

SESSION 1947

HOUSE OF COMMONS

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 16

FRIDAY, JUNE 27, 1947

WITNESSES:

Dr. E. H. Coleman, C.M.G., K.C., Deputy Custodian of Enemy Property;
Mr. A. H. Mathieu, M.B.E., Assistant Deputy Custodian, and Mr. K. W.
Wright, Counsel.

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

FRIDAY, June 27, 1947.

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

Members present: Messrs. Burton, Boucher, Case, Cloutier, Fraser, Gladstone, Golding, Hamel, Homuth, Isnor, Jaenicke, Macdonnell, Picard, Rinfret, Warren, Winkler.

In attendance: Dr. E. H. Coleman, C.M.G., K.C., Deputy Custodian of Enemy Property, Mr. A. H. Mathieu, M.B.E., Assistant Deputy Custodian, and Mr. K. W. Wright, Counsel.

The Committee resumed its investigation into the administration of the Ottawa office of the Custodian.

Dr. Coleman and Messrs. Mathieu and Wright were recalled.

Mr. Wright filed a statement showing particulars of sales of certain properties owned by persons of the Japanese race, which, on motion of Mr. Warren, was ordered to be printed as *Appendix "A"* to this day's minutes of proceedings and evidence.

Mr. Mathieu filed a statement of audit fees paid by the Custodian, which, on motion of Mr. Warren, was ordered to be printed as *Appendix "B"* to this day's minutes of proceedings and evidence.

Questioning of Mr. Mathieu was resumed.

The Chairman thanked the witnesses for their cooperation.

Dr. Coleman, on behalf of himself and officers of his department, thanked the Committee for the consideration shown them in their examination.

The witnesses retired.

It was agreed that Mr. Watson Sellar be examined at the next meeting.

At 12.30 o'clock p.m., the Committee adjourned until Tuesday, July 1, at 11 o'clock a.m.

A. L. BURGESS,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

June 27, 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 will call the meeting to order. First of all I want to state that Mr. Wright, counsel for the custodian, has supplied some of the information that was asked for yesterday by Mr. Fleming, concerning the sales of properties which were made subsequent to the Director V.L.A. offer for the numerous parcels listed on pages 174 and 175 of the minutes of proceedings of May 13. I have also a document, tabled by Mr. Mathieu, setting out auditing fees paid by the custodian for World War I and World War II. Now I think it might be in order if somebody would make the motion to have these printed in the record.

Mr. Warren moves that this return be printed in the record and it is seconded by Mr. Golding.

Is it carried?

Carried.

We have with us this morning Dr. Coleman, Mr. Mathieu and Mr. Wright. Now most of the members of the committee were through with questions on the aspects of the custodian's office in Ottawa and the accounts of the custodian. At the meeting before last we had agreed, as a courtesy to Mr. Fleming, who has taken quite a part in the work of this committee, to have these gentlemen back before us. Mr. Fleming did not finish early enough yesterday with the other part of his work, and we could not call these gentlemen who had been waiting and we adjourned the meeting, with Mr. Fleming's consent, until this morning. Now I see Mr. Fleming is not here.

Mr. MACDONNELL: Mr. Fleming asked me to say to you that family ties had called him to Toronto and I am to express his apology to you. He asked me if I would ask a few questions with regard to the subject matter of the committee's considerations this morning, and, with your permission, I will go on with those questions. Unfortunately, Mr. Chairman, I have been away a good deal and if I ask questions which have been covered before please stop me.

The CHAIRMAN: You are entitled to ask any questions you wish.

Mr. MACDONNELL: Yes, but I have no desire to ask questions on matters which may be repetition.

The CHAIRMAN: The witness himself may refer to the fact that he may have answered the question previously.

A. H. Mathieu, M.B.E. Assistant Deputy Custodian, called:

By Mr. Macdonnell:

Q. I wish to ask a few questions arising out of the evidence of Mr. Mathieu on June 24, Tuesday last. I will first ask one or two general questions regarding the growth of the department. I would like to have an idea of the staff which was in existence in 1939 and how much it grew? During the war,

I realize, Mr. Chairman, that a great deal of work was done, and I think wisely so, through banks, trust companies, and institutions of that kind, but could I just have for my own information, knowledge as to how much the staff did grow?—A. When the office started up in September 1939 there were four employees, myself, the counsel, and two secretaries. We then set out to organize the office and it increased gradually from those four to a peak, I am not quite sure of the figures and I would have to look them up—

Q. Just give me a general idea?—A. The peak staff of the office I think was 129.

Q. You state "the office started up." My understanding is that it was a continuation and had been carried on since the last war?—A. Yes, but in 1935 I believe, the staff was disbanded because the work of the first world war and the reparations commission had been completed at that time and so, gradually from 1930 to 1935 the staff was disbanded and we just retained myself, a counsel and two secretaries.

Q. Yes, well then on the other question regarding the procedure, I understand in the case of securities you dealt with them in the manner indicated in the evidence which seems to me very wise. When you actually ran into growing concerns, if you did run into businesses which were growing concerns, what did you do?—A. The first step would have been to appoint an inspector to examine the situation and it would depend on his report whether we appointed a supervisor or a full time controller.

The CHAIRMAN: You mean the supervisor would be on a temporary basis?

The WITNESS: Yes, to supervise the operation of the business. In the case of say, a limited company, the board of directors were continued but they would carry on their operations under the supervision of an officer appointed by us and always under the direct control of our office.

By Mr. Macdonnell:

Q. There were not very many of such cases?—A. There were very few going concerns which we took over in that way.

Q. It would be a comparatively small number?—A. A few of them were liquidated in the early stages because it would not have been advisable to continue the business. One or two were continued for some time, and we still have on German company under active control.

Q. Now coming to page C-1 of the evidence, may I read you just a short extract from what I think you said, Mr. Mathieu and then I will ask a question on it. You are speaking of dealing with countries that had been liberated and I will read you a sentence from your evidence:

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 these 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.

And then reading a little further you say, "Agreements with other countries are still pending."

Could you say a word as to why it takes so long, and by the way, there is one other thing I would like to interject here and you may include it in your answer? You say "We are considering the individual releases in necessitous cases—providing they supply us with the necessary information and a certificate of the

government of their country establishing beyond any doubt that there is no enemy interest involved".

When you say "no enemy interest" does that refer to our former enemy countries?—A. Belligerent enemies. There are two classes of enemies.

Q. Would you just make it a little clearer as to why it takes so long with the liberated countries to reach an agreement? I realize it is not in your department but I am anxious to know what the situation is?—A. Discussions had been going on since 1945. At that time, of course, there was a draft procedure submitted to these governments and further discussions took place on the various clauses and the effects of those clauses in the proposals. The only country that accepted the proposal was France and that was signed, I believe, early in April and made retroactive to the 22nd of March, 1946. From then on we carried out the procedure of releasing property on direct application from the owners.

Q. That is in France and the liberated countries too?—A. No, France.

Q. Only in France.—A. The other governments had not yet approved of the procedure and they have been negotiating ever since.

Q. Have you got readily available the amounts involved in France and the other chief countries? Are they large amounts?—A. You have a statement in my report.

Mr. BURTON: What page is it on if I may inquire?

The WITNESS: Page 12 of the report. You have a list of the allied territories, occupied allied territories. The assets reported for Belgium total \$30,781,239.63. Then you have the other countries such as the Netherlands, Luxembourg, Norway, Poland, Czechoslovakia, and the far east countries—China—representing a total over-all of \$2,071,952.72.

Mr. MACDONNELL: I do not want to take the committee's time on a lot of detail, but you have given an idea of the magnitude involved. What appeals to me, as a layman, is just what is the difficulty which is holding us up. You say the other governments have not agreed, and in the meantime the citizens are being hampered by this delay. I would like to know if there is not some way, I know international arrangements are not as simple as arrangements between two individuals, but is there not some way it would be speeded up?

The WITNESS: I think it could be stated in a very few words that the delay is really due to the desire of the foreign countries to control the assets of their nationals which are vested in the Canadian government.

The CHAIRMAN: In the case of the treaty with France do they let their nationals freely negotiate with you?

The WITNESS: No.

The CHAIRMAN: It still goes through the government?

The WITNESS: They insist on having complete control of the property in Canada belonging to their nationals here. On the other hand the custodian must return those properties to the original owner and not to the government of the owner.

By Mr. Macdonnell:

Q. Is that true whether it is a liberated friendly country or an enemy country?—A. Well, enemy country property would be dealt with under the conditions set out in the treaties to come. In the case of liberated countries there would be not treaty but only an agreement.

Q. What were the assets involved in the last war of property returned to enemies?—A. In the last war there were only straight enemy properties involved. We did not have invaded territories and the custodian had only property that belonged to persons in enemy countries.

Dr. COLEMAN: Holland was not occupied—excuse me for interrupting.
The WITNESS: No, I was referring to France.

By Mr. Macdonnell:

Q. What was the principle? Was it to return everything, the property of enemies, or did we do anything to confiscate?—A. Under the treaties we did credit the German government with the proceeds of liquidation of the German property in Canada.

Q. Am I correct in thinking the figure of \$13,000,000, shown as a surplus paid over to the Consolidated Revenue Fund, was the proceeds of operations in the first war?—A. Yes.

Q. And how would we have a profit?—A. Through surplus of funds which were invested after the war, those that were invested in the war period but not directly under the control of the custodian and just reported in the negotiations, and the fees that were charged on the release of properties to the three satellites of Germany at the time. Under the conditions of the Versailles Treaty Germany obligated itself to be responsible for the debts to its satellites, and the assets of certain countries such as Austria and Bulgaria were returned to them under a special agreement. We were entitled to charge, under that agreement, a fee of 2 per cent on the value of the property returned after liquidation.

Q. In other words it was part of the terms that Canada would get a fee of 2 per cent for looking after enemy property?—A. Yes.

Q. I see.

Dr. COLEMAN: I should like to be permitted to elaborate just a little on Mr. Mathieu's answer, with your permission, Mr. Chairman. What is probably not made quite clear is, that there was set up, at the end of the last war, a clearing office in London, and the debts owing to Germany were set off against the debts owing to Canada. Am I right?

The WITNESS: Quite right.

The CHAIRMAN: I was just about to ask a question about reparations we got from Germany. If we realized on some German assets in Canada which should have been balanced with what they owed us on reparations, that was done?

The WITNESS: Yes.

Dr. COLEMAN: The actual returns were laid on the table of the House of Commons at an earlier session. It was computed at one time that in interpreting the Treaty of Versailles, Germany undertook to pay reparations they owed Canada of something like \$1,000,000,000 but we never were able to collect it. The Canadian government was not able to collect it.

Mr. CASE: Did we collect any part of it.

Dr. COLEMAN: We collected something like \$30,000,000 under the Treaty of Versailles. The enemy undertook to recompense Canada and the other allied powers for what they paid in carrying on the war, and that would be the whole war expenses, pensions and everything, and as I say, the aggregate was computed about 1935, which was the first time I had to make up a return. At that time it was something like \$1,000,000,000.

Mr. CASE: They sent over enough paper marks to pay the whole thing.

By Mr. Macdonnell:

Q. I do not want to press but just to clear up the point would it be correct to say this, the amount of \$13,000,000 was built up from the percentage? Is not that what you said Mr. Mathieu? I think you said it was built up?—A. Partly.

Q. Partly, well at any rate whatever there was of that nature was applied but it is a very small payment on reparations.

The CHAIRMAN: May I ask what the actual amount of reparations claimed is, not including as Dr. Coleman, said the cost of war pensions and so on, but just the actual claims of the Canadian government to compensate Canadian individuals for reparations.

The WITNESS: Well, Mr. Chairman, I did not expect questions on that feature of our work and you will excuse me if I did not make it quite clear in the first instance. This is all ancient history and it is so long ago that it is hard to go back to it, as we have been terribly busy in this war as compared to the last war.

Mr. MACDONNELL: I do not want to press this.

The WITNESS: The point is that reparations would be clearly defined. Reparation moneys did not come into the custodian's office. It is not really a matter that concerns the custodian's office. That money went direct, I would presume, to the war appropriations account of the last war, but the chairman probably had in mind the so-called claims field with the reparation commission.

The CHAIRMAN: That is right.

The WITNESS: Those are what you might call domestic claims for war losses, damage, loss of life, and various other categories that were accepted by the reparations commission. That was a separate body from the custodian's office and the awards made by that commission were paid out of a vote of parliament and not out of moneys that the custodian held. We carried out the mechanics of paying the awards in our office because it was more or less correlated with our office. The actual money to pay the domestic claims, as I might call them, was provided by parliament. The first commission that made its award completed its work in 1929 and the total award was approximately \$6,500,000. Now to get the exact figure I would have to go back to the books.

The CHAIRMAN: It is just approximately that figure?

The WITNESS: That is approximately the figure that was awarded. As a result of that report being tabled in the House a lot of new claimants came forward. If you will look at page 30 of the report the total amount granted was \$6,750,000. Subsequent to that, the Friel report, and when I say Friel report, that is the first commission that made awards, upon being made public a large number of further claims that had not shown up previously were then reported and a third commission was then appointed in 1930 under commissioner Judge Errol McDougall. Judge McDougall completed his work and made his official report in 1933 whereupon the custodian made payment of all amounts awarded as well as the expenses of the commission out of a special fund provided by parliament which amounted to \$4,200,000. Out of the Friel report four claims remain outstanding, amounting in all to \$3,057.64, due to the fact that the claimants have never come forward to claim the money awarded to them by the Friel commission. The total balance held in the special reparations account as of this date is \$5,177.13, the difference between the amount of outstanding claims yet to be paid and the amount stated before represents interest, adjustments and refunds of advances received during the life of the commission.

The CHAIRMAN: So we received about \$13,000,000 actually from those properties and a little more than \$10,000,000 of that amount was assigned by the reparations commission?

The WITNESS: Yes, in payment of domestic claims.

By Mr. Jaenicke:

Q. We got a little away from the subject on which I was trying to interrupt before but if you will allow me, Mr. Chairman, I should like to ask the witness about a particular French company that I understand was under the control of the custodian. The matter came up in the Banking and Commerce committee

last Tuesday. The company is an insurance company called La Fonciere Compagnie d'Assurance Mobilieres et Immobilières. Did you have that company under your instructions.—A. Yes, through the superintendent of insurance.

Q. Do you still have that company?—A. It is in the process of being released now.

Q. If you release it do you have to get the consent of the French government?—A. We require a certification by the French government, a consent of the French government is implied by the certification.

Q. Before the assets are turned back?—A. In other words the form is sent in by the applicant company, or its officers, and attested before L'Office des Changes which is the foreign exchange body in France, a branch of the French ministry of finance, empowered to look after these matters in all countries. On page 4 of the application form, the officer of L'Office des Changes signs a certificate that there is no enemy interest involved in any part of that company. On the basis of the declaration by the applicant, and certification, the custodian can then proceed with the release of the particular property of that concern.

Q. The French government has not yet consented to the transfer of that property?—A. That I am not sure of. There is a letter on my desk today but I have not had a chance to read it. The French officers of the company were in to see me some time ago and they stated an application had been duly made and it was going through the French Embassy. I presume that if it has not reached the office that it is just about to be received and, according to the advance information I have, it seems there will be no objection to releasing control.

Q. As far as the French government is concerned?—A. As far as the Canadian government is concerned.

By the Chairman:

Q. Have you had many claims from French nationals since this new agreement has been passed?—A. Unfortunately, no. We have a total of roughly 15,768 French accounts under our control. The last survey we made showed that only about 3,000 applications had been received out of the total number, and such applications we have received have been mostly for small amounts under \$3,000; which you see by clause 4 of the application is clearly excepted from the certificates of l'Office des Changes. Apparently the French people who had money in this country, for certain reasons in their own country, due I believe to the French laws existing in France, were very reluctant to come forward and ask for certification of l'Office des Changes. We are receiving letters practically every day saying that they do not feel like going to l'Office des Changes to make application for release because they are satisfied that their funds are in good hands in Canada and they would prefer to leave them there.

The CHAIRMAN: That is quite a compliment.

The WITNESS: For reasons of their own, I suppose.

Mr. MACDONNELL: They would prefer to have you operate them than go to l'Office des Changes.

By Mr. Isnor:

Q. I would like to inquire from the witness as to the jurisdiction of the custodian in respect to Japanese bonds held by people in Canada, whether there has been a fund set up to take care of that. You know what I mean?—A. That would no doubt be covered by the treaty with Japan which has not been made yet.

Q. Have you similar treaties with other countries for claims already filed?—A. No treaties have as yet been ratified by parliament.

Q. Are you accepting claims from individuals regarding bonds of other countries?—A. Yes, we are receiving claims. They are recorded on a register of claims filed by individuals and entered by countries.

Q. And the same thing would apply to those holding Japanese government bonds?—A. Oh yes, they would claim for the bonds, and even cash; but no policy has as yet been laid down on account of the fact that no policy can be defined as to the treatment of these claims until treaties have been ratified by parliament. But under our regulations we are maintaining a register of claims that have already been filed. I may say that in comparing notes with other countries, such as Great Britain and the United States, because we are working this thing up in preparation for the work when the treaties are ratified, we do find that Canada is a little ahead of the others in maintaining records for future purposes. Of course, we are probably in a fortunate position owing to the fact that there was no break between the two wars, the office continued; therefore, we were able to profit by the experience of the first war and set up records in such a way that we would have available all the information possible. We are now getting all the material ready for the interdepartmental committee preparing a recommendation to the government with respect to certain steps which must be taken until the treaties are ratified with a view to formulating or recommending rather to the government the policy which should be followed in dealing with these claims for this war.

Q. Has there been anything considered whereby Canadians holding bonds such as I have mentioned can negotiate loans on a guarantee from the government or from the custodian's office?—A. Not that I know of.

Q. That has not been considered?—A. Do you refer to bonds held in Canada?

Q. In Canada, yes.—A. No. The bonds, of course, would be the property of the owner; and providing the individual owner had not been interned, even though he is a Japanese national, he would not be classified as an enemy, he would be entitled to retain his property.

Q. No. I refer to a committee of business men holding Japanese government bonds.

The CHAIRMAN: By that do you mean bonds of the Japanese government?

Mr. MACDONNELL: Can he not deal in them freely?

The WITNESS: He can deal in them freely if he can find any institution which will advance him money on the collateral represented by the bonds; I have no doubt he could have the benefit of them.

By Mr. Jaenicke:

Q. There is another question I would like to ask the witness. You mentioned a lot of French people who had money here and wanted you to keep it; do you invest that money?—A. Do you mean all accounts, or are you speaking of investment accounts?

Q. I mean just French accounts.—A. You are referring to the non-belligerent?

Q. Those French people to whom you referred who want you to keep their money for them.—A. With the regard to the accounts which come under our control the accrued revenue has been capitalized from time to time. Since the resumption of correspondence or communications has again been permitted the owners are in correspondence with their former agents in Canada, such as a bank or a trust company; and they would probably give that agent directions to invest accruing funds in certain types of property or securities. That is always referred back to us for permission or refusal, depending on the circumstances. In the case of French property, or as I should say French accounts, we usually permit the transaction, providing it is not a speculation which might endanger the value of the account.

Mr. MACDONNELL: Why would you not allow them to speculate if they want to, provided it is not injurious to our national interest?

The WITNESS: Because this property is vested in the custodian and the owner has no title to it. We merely recognize the fact that because he is not an enemy some day he may be wanting the return of his property. We accept his directives providing they are reasonable.

By Mr. Jaenicke:

Q. What rate of commission do you charge on that now?—A. No commission. On that type of transaction we merely charge a fee for administrative purposes when we release the property.

Q. That is the two per cent?—A. It may be up to two per cent.

Q. On all the years you hold it?—A. No matter how long we have had it, on the total value of the property on the date of release.

By the Chairman:

Q. And you consider that percentage adequate to meet your cost of operation?—A. Yes.

Q. Does that cover all your expenses?—A. Well, of course the enemy property will have to carry its proportion of expenses, over all expenses.

Mr. ISNOR: May I ask one other question in connection with these Japanese government bonds to which I referred. If they are payable in London or New York would the claim be entered in England or the United States respectively; or, would it be entered through the Canadian office?—A. A Canadian holding a bond of that nature in Canada would be entitled to file his claim with the custodian here, even though the bond may be held, say, in London or New York. If a British subject in London holds the same type of bond in London he would have to file his claim with the London authorities.

By Mr. Macdonnell:

Q. Just at a matter of interest, you refer to the fact that you, the custodian here, carried out the instructions received from principals in France, and you used the words "providing they were reasonable" speaking of investments. May I ask what you would consider reasonable? For instance, suppose a man wanted to sell his government bonds and invest the proceeds in stock; would you consider that reasonable?—A. Yes. What I had in mind in making the reference to reasonable requests were cases where the individual was asking for the transfer of funds outside the country.

Q. Oh, I see.—A. We would not permit a transaction of that kind.

Q. Oh, no; I can see that. But so far as investments in this country are concerned.—A. We would not object to them at all.

Q. Then I have one other question. On page C-8 of the report of Tuesday last this statement is made by the witness—I think it is speaking about the first war, as a matter of fact:

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 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.

I think I understand the principle involved there, but let me ask you this question: you say, they were not considered public funds. Would I be correct in saying that that meant that all during the business of the war, that applies to this war, too, the custodian was carrying on his operations free from any control or outside investigation of any kind, except the audit by private firms

from year to year; would that be a correct statement?—A. The purpose of the statement I made at the last meeting was to show the difference between actual public funds going into the consolidated revenue fund and the trust funds which were paid directly to the custodian.

Q. Then that leads me to ask this question: the result of that seems to me to be that the custodian came into the control of huge amounts of money, and that this two per cent of capital realized and no doubt received by you as income—I will ask you to tell us what that was in amount; was he free to hire people on his own terms or were the civil service regulations applied; or, just what did you do about that?—A. The civil service regulations were not applied to the officers or the staff of the office of the custodian.

Q. Why was that?—A. Because of the terms of the order in council. Regulation 6(3) covering the establishment of the custodian's office reads:

6. (3) The custodian may establish and maintain such office or offices as he thinks proper for the administration of these regulations and such other matters as may be delegated to him and may attach thereto such officers, clerks and advisers as he selects and they shall be paid such remuneration as the custodian determines.

Q. Yes, that is the first point; and at this stage I shall not ask you to make any comment on it. I will just give my opinion, if I may, Mr. Chairman. It seems to me it left the custodian very, very wide open indeed; and one wonders why they were given such wide powers without any restriction of any kind, apparently, and why such broad powers were necessary.

The CHAIRMAN: That is along the same lines, is it not, as the income tax office?

Mr. MACDONNELL: Pardon?

The CHAIRMAN: This procedure was along the same lines as that followed in the income tax office where the personnel do not come under the civil service commission.

Mr. FRASER: May I ask this question at this point: was consideration given veterans in employment?

The WITNESS: Always.

By Mr. Case:

Q. Was there sufficient revenue from the enemy property to maintain the office of the custodian; or, from what sources did you obtain funds with which to pay the expenses of the custodian's office?—A. That is derived from the investments of the custodian—bank balances, victory bonds—this money was coming in, and most of it was coming into the office of the custodian and it represented non-interest-bearing moneys. They accumulated in bank accounts in Ottawa, and any time a government issue was made we received authority through the treasury board to invest in bonds of that issue, and the interest derived from that type of investment was credited to the administration account to take care of the expenses of the office; salaries, including all expenses; and for the purpose of creating a fund in case treaties imposed certain obligations, such as interest on debts—which usually is not an interest-bearing item—or other such commitments with which the custodian might be faced in the future, depending on the conditions set out in the treaties. The detail breakdown of investment is on page 15 of the blue book report. We have \$22,651,500 invested in various victory loans. The interest on these bonds goes directly to the administration account pending final results, final disposition; meanwhile all expenses are charged to that administrative fund.

Q. In other words, you have always obtained sufficient revenue to maintain the office?—A. Always.

Q. Now then, what becomes of the surplus—I suppose you cannot always get an even balance—what becomes of the surplus earnings of the invested funds? Is that turned over to someone or is it held by you?—A. That is to remain in our hands until the work is wound up when any surplus will be returned to the treasury.

Q. And yet it never was wound up between the first and second war?—A. It was, to a certain extent. In 1930 there was a secondary treaty with Germany returning the then unliquidated property. It didn't amount to very much, of course; but we had left at that date property unliquidated. That is what you might call unmarketable securities, such as securities for which there was no market whatever. You could not sell them and you could not dispose of them. They were returned to the German government. There were a few parcels of real estate that were not completely liquidated.

Q. Did that close out the account?—A. That closed out the operation between the clearing offices proper and the return of the unliquidated property—that was under a second treaty, which was for the purpose of closing out the account. That left the adjustment of certain things which were then pending; claims by third parties, for instance, for the return of securities which had been vested in the custodian and which formerly belonged to German nationals.

Q. Well, in 1939 had the account been completely closed out; I mean, at the time of the new war with Germany?—A. We still had an amount of, roughly, half a million dollars set aside to take care of outstanding claims which had not been completely wound up.

Q. And with the outbreak of the second war that would simply become—A. That was retained in the first war account.

By Mr. Homuth:

Q. Are there any limitations as to the time which may elapse between the making of claims?—A. None whatever.

Dr. COLEMAN: I might state for the information of the committee, Mr. Chairman, that there is a motion before the Exchequer court to-day for the purpose of disposing of one of these claims which came up in 1937.

The CHAIRMAN: That is out of the first war.

Dr. COLEMAN: My predecessor, Mr. Mulvey, told me that in 1928, when he was in England he had some contact with the British Board of Trade on this matter of claims carried over from the first great war, and I think he mentioned to them the delay in not being able to get a lot of things cleared up. The officials took him to an adjoining room where there were two or three gentlemen working, and they said to him: you may be interested to know that those gentlemen are winding up accounts of the Crimean war.

By Mr. Case:

Q. Am I to understand from what you have said that the claims arising out of the first great war are kept entirely separate from those arising out of the second great war?—A. Yes.

Q. And then, what is the purpose of the fund to which you have just referred?—A. That is to cover claims which have been filed, or possible claims, from the first great war which have not been completed or wound up.

Q. Do you keep the amount of the claims in connection with the first great war separate?—A. Quite.

By Mr. Fraser:

Q. I wanted to ask you what the income was last year from the account you held; have you got that? It would be over a million dollars I imagine. That would include the 2½ per cent earned.—A. On page 16 of the blue book report there is a breakdown of administrative accounts.

Q. You will recall, Mr. Chairman, that only certain members received copies of that report.—A. We have an item here; this is in the assets: "accrued interest on Dominion of Canada bonds \$180,335.06."

Q. Didn't you say that you had \$51,000,000 in bonds?—A. \$22,000,000.

Q. Oh, pardon me; I thought you said \$51,000,000—\$22,000,000, I see.

By Mr. Macdonnell:

Q. Mr. Chairman, might I ask this question?—Would the witness tell us just what total income has accrued to the custodian from the commissions which have been paid so far? How much of property has the custodian handed over liquidated? The total amount of that would be some billions of dollars; do you have that at hand?—A. The total amount up to December 1946 is \$989,149.23.

Q. Only \$989,--?—A. 149.23.

Q. That is the commission you had coming?—A. That was the commission on the assets realized up to that period.

Q. Then the assets realized would be how much; roughly, fifty times that, I suppose?—A. Yes.

Dr. COLEMAN: Yes, roughly \$7,000,000.

By Mr. Macdonnell:

Q. Would you indicate the total amount which came into your hands?—A. The peak amount was roughly, \$1,500,000,000; that, of course, included state-owned gold.

The CHAIRMAN: Perhaps Mr. Mathieu would want to reconsider the questions asked by Mr. Fraser as to the interest earned. Can you give him that figure?

The WITNESS: The exact figure—I had not turned over the page to the proper statement. The interest on investments—that would cover the interest on the bonds—the total up to the end of December 1946 is \$3,139,332.66. That would include interest on bonds in Ottawa and bonds held by Vancouver, and similar investments made in London, England, where we carried an account in sterling and that would have to be converted to Canadian dollars, as was done in this statement.

Mr. CASE: You say, "up to"; what was it for 1946?

The CHAIRMAN: Excuse me, gentlemen. May I have your permission to ask Mr. Rinfret to take my place for a few moments?

(Mr. E. Rinfret assumes the chair.)

The WITNESS: I haven't got the detailed amounts.

By Mr. Case:

Q. You haven't got the detailed amount?—A. No.

Q. What period does "up to" cover; you said up to the end of 1946?—A. From the beginning of the war right up to then.

Q. That is from 1939?—A. Yes.

By Mr. Fraser:

Q. That surplus which was held in 1939 would not be included in that?—A. No. All accounts for the first war are necessarily held quite separate from these accounts.

By Mr. Macdonnell:

Q. You have told us your income to date; and when I say income I am referring to the commission you charge as separate from the money coming in by way of interest earning; and I understood you to say that was probably \$990,000. You have been in operation nearly eight years. Of course, your staff was not anything like as large when you began. Can you tell me what

the total expense of operating your office has been since it was opened in 1939? I would like to know how it compares with the commission which you are getting. In other words, I want to know whether you are carrying on business within the margin of the charge; what have been your total disbursements?—A. Total disbursements, including all the various sections, amount to \$1,854,465.53.

Q. Well then, in other words, you have spent \$1,854,000; and your commissions up to date amount to \$989,000; the balance then, I take it, is taken out of moneys from time to time in your hands?—A. The total revenue, including interest on bonds and on investments, and the interest on the bank accounts and the penalty interest which we receive during the course of operations—

Q. That all presumably belongs to the owners?—A. No.

Q. I mean, you are intending to return that to them when you give them back their money, apart from your commission?—A. Not necessarily. The owner will get the exact amount which was coming to him.

Q. I am afraid I have not made my question clear. The point I was trying to make is this: we do this business—if one may call it business—and collect a fee. These assets were received without remuneration, aside from the remuneration of the two per cent on the capital of the money finally turned over.—A. That is correct, but only on release of the property.

Q. I see. Now so far, the commissions which you have received have fallen about \$900,000 short of paying the cost of the office. Now the deficiency you pay out of income which comes into your hands, income or capital for that matter, which comes into your hands from those assets. I asked you whether you did not refer to those assets as belonging to individuals but you say no, and I understand the sense in which you say no, but equitably, and morally, does not that property belong to these people? Is that not the basis we are doing this on? It is property which comes into our hands as a nation and we look after and charge a fee for doing it. You surprise me, or what upsets my ideas is that it looks as if we were not charging enough in getting this 2 per cent. I thought it was enough to cover the cost of the business but you tell us it is not enough.

Mr. CASE: We have not had the total revenue.

The WITNESS: I was merely asked concerning the revenue on bonds. We have other revenue outside of that. The total revenue including bank interest and penalty interest and the administration fees charged on releasing property, discounts and bond purchase premiums, and profits on bonds sold, makes a total revenue of \$4,490,000 odd.

The ACTING CHAIRMAN: Would it be a fair statement to make that you have sufficient property on hand, on which you can charge 2 per cent, and the revenue from that 2 per cent will be more than the difference between the \$1,854,000 and the \$989,000?

Mr. BOUCHARD: I think probably he could answer in another way. I take it the \$989,000 is an accumulation of money on property which you have already transferred back but there is a very substantial portion yet to be transferred on which you will charge your 2 per cent, which will more than overcome the difference.

Mr. MACDONNELL: That does not seem to be a bit clear because they have transferred half the property back now and even if you charge the full 2 per cent on the whole of it you would only get, if my figuring is correct, about the amount which they have already spent running the department. You have spent \$1,854,000 and there would be only 2 per cent on \$1,500,000,000. Now you have got \$989,000 transferred, and \$700,000,000—let us multiply that by two—that would give you just about the amount which you have spent now, or a little over, but we are not near the end of the course yet. My question is this,

it seems surprising to me, and I will not say it is unsound, but it was a surprise to me how you seem to intermingle those funds as you do. You use funds which I thought was the property of or beneficial to the owners, to pay your ordinary expenses. If, in fact, as Mr. Case originally suggested, you are satisfied that the 2 per cent, when you come to the end of the course, will cover the position, that answers my question. I do not think I need to press it further except for this, and we hope we will not have any more wars, but I take it one of the points here is to learn any lessons we can for the future, and I do ask the question for consideration.

By Mr. Case:

Q. What is the attitude of the other countries and their custodians towards assets they may be holding of ours? Do they operate on the same basis?—A. The Americans are operating on the same basis as we are. On all property that is vested they are going to charge probably more than 2 per cent when they return it.

Q. Is that optional to the custodian?—A. No, it is under the law of the land. There is a bill which is going to be put through, I believe it has gone through congress now, permitting the custodian to return property, otherwise he would not have the right to return the property because it is vested in the government.

Q. Each country makes its own laws? There is no international arrangement, and they are pretty well all on the same basis? ?

Dr. COLFMAN: Great Britain charges 2 per cent and I think the rate in the United States is 3 per cent.

Mr. BURTON: Mr. Chairman, if I may interrupt, and I hesitate to do it as I do not want to appear to be trying to shut off the discussion. That is the farthest thing from my mind, but since this committee has been set up I have attended every meeting. Yesterday I had to leave before the meeting was over and it was with a considerable amount of surprise, although being on the steering committee and it met previous to the meeting yesterday, that I received notice that this meeting was being called to-day. I was here before the chairman was here and I was quite prepared to be here. I have accepted my responsibility in serving on the committee but the greater part of this discussion, I submit Mr. Chairman, with all due deference to those who have been carrying it on, has been covered in previous meetings that we have had. In so far as interest on invested funds retained by the custodian is concerned, that has been explained in previous meetings. The reason why I recall it is that I raised the question at the time, and the answer was where persons had invested money in bonds, such persons would get interest from those bonds, but money that had been turned in to the custodian that had not been invested in those kinds of securities did not receive returns. I must say that in the hour which I have spent here this morning, outside of the odd little detail which has been creeping into the answers, I have received very little benefit from this meeting and I wish to tell you, Mr. Chairman, that I have other work to do.

The ACTING CHAIRMAN: I think the members of the committee will realize you are correct.

Mr. MACDONNELL: As I said at the outset, and I would like to remind the chairman of this, I had been away. I asked the chairman to point out to me my error when I was covering ground which had already been dealt with.

The ACTING CHAIRMAN: You chose a time when there was another chairman.

Mr. MACDONNELL: I thought I guarded myself against repetition but, in any event, I am through.

The ACTING CHAIRMAN: Is there any further discussion?

Mr. FRASER: Mr. Chairman, the statement regarding these people that have bonds was to the effect that they were going to get the interest, but it looks as if they are not going to get their interest.

The WITNESS: Perhaps I had better explain the difference between the two types of funds. Those paid into the custodian's office at Ottawa are non-interest bearing items.

Mr. FRASER: Non-interest bearing?

The WITNESS: Yes. Those that are bearing interest in investments are investment accounts, set up before the war, that came under our control but remained in the hands of banks. We could not set up an organization wide enough to take in, and transfer all those securities, and look after them in Ottawa, so it was decided, banks being responsible bodies as are trust companies, that they should retain the accounts, continue administration and collection of dividends, and the changing of stocks where required, (where stock was called for redemption), and other ordinary procedures in the administration of security accounts. Those securities were left in the hands of banks under our control. No transactions took place, and no requests for transfers of funds were met, without the custodian being informed and giving his consent or refusal. The moneys that were in Ottawa were those that could not be maintained outside. They represented non-interest bearing items, so that those amounts were immediately credited to the account of the owner. For instance, a commercial debt was collected from a debtor in Canada and placed to the credit of the French owner and that amount is all the Frenchman is entitled to ask for. Meanwhile those funds accumulated in the bank accounts in Ottawa and they were the ones that were invested in bonds to pay the necessary costs of administration. While we may charge up to 2 per cent that will not cover all the expenses of the office, with the result that the revenue derived from the investment on the funds that belonged to the custodian—and mind you those funds were vested in the custodian, the owner had lost his rights under the regulations—will serve to make up the difference in cost of administration and the other commitments that we may have to meet under treaties, whether private treaties or treaties with enemy governments. A large proportion of the funds that were paid in were funds belonging to straight enemies and they will have to be disposed of under conditions of the treaties. A smaller proportion of them would be for non-belligerents, for instance commercial debts with France, Holland, Belgium, and other countries that were occupied. The enemy accounts had to be collected and retained by the custodian until they are disposed of under conditions of the treaties to come.

Mr. BOUCHER: Notwithstanding what my honourable friend says about wasting time, I do feel we would get some place if we discussed this point. You say the non-interest bearing funds, in effect, reached the hands of the custodian and were invested by the custodian. The revenue received by them was treated as part of the custodian's earnings, leaving two classes of people, one, those who had money invested in Canada in interest bearing sources, and the other those who had money in Canada not invested or invested in non-interest bearing quarters. Consequently you are asking, or, our policy is to ask those who had money in Canada in the hands of the custodian not having been invested, to bear some of the expenses of administration on behalf of those who had funds invested?

The WITNESS: I am speaking there in general terms of the over-all picture.

Mr. BOUCHER: Really is not that the situation in principle?

The WITNESS: The owner will get his money back if he is not an enemy.

Mr. JAENICKE: That is it, you must distinguish between the one who is an enemy and the one who is not an enemy. That is where the confusion arises.

Mr. BOUCHER: There is a little more than that. It is a fact that you have had his money invested.

Mr. JAENICKE: If he is an enemy we take his property.

The WITNESS: His property remains here and will be applied against the reparations account.

Mr. BOUCHER: That has been a worry to me and I am not quite sure on it yet.

By Mr. Jaenicke:

Q. I have a concrete case of a Canadian Norwegian, a resident here, who was caught in Norway during the war. The custodian took over his farm and collected his rentals I presume. Now how was that collected?—A. The rent is collected and passed to his credit as it comes in.

Q. And you would keep his account?—A. We keep an individual account for each individual owner.

Q. Did you charge him for collection of that rental?—A. We only charged the collection commission due to the agency that was looking after the administration of the property in the field.

Mr. FRASER: That would be 5 per cent, usually?

The WITNESS: Yes.

Mr. JAENICKE: I do not think they would charge 5 per cent.

The WITNESS: No, some of them did not charge 5 per cent; they would only charge the usual bank rate for handling the business.

Mr. JAENICKE: The property of which I speak has been returned and I have no complaint to make. I was just asking about it for information and the man was not an enemy. He was a Canadian citizen but a Norwegian originally.

By Mr. Case:

Q. Do you mean to say an individual whose country was our enemy would lose his property on reparations?—A. Depending on the terms of peace.

Q. I am speaking now of a German national, who has no association with the German government except that he is a citizen of Germany, and if he owned property in Canada and it was seized by the custodian, does he forfeit that property pending reparations?—A. That would be covered by the Reparation Act which was signed early in 1946.

Dr. COLEMAN: May I answer that with your permission, Mr. Chairman? It would entirely depend on the treaties of peace. Under the Treaty of Versailles, Germany undertook to make reparations and Germany said to the victorious countries who were the other parties, "you will keep whatever German property you have in your hands and apply it on your reparation account and we, in turn,"—that is the German government,—"will undertake to compensate our individual nationals". Actually when they did, owing to the inflated currency, I am afraid—I do not know whether that is the right verb,—but I am inclined to think the individual German got very little out of his property.

Mr. HOMUTH: In fact we are sure of it.

Mr. BOUCHER: Is it not a fact also, Dr. Coleman, in that regard, only the initially realized price on that property was credited to the reparation account and the other investment on the part of the custodian was not considered, it was considered otherwise as accruing to the expenses?

Mr. JAENICKE: You did not take over any property of Germany nationals who were otherwise peaceful citizens of Canada?

Dr. COLEMAN: Except for the persons interned, all properties were returned. We had nothing whatever to do with the ordinary German in Canada who behaved himself.

The WITNESS: The only restriction imposed on that type of man was he could not buy stocks in a Canadian company to try and get control of a Canadian company as a German national.

Mr. Picard resumed the chair.

The CHAIRMAN: Are there any other questions gentlemen?

Well, this will be practically the last meeting with these witnesses. We have covered most of this phase of the work and there remained only the custodian's office in Ottawa and the accounts. If the committee members are satisfied that we are through we will release the witnesses.

I am sure I express the opinion of the committee in thanking Dr. Coleman, Mr. Mathieu, and Mr. Wright for their willingness to answer our questions all the way through. They have given us the best information they could.

Dr. COLEMAN: Mr. Chairman, may I, on behalf of the witnesses from the custodian's office, thank not only you but your predecessor, Mr. Isnor, and all the members of the committee for their courtesy. I assure you that if there is any further information that you want and which is within our power to produce we will be very glad to supply it, if you will just let us know.

Mr. BURTON: Mr. Chairman, you fully expressed the appreciation of all the members of the committee but there is just one other question I would like to ask before you call the adjournment. Is it the intention of the committee to proceed along the lines we did before when we had completed one phase of our investigation? Is it the intention to prepare another further interim report?

The CHAIRMAN: I am quite prepared to assume the work. Since we are changing entirely the subject matter of work on Tuesday at 11.00 a.m., we will see Mr. Sellar for a general broad outlook of his work.

Mr. HOMUTH: On Tuesday?

The CHAIRMAN: On Tuesday at 11.00 a.m. and immediately after we finish with Mr. Sellar's general outlook of the programme we will take up the matter that has been brought forward by Mr. Fleming respecting the Veterans' Land Act administration in Sarnia.

Mr. HOMUTH: That will be on Tuesday morning?

The CHAIRMAN: On Tuesday morning Mr. Sellar will be here and if we do not get through with him at one session I might suggest, to please Mr. Fleming, that we have a second meeting on Wednesday and on Thursday or Friday we that has been brought forward by Mr. Fleming respecting the Veterans' Land Act

The meeting stands adjourned until Tuesday at 11.00 a.m.

The meeting adjourned at 12.20 p.m. to meet again on Tuesday, July 1, 1947, at 11.00 a.m.

APPENDIX "A"

June 27, 1947.

Memorandum for the Public Accounts Committee

In compliance with Mr. Fleming's request, the following information has been obtained from the Custodian's Office in Vancouver in regard to sales of properties which were made subsequent to acceptance of offers for numerous parcels listed on Pages 174 and 175 of Minutes of Proceedings before Public Accounts Committee, May 13, 1947.

Original Offer	Final Offer	Date	Remarks
\$1,325.00	\$1,425.00	December, 1944	Sale based on valuation by Mr. H. Menzies, Haney, B.C.
678.00	800.00	December, 1944	Sale based on valuation by Mr. Ansell, of New Westminster, B.C.
9,117.00	10,100.00	December, 1944	Property advertised in Catalogue published by Custodian.

Properties obtained through Official Administrator who took out Letters of Administration to Japanese Estates:

Original Offer	Final Offer	Date	Remarks
\$3,682.00	\$4,000.00	July, 1945	Public Tender.
1,689.00	2,500.00	June, 1946	Public Tender.

The Director, Custodian's Office, Vancouver, further advises that receipts from sales of these five parcels are included in Summary of Realization of Assets, listed on page 57 of the General Report under Item "Real Estate Sales" which totals \$1,868,080.66.

STANDING COMMITTEE

AUDIT FEES PAID BY "THE CUSTODIAN"

RE: WORLD WAR I

Periods Covered	To Edwards, Morgan, & Company	To Price, Waterhouse Company Montreal	Audit Board
From inception to February 29, 1944.....	\$2,975.80	Paid by Treasury not by Custodian's Office. No information in Custodian's Office.
March 1, 1924 to November 30, 1924.....	960.48	.....
December 1, 1924 to November 30, 1925.....	1,526.52	.....
December 1, 1925 to December 31, 1926.....	1,245.80	.....
Audit Board from January 1, 1926 to February 29, 1928.....	.....	.....
March 1, 1928 to September 30, 1930.....	.....	\$13,094.25
October 1, 1933 to March 31, 1931.....	.....	2,597.30
April 1, 1931 to December 31, 1931.....	.....	1,833.74
1932.....	.....	1,185.90
1933.....	.....	1,176.35
1934.....	1,562.49	
1935.....	.....	1,202.99
1936.....	.....	940.45
1937.....	.....	652.52
1938.....	.....	568.68
January, February and March, 1939.....	.....	141.70
April 1, 1939 to December 31, 1940.....	.....	275.00
January 1, 1941 to August 31, 1944.....	.....	528.62
September 1, 1944 to December 31, 1945.....	.....	100.00

RE: WORLD WAR II

Periods Covered	Price, Waterhouse & Company, Montreal	Price, Waterhouse & Company, Vancouver	P. S. Ross & Sons, Vancouver
Interim Report covering period of September 2, 1939 to December 31, 1940.....	\$ 5,567.65	4,109.61
Official Report for period of September 2, 1939 to December 31, 1941.....	13,718.57	.....
1942.....	14,480.53	.....
1943.....	10,906.05	.....
1944.....	7,472.83	.....
1945.....	9,734.20	.....
Japanese Enemy Section Audit Fee.....	.....	2,500.00
Japanese Evacuation Section Audit Fee.....	.....	.....