

*Department of Insurance Act*

In my earlier statement I outlined in general terms the nature of the plan now proposed to prevent further purchases of existing companies by non-residents. Hon. members have now had an opportunity to examine the details of the legislation as set forth in the bill, and the proposed method of operation. Essentially, the plan is based on the control of the directors of a company over the entry of transfers of shares in the share register maintained by the company.

The relevant legislation in each case now provides that transfers of shares are not valid unless they are registered in the company's books. The plan proposed by this new legislation will require the directors to refuse to allow the entry of any transfer of shares in the books of the company where the transfer would cause the total number of shares registered in the names of non-residents to exceed 25 per cent of the total number of issued shares, or where the transfer would cause any such proportion that exceeds 25 per cent to be increased.

Further, the directors would be required to refuse transfers of shares to any one non-resident where the transfer would result in the non-resident, together with shareholders associated with him, becoming the registered holder of more than 10 per cent of the total number of issued shares. If any non-resident together with associated shareholders holds more than 10 per cent of the issued shares, this rule would not require any reduction in the holding but would require the directors to refuse to allow the entry of any transfer of shares that would increase the existing holding.

These requirements would make it necessary for the directors to satisfy themselves as to the residence of anyone requesting that shares be registered in his name. To meet the possibility of shares being registered in the name of a Canadian resident, where the beneficial owner is a non-resident, it is proposed in the bill that no one be permitted to vote shares held in this way. The directors would therefore call for declarations concerning both residence and beneficial ownership where shares are to be voted.

A further provision is included in the bill to the effect that if shares of a company to which the legislation applies are held by a non-resident directly or through nominees, and if the shares so held together with shares held directly or indirectly by shareholders associated with the non-resident exceed 10 per cent of the total number of issued shares, no one will be permitted to exercise the vot-

ing rights pertaining to the shares held by or for the non-resident. This provision would prevent a non-resident from gaining control of a company by such means as owning 10 per cent of the shares directly and owning all the rest of the shares indirectly through a holding company or through a Canadian nominee.

As noted in my preliminary remarks on September 22, certain exemptions will be provided, based upon holdings existing at that date. In the case of a company where more than 25 per cent of the shares were held by non-residents at that date, the legislation would not require any reduction in the holding but would prevent any increase. Further, there would be no reduction in the voting power with respect to any holding of shares in excess of 10 per cent of the total number of shares that existed on September 22, unless such holding is increased after that date.

Also, it was noted that the legislation would not apply to a company that was then under the control of non-residents in the sense of having more than 50 per cent of its issued shares held by or for one non-resident. I may add, as may already have been noted, that the proposals would not prevent companies being incorporated in the future where the majority ownership is with non-residents from the outset, if this were the wish of parliament. Thus it is not intended by this legislation to close the door to the formation of life insurance companies by non-residents.

Another point of interest on which I might make some clarifying remarks is that relating to the transfer of shares that may take place between September 22 and the date this legislation becomes effective. It is not intended by this legislation to reverse any transactions that may take place in this period. However, the legislation would provide that, when it comes into effect, the voting rights will be suspended in respect to any shares transferred during this period where the transfer would have been prohibited had the legislation been in effect on September 23. This rule will apply principally with respect to the 25 per cent limit. Thus directors of companies concerned should take care to keep an adequate record of any such transfers that take place in this period, since the subsequent voting rights of the shares may be affected by this legislation.

Since this bill was introduced on September 23 we have received a variety of comments and suggestions. Some of the suggestions would result in improvements to