

CANADIAN OWNERSHIP OF CANADIAN COMPANIES

On September 22, the Minister of Finance, Mr. Walter Gordon, made the following statement in the House of Commons:

It is my intention to introduce tomorrow a bill to amend certain acts administered in the Department of Insurance. This bill would amend the Canadian and British Insurance Companies Act, the Foreign Insurance Companies Act, the Trust Companies Act and the Loan Companies Act.

In my budget speech earlier this year, I mentioned the Government's intention to broaden the investment powers of insurance companies, particularly in relation to investment in common shares, in order to bring about an expanded Canadian market for shares of Canadian corporations; this was related to other steps being taken to encourage increased Canadian ownership of Canadian companies.

PROBLEM OF CANADIAN CONTROL

It has been evident for several years that there has been increasing concern about the problem of retaining Canadian ownership and control of Canadian enterprises and, in particular, of our financial institutions. The Report of the Royal Commission on Canada's Economic Prospects recommended measures designed to retain control in Canada of these institutions. The Report of the Royal Commission on Banking and Finance published earlier this year also expressed concern about Canadian control of our financial institutions, particularly of banks. In 1957, there were amendments to the Canadian and British Insurance Companies Act, with this objective in mind for life-insurance companies.

But it is clear that the steps so far taken, while they have been effective to a degree, do not go far enough to provide assurance that we can retain an adequate measure of Canadian control over our institutions. The bill to be introduced tomorrow contains the amendments to investment powers referred to in my budget speech and, in addition, an amendment designed to retain in Canada control of those federally-incorporated life-insurance, trust and loan companies that remain in Canadian hands.

INVESTMENT POWERS OF INSURANCE FIRMS

It will be proposed that the investment powers of insurance companies, trust companies and loan companies be amended, particularly with relation to common shares. The limit on the investment in common shares would be raised from 15 per cent of a company's assets to 25 per cent and the eligibility provisions for common shares would be broadened.

A number of other changes are included, perhaps the most important being a change in the limit on mortgage loans to permit companies to lend up to 75 per cent of the value of the real estate instead of 66 2/3 per cent as at present. The power of insurance companies to invest in real estate would be broadened and life-insurance companies would be permitted to own subsidiary life-insurance companies in foreign fields, subsidiary fire and casualty insurance companies in Canada and subsidiary real-estate companies. For loan and trust companies, the limit on the amount that may be borrowed by a loan company or accepted in trust for investment by a trust company would be modified.

The other principal purpose of the bill, as I have already indicated, is to limit the extent to which non-residents may own and vote shares of the capital stock of federally-incorporated Canadian life-insurance companies, trust companies and loan companies.

LIMITATIONS ON NON-RESIDENT SHAREHOLDERS

The bill would limit the total number of shares of the capital stock of a company that may be held by all non-residents taken together to 25 per cent of the total number of issued shares, and would limit the number of shares that may be held by any one non-resident to 10 per cent of the total number of issued shares; shares held by shareholders associated with the non-resident also would be taken into account in determining the 10 per cent limit.

The proposals would not prevent shares being registered in the name of a Canadian resident where a non-resident is the beneficial owner, but, in such cases, no one would be permitted to exercise the voting rights pertaining to the shares so held.

No one would be permitted to exercise the voting rights pertaining to shares held directly by a non-resident or held for him by nominees if the total of the shares so held, together with the shares held by or for shareholders associated with the non-resident, exceeds 10 per cent of the issued shares of the company.

In order to prevent the purpose of the legislation from being defeated by transfers of shares between the date the bill is introduced and the date the legislation comes into force, and at the same time to avoid interfering with existing voting rights, the legislation would establish midnight tonight as a significant point of time in three respects.

SIGNIFICANCE OF DEADLINE

First, it will be proposed that, if the directors of a company allow the entry in the company's books of any transfer or outstanding shares or allotment of newly-issued shares to a non-resident after today that would increase the number of shares held by non-residents beyond 25 per cent of the total number of issued shares, no one will be permitted to exercise the voting rights pertaining to the shares so transferred or allotted so long as they continue to be held by or for a non-resident. In the case of a company that today has more than 25 per cent of its issued shares held by non-residents, this suspension of voting rights would apply only to transfers or allotments of shares that would increase the proportion of shares held by non-residents, but the voting rights pertaining to shares now held by non-residents would not be disturbed.

Second, the prohibition against the exercising of voting rights, applicable in the case of any holding of shares by or for a non-resident and associated shareholders that exceeds 10 per cent of the issued shares, would not apply to any such holdings that now exist. However, this exemption would cease if any such holding is increased after today.

Third, if more than 50 per cent of the shares of a company are today held by or for one non-resident, that company would be exempt from these limitations on the transfer of shares and the exercise of voting rights so long as that condition continues to exist.