

Mr. Humphrys: That would be under the federal Trust Companies Act, but one would have to turn to the provincial trustee acts to look for qualified investments there. Even under the provincial trustee acts, where a trust deed gives discretion to the trustee he may have investment powers much wider than those in the trustee acts. If a trust deed said the trustee could invest in any investments that are eligible for an insurance company subject to the Canadian and British Insurance Companies Act, that would automatically bring in shares and debt instruments of a mortgage investment company.

The aspects whereby a mortgage investment company would differ from a mortgage loan company are quite limited. First there is the leverage, which I just mentioned. Then there are the powers to invest in real estate. A mortgage investment company would have a little broader power to join other partners in real estate investments. A loan company can join only with a trust company, a loan company or an insurance company, but a mortgage insurance company could join with any corporation. However, its power to invest in real estate is rather limited; not more than 25 per cent of its assets can be so invested. It would be subject to a special liquidity test, not aimed so much at liquidity of demand obligations, but rather from the point of view of balancing cash flow. A mortgage investment company would be prohibited from accepting deposits.

The Acting Chairman: A mortgage loan company can accept deposits?

Mr. Humphrys: Yes.

The third part of the bill deals with amendments to the Income Tax Act. Amendments to the Income Tax Act here would be for the general purpose of providing a pass-through tax treatment for mortgage investment companies. Under such a treatment dividends paid by a mortgage investment company to shareholders would be treated as an expense to the company, and thus would be passed directly to the shareholders without tax at the corporate level. This would put the shareholders of a mortgage investment company in the same position as they would be had they invested directly in a mortgage loan. This comes back to the concept I mentioned earlier, that a mortgage investment company is really conceived of as a mortgage pool in corporate form. To the extent that a mortgage investment company does not pay out to its shareholders all its income, it would be taxed in the normal way.

The Acting Chairman: At the corporate rates?

Mr. Humphrys: Yes. This special tax treatment would be accorded to mortgage investment companies subject to a number of conditions intended to ensure that such a company retains its special character as a passive investor holding a pool of residential mortgages, as distinct from a corporation actively engaged in business.

The conditions are set forth on pages 19, 20 and 21 of the bill. I can briefly summarize them. The company must be Canadian and confine its activities to Canada. It must not engage in management or development, but must remain exclusively an investor. It must have at least 20 shareholders, and no one shareholder can hold more than 25 per cent of the stock. At least 50 per cent of the assets have to be in the form of cash or residential

mortgages. Borrowing has to be limited along the lines that I mentioned. Real property cannot exceed 25 per cent of the assets.

The significant thing in the income tax amendments is, first, the pass-through tax treatment, and secondly, that this treatment would be available to any company that met the criteria established in the income tax amendments.

Therefore, if a company were incorporated under provincial law that met these criteria, it would also qualify for this special type of tax treatment, so the conduit tax treatment proposed in this bill is not confined to federally incorporated companies.

Mr. Chairman, that is a brief summary of the bill. As you mentioned, I draw the attention of the committee to the fact that Mr. Wilson is here from the Central Mortgage and Housing Corporation, Mr. Thompson from the Tax Policy Branch of the Department of Finance, and Mr. Brian Champion from the Capital Markets Division of the Department of Finance. I think that amongst us we should be able to find the answers to any questions the committee might have.

The Acting Chairman: What does the committee desire to do? Would you like to hear Mr. Wilson, Mr. Thompson or Mr. Champion at this time; or is it your preference to attack the bill clause by clause, and then any of these gentlemen who have contributions to make could do so as we do that?

Senator Phillips: Why not have general questions first, Mr. Chairman?

The Acting Chairman: Yes, certainly at this time, after Mr. Humphrys.

Senator Buckwold: Probably we can avoid going through the bill clause by clause, in view of the very serious discussions we have already had. There just may be questions that have to be raised.

The Acting Chairman: All right, that is fine.

Senator Phillips: After all, Senator Stanbury and myself have gone through this, and I cannot see where it would be really necessary that anything more should be said.

The Acting Chairman: They were brilliant, outstanding performances.

Senator Phillips: You are very complimentary, but we had to prod you into that, Mr. Chairman.

The Acting Chairman: It is easy to prod me.

Senator Phillips: I want to ask one question concerning the directors. Are they to be full-time employees of the corporation, or go to an occasional meeting on the basis of a director's fee—or what are the terms of reference?

Mr. Humphrys: On the Federal Mortgage Exchange Corporation?

Senator Phillips: Yes.

Mr. Humphrys: The internal compensation would be set, I think, by the by-laws of the corporation. As long as a majority of the stock is owned by the govern-