

understanding is we must go to the Minister of Finance and prove to him we have made every effort to try to avoid the necessity of carrying forward the debt. And, number two,—

The Chairman: Just a moment, please. On that point, what happens if the Minister does not approve?

Mr. Baillie: If the minister does not approve, then IAC could be in bad trouble because, if you look at clause 21, that clause states that if the amalgamation does not occur within the ten-year period, the new bank must stop the business of banking.

If the debenture holders refuse to permit their debt to be redeemed, and if the Minister of Finance does not consent to having that debt carried forward into the amalgamated bank, IAC Limited and the bank could be caught in a cleft stick under those provisions. Through the operation of clause 21 serious difficulties could arise.

We have had lengthy discussions about that possibility with the regulatory authorities, and among ourselves. I think it is fair to say that as a business judgment, which perhaps Mr. Land should speak to, our feeling is that this is a business risk which the company should accept in the situation.

Senator Walker: It is a long shot. In the next ten years you surely should be able to accomplish that.

Mr. Land: We are quite confident.

Senator Connolly: Mr. Chairman, is there not another aspect to it also? That is, suppose there are some later maturities after the amalgamation takes place. There is provision here in this clause, as I understand it, that the bank can assume that responsibility, that liability.

The Chairman: Only with the approval of the minister.

Senator Connolly: Yes, of course, with the approval of the minister but the bank can assume that liability, and if its covenant is good, as the prospects are, then the difficulty would be—

The Chairman: You see, the assumption of such a debt would not be permitted for the bank, if it were not provided for in this bill. With the approval of the minister, the bank may assume that liability.

Mr. Baillie: That is correct, senator.

The Chairman: That is why I put the question as to what happens if the minister does not approve. What would appear to happen is trouble.

Senator Connolly: One of the points that perhaps would move the minister to agree to this would be the value of the bank's covenant at the time; and I think the prospects are reasonably good that the covenant will be a good one.

The Chairman: The item you have put on the other side of the ledger, and looking at that, is that at that time the shareholders will be shareholders of IAC. Therefore, it is their problem and their money, plus, of course, the depositor's money.

Senator Walker: You mean, shareholders of the bank?

Senator Connolly: Shareholders of IAC, I think he means, at that point.

The Chairman: Yes.

Mr. Baillie: Senator, if I could comment—this is perhaps a comment Mr. Melloy was going to make—one of the factors which influenced our assessment of these risks is that compared with the total outstanding assets of IAC Limited, the maximum amount of debt that could be involved in this provision is very small.

Perhaps Mr. Melloy should comment.

Mr. Melloy: It would be less than 3 per cent of the total debt outstanding at the present time.

Senator Connolly: Less than 3 per cent of the total debt?

The Chairman: Well, the limitation they have put on this bill is that from the time this bill becomes effective, and the bank is incorporated, IAC cannot make ineligible investments measured in terms of the requirements of the Bank Act. Is that right?

Mr. Baillie: Yes, senator. Of course, that speaks to what you might call the asset side of IAC's balance sheet; that is, what business it can do, what lending activities it can carry on, as opposed to what borrowing activities it can carry on.

The Chairman: Do you mean that in that period it can borrow in a way that it would be ineligible for a bank to do?

Mr. Baillie: It would be permitted to do so, senator, but under the provisions of clause 10, even the Minister of Finance could not consent to having that debt carried forward into the bank. Even the Minister of Finance's power under this bill would extend only to indebtedness that was incurred prior to October 28, 1975, which was the day this bill was introduced.

The Chairman: While you shut that door, the net result is that in the ten-year period IAC may have put itself in a position where it could not amalgamate.

Mr. Baillie: Well, senator, IAC would have no intention of issuing any indebtedness during that period that it could not redeem prior to amalgamation. IAC needs to have the flexibility to borrow because it has already established its borrowing pattern and it just could not legally now borrow in a way the bank could borrow because IAC has to borrow on a secured basis.

The Chairman: This is a matter of judgment of the board of directors of both companies.

Mr. Baillie: Yes, sir.

The Chairman: If they want to prejudice their position, in relation to ultimately putting these two companies together, then this would be one way of doing it.

Mr. Baillie: Yes, senator.

The Chairman: And produce, as you said, bad trouble.

Mr. Baillie: Yes.

Senator Laird: Mr. Chairman, does it not really amount to this: there is a long required period of courtship before marriage?

The Chairman: That could be, yes.

Senator Connolly: Only one is going on the honeymoon though.