

clause 14 is that IAC Limited would be required to either divest itself of those shares or to bring its holdings in them into compliance with whatever might be permitted to a bank under the Bank Act, within two years after this bill is passed, subject to the right of the Minister of Finance to extend the time for up to a further two years. That provision has some business and overtones, and is one of the provisions that were discussed at some length with the regulatory officials.

Clause 15 again deals with technical questions. The effect of clause 15(1) is to adopt the same two-year requirement, that within two years interlocking directorates with other deposit-taking institutions must be eliminated.

Clause 15(2) again corresponds with the earlier section about interlocking directors within the group prior to the amalgamation, because IAC Limited and the bank will have the same board of directors.

Clause 15(3) recognizes the fact that a Canadian chartered bank is not allowed to have outstanding preferred shares and is not allowed to have outstanding convertible debentures. Because we have made applicable certain sections of the Bank Act to IAC Limited and because IAC Limited currently has outstanding both preferred shares and convertible debentures, an exemption is needed for those securities during the interim period. Subsection (3) embodies that exemption. It, of course, would not carry through past the amalgamation so, in order to amalgamate, IAC Limited will be required to eliminate its preferred shares, unless the Bank Act then permits preferred shares. Also, IAC might be required to eliminate the convertible debentures. I will refer to that again in a moment.

Honourable senators, I am taking a few minutes on this, because I think it is worthwhile as background. Clause 15(4) is one to which we alluded a moment ago, that would in effect allow the shareholder of IAC Limited which currently has in excess of 10 per cent of its shares to vote those shares for a period of four years. The effect of the clause would be that after that period of four years it would not be permitted to vote the shares, although it would be permitted to continue to own the shares.

Clause 15(5) is a technical provision that ensures validity of the election. It ensures that nobody will be able to challenge Mr. Land and the other directors and officers as having been duly and validly elected when these new provisions come into effect. That is a very technical provision.

Senator Walker: Do you really need that?

Mr. Baillie: I think so.

Senator Walker: You want to make sure.

Mr. Baillie: Yes.

Clause 16 is very important from the standpoint of IAC. Its effect is to distinguish between businesses that are eligible for a bank and certain businesses, such as the two that Mr. Land referred to a few minutes ago, the leasing and the high ratio mortgage lending business, which would not be eligible for a bank. Clause 16 says that from the day the bill is passed IAC Limited and its other subsidiaries, apart from the bank, may not carry on ineligible businesses except as permitted by this bill, and that from the date the bank starts business they may not carry on eligible businesses except as permitted by this bill.

The background to that is that the expectation is that the bank will carry on any activities of the IAC group which the bank is permitted by law to carry on, and that during the transitional period IAC and its present subsidiaries will be permitted, but only to the extent allowed by this bill, to continue to carry on certain activities that would not be eligible for a bank.

We then go to clause 17 to find out what those activities are. It is a complicated clause. In essence it says that IAC Limited and its present subsidiaries must establish two categories. Then they must see what level of eligible business they are carrying on when these restrictions become effective.

The Chairman: You mean "eligible" in terms of the Bank Act?

Mr. Baillie: That is correct, senator Secord, they must ascertain what level of non-eligible business they are carrying on when these restrictions become effective. During the transitional period, until the amalgamation, they may then carry on non-eligible bushes up to that same level. They may acquire eligible assets from the bank. They may not deal directly with the public as to eligible business but they may acquire eligible assets from the bank to keep their eligible business at that same level. It is a highly complicated and highly technical provision, but one which seems to us, and I think to the regulatory authorities, to be a reasonable compromise to deal with a relatively difficult situation.

The Chairman: You mean the order of dealing would be that IAC would acquire eligible assets—that is, assets which are eligible to a bank—only from the bank?

Mr. Baillie: That is correct, senator.

The Chairman: They cannot go on the market.

Mr. Baillie: That is correct, senator; the object, of course, being to ensure that the bank establishes its public identity as quickly as possible.

Senator Connolly: This arises out of the covenants in respect to some of the long-term debt, does it not?

Mr. Baillie: That is one of the reasons we felt it necessary, so that IAC will be able to satisfy its long-term debt covenants, yes.

At the risk of boring the committee, could I refer back to one other provision so I feel I have answered completely the question about exemptions?

You will recall that I asked for permission to come back to clause 10. The reason I did that is because everything I have discussed so far only applies to the period until the amalgamation. Then, clause 10 comes in—it is a complicated clause—and the essence of it is that within ten years the bank and IAC must amalgamate. After ten years, starting at the date of amalgamation, the amalgamated enterprise must be in complete compliance with the Bank Act in all respects. There are only two exceptions made to that. They are found on page 6. Clauses 10(2) and 10(3) which read together with 10(4)—again, in a somewhat complicated way—deal with the situation where there is outstanding on the day of the amalgamation any indebtedness of IAC Limited, that would not be a permissible indebtedness for a bank and which IAC is not able to redeem. That indebtedness may remain outstanding as indebtedness of the bank if, number one, the Minister of Finance consents. The