

SESSION 1947
HOUSE OF COMMONS

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 14

TUESDAY, JUNE 24, 1947

WITNESSES

- Dr. E. H. Coleman, C.M.G., K.C., Deputy Custodian of Enemy Property,
Mr. A. H. Mathieu, Assistant Deputy Custodian, and Mr. K. W.
Wright, Counsel;
- Mr. Gordon Murchison, Director, Soldier Settlement and Veterans' Land
Act.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1947

MINUTES OF PROCEEDINGS

TUESDAY, June 24, 1947.

The Standing Committee on Public Accounts met at 11 o'clock a.m., the Chairman, Mr. L. P. Picard, presiding.

Members present: Messrs. Boucher, Burton, Cleaver, Cockeram, Denis, Gladstone, Golding, Picard, Probe, Stewart (*Winnipeg North*), Stuart (*Charlotte*), Thatcher, Warren, Winkler.

In attendance: Dr. E. H. Coleman, C.M.G., K.C., Deputy Custodian of Enemy Property, Mr. A. H. Mathieu, Assistant Deputy Custodian, and Mr. K. W. Wright, Counsel; Mr. Gordon Murchison, Director, The Veterans' Land Act.

The Chairman tabled a report by P. S. Ross and Sons on the Vancouver Office of the Custodian, covering the period from the opening of the office to December 31, 1946.

Mr. Murchison was recalled.

After discussion, it was agreed that questioning of Mr. Murchison respecting the resale to veterans of lands formerly owned by persons of the Japanese race be postponed until the next meeting.

Mr. Murchison was retired.

The Committee resumed its investigation into the administration of the property of illegal organizations.

Mr. Wright was recalled and questioned.

The Committee proceeded to an investigation of the Ottawa office of the Custodian.

Mr. Mathieu was called, heard and questioned.

Dr. Coleman was recalled and questioned.

At 12.45 p.m. the Committee adjourned to meet at the call of the chair.

A. L. BURGESS,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

June 24, 1947.

The Standing Committee on Public Accounts met this day at 11.00 a.m. The Chairman, Mr. L. Philippe Picard, presided.

The CHAIRMAN: Gentlemen, I have here a copy of a report sent by Mr. Coleman. It is sent in answer to a question which was asked on May 13 by Mr. Stewart and, I think, by others at various times. It is the audit of the custodian's office at Vancouver. Dr. Coleman told us we would receive it as soon as possible and we have received it to-day. Since I assume the members of the committee are not ready to discuss it, if they feel so disposed, I will file it.

I should like to mention a discussion I had after the last meeting with some members of the press who reproached me for not communicating some of the figures which were deposited with the committee at the last minute. These figures were contained in Mr. Murchison's report. Since this report had not been discussed by the members of the committee, I took it upon myself to ask the secretary not to reveal those figures to the press until the members of the committee had an opportunity of discussing them. I intend to do the same thing with this report. I do not know what is in it, but I will file it and it will be at the disposal of the members of the committee. When the members of the committee have had an opportunity to discuss it at the next meeting, it will then be public property.

This morning I received a call from the Hon. Ian Mackenzie, who expressed surprise that our report on the first part of this committee's work had already been tabled. He thought the whole of the committee's work would be the subject of a report at the end of our deliberations. He said, since the report is in, it might be awkward for him to ask to appear before the committee, but he desired me to tell the committee that if it was the committee's wish that he appear, he is ready to appear. Since he believed the report would be made upon the completion of our deliberations he had not, as yet, signified his intention of appearing before us. He said, however, I might tell the committee that if any of the members think he should appear or could be of any help to the committee, he would be willing to appear although the Japanese question upon which he would appear has already been the subject of a report. If anyone, at any time, wants to call the minister he is at the disposal of the committee.

Towards the end of the last meeting Mr. Fleming expressed a desire that we should go as quickly as possible to the consideration of Mr. Murchison's report. We had called a meeting for Friday, but some of the members could not attend. I had to go down to Quebec on some important business and some other members expressed a desire that the meeting be postponed so it was postponed until this morning. I have received a letter from Mr. Fleming stating he will not be here this morning. I think, since we have Mr. Murchison here, we should proceed with him. If he does not take up all this morning we will adjourn his evidence and, at the next meeting, when Mr. Fleming is present, if he wants to question Mr. Murchison he will be at the disposal of the committee.

There was also a suggestion towards the end of the last meeting that the steering committee would meet to discuss the order of business before the committee. At the time, I was not aware that the steering committee had already drafted an agenda for this committee. At the last meeting the committee was adjourned to the call of the chair. I called the committee for Friday because I

realized that on May 8, the steering committee had drafted the order in which the various matters would be taken up in our investigation of the custodian's affairs. We have completed the first two parts of that examination, the examination of the Vancouver office and a review of the administration of the property of illegal organizations. According to the decision of the steering committee on May 8, we were to proceed with an investigation of the Ottawa office and then an examination of the custodian's accounts.

When I learned this, I realized we did not need a meeting of the steering committee and I felt we should go ahead with our investigation of the Ottawa office of the custodian. This morning, therefore, if we finish with Mr. Murchison temporarily, until Mr. Fleming returns, we will carry on with the investigation of the Ottawa office.

Mr. BOUCHER: Would it not be wise to wait until Mr. Fleming returns before taking Mr. Murchison's evidence and continuing with the Ottawa office investigation this morning? Mr. Fleming has been very active in this investigation. I take it from your statement that the steering committee meeting was not called so Mr. Fleming may not have had advance knowledge of Mr. Murchison's appearance this morning.

The CHAIRMAN: He knows about it and he told me he could not be here. Mr. Fleming asked if we could summon the steering committee in order that he may bring some matters to the attention of the committee which he believes should be investigated. He asked, if possible, that that meeting take place any time after Wednesday. If this meeting were held before then, he thought Mr. Smith or someone could attend in his place. I thought it would be courtesy to wait until Mr. Fleming returned.

Mr. BURTON: When Mr. Fleming requested Wednesday afternoon, that would mean to-morrow?

The CHAIRMAN: Yes.

Mr. BURTON: I suggest we have a steering committee meeting to-morrow at your convenience.

The CHAIRMAN: Yes, I have already asked the clerk to fix an hour to-morrow when we can meet, any hour which would be most convenient to the members of the steering committee. We would have that meeting to-morrow afternoon at which we could discuss any other matters.

Mr. BOUCHER: I have not been talking with Mr. Fleming, but it just occurred to me the procedure I suggested might be better.

The CHAIRMAN: He wrote to me and said he thought there would be a steering committee meeting before we had any further meetings, but there was no need for that meeting of the steering committee. As I said a moment ago, the order of business had already been set out. There is nothing to prevent us from going ahead, since we cannot finish any of this business in one day. If we do not sit once or twice a week at least, we will never finish. Last week we were unable to have our second meeting. With all due deference to Mr. Fleming, there are other members of the committee who are here, so we can go ahead this morning. At the next meeting Mr. Fleming can carry on with what we have started this morning and we can recall Mr. Murchison. I do not imagine the matters which Mr. Murchison is bringing to the attention of the committee will stir up any discussion. We can have Mr. Murchison recalled at any time and go ahead with what Mr. Fleming had in mind.

Therefore, if the committee is agreeable we will call Mr. Murchison as our next witness. He is ready to answer questions concerning his report.

Mr. Gordon Murchison, Director, Soldier Settlement Veterans' Land Act, recalled:

Mr. BURTON: Would Mr. Murchison have a statement he would care to make?

The WITNESS: I have no statement to make in addition to the brief note I sent over to the chairman accompanied by the details of the disposition we have made of the Japanese lands we took over from the custodian. Mr. Fleming has that schedule for study and probably that is one reason why it has not been incorporated in your printed proceedings. I have brought with me another copy of that return. It is very lengthy. It runs to 48 pages of detailed material and it follows the order of the return filed by the representative of the custodian as to his identification of the various properties. We followed the same sequence and recorded the disposition which had been made of the properties which have been sold. We found it necessary to attach an appendix to it to explain some minor discrepancies which exist. There are about a dozen pieces where there are minor differences between the price recorded by the custodian and the sale price recorded by ourselves.

An instance of that is something like this: custodian file 123, the custodian listed the sale price there as \$2,054. Now, this particular transaction involved two separate pieces of property. The custodian was able to deliver title to only one. Therefore, our purchase price of \$1,600 reflects the purchase price of the land we got. It does not include the other lot to which he was unable to deliver title.

With those few explanatory notes you will find you can study the schedule or factual report as to what happened to the Japanese property when it was taken over. I do not think there is anything further I can add to that, Mr. Chairman, unless there are some questions which the committee wishes to ask me this morning. I will leave this additional copy with the clerk.

By Mr. Burton:

Q. That is a similar copy to the one you have already filed, it is not supplementary to it?—A. It is a duplicate of it.

The CHAIRMAN: Are there any other questions?

Mr. STEWART: I have no questions to ask Mr. Murchison. I think he has told us everything he knows. The fact remains that Mr. Murchison had a duty to buy that land at the best possible price for his department and I assume that was done. Unfortunately, it was done at the expense of Canadians of Japanese descent, but that is not his responsibility. That responsibility belongs to a different department of government altogether. So far as we are concerned, there are no more questions to ask of Mr. Murchison.

The CHAIRMAN: Since I assume Mr. Fleming desires to ask Mr. Murchison some questions, we will excuse him for to-day and ask him to return when Mr. Fleming is here.

Mr. STEWART: Mr. Chairman, might I ask what we are proceeding with to-day?

The CHAIRMAN: Dr. Coleman, Mr. Mathieu and Mr. Wright, the counsel for the department, are going to speak on the third item of our agenda as established by the steering committee in May: investigation of the Ottawa office of the custodian. I understand they have a brief statement ready and then they will be at our disposal for questioning.

Mr. BURTON: Is Dr. Coleman coming here to-day?

The CHAIRMAN: Yes. We did not know how long we would take with Mr. Murchison so Dr. Coleman was not called immediately, but he is waiting in the minister's office in this building now and he will be here in a few minutes.

Mr. STEWART: Did Mr. Wright file a return to a question I asked which had to do with a report on the libraries which had been seized?

The CHAIRMAN: It was filed at the last meeting. All the statements that have been asked for by members of the committee have been produced.

Mr. STEWART: I should like to ask Mr. Wright one or two questions in this regard.

The CHAIRMAN: I understand that some members would like to ask some questions of Mr. Wright concerning the report on the libraries of illegal organizations.

Mr. STEWART: Perhaps I can ask some questions of Mr. Wright on this matter. I realize that some of these matters are outside his jurisdiction, but I would like to get the facts clear. I am rather perturbed about the destruction of books. I do not care what sort of books they are. As I said before, the burning of books was carried on wholesale in Germany, and I see no reason why we should follow such an example. According to the evidence which has been given us there was a large volume of books in Winnipeg belonging to one John Navis. These books came into the possession of the custodian. Thereafter, if my memory serves me well, the Royal Canadian Mounted Police stepped into the picture. They took those books; they examined them; and they considered them—all of them—at least all that I can find trace of—to be subversive. Accordingly, those books were bundled up—they weighed altogether around 3,500 pounds—and all the books were sent to a paper company to be destroyed. The custodian got, I think, \$7.08 for these hundreds if not thousands of volumes. Afterwards, when the matter was investigated more carefully \$1,000 was paid, I think, on account of the destruction of those books; is that right, Mr. Wright?

Mr. K. W. WRIGHT (Counsel, Department of the Secretary of State): \$1,000 was the award, yes.

Mr. STEWART: \$1,000 was the award. And now, I am going to ask you a question. You have given me a return in connection with the books of any organization of a Nazi or Fascist nature—it is a full return—and there is only one item which I should like to comment upon, and that is the organization which is known as the Deutscher Bund for Canada, one of the leading Nazi organizations in this country. A number of books were in the possession of this organization when it was declared illegal, and the remarks in your return are as follows:—

In connection with sixteen of the books seized—see attached letter from the R.C.M. Police under date of June 6, 1947, which is self-explanatory. The balance of the books are in storage in care of the custodian's agent viz: The Western Trust Company, Winnipeg, Manitoba. As soon as the proper officers of this organization can be located the books will be handed over to them.

Now, I think it is reasonable to assume in logic that if all the books in the possession of the U.L.F.T.A. were subversive, the books in the possession of the Nazi organization would be subversive. It is logical that they are; it is the logic of events. I should like to know what books it is the intention of the custodian to hand over to those people who were the heads and directors of the Deutscher Bund for Canada? Would it be possible to give us a list of the books which you are going to return to the Nazi organization?

Mr. WRIGHT: It would not be possible to give you this list this morning.

Mr. STEWART: No, but in the course of time.

Mr. WRIGHT: The Western Trust Company have a number of books in their possession, and it will be easy to obtain a list from them and to furnish you with that list.

Mr. STEWART: I should be very glad if you would furnish me with that list because I am anxious to know what the Mounted Police conception of "subversive" is.

Mr. WRIGHT: You will recall that there is a letter from the R.C.M.P. under date of June 6, 1947, as to the disposition of certain books, and this letter says in part:

As such they constitute a valuable record, not only of the N.S.D.A.P. activities abroad but also of the organizations which existed in Canada and which prior to the outbreak of hostilities were active in furthering Nazi ambitions in this hemisphere.

For this reason it is considered desirable that the books remain in our custody.

That is as to the disposition of sixteen books, the R.C.M.P. will retain all those. They have retained two others that did not come into the hands of the custodian. The R.C.M.P. are charged with the selection; we are only responsible for those books which come into our possession; and our agents, the Western Trust Company of Winnipeg, have the remainder of the books of the organization which you have mentioned, and I shall be glad to furnish you with a list of those.

Mr. STEWART: A list of titles?

Mr. WRIGHT: Yes.

The CHAIRMAN: Do you mean to say that the books that were considered of a Communist nature have all been destroyed, while the books that were considered of a Nazi or Fascist nature were stored?

Mr. WRIGHT: The R.C.M.P. have taken possession.

The CHAIRMAN: And they are the ones who decide on that matter?

Mr. WRIGHT: Yes, they are the ones who decide.

The CHAIRMAN: They did the burning or the keeping?

Mr. WRIGHT: Yes.

Mr. STEWART: That is not the responsibility of the custodian at all?

The CHAIRMAN: Now, gentlemen, Dr. Coleman is here, and also Mr. Mathieu and, of course, Mr. Wright, and we will hear evidence in connection with the investigation of the Ottawa office of the custodian. I shall call Dr. Coleman.

Dr. E. H. COLEMAN (Under Secretary of State): Mr. Chairman and gentlemen, at an earlier meeting of this committee on the 29th of April, I gave a rather general and perhaps lengthy outline of the general work of the office. At that time I spoke—I might venture to say—of the appreciation which we had of the work of the staff the active day-to-day operations of the officers in charge, and of Mr. Mathieu, the assistant deputy custodian, who is here to-day. We hardly know what type of questions members of the committee would like to put, and it may be that some of the questions are matters which come peculiarly within my knowledge while others would come peculiarly within the knowledge of Mr. Mathieu; therefore, we are both available to answer alternatively to the best of our ability.

The CHAIRMAN: Would it be in order to have a statement from Mr. Mathieu? Have you any brief or any statement to make?

A. H. Mathieu, Assistant Deputy Custodian, Department of Secretary of State, called:

The WITNESS: Mr. Chairman, and gentlemen, I presume you have read the first part of the report we submitted to the minister which was first tabled in the House and then submitted to the committee. We endeavoured to give in that particular the outline of the set-up of the office, the work of the office under the present regulations, and the method employed in administering the property

which was placed under our control. The present office is really a continuation of the custodian's office which was set up by order in council in 1920. While there was practically a complete demobilization of staff in 1935. I remained in the office with counsel and two secretaries, and when this present trouble started in 1939 we endeavoured to reorganize the office to take care of the enemy property that might come under our control under the regulations. Unfortunately, when we started we did not anticipate having to deal with countries like France, Belgium and Holland; countries that are really friendly countries but which, because of their occupation by the enemy, made it necessary that all property in Canada standing in the names of individuals residing in those countries had to come under our control forcibly, more as a protective measure. From then on we endeavoured to administer such properties in what we call in French "en bon pere de famille"—in an orderly manner—and endeavoured to benefit these accounts that remained. You will realize, of course, that a large volume of property came under the custodian's control very rapidly; that no sooner was one country organized than we had to deal with one or two others which came in in rapid succession. We felt it would be advisable in the case of investment accounts to leave them in the hands of the banks—the chartered banks and trust companies—under our control; and from then on the accounts were administered by these banks under our direct control. No disbursements were made, and no changes in the investments were made without the matter being brought to the custodian's attention. We had several cases which created a certain amount of doubt. For instance, we had calls from bank managers who had received telegrams from overseas, particularly from neutral countries, asking for transfers or remittances of funds. We felt we had to screen these requests very thoroughly in case the individual owner had been forced to make the request or had been robbed of his documents, and that the request was being made by enemies.

We had one glaring case where a bank manager in Montreal phoned me. He said, "I have received a telegram from Portugal signed by a man we know and we know the family very well—in fact, I visited him a few years ago, but I am a bit doubtful, and I am wondering how this man managed to get out of France and reach Portugal." He did not know what to do. I said, "If you are satisfied that you are dealing with the customer the custodian would not object to giving him a remittance." He claimed he wanted money to come to Canada. We had to take all the precautions necessary. In sending his reply the bank manager added one sentence to his telegram; he merely asked, "How is your mother?" The reply came back that he was complying with the instructions received and he said that his mother was very well indeed. Now, the bank manager knew that his mother had died ten years ago. As a result of that that man did not get any money and the account remained under our control. We had many instances of that kind. Then, in the countries that were liberated, as they were liberated, we had to go into the matter of releasing the particular property and from that time on we started our releasing operations. There had to be special agreements with the governments concerned because of the restrictions imposed by those governments and also due to the foreign exchange requirements. Up to date we only have one of those agreements in force, that is the one with France. It has been in force since March 22, 1946, and after a year and a half of application apparently we find it is not working to the satisfaction of both sides. We are now endeavouring to amend certain clauses in order to facilitate rapid releases so that the governments concerned may, in their ordinary course of transactions, receive the benefits of the dollars concerned. Agreements with other countries are still pending. They have not been fully approved and we are waiting until all the discussions have taken place and approvals are given before we start releasing property. However, we are considering the individual releases in necessitous circumstances and in urgent cases, providing they supply us with the necessary information, statutory declarations and certi-

ficates of the government of their country establishing proof, beyond any doubt, that there is no enemy interest involved. If that is satisfactory we then proceed to release the individual cases even though the agreements with that country have not been completed. We have a duty of course to return this property to the original owner and to him only, and that is what we are endeavouring to do. The figures given are of the date when this report was made at the end of 1946. I think you also know in that report there are audited statements during the operation of our office. Of course we not only had the administration and control of property, but we also had certain factors for which we were responsible under the regulations such as commercial censorship, prohibited mailing lists, Canadian lists of specified persons, of black and suspect lists, and we had a special section dealing with that matter. There was a special committee called the black-list committee, on which I assisted, that governed the operation of that section of our work. There are several other factors that do not come to my mind at the moment.

By Mr. Stewart:

Q. May I ask a question here?—A. Yes.

Q. What happens in a case such as this. You have taken over funds in this country of a person who is friendly to our cause but who resides in a country that has been overrun by the enemy. That property remains intact but what do you do with the interest on that?—A. It depends on the nature of the property.

Q. Take for instance the case of bonds?—A. The interest would be credited to the account.

Q. How were the expenses of the custodian's office paid out of the moneys?—A. The expenses were paid out of the investments made by the custodian of amounts representing non-interest bearing funds such as commercial debts which are not strictly interest bearing items.

Q. What was the authority for such expenditures? As I see it the custodian is holding these properties in trust. Now what authority would there be to disburse such moneys?—A. Property vested in the custodian was owned by the Crown through the custodian so that the money paid into the custodian's office was not then the property of the original owner.

Q. So there had to be no application to parliament for disbursements to pay for salaries, wages, or anything else?—A. That was all taken care of. It was decided in 1920, and we continued the practice that all such funds were to be held separate from public funds.

Q. In my original hypothesis what would happen if it was cash instead of bonds?—A. It would depend upon the nature of the cash.

Q. Bank deposits.—A. A current bank deposit is non-interest bearing. Under the regulations all moneys that were not strictly investment funds were returnable to the custodian. As a matter of fact had we taken over all investment funds, that would have required a tremendous organization in Ottawa and it was decided to operate them through banks where they were found who were responsible to the government. All bank balances or those amounts which were paid into the custodian as non-interest bearing items were invested. The funds collected through that source were dealt with in that way because the custodian had authority to invest them subject to the approval of the treasury board. We obtained a general order from that board to invest in government bonds as the Victory loans were issued. The interest on those investments was credited to administration account in order to provide funds, not only for the cost of the office and salaries and those things, but also to provide for any eventualities that we might be faced with under treaty conditions. For instance, the treaties might provide interest on debts and until that is decided by the treaties, and ratified by parliament, we merely credit interest earned to administration account. So that if, eventually, under the treaties, or other reasons, we have

to allow certain rates of interest on these non-interest bearing amounts, we will have sufficient funds without having to go to parliament for a vote. That is the principle we have worked on since the very beginning with respect to the administration of foreign property which we feel, should not be a charge on the Canadian taxpayer, as those funds should bear their own portion of the administration and cost. After the first war, we were able, through investments, after completing all conditions of the treaties, to return a surplus to the treasury to apply on the war account of over \$13,000,000. That surplus was turned over to the treasury. The intention this time is practically the same, so that any surplus earnings or any surplus funds after paying all obligations and expenses may be returned to the treasury to apply on the war account.

By Mr. Boucher:

Q. I take it if they had any interest bearing investment left in the account of a resident of an occupied country it would not be charged anything for administration at all?—A. Yes, when the release is completed we have authority under section 44 of the regulations to make a charge of up to 2 per cent.

Q. If it was in a bank account the custodian could have it as invested capital but the owner gets no return on that at all?—A. That may be provided for later on by agreement or treaty.

Q. Then one other question. You gave us an illustration where an application was made by telegram to a bank for money belonging to a resident of an occupied country who escaped to a neutral country. Have you had any difficulties of ever having paid anything to a person in the mistaken belief that it was the owner?—A. We have not met that situation. We have endeavoured to guard against that.

Q. You have not had any difficulty in that regard at all?—A. No.

Mr. BURTON: Just before the witness leaves that, I can appreciate the statement that the witness made. It was the intention of the custodian's office that, as far as possible, the administration of that department and those properties would not be a burden on the Canadian taxpayer, and I might say I appreciate that fact and I believe it is good business on their part, but what I was wondering was on what basis did you see that the various forms of property carried their fair share of the expenses of administration? It strikes me rather peculiar that the person who happened to have his money invested in bonds gets his interest through the regulations, whereas the person not having his money invested in that form will have the money used, but the returns from the money used, the earning power of that money used, helps pay for the administration. I was just wondering if you could enlighten us a little further?—A. Yes. We carry individual accounts in every case no matter what type of property or what country we are dealing with. We have an individual account for each case and in them we credit revenues and we make disbursements so that the cost of operating that account or any disbursements is reflected and is always set up in the individual account.

Q. That is in so far as the actual operating of that account is concerned?—A. Yes.

Q. But in the over-all picture how did you endeavour to have a certain amount of equity between the bearing of the overhead?—A. You have to take note of the two types of property, what we call belligerent enemy property and non-belligerent property. A non-belligerent property is the property of a person living in a liberated country. Up to the point of application for release we have charged the account with all disbursements and normal expenses and we have also credited to that account all ordinary revenues if there are any. When we release the account, provided the information has been found satisfactory, we then charge an over-all administration fee of 2 per cent of the total value on the date of release.

Dr. COLEMAN: Not exceeding 2 per cent?

The WITNESS: Not exceeding 2 per cent.

Mr. BOUCHER: 2 per cent per annum?

The WITNESS: No, 2 per cent of the total value on the date of release. In so far as belligerent enemy property is concerned the treaties will provide for the charges to be made. There is not very much I can add by way of a summary, I have covered pretty well, I think, the operation of the office, except down to the point where you have seen statements of the total value of the assets. There are certain types of assets taken under our control such as the gold of governments of liberated countries. That was not actually taken in by us, but remained with the Bank of Canada under our control. When the governments were reinstated that gold was returned to them in all cases, but we retained the individual property.

Then we come to the method of audits.

Mr. WARREN: Mr. Chairman, the witness named a sum that was returned to the treasury board, was it \$13,000,000 or \$30,000,000?

The WITNESS: \$13,500,000 that was the result of the first war's operations.

By Mr. Stewart:

Q. That was clear of any potential liability?—A. Yes. Now the method of the audit for the custodian's office requires that I recite the procedure when the office first started. When we opened up in 1920, the first part of 1920, there were no funds available. The consolidated regulations of the 1914-18 period did not obligate the custodian to collect moneys, they were merely reported to the then custodian but not collected. The authority given to the custodian was in the Treaty of Peace orders of 1920. Those orders were ratified, I believe, in January of 1920, setting up the office as of April 1 and giving a period of three months, if my memory serves me right, in which to call in all funds due, such as enemy owned commercial debts, bank balances, securities and others. Until that we had no funds available to pay expenses of the office. The expenses were carried in the war appropriation's account under the department of the Secretary of State. During the latter part of 1920-21 we had succeeded in collecting sufficient money. After a meeting with the under-secretary of state and the deputy custodian, the deputy minister of justice, the deputy minister of finance and the Auditor General, it was decided and concurred in by all that the funds being received and held by the custodian under Treaty of Peace orders were not to go into consolidated funds but were to be held by him as trust funds. The surplus after carrying out the obligations of the treaties was turned over to the treasury. During that period an audit of the funds in our office was carried on through the usual method and audit expenses were paid out of the war appropriation account. After we had succeeded in getting sufficient funds it was decided that the war departmental war appropriation account would be reimbursed for all expenses up to that date. We did that and from then on the Auditor General had nothing further to audit because the funds we had were not considered public funds. It was then decided to appoint a firm of outside auditors, independent auditors, and the first auditors were Messrs. Edwards, Morgan and Co., of Toronto, who audited the accounts for the period from April 1, 1920 to February 29, 1924. They rendered their audit statements and reports to the then secretary of state who was the official custodian. This method continued until December 31, 1926, when they were superseded by the audit board on the authority of a recommendation approved by the treasury board.

Q. Why did that happen?—A. In 1926, the latter part of 1926.

Q. Why?—A. Oh, why? It was decided because the audit board had the necessary machinery to carry on independent audits such as the Auditor General is now doing for the special corporations. It was so decided rather than to pay

or engage outside firms because they had sufficient materials to carry on an audit, and the audit was so carried on from that time.

Q. Can you tell us why the audit board was instructed to make a complete audit from the 1st of April, 1920 onwards in view of the fact another auditor had already done the work.—A. Well it is usual, when a new auditor starts in, for him to go over the work and establish the figures he is taking over.

Q. I think I might take issue with you on that. It is not usual to do a complete audit. All the work has been done and the new auditor would just get the previous working papers and examine them.—A. Perhaps it was because of the very complicated nature of the work, and, in order to properly set up their accounts, they had to make a review of all the previous work. They could not very well take the last statement from the previous auditors and carry on from there.

Q. I asked that question because it says here "The audit board were instructed to make a complete audit of all transactions" and I would assume that as Edwards and Morgan would have done the same it would be scarcely necessary to go over the same ground. It is water under the bridge really but I wondered if there was any special reason?—A. I do not think there was any special reason but I would have to go through the old records. I do not recall anything. Do you recall anything Dr. Coleman?

Dr. COLEMAN: I was not in the public service at that time.

The WITNESS: I do not think there was anything special.

Dr. COLEMAN: May I intervene to help clean up the point? I think the audit board employed some outside auditors did they not?

The WITNESS: Yes, the audit board was composed of outside auditors. Men were picked from each of these firms to carry on the work of the custodian. The same thing was done when the audit board completed its work. When it was decided then to go back to the practice of engaging outside firms. The firm of Price Waterhouse, made a review of the past audits from the very beginning in order to set up their method.

I might say here there was no precedent established for this kind of work. It is rather unusual. It would not be fair to an audit firm to expect them to just accept the previous statements without any background. In order to make an intelligent audit it was necessary for them to go over the previous work to get all the details fully in their own mind in order to establish their system because it is a very unusual type of work.

Are you satisfied on that question?

By Mr. Stewart:

Q. Yes, but once you get on a little further you will find that Price Waterhouse took over the assets on the 31st of March, 1928. According to your statements they had to go back some years, too, and double up on the audit?—A. Yes, they actually spent three months in reviewing past audits in order to acquaint themselves with the material.

By Mr. Probe:

Q. Had not that a tendency to juggle the audit?—A. No, it was really necessary because of the complicated nature of the work.

By Mr. Gladstone:

Q. That would not be a review of the figures so much as a review of the other factors?—A. More in the nature of a review of the nature of the work because the accounts had been balanced at every audit year.

The audit board was abolished in 1930 and we then had to go back to the system of appointing an outside firm. Due to the international nature of the

accounts, it was decided to appoint a firm which had branch connections throughout the world. It was decided that Price Waterhouse, at that period, was the most likely firm to have those connections to carry on this work. They were appointed by order in council P.C. 1951, dated August 13, 1930. They began their audit work immediately. Their statement carries details from the 31st of March, 1928, that is the period I think of the last report of the audit board, and from then on they have carried on the work up until the present time. They are now completing the work for 1946 and we expect to have their report before the end of July.

By Mr. Stewart:

Q. They are still the auditors?—A. They are still the auditors under that order in council because that order in council has never been rescinded. They are still carrying on.

Q. Do you see any reason why the Auditor General could not take over that work?

Dr. COLEMAN: May I answer that question? It has been decided that, beginning with the 1st of January, 1947, the accounts will be audited by the Auditor General. Price Waterhouse are completing 1946. The Auditor General has now, as a result of the war, a much more comprehensive organization than he had prior to the war. He has been taking over the work of auditing the accounts of other departments, as the members of the committee know.

Mr. BURTON: Will this mean that the Auditor-General will have to go back over these accounts again?

Dr. COLEMAN: I would not think so, but that will depend upon the view taken by the Auditor General when he comes in.

Mr. BOUCHER: It is a fact that when an auditor takes over, he goes back over the accounts to satisfy himself as to their condition prior to his taking over?

Dr. COLEMAN: Yes, but the Auditor General will not be responsible for anything happening before January 1, 1947.

The WITNESS: This is not the same type of auditing as an audit firm will meet in ordinary business. This is altogether new and it is most necessary to go over the previous ground to fully grasp the background of the whole thing.

Besides the usual audit by an outside firm, I explained in my report the set-up of the office and, particularly, the system we have adopted in order to carry on an internal check and audit. No disbursements are made that have not been pre-audited. If I may read some of my report I think it will fully explain the procedure.

Due to the diversified nature of the assets under control, which may be compared with one of the larger trust companies in Canada, we had to adopt a more or less flexible system to take care of all the different types of accounts. This is covered by a running internal audit and checking system and backed by a yearly audit by an outside firm of chartered accountants. Of course, they go over the ground yearly as an outside firm.

By Mr. Stewart:

Q. Could you suggest what fee was paid to these auditing companies for the work they did?—A. I have not got the figures with me.

Q. Perhaps you could tell us later?—A. The accounting division is composed of eleven sections, each with its component part and the whole converges into a general control system of internal audit and checking. The general controls are then merged into the master control division which is the ultimate internal audit of balances in all sections of the accounting division.

For instance, a man may have real estate; he may have securities; he may have bank balances or other interests, a diversified list of investments. This

would go through the various sections of the accounting division and, in order to get that man's account established and to cover all the assets he may own in Canada, we have installed the master control division. Everything converges into that section. We can always tell the total amount up to date which a man owns in Canada and to which he is entitled.

Shortly after the set-up of the system it was realized it would be next to impossible to transfer to Ottawa all the investment portfolios, estate and real estate accounts. It was decided to leave those where they were found in banks, financial institutions, trust companies and responsible real estate agencies, etc., who continued the administration of such accounts under the control and direction of the custodian's office. We have complete control of the transactions which may be required.

The banks and financial institutions report once a month to the custodian and those reports reflect the receipts, disbursements and other changes effected during the preceding months. Those changes are, in turn, incorporated in the individual accounts in the accounting division here.

In the case of trust companies and other agencies it was found advisable to accept the reporting system in force in such agencies and, in those cases, statements are rendered every six months in the case of trust companies and periodically for others, as the case may be.

By Mr. Stewart:

Q. I wonder if you would care to explain that statement, please? "It was found advisable to accept the reporting system in force"—A. Banks are equipped, of course, to render monthly statements to their customers. They carried on the same system with us. It did not mean a change-over in their system which might have been very cumbersome and embarrassing. The trust companies, as you know, do not report every month. Some of them report every three months; some report every six months and others, as the case may be.

In order to establish a definite method which would permit us to keep good control over the transactions that might occur we decided, in all cases, that they should report every six months. This would permit us at least six months to record all the items and balance up the work for the year.

In the case of real estate operators and agencies, we had to employ those agencies because they had full knowledge of the property they were administering, we made them carry on under our control. They usually report every month or for any transaction in between, because they have to submit it to us before they take any steps.

By Mr. Denis:

Q. Do they segregate those funds into any special accounts?—A. They are all credited to the individual owner's account. An accurate balancing of the accounts can be made only every six months because we have to wait until the reports come in and are recorded in the individual accounts. All disbursements are carefully checked, certified and pre-audited and approved by either the deputy custodian or myself. In most cases of released property the deputy custodian and myself both sign after the item has been certified and passed by the legal section who have examined the declaration and evidence produced to prove the applicant's ownership.

By Mr. Stewart:

Q. In the case of cash disbursements, do you authorize them before the disbursements are made?—A. It is all checked and certified before the cheque is actually issued.

Q. From where are the cheques issued? Are they issued from a central point?—A. All from this office, the custodian's office. There are two signing

officers with substitutes in case of necessity. All cheques bear two signatures and they are covered by a requisition which has been signed by three officers. One is the officer requisitioning the cheque; the other is a certification by the internal auditor and then, myself, usually or my substitute when I am not in the office, approving the issuing of the cheque.

Owing to the very large volume of work involved it takes almost four months after the close of the year to receive all statements from depositaries and agencies and then to record, check and balance the accounts. When these are ready the auditors are notified and usually they send qualified men with a supervisor.

Q. May I ask a question at this point? You use the word, "usually" which would suggest they do not always send qualified men?—A. They do.

Q. The word, "usually", is not necessary in that case?—A. Of course, this report was not intended as a report to be submitted to a parliamentary committee. This was a report to the incoming minister to give him an idea of the work of the office.

I might interject a remark here to illustrate the volume of the work. I think it would be a safe statement to make to say that due to the total assets and the diversification of the work, it would take at least three of our largest trust companies to cover the figure we have administered since the beginning.

When these are ready the auditors are notified and usually they send qualified men with a supervisor. They carry on the general work of auditing for the previous year. They use the calendar year.

The auditing usually lasts from two to three months, depending on the number of items to check and the receipt by the auditors of the verification certificates requested from the various depositaries. The auditors send out a form letter of request and receive the certifications from the various depositaries in due course. Some are slow and some come in very rapidly. The auditors cannot complete their report until all have been received by them.

I think that covers the whole of the system employed in the office covering the audit as well as the operation of the office.

Q. You seem to have a very good system?—A. The system has been, of course, set up with the help of public accountants. We have a chartered accountant, he is not a C.A., but he is a qualified accountant in charge as controller of the accounting division. Then, we have technical men as heads of each division. We had to have specialists in banking matters, in security matters, in brokerage transactions and so on. We have, I believe, a very good staff of qualified technical men in each of our branches.

I do not think there is very much more I can add. If there are any questions the committee desires to ask, I will try to answer them if I can. If I cannot, we will have to go back and get specific information on any specific cases which may be brought up.

The CHAIRMAN: Are there any questions, gentlemen?

By Mr. Stewart:

Q. Would the witness look at page 23, the bottom of that page. The heading is "Restitution":

Steps are now being taken to segregate claims for restitution of identifiable property from claims which are in the nature of reparation claims for damage or loss suffered. It is felt that claims for restitution, by their very nature, should receive immediate attention. Such claims will be pursued by the Department of External Affairs through regular diplomatic channels.

Will the witness please enlarge a little on that statement?—A. The claims section of our work is another branch of the work which the custodian handles.

We have a register in which all possible claims against enemies are registered. There are various types of claims. There is no definite policy yet established and no policy is possible until the ratification of the treaties. Therefore, the custodian is charged with the duty of recording whatever claims are submitted voluntarily.

Q. May I interrupt here? Let us take another case of a Canadian who is working for a British company in Shanghai. He has his home, chattels and everything else there. The Japanese occupy his house and take over everything. He has come back to Canada after being released from a concentration camp. He has a claim to make against the Japanese. Would his claim be made through your department?—A. He would file his claim with us. We would place it on record until such time as a definite policy is established dealing with that. We may not be able to deal with it ourselves. It may be dealt with through some other method, depending upon whatever policy is established. Meanwhile, if he had properties that could be restituted, of course, that would be handled by the Department of External Affairs who are directly responsible for the foreign missions we have sent to those countries. Any person having such a claim would file his claim. It would be recorded on our register and also submitted to the External Affairs Department who would send the information to the mission who would investigate it and, in due course, report.

Q. How do individuals know to lodge claims with you? Did you advertise or do anything of that nature?—A. We have not advertised as yet for domestic claims for loss or damage. The Department of External Affairs has advertised for restitution claims and they are being recorded both in the External Affairs Department and in our department.

Dr. COLEMAN: If the chairman will permit me, may I say that this very morning I received a letter containing a claim from a citizen of Canada. He claimed he had inherited some property in Germany and that this property consisted, I think, of an apartment house which he alleged had been destroyed. He has not been there, so he does not know. When that claim came in, we referred it to the Department of External Affairs. In due course, this department will send it to the Canadian mission in Germany headed by General Pope.

The first step which will be taken will be to have one of the officers of that commission go to see if the property is there; if it is damaged and if so to what extent. If it is standing there untouched, such measures will be taken as are practical to put the Canadian in possession of this property. If, on the other hand, it has been destroyed it may be a question for reparations which is still very largely in the air. As we all know, there has been no treaty with Germany; there has been no government in Germany. Whether the German government, if as and when it is set up will become responsible is a question which will have to await the termination of the very cloudy situation presently existing.

There is an inter-departmental committee on reparations on which the custodian is represented together with a large number of other departmental officers from the Department of External Affairs, Trade and Commerce, Justice, Reconstruction and Finance. They are making reports to the government in relation to a policy, either of advertising and then setting up some agency or tribunal to sift claims or by some other method.

I need hardly suggest that it is doubtful whether many of these claims which have been presented can be regarded as proper claims to be submitted by the Canadian authorities. There are claims by unfortunate people classified as refugees who came to Canada after the war. It is a question how far the Canadian government, in due course, may feel disposed to go. Under the present regulations for the custodian, regulation 45, the custodian has the duty on him of recording the claim but the recording in no way commits the government to doing anything. It will require a great deal of sifting. Speaking quite frankly, and in the presence of Mr. Mathieu, I know he and I hope that

the established agency which may be set up will not be connected with us. I assume there will have to be some sort of agency employed first, in accumulating the claims and then in sifting out and recommending what can be done.

By Mr. Probe:

Q. Does the Canadian government accept the onus for restoring the property which is in existence to a Canadian citizen who can prove his claim to that property?—A. I do not quite follow that question.

Q. Let us put it this way. Mr. Stewart mentioned a farm or apartment house, but assume it was a farm which would not be destroyed. This was expropriated by a foreign government which was at war and this farm belonged to a Canadian national. Does the Canadian national automatically receive the protection of this government to re-establish his ownership to a farm expropriated? I am using the illustration of a farm because it would not likely be destroyed, but it would apply to any property that is not destroyed and is still in existence?—A. I would say the government would be responsible to give him all the help necessary to repossess his property. If it cannot be done, of course, he would be entitled to file a claim for compensation for any loss he suffered. This would go through the usual method to be employed. Probably he would have a basis for a reparation claim.

Q. But the reparations claims, in my view, are not going to be very—A. I do not think it would be the responsibility of the government to refund him any loss he has incurred.

Q. I am not thinking of that, I am thinking of property that is still in existence?

Dr. COLEMAN: That, as I have tried to explain, is a matter which, at the moment is being handled by the Department of External Affairs. If there is property, say in Germany, which is there and which can be identified as the property of a Canadian, our mission headed by General Pope in Berlin will naturally take every step possible to see that the man is restored to the ownership of his property. Until there is something in the nature of a definite peace treaty with Germany, there is no German government to whom one can go. The country is under military occupation and is divided into three or four zones. There are certain areas in which there is difficulty in securing definite information.

Mr. BOUCHER: Would it not be fair to say that the government does not act as a guarantor, but only lends its assistance?

Dr. COLEMAN: I would think so.

The WITNESS: That is all we can do at the present time.

Mr. STEWART: There is one specific item of information with which, perhaps, we can be furnished at a later date. I do not suppose you have it now. Could the witness tell us if the custodian received any royalties payable on the manufacture of the Bren gun after the outbreak of the war?

Dr. COLEMAN: I can answer that definitely, Mr. Stewart, because we have not received any. I took the matter up with the Department of Munitions and Supplies and I was assured no royalties whatever were paid. I have a letter on that from the deputy minister of Reconstruction and Supply and you can look over the records. The question was asked in the House of Commons. I knew we had not received any, but I thought it wise to ascertain from the munitions people if anything had been paid. I also looked up the report of the royal commission in 1938, presided over by the late Mr. Justice Davis, which dealt with the original contract.

I think you will find a paragraph there to the effect that any royalty agreements which were made were made by the war office of the government of the United Kingdom with whoever may have owned the patents relating

to that. I have a letter from the deputy minister of Reconstruction and Supply that no royalties whatever were paid by anyone in Canada who manufactured the Bren gun during the recent war.

Mr. STEWART: Either to Skoda or the British war office?

Dr. COLEMAN: If there is anything it is simply in the war office.

Mr. STEWART: If there were any to the war office, could they be ascertained by this committee or is it outside your jurisdiction?

Dr. COLEMAN: We could ask the Department of External Affairs to have the High Commissioner make enquiries. I will be very glad to submit the request.

Q. You will file that letter will you, please?

Dr. COLEMAN: I will get the letter.

By Mr. Stewart:

Q. On page 5 of the report it states,

The German assets under control in Canada at the present time amount to approximately \$11,000,000.

What shape would these assets take? Are they property or are they moneys?—
A. A variety, a very diversified list of assets. There would be very little securities taken over in this war. Of course a change took place in Germany from 1933 on because the export of capital from Germany was prohibited, and we have found very little of actual securities in Canada, or other assets of that nature belonging to Germans, probably because of that factor. We may discover during the course of investigations that are still being carried on that property is held here with German interests, but so far we have only a report of approximately \$11,000,000. That would cover real estate in some cases, commercial accounts, bank balances, and securities. We have one operating company at present. We have also liquidated certain agencies, such as the shipping agencies and so on. There is a very diversified list.

Mr. STEWART: Have you any idea how much was paid the custodian as royalties for patents which were held by enemy nationals?

The WITNESS: We have a statement here but we have not got the breakdown of the assets under countries. We have listed the assets under countries but just in the total form.

Dr. COLEMAN: We could get that.

Mr. STEWART: The answer may be given later.

Dr. COLEMAN: I had it out two years ago for one of the members of the House of Commons, not a member of this committee, but the member for North Centre Winnipeg, and I think it could be easily brought up to date.

Mr. STEWART: I should be glad to see that.

Dr. COLEMAN: Oh, I have it here. There was one payment in respect of an Austrian patent of \$1,931.02. Italy, two payments amounting to \$55,000; and Germany, \$71,000.

Mr. STEWART: That money is being held by you?

Dr. COLEMAN: Subject to the Treaty of Peace.

I realize that you are interested in I. G. Farben. There is one royalty of \$473.62; another of \$2,628.33; another of \$761.44; another \$2,320.27; and another \$1,912.93. The largest item is not I. G. Farben but another company and it represents \$31,000.

Mr. STEWART: A German company?

Dr. COLEMAN: A German company.

Mr. STEWART: Have you the name of that company?

Dr. COLEMAN: Kalle and company.

Mr. STEWART: Can you tell us what the total amount lying at the credit of I. G. Farben in your account is?

Dr. COLEMAN: Well I would think it would be this total but we would have to check that. It would be about \$8,000 roughly but we will get it definitely.

Mr. STEWART: Can you give us any indication of what the \$55,000 of Italy was, and who it was paid to, or who it was credited to?

Dr. COLEMAN: Montecantini Company, Soc. Gen. per l'Industria, Mineraria and Chemica.

That is very poor reading in Italian.

Mr. STEWART: It is Italian which I understand.

Dr. COLEMAN: That amounts to \$33,753.10 and the other one of the Soc. Gen. per l'Industria amounts to \$21,881.66.

Mr. BURTON: Mr. Chairman, is this a royalty that the custodian's office has collected and which he is holding in trust?

Dr. COLEMAN: Yes.

Mr. BURTON: And what becomes of the patent if the patent has not expired at the time the Treaty of Peace takes place? Is that something that has to be dealt with?

Dr. COLEMAN: There was a special patent treaty agreement which was entered into in London last July, whereby all enemy patents which were not licensed at the 31st of July, in effect, fell into the public domain.

Mr. BURTON: They all go to the public.

Dr. COLEMAN: They fall into the public domain, in essence. That was an agreement which was signed by me on behalf of Canada in so far as the Final Act is concerned, subject to ratification, by the government, which ratification was given before the stipulated time, in December 1946. I may state that the countries which were parties to it are Great Britain, the United States, France, Belgium, Germany, Holland, Luxembourg, Denmark, South Africa, Australia and Czechoslovakia.

Mr. BOUCHER: Norway, Sweden and Denmark?

Dr. COLEMAN: Not Sweden.

Mr. BURTON: In the meantime you have been collecting and holding the money in trust?

Dr. COLEMAN: Yes, royalties received under existing contracts or contracts which existed before the war.

Mr. BURTON: I was just wondering, Mr. Chairman, if Dr. Coleman could give us the comparison about the taking care of that property as compared to the case of some poor homesteader out in the bush who foolishly joined an organization that later on was declared illegal. The man may then have been put in a concentration camp and his stock and property confiscated or disposed of, and later on he was turned out of the concentration camp and was not in a position to go on as he otherwise would have been. I wonder if Dr. Coleman could give us the comparison of the handling of these patents on the one hand and the homesteader on the other hand.

Dr. COLEMAN: In 1939 when the regulations were made every Canadian who owed a debt to an enemy was required to report it and to pay it into the custodian. That is how we collected these amounts. In relation to the other matter I may state to the committee that on the outbreak of the war, the government, on the advice of the minister who had charge of security, interned certain individuals. No provision was made for looking after their property and at a subsequent date we were charged with that responsibility and did the best we could. I may

further state also for this committee, at the outbreak of war, among other responsibilities, I had the heavy one of dealing with internment operations from a civilian aspect. I had nothing to do with putting people in or letting them out, but only with the set-up of the camps. Early in September 1939, after a considerable number of persons had been interned, the then director of internment operations, General Panet, came to me and I pointed out that men, wage earners and the like, had been interned and their families in some cases were left without adequate means of support. On that occasion I went first to the Minister of Justice of the day, who also happened to be at that period my minister, the acting Secretary of State. I put the problem before him and pointed out that, with the war hysteria, there was a danger that these women and children and dependents would be going without nourishment and food. Under his instructions I went to the Minister of Labour of the day, Mr. McLarty, who notified all the provincial relief authorities. At that time the unemployment relief organization was still going and was administered by provincial authorities. In my presence, Mr. McLarty telegraphed every one of the provincial authorities supplying relief, directing that the same appropriations, the same amounts as received by families of unemployed persons, should be made available to these dependents at the expense of the Dominion of Canada. During the entire period of the war, while this condition lasted, there was an annual appropriation of parliament in the estimates of the Department of Labour for that purpose. Now, as you say, there were other cases where men were taken off remote farms. In some cases the neighbours purported to look after the stock, but it was obviously impossible for any agency of government to prevent casual pilfering and mismanagement although every effort was made to do so.

Mr. STEWART: Mr. Chairman, our quorum seems to have suddenly dwindled but I would like to say now that Dr. Coleman, Mr. Mathieu and Mr. Wright in giving us their answers, have been very frank. I would like to say thanks to them. These thanks must not be considered as approval of the policy they carried out however.

The CHAIRMAN: Thank you Mr. Stewart, and now we will adjourn at the call of the chair. There will be a steering committee meeting tomorrow at an hour to be arranged.

The meeting adjourned at 12.45 p.m. to meet again at the call of the chair.