

**FOR IMMEDIATE RELEASE
CNW CODE 01 + WEEKLIES**

The Minister of Finance Announces Measures to Improve Transparency, Accountability and Governance at the Caisse de dépôt et placement du Québec

Québec, May 26, 2009 – In the course of the parliamentary commission on the 2008 results of the Caisse de dépôt et placement du Québec, the Minister of Finance and Minister of Economic Development, Innovation and Export Trade, Raymond Bachand, announced today new measures to improve transparency, accountability and governance at the Caisse.

“The exercise we are concluding today has been very useful. The causes of the Caisse’s poor relative results in 2008 compared with the benchmark indexes and its peers are now well known: the error the Caisse has admitted regarding asset-backed commercial paper (ABCP), the decline in the market value of real estate assets the Caisse holds, as well as the risks taken within the “Asset Allocation” portfolio. These causes have prompted the Caisse to challenge itself and make changes to improve its investment practices and risk management,” the Minister of Finance indicated.

The President and CEO of the Caisse, Michael Sabia, announced last April 30 that he was putting risk management at the top of his list of priorities and that the Caisse would hire some twenty more management specialists. The Caisse also terminated the activities of the “Asset Allocation” portfolio.

The commission’s works was also able to establish that factors mentioned earlier to explain the Caisse’s losses are groundless. “In light of the testimonies, it is clear that the 2004 reform of the Act respecting the Caisse de dépôt et placement, in particular concerning the mission statement of the Caisse, is not an issue. On the contrary, this reform, which strengthened the institution’s governance, was considered necessary to better control the new investment powers the Caisse was given under the prior reform of its legislation in 1997,” Minister Bachand noted.

“The government also intends to respond to the wish expressed by the public and by parliamentarians for a better understanding of the actions and decisions taken by this major institution,” the Minister noted. Accordingly, the Minister announced the following measures.

To improve accountability and transparency:

- The government is asking the Caisse to appear before the Commission des finances publiques each year for four hours to present its annual report and answer parliamentarians’ questions. This time will be reserved specifically for the Caisse and the exercise will take place outside the annual examination of the estimates of the ministère des Finances.
- The government is asking the Caisse to prepare, once every three years, an orientation plan setting out its vision and priorities. The Caisse will have to present this plan in the course of the parliamentary commission, starting in 2010.

- The government is asking the Caisse to present, at the same time as its annual results, a report dealing specifically with risk management.
- The government is asking the Caisse to table, during the 2010 parliamentary commission, a report on its remuneration policy.
- Lastly, the government is asking the Caisse to further enhance the section of its annual report in which it provides an account on its statutory obligation to contribute to the economic development of Québec.

To improve governance:

- The government is asking the Chairman of the Board to prepare a report on the actions taken to improve the governance of the board of directors of the Caisse. This report will be examined in the course of the 2010 parliamentary commission on the Caisse.

“The measures we are announcing today fully maintain the independence of the Caisse, but the Caisse will now be more accountable and transparent than it has ever been in its history. The time has come to let the employees of the Caisse concentrate on their work, which is to manage the funds of depositors. It is now time to look to the future, a future that I view as promising and marked by greater prudence,” the Minister of Finance concluded.

- 30 -

Source: Anne-Sophie Desmeules
Press Relations Officer
Office of the Minister of Finance,
Minister of Economic Development,
Innovation and Export Trade
and Minister responsible for the Montréal region
418 691-5650
514 499-2552

Appendix I

Data on Shortfalls in Returns in 2008

Returns	CDPQ in 2008: -25% Depositors benchmark portfolio in 2008: -18.5% Major Canadian pension funds: -18.4%
Three main factors	The Commission's work showed that this \$10-billion shortfall is attributable to three main circumstantial factors: <ul style="list-style-type: none">• ABCP (-\$4 billion): error admitted by the Caisse.• Real estate (-\$3.7 billion): the Caisse explained that part of the unrealized loss is due to the accounting standards it must apply and that are different from other large pension funds in Canada.• Asset Allocation portfolio (-\$2 billion): activities terminated by the Caisse.

“This value subtracted, for 11 of the 14 specialized portfolios in which the plan is invested, is concentrated in three areas: the real estate portfolio; ABCP; and the negative impact of various asset allocation strategies.” (André Ménard, CCQ)

The reform of the 2004 Act is not at issue

The Mission of the Caisse Changed from 1994 to 2003

Extracts from the annual reports of the Caisse

1997: “The mission of the Caisse de dépôt et placement du Québec is to achieve optimal financial returns and contribute through its activities to the vitality of the economy.”

1998: The same sentence as in 1997 appeared on the back of the cover page. However, the *Profile* on page 1 mentioned that “the Caisse seeks an optimal return on investment while contributing to the vitality of the Québec economy.”

1999: The same wording introduced in 1998 is found on page 5: “The Caisse seeks an optimal return on investment while contributing to the vitality of the economy.”

2000 (page 5) and **2001** (page 4): “Québec CDP seeks to ... obtain an optimum return on its investments while contributing to the vitality of the economy wherever it invests.”

2002 (page 6): “In this spirit, over the last few months the Caisse’s Board of Directors, senior management, employees and partners have begun to review the mission of the Caisse de dépôt et placement du Québec, which is to manage depositors’ collective holdings while seeking to preserve their capital and earn a return that reflects their risk tolerance. With this objective in mind, the Caisse continues to contribute to Québec’s economic development.”

2003 (page 10): the board of directors of the Caisse recommended “clarifying the Caisse’s mission and entrenching it in its incorporating act as follows: The Caisse’s mission is to manage the collective assets of its depositors by seeking to generate returns on capital in accordance with individual investment policies. In pursuing that objective, the Caisse contributes to the economic development of Québec.”

“And now a few words on the amendments made to the 2004 Act. These amendments were intended to clarify the mission of the Caisse and sought to improve its governance; they have no notable impact on its operations and strategies. The same operating rules continued to apply, and the only adjustments, over time, are due essentially to changes in financial markets.” (Fernand Perreault)

Appendix III

The amendments made to the Act respecting the Caisse in 2004 essentially deal with the governance of the Caisse:

- Strengthen the role and independence of the board of directors,
- Creation of three Board committees: an audit committee, a human resources committee and a governance and ethics committee,
- Separation of the role of Chairman of the Board of Directors from that of President and Chief Executive Office of the Caisse,
- Clarification of the mission of the Caisse.

The amendments to the Caisse legislation in 1997 were designed essentially to ease investment restrictions:

- Bill 168, passed in 1997 and sponsored by Bernard Landry, led to the following changes, in particular:
- Increase in the limit of the Caisse's portfolio that can be invested in equities and units of index funds, from 40% to 70% (section 32);
- Increase in the limit of foreign real estate investments, from 3% of the Caisse's assets invested outside Québec to 5% of the Caisse's assets invested outside NAFTA (section 29);
- New section 36.1 stipulating that “For the purposes of acquiring, holding or disposing of investments stipulated by this Act, the Fund is authorized to engage in any activity or operation that allows the value of the investment to be protected or enhanced, or that is aimed at deriving the best possible financial return from the investment”;
- Bill 168 of 1997 also authorized the Caisse to purchase securities that would be more commonly known, 10 years later, as “ABCP”, and that section 37.1 c) calls “securitized assets and derived products” such as, for example, those resulting from the securitization of mortgage obligations.
- The amendments to the 1997 act allowed the Caisse to seek greater returns and, to do so, take on more risk.

“[...] it is clear that the 1997 law authorized an increase in the risk level of the portfolio of the Caisse, which was not done and was not intended by the 2004 law, which targeted governance.” (Richard Guay)