

Industrial Development Bank Act

Mrs. Fairclough: I would point out that the total amount under subsection 2 is presently some \$38 million, I believe the parliamentary assistant said. If this covers 62 loans, then the average is over \$600,000, and certainly a great many of those must be in the \$200,000 to \$500,000 category. It would look as though there must be some very substantial loans, certainly hovering around the \$1 million mark. As a matter of interest, I wonder if the parliamentary assistant could supply that information.

Mr. Benidickson: No, I have not that information, but I think I could get the statistics for my hon. friend.

Mrs. Fairclough: As a matter of interest, I would appreciate that.

Mr. Hamilton (York West): I have one further question on this clause. I know it was referred to in the committee. It is with regard to the amendment to "or from a shareholder of the corporation." I understand it is not good banking practice to take as security shares from a shareholder of a company to whom the credit is going to be advanced. Is this going to be restricted solely to a situation where there has been default of some kind and the necessity arises for the bank taking over control of a company, or is it the intention to use the shares of an individual in the company as collateral to loan to the company?

Mr. Benidickson: I think the most likely use of this new provision would be under circumstances where there were not treasury shares to be sold. As you know, the bank has the right to participate in equity holdings. It might be in the best interests of a company, if desirable, that an individual should retire, who probably had got beyond the best productive stage, and it would be in the interests of reorganization of the company that the person be financed to withdraw from the company, and his shares could be taken as security. There might not be treasury shares to make reorganization possible otherwise.

Mr. Hamilton (York West): This is a method then, in the illustration you have given, of actually buying the shares and retiring the person from active management in the company. Is that the position?

Mr. Benidickson: It might be necessary in order to have the proper security to attain the purposes. It might be necessary for the bank actually to have a transfer of the shares. The president said that it was not in the business of permanently owning securities but it felt that, when they provided a substantial amount of the necessary capital

[Mr. Benidickson.]

to enable the business to function properly the bank should not be debarred on occasion from probably participating in the equity capital and the profits that result from equity ownership.

Mr. Hamilton (York West): The only thing I would like to say in that connection is that the illustration given, of course, does not put any more money at the disposal of the company. If it was an issuance of treasury stock, naturally the funds would go into the company operation. I can see that perhaps this could be used if along with it a collateral agreement of some kind were provided between the shareholder and the bank whereby the shareholder agreed to re-loan the money immediately to the company treasury. If that is the purpose for which this amendment is designed, I can see that it will serve a very useful purpose.

Mrs. Fairclough: Did the parliamentary assistant intend to give the impression that a loan would be advanced for the purpose really of purchasing the interest of a principal who wished to retire or whose associates wished him to retire? In other words, would the money be put up for the purpose of financing the remaining directors or executives of the company to buy him out?

Mr. Benidickson: I should not think that would be the original purpose of the application for loan, but I would think that, either because a company had got into difficulty, and the difficulties might be due to management, or where it was necessary for reorganization to take place, in order to make the investment of the bank more secure, something of this kind should be possible. Under the previous legislation the only shares that could be bought were treasury shares from the company. This gives the bank more freedom in certain circumstances to buy also shares that are in the hands of a shareholder, already issued.

Mrs. Fairclough: It would seem to me that, unless the company was in such bad straits that it was almost bankrupt, the shares of that company would themselves constitute good collateral for the ordinary lending institutions.

Clause agreed to.

Clauses 6 to 12 inclusive agreed to.

Title agreed to.

Bill reported, read the third time and passed.