the policyholders because they enjoy most of the income of the life insurance companies.

Therefore, even if the requests of the life companies were granted, it would not mean a difference simply between tax and no tax on the amount that might be set aside for the contingency reserve. But it does mean that instead of having a corporate rate of 52 per cent on the amount set aside, it would be subject to 15 per cent tax. In other words, it was a case of applying an investment income rate which is really in relation to income for the benefit of the policyholders.

The committee felt that since there was a provision in the bill under which by regulation by the Governor in Council a policy reserve could be created, the terms and conditions—in other words, the formula—for that could be outlined in the regulation. There was, therefore, in the bill in the form in which it was drawn up provision for that regulation to take on a form which would permit the setting aside of a contingency reserve in the manner in which the companies have requested it. The Minister expressed his appreciation of the standing and the importance of the life companies as a savings institution and a part of the fabric of the nation, because after all they do have about 11 million policyholders and therefore the life savings of a great many people in Canada rest in the successful operations of these life companies. When we finally boiled things down and studied the whole matter, this is the only area in which there was this request.

The minister gave his explanation and said that he felt there was no reason why in this case the treatment should be different from that given to any other industrial or manufacturing company, notwithstanding the fact that it certainly appeared to most of the members of the committee that there was something wrong in the comparison of the operations of manufacturing, industrial and commercial companies with the operations of a life insurance company, where the contracts they enter into and the undertakings they give may extend for 40, 50 or 75 years, and they have to project ahead. For instance, even in the case of policy reserve, the life companies work on mortality tables, interest changes, the expense factor, et cetera, and try to put a rate in their premiums, and then to try to establish, over the period of years, what kind of reserve they have to maintain against the day when they will be called on to implement that contract.

A very large percentage of these insurance companies today are mutuals and have no shareholders to call on. With regard to the ones who have shareholders, there is by statute—and the law was passed some years ago—a very limited amount of income of a life company that can be credited to the shareholder. Canadian life companies are really companies for preserving and managing and seeing to it that the kind of contract an individual wants is the one provided for, and that the money will be available and properly safeguarded until he is ready or entitled to take it.

We felt that some of that story should appear in the report, rather than presenting only the bald statement that the committee reports the bill without amendment. We felt that such a report would not do justice to the size and importance of the matter with which we were dealing, a venture into a taxation field that had not heretofore, in any real sense, been explored or made use of.

There was no attempt—and, certainly, nothing I am saying is to be construed as such—to say that there is not an area in the operation of life companies and the business income of life companies where there should not be a tax at the corporate rate. This was not the plea of the life companies. Their plea was to be able, in this one regard, to provide for a kind of contingency which they felt was very necessary. When you look on the other side of the picture as to, for instance, the surplus of a life insurance company, it must be such that it can take care of some of these unusual things. One item that has become usual is the depreciation in the capital value of bonds, even including Government bonds. Indeed, one of the large companies indicated in committee that there had been a shrinkage in the market value of bonds—Government, provincial, municipal and corporate—which they held, as against their book cost originally, of about $200 million. Another company indicated a figure of $50 million.

If the companies do not have to sell the bonds they do not face that problem in the same way, but if they do not have ample reserves and surplus, some condition might disturb their balance sheet, even possibly approaching an insolvent condition, while the operations of the company might be satisfactory. So the companies said that they need this something extra. As to what it would have amounted to in dollars, we were told that for every point in that contingency