The Auditor General pointed out that this system, which was in place since the formation of the funds, was not the best governance practice. It was not the best management practice.

So what we have done is we have taken the Auditor General's report, taken it to heart. Now, there are some rules. No. 1 is the investment committees of the Crocus and ENSIS are board committees. No. 2, the chair of the Crocus or ENSIS board do not chair the investment committees. They are separate chairs. No. 3, the shareholders, the ones who invest the money in Crocus or ENSIS, now sit on all board committees. So what we have done is we have followed the Auditor General's Report. We have worked with the funds to make sure that they have appropriate management, in fact the best systems of management that are out there. I think that is appropriate.

The other thing is that, as was mentioned during Question Period to the leader of the third party, the Workers Compensation Board is not an arm of government. We do not direct its investments. In fact, the investment from Workers Compensation in the Crocus Investment Fund was made in 1996 and 1998. This is not when this government was in the government; it was, in fact, when the Conservatives were in government. It might be known that Mr. Loewen, before he left, when he was talking to CJOB, was talking about how silly these investments were because of their investments. But the point is we did not make it. It was under the Workers Compensation government, when the former government was in power, when the Conservatives were in power. Each organization, the Workers Compensation Board or any pension fund or whatever, does their own due diligence and makes their own investments based on their own belief of where their money will be best invested.

Mr. Gerrard: Yes, earlier on, the deputy minister indicated that he had talked to the minister within, I think it was, 24 hours of the devaluation of Crocus. Now, would that have been the devaluation which, I think, was September 23, or are we talking the December 5, or thereabouts, when there was a second devaluation?

Mr. Eliasson: That was the September devaluation.

Mr. Gerrard: So it was the September devaluation, and, prior to that time, the current minister had been in place for at least a number of weeks at that point.

Mr. Eliasson: No. The current minister was not in place then. The current minister came into the department in October.

Mr. Gerrard: So you were then referring to a discussion with the previous minister.

Mr. Eliasson: It was actually a note on a Blackberry; it was not a discussion. But he was informed on the Friday night.

Mr. Gerrard: The deputy minister is indicating that there had been no concerns relayed to the minister about the situation at Crocus prior to that?

Mr. Eliasson: There had not been concerns on the valuation at Crocus prior to that.

* (20:50)

Mr. Gerrard: Now, one of the things which is rather striking in the Auditor General's report is the money which was either loaned or invested, depending on one's perspective, from the Québec pension fund to Crocus. When did the deputy minister first become aware of the loan or investment, depending on your perspective?

Mr. Rondeau: One of the interesting parts that the Auditor General pointed out was that the loan or investment was not necessarily portrayed appropriately, and that is one of the things that the MSC is investigating now. One of the interesting things we—the Auditor General did a very thorough job of investigating a lot of aspects of this. What we then did with the Auditor General's report is we referred a number of things to the MSC. One of the things was whether the prospectus was appropriate. We sent some things to the RCMP for investigation. Some things, such as the tax issues, went to the Canada Customs and Revenue Agency.

So what we have done is we have sent it to a number of organizations so that there is a thorough, complete investigation to make sure that everything

is covered in this case. So that is what we did there. So anything that has to do with the prospectus or things that might not have been done appropriately in the information that is provided to the public, that is MSC, and the Auditor General pointed out that that might have been an issue and that was sent to the MSC for further investigation and action.

Mr. Gerrard: The terms of the loan or investment were guaranteed to provide a significant return, and they were guaranteed return to Québec pension fund as I understand it and that would have been very different from the other investments that had been made in Crocus. Is that, I ask the deputy minister, a correct understanding of the situation?

Mr. Rondeau: Mr. Chair, from what I understand, when the Auditor General reported this, this was something that we then sent to the MSC. The Department of Industry was not checking the information provided in the prospectus. That is the job of MSC. It is the job of the underwriter. It is the job of the auditor for the firm to make sure that the information that is provided is accurate. It is the job of the officers of the company. It is the job of the board.

Our job was to ensure the Department of Industry was making sure that there was appropriate public policy. In other words, to make sure that the 15 percent tax credit made sure that the investment was properly invested in Manitoba companies. It was making sure that the pacing, it was invested at the appropriate time. The public policy initiatives, we created a forum to make sure that it was done appropriately. We are not in any way responsible. The Department of Industry did not go in and audit the information that was provided by the fund. We worked on trust. We worked on the pacing and the maintenance requirements.

Mr. Gerrard: I asked the deputy minister when he became aware of the loan or investment from the Québec pension fund.

Mr. Eliasson: I would not have become aware of the terms and conditions of that loan. That would be a confidential matter between the Québec Solidarity Fund and the Crocus Investment Fund, with no obligation to report the terms and conditions of that investment to government.

I became aware of it, I think, after a Crocus annual meeting or there was a press release or something at the time, but other than that, there would be no specific reason why I would be aware of

that, and the department would have relied on the audited financial statements and the presentation of that in the audited financial statements.

Mr. Gerrard: Which annual general meeting was that?

Mr. Eliasson: The one closest to the date when the investment was made. I do not recall off the top of my head which one that was.

Mr. Gerrard: My understanding is that it was listed as an investment, but in many ways it is more like a loan. The question in this circumstance is that, if it is unusual to have with Crocus, which was designated for Manitoba, to have activity like this coming from Québec or related to a Québec fund, my question to the deputy minister: Was this the first time that there had been such activity in Crocus which related to a fund from Québec?

Mr. Chairperson: The Auditor General would like to comment on that.

Mr. Singleton: Just before the question is answered, I think it is important to understand that, from our point of view, Crocus did not do an open and transparent job of disclosing the nature of that transaction in its financial statements or in its prospectuses.

It is very common in the business world that, when you receive an audited set of financial statements, you rely on the audit opinion. When you receive a prospectus, you presume that appropriate due diligence and appropriate disclosures are contained in that prospectus. So I think it would be highly impractical for anyone to say, "Well, I do not believe the prospectus or I do not believe the financial statements," because you would not be able to do any kind of monitoring work on that basis unless you had some specific evidence that came to you in some other way that caused you to want to ask questions. I do not think anyone raised this as a particular concern until we brought it forward.

Mr. Rondeau: One of the things is that, again, the department was monitoring for specific things. Maintenance, pacing, small business, liquidity, that is what we were monitoring for. Again, we worked with the funds and we worked on trust.

We are hoping that now, by following the Auditor General's report and dividing the responsibility so that you have one person whose sole job or one organization whose sole job is to make sure that the monitoring is done, then we will

make sure that the social policy objectives are followed.

Mr. Gerrard: A follow-up question for the Auditor General and it is specifically this: I mean, it would be unusual for Crocus to have activity of this nature, whether it is a loan or investment with a Québec company. Is that not correct?

Mr. Singleton: Yes, I guess I believe it was the first time that Crocus Fund received an investment from an organization outside of the province.

Mr. Gerrard: The nature of this, whether it is a loan or investment, one would have thought that it would have been so unusual that it would have been noted, given the terms of reference and the expectation that Crocus was working within Manitoba. Is that not correct and is that not one of the reasons why you noticed this and followed it?

Mr. Singleton: Well, I guess I would start off by saying that if, in fact, the investment by solidarity in the Crocus Investment Fund had been an equity investment, where they were taking a long-term risk with their investment in Crocus, one would have to interpret that as a fairly positive sign that that organization thought Crocus was a company they could invest in and hope to earn a reasonable return on their equity.

Our concern was fairly early on actually in our investigation, when we began to appreciate the actual terms and conditions around that transaction. It became clear that it was not, in fact, an equity investment and instead of reflecting positively on Crocus actually reflected that Crocus was running into significant difficulties.

But I would reiterate that Crocus was not as open and transparent about the nature of that transaction as they could have been so that outsiders could have formed the conclusion that we did with the inside information we were able to get.

Mr. Chairperson: One quick question. The committee will rise at nine.

Mr. Gerrard: The first annual meeting, just to follow up, where that would have been presented would have been which annual meeting?

Mr. Singleton: Page 78 of our report indicates that that was disclosed to shareholders at the annual meeting on May 10, 2003.

Mr. Chairperson: Order, please. The hour being nine o'clock, and in accordance with the announcement in the House, this committee is to sit from six to nine.

Before rising, I would like to ask you to leave behind the copies of this report. We are very short of copies and this will help us reduce the number of copies required for tomorrow's meeting considering this matter.

I would also like to advise that additional meetings of this committee are being held this week. The dates and times are tomorrow, December 8, from three o'clock in the afternoon to six, to continue discussion of the Crocus Report; and Friday, December 9, from 9:30 a.m. until noon, to discuss the Morris-Macdonald report.

The hour being 9 p.m., committee rise.

COMMITTEE ROSE AT: 9 p.m.