

ment, it would be a crown corporation and be subject to the same rules as crown corporations. It is likely that the board of directors would be part-time, in the sense that they would function as called for directors' meetings but would not be full-time or active in the management of the corporation. This is the usual pattern of directors of a crown corporation.

The Acting Chairman: They would probably be senior officials, perhaps from the Department of Finance, perhaps from your own Department of Insurance, perhaps from CMHC and other agencies of government that might have an interest in this?

Mr. Humphrys: It is, of course, for the Minister of Finance to appoint the directors. The likelihood would be to have some representation from government departments as long as the government has a substantial investment in the corporation, but it is almost certain that a substantial proportion of the board of directors will be drawn from the private sector.

The Acting Chairman: In the first instance, for a crown company. I believe Mr. Basford, in reply to such a question before the House of Commons committee, said he expected that a substantial portion of the board would be drawn from the private sector, right at the outset.

Senator Phillips: This is a point that is interesting to me. It has been indicated, both here this morning and in the evidence before the other place, that the mortgage exchange corporation would largely be dealing with banks, trust and insurance companies. We are setting up a crown corporation to deal with these people, and we are taking the larger percentage of our directors from these corporations with which the crown corporation will be dealing.

To me, we are setting up the ideal situation for a conflict of interest. I am sorry Senator Croll is not with us this morning, as he would be interested in this point too. I can fully appreciate the desire of the government to select a board of governors who will be knowledgeable and experienced in the mortgage field as well as in the trust, banking and insurance fields—and I would make a partisan remark, I suspect they will consider also their political affiliation.

I am greatly concerned that we are taking someone from a specific bank and putting him on a board of directors which will consider the purchase or sale of a mortgage portfolio owned by that bank. The same thing will apply to a trust company or insurance company and I think the board of directors will be inoperable for that specific reason.

The Acting Chairman: This may be a question of policy on which Mr. Humphrys may have difficulty in providing an answer.

Senator Phillips: I fully appreciate that, Mr. Chairman, but it is still a pertinent point.

The Acting Chairman: It is a most pertinent point. The committee may wish to have the minister come here and discuss this point. Mr. Humphrys, I do not want to put words in your mouth, but I think this is a question beyond your purview as Superintendent of Insurance, as to who would be on this board of directors from the private sector.

Mr. Humphrys: That is correct, Mr. Chairman. It is the prerogative of the Minister of Finance. I could only comment that this organization is essentially seen as a catalyst in the mortgage market, to encourage and create a type of market, and, as such, it would not operate as a massive buyer.

It would take great proportions of portfolios from existing institutions. As a catalyst in the market, it should buy only what it can expect to sell.

In establishing such a corporation, we could find no example in Canada. We have searched other countries and we do not find anything that is focussed quite so sharply on the concept of a secondary market as this exchange corporation will be. In considering its formation and the role it would play, it seemed that the kind of management, the kind of policy advice it would need, would have to be drawn from those portions of the private sector that are knowledgeable in the mortgage market—which limits the choice to some extent, if you are to get the kind of quality advice you need.

The point of conflict of interest which Senator Phillips raised is naturally one of concern, but it is true that it is a policy question that I cannot deal with in so many words. It is perhaps akin to some of the situations that one sees in financial institutions. I suppose it would be difficult for a bank, for example, to get a board of directors if that bank never dealt with any company in which one of the directors had an interest.

Senator Buckwold: Many boards that have directors appointed to government agencies or crown corporations have on them, as you pointed out, experts in the field who are there basically as good government and as citizens passing on their expert judgments; and this would go on in a variety of fields.

Senator Phillips: There is one distinct difference here, Mr. Chairman, which has been overlooked, and that is that a bank is made up of public shareholders who expect a return on their investment. Unfortunately, to date, I have not been able to convince the Canadian public that they should expect a return on their tax payments, although I eventually hope to succeed, with Senator Buckwold's encouragement.

Senator Buckwold: Yes, I keep encouraging you.

Senator Phillips: It is quite clear that for the first three years, at least, this corporation intends to operate with taxpayers' money, buying and purchasing from the private corporations which will be providing the directors.

The Acting Chairman: For the purpose of selling, Mr. Humphrys says. It is for the purpose of selling; it is a conduit. They will be buying mortgages for the purpose of selling them to other mortgage buyers.

Senator Phillips: That may be quite true, but I am still not convinced that it has altered the situation in this latest sense. I feel we have created a conflict of interest here.

Recently, the Prime Minister made a statement on conflicts of interest where senior public servants are involved, and perhaps that statement covers this situation. I am not clear on that point because his statement was made after I raised this question in my remarks in the