*Investment Companies*

The investment company would be barred, also, from lending money to or making investments in another corporation if an officer, a director or a substantial shareholder had a significant interest in that other corporation. A significant interest would be considered to exist if the person concerned owned more than 10 per cent of the capital stock of the other corporation. This provision is intended to prohibit the investment company from lending money or making investments where the persons who make the investment decision, or who may be presumed to influence the investment decision, have a personal interest in the investment. Investments and loans that are not at arm's length have been one of the sources of trouble where companies have got into difficulties. It is not sufficient to rely merely on disclosure of the interest of the officer or director in such cases since the problem is to protect the creditors of the company rather than the shareholders.

Companies would be required to apply for and obtain certificates of registry under the act. A limited period of time is given within which a company must make application for a certificate. After the expiration of this period a company is not permitted to increase its indebtedness unless it holds a valid certificate, so long as it remains an investment company.

Where the superintendent forms the opinion that the financial condition and affairs of an investment company are such that its ability to meet its obligations is in question, he is required to report to the minister. The minister, if he agrees with the views of the superintendent and after giving the company a chance to be heard, then has the option of taking one or more courses of action. These would include specifying a period within which the company is to remedy the matters criticized, the imposition of conditions on the company, the withdrawal of its certificate, a direction that the company cease carrying on the business of investment and a direction to the superintendent to take control of the company's assets.

Control of assets of a company by the superintendent would not mean that the company would be out of business. It would put the superintendent in charge of the assets, but it would be expected that the company would continue to carry on its normal business activities until further consideration could be given as to the next step. The superintendent would not have the power to dispose of any assets or initiate any action. His approval would be required before any disbursement or investment could be made.

[Mr. Gray.]

Where any company has its certificate of registry withdrawn or fails to apply for a certificate of registry within the time provided, the Attorney General would be empowered to apply to a court of competent jurisdiction for a receiving order under the Bankruptcy Act. An appeal would lie from any action by the minister in connection with the imposition of requirements on the company. The appeal would be to the Exchequer Court. The superintendent would be required to make an annual report to the minister on the administration of the act. A list of the companies registered under the act would be published annually in the Canada Gazette.

One special class of companies that would be subject to the act merits particular comment, and I think I should make an additional comment. These are of the class that are usually called sales finance companies. They are defined in the bill as companies having at least 25 per cent of their assets in the form of loans or in the form of purchased conditional sales contracts, accounts receivable, bills of sale, chattel mortgages, bills of exchange, promissory notes or other obligations representing some or all of the sale price of merchandise. Conditional sales contracts issued by a company in connection with sale of its own merchandise would not be considered as investment for purposes of the bill.

As I said, in the case of those sales finance companies that are now under Canadian control a limitation would be placed on the transfer of their shares to non-residents. This limitation is a maximum of 25 per cent of the shares to all non-residents and a maximum of 10 per cent to any one non-resident. This limitation and the terms of the legislation applying it are practically identical with a similar limitation applicable to life insurance companies, trust companies, mortgage loan companies and banks.

At the present time there are operating in Canada a number of sales finance companies that are under foreign control and a number that are under Canadian control. In proposing this legislation the intention is to retain under Canadian control those companies that are now so controlled in order to retain a significant Canadian element in the industry. The proposal would not protect the Canadian-controlled companies from competition but would prevent Canadian-controlled companies from being taken over by non-residents.