

that bank is restricted. I think honourable senators will be aware why I referred to that as the Mercantile section. IAC Limited will be holding more than 25 per cent—to be precise, 100 per cent—of the shares of the bank during the interim period, and therefore exemption from that section is required. It will be clear that the reason for that section being added to the Bank Act is not relevant here.

**Senator Benidickson:** Even though some senators may know something about the word "Mercantile," perhaps there should be an explanatory note in the record as to what it means.

**Mr. Baillie:** It is presumptuous of me to speak to that. Perhaps Mr. Read, the Inspector General, when he is speaking later, will correct anything I say. My understanding is that the section was put in to deal with a very specific situation, of a U.S. financial institution owning initially 100 per cent of the shares of a Canadian bank. As I understand it, an arrangement was worked out and it was decided that the growth rate of the Canadian bank be restricted until the ownership of that U.S. financial institution was brought down to the 25 per cent level. That was the purpose of the section.

**Senator Benidickson:** Do you recall the period of time for that allowance?

**Mr. Baillie:** My understanding is that there was no period of time. The understanding was that as long as over 25 per cent was held by the United States parent, the limitation on growth was in effect. There was no period of time prescribed in which it should drop down to below the 25 per cent level.

**Senator Macnaughton:** So the bank is now qualified, in that it owns about 24 per cent?

**Mr. Baillie:** I cannot speak to that. I believe it is below 25 per cent.

**The Chairman:** Senator Benidickson, I think the wording of 75(2)(g) is that:

at any time after the 31st day of December 1967 or after such later day, not being a day later than the 31st day of December 1972, as may be prescribed—

That is your time limitation period.

**Senator Benidickson:** For this, but—

**The Chairman:** No, not for this. This is an exemption from that provision. This provides an exemption, in that the limitation does not apply to this bank.

**Senator Laird:** At the present time, who are the directors?

**Mr. Baillie:** Perhaps that question could be directed to Mr. Land.

**Mr. Land:** We have Mr. F. M. Covert, Director, Royal Bank of Canada; Mr. J. S. Dewar, Director, Toronto Dominion Bank; Mr. C. F. Harrington, Chairman and Director, Royal Trust; Mr. D. Kinnear, Director, Bank of Montreal; Mr. L. A. Lapointe, Director, Toronto Dominion Bank; Mr. Charles Rathgeb, Director, Royal Bank of Canada; Mr. Renault St. Laurent, Director, Banque Canadienne Nationale; Mr. Thackray, Director, Bank of Montreal; Mr. Yorath, Director, Montreal Trust Company; and Mr. Courtois, Director and Vice-President, Bank of Nova Scotia. We have quite a mixture, senator.

**Senator Laird:** I am not saying anything derogatory about them. I merely felt that it should be on the record.

**The Chairman:** If there are no further questions, please go ahead, Mr. Baillie.

**Mr. Baillie:** Regarding the next provision of clause 7(4), since this is a somewhat complex bill, we will have to refer to other clauses of the bill. The next provision of clause 7(4) requires just a minute of explanation.

The Bank Act contains a requirement for a limitation on the amount of residential mortgages that any chartered bank can acquire. That limitation states, in effect, that for an established chartered bank the maximum amount of residential mortgages it can acquire is equal to 10 per cent of the aggregate of its deposits and its banks debentures.

It goes on to say that for a newly incorporated bank, the bank builds up to that level over a period of eight years. So that if Parliament tomorrow were to incorporate a new bank, that bank could only build up its portfolio of residential mortgages to the 10 per cent level over an eight-year period.

The effect of clause 7(4)(e) is to say that this bank, the Continental Bank, would from day one be allowed to invest up to the 10 per cent limit in residential mortgages. It is relevant to note that other clauses of the bill would permit IAC Limited and certain of its subsidiaries also to have investments in residential mortgages.

That provision has some business overtones. If there are any questions, perhaps they could be directed to Mr. Land.

**The Chairman:** Are there any questions?

**Senator Walker:** Have there been such exemptions as set out in this bill? In other words, are there any precedents for this, in the formation of a bank, to your knowledge?

**Mr. Baillie:** I have no knowledge of any other situation in which an existing financial institution has sought conversion into a bank. It perhaps follows, as a corollary, that I have no knowledge of any situation in which exemptions such as this have occurred.

**Senator Walker:** Is it correct to say that it is only because of that situation, the conversion of IAC to a bank, that these exemptions become necessary?

**Mr. Baillie:** That is our judgment, senator. There are some that have business overtones, but the basis of them is predicated on the fact that we are converting an existing financial institution into a bank.

**Senator Molson:** Mr. Chairman, I want to declare at the outset that I am a director of a chartered bank and, for that reason, I do not intend to vote on this bill. I should also say that I am in favour of further competition in the banking field. I think it is an excellent thing for an organization of such great standing as IAC Limited to enter the banking field because of its background, experience, and organization.

There is one question I should like to ask at this stage, if I may. I am somewhat puzzled as to why the boards of directors of IAC and Continental Bank necessarily have to be identical. For example, why could the board of the Continental Bank not be a selected group of directors—perhaps of IAC personnel, or nominated by IAC? Why must the two boards be identical? That point was made in Mr. Land's evidence, if I am not mistaken, and I am just curious as to the reason for that.