

*Investment Companies*

is to see to it that companies remain solvent and able to meet their obligations. Thus, it has applicability only if a company has debt instruments outstanding. Shareholders undertake to follow the fortunes of the enterprise in which they invest and there is no obligation to repay any fixed amount to them.

In outline, the legislation defines the classes of companies that would be subject to it, requires such companies to file annual statements with the Department of Insurance and other information that may be requested from time to time, and authorizes the Superintendent of Insurance to examine the condition and affairs of companies when he considers this necessary. Companies coming under the legislation would be required to obtain a certificate of registry as a means of identification and control. The superintendent would be required to report to the minister in any case where he thought the company's ability to meet its obligations was inadequately secured, and the minister, if he agreed with the opinion of the superintendent, would have the authority to take one or more of several courses of action leading to improvement of the company's financial position or, if the case is serious enough, leading to the termination of the company's activities.

The legislation does not propose to impose any restrictions or limitations on the operations of companies with the exception of a prohibition against investments and loans where there may be a conflict of interest. The general purpose is to establish a reporting and inspection procedure rather than to impose a series of specific rules or regulations with which companies must comply. The expenses of administering the act would be assessed against the companies in proportion to their assets. This is in accordance with the practice now followed as respects supervision of other types of financial institutions.

The bill contains certain provisions that are applicable to sales finance companies only. First, for those sales finance companies that are not now under foreign control, the legislation would limit transfer of shares to non-residents to ensure they remain under Canadian control. The limitations would put a maximum on the total holdings of shares by non-residents of 25 per cent of the issued shares of the company and a maximum on the holdings by any one non-resident of 10 per cent of the issued shares. Existing shareholdings would not be disturbed, but if they are now in excess of the named limits no further increase would be permitted.

[Mr. Gray.]

Second, the Canada Deposit Insurance Corporation would be empowered to make loans to Canadian-controlled sales finance companies for the purpose of enabling them to meet emergency liquidity requirements, and would be empowered to borrow money from the Consolidated Revenue Fund, through the Minister of Finance, for this purpose. Such loans would only be made against adequate security and only for the purpose of short-term liquidity needs, and as he just said this borrowing is done by the Canadian Deposit Insurance Corporation.

These remarks are a general outline of the nature and purpose of the legislation. Further remarks will now be made in respect of certain aspects that are of particular importance. The act will apply only to federally-incorporated companies and only to companies that are transacting the business of investment or that have been incorporated primarily for that purpose. The act defines the business of investment as the borrowing of money on the security of debt instruments and the use of some or all of the proceeds of such borrowing for making loans or investments, including the purchase of real estate for investment purposes and the purchase of conditional sales contracts, accounts receivable and other obligations arising from the sale of merchandise.

• (4:00 p.m.)

Certain exemptions are provided in the bill. The exemptions are designed to exclude from the application of the act companies where the borrowing or investment activities are a minor part of its business, or where the company confines itself to borrowing from banks and substantial shareholders.

To be more specific, a company carrying on the business of investment, but having less than 40 per cent of its assets in the form of loans or investments, would not be subject to the act. The figure of 40 per cent is the same criterion as is used in the Investment Companies Act in the United States. This figure will have the result of including within the act those companies for which a major part of their assets represent investment-type instruments as distinct from property, equipment or inventory used in the transaction of a company's business.

Also excluded from the application of the act would be companies that have borrowed money but whose outstanding debt is less than one-third of the capital and surplus. This would mean that where the borrowing is