HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: C. A. CATHERS, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

TUESDAY, JANUARY 31, 1961
(Organization Meeting)
and
FRIDAY MARCH 10, 1961

Respecting

Bill S-5—An Act to amend the Canadian and British Insurance Companies Act, and

Bill S-6—An Act to amend the Foreign Insurance Companies Act.

WITNESS:

Hon. D. M. Fleming, Minister of Finance.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

24787-4—1

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: C. A. Cathers, Esq., M.P.

Vice-Chairman: Emilien Morissette, Esq., M.P.

and Messrs.

Aiken
Allmark
Argue
Asselin
Baldwin
Bell (*Carleton*)
Bell (*Saint John-Albert*)
Benidickson
Bigg
Brassard (*Chicoutimi*)
Broome
Campeau
Cardin
Caron
Chevrier
Clermont
Creaghan
Crestohl
Drysdale
Hales
Hanbidge
Hicks
Horner (*Acadia*)
Howard
Jung
Macdonnell
MacLean (*Winnipeg North Centre*)
MacLellan
Macnaughton
Martin (*Essex East*)
McIlraith
McIntosh
More
Morton
Nasserden
Nugent
Pascoe
Pickersgill
Robichaud
Rowe
Rynard
Skoreyko
Smith (*Winnipeg North*)
Southam
Stewart
Stinson
Thomas
Woolliams

Eric H. Jones,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS,
FRIDAY, December 2, 1960.

Resolved,—That the following Members do compose the Standing Committee on Banking and Commerce;

Messrs.

Aiken,
Allmark,
Argue,
Asselin,
Baldwin,
Bell (*Saint John-Albert*),
Benidickson,
Bigg,
Brassard (*Chicoutimi*),
Broome,
Campeau,
Cardin,
Caron,
Cathers,
Chevrier,
Clermont,
Creaghan,
Crestohl,
Drysdale,
Hales,
Hanbidge,
Hicks,
Horner (*Acadia*),
Jung,
Macdonnell
MacLean (*Winnipeg North Centre*),
MacLellan,
Macnaughton,
Martin (*Essex East*),
McIlraith,
McIntosh,
More,
Morissette,
Morton,
Nasserden,
Nugent,
Pascoe,
Pickersgill,
Regier,
Robichaud,
Rowe,
Rynard,
Skoreyko
Slogan,
Smith (*Winnipeg North*),
Southam,
Stewart,
Stinson,
Thomas,
Woolliams—50.

(Quorum 15)

Ordered,—That the said Committee be empowered to examine and inquire into all such matters and things as may be referred to it by the House; and to report from time to time its observations and opinions thereon, with power to send for persons, papers and records.

THURSDAY, January 19, 1961.

Ordered,—That the name of Mr. Bell (*Carleton*) be substituted for that of Mr. Slogan on the Standing Committee on Banking and Commerce.

FRIDAY, February 3, 1961.

Ordered—That the quorum of the Standing Committee on Banking and Commerce be reduced from 20 to 15 Members, and that Standing Order 65 (1)(*d*) be suspended in relation thereto; that the said Committee be empowered to print such papers and evidence as may be ordered by it, and that Standing Order 66 be suspended in relation thereto; and that the said Committee be given leave to sit while the House is sitting.

MONDAY, February 20, 1961.

Ordered—That the name of Mr. Howard be substituted for that of Mr. Argue on the Standing Committee on Banking and Commerce.

24787-4—1½

TUESDAY, March 7, 1961.

Ordered—That the following Bills be referred to the Standing Committee on Banking and Commerce:

Bill S-5, An Act to amend the Canadian and British Insurance Companies Act.

Bill S-6, An Act to amend the Foreign Insurance Companies Act.

WEDNESDAY, March 8, 1961.

Ordered—That the name of Mr. Argue be substituted for that of Mr. Regier on the Standing Committee on Banking and Commerce.

Attest.

LÉON-J. RAYMOND.
Clerk of the House.

REPORTS TO THE HOUSE

WEDNESDAY, February 1, 1961.

The Standing Committee on Banking and Commerce has the honour to present the following as its

FIRST REPORT

Your Committee recommends:

1. That its quorum be reduced from 20 to 15 members and that Standing Order 65 (1) (*d*) be suspended in relation thereto;

2. That it be empowered to print such papers and evidence as may be ordered by the Committee, and that Standing Order 66 be suspended in relation thereto;

3. That it be given leave to sit while the House is sitting.

Respectfully submitted,

M. D. MORTON,
Acting Chairman.

MONDAY, March 13, 1961.

The Standing Committee on Banking and Commerce has the honour to present the following as its

SECOND REPORT

Your Committee recommends that its quorum be reduced from 15 to 10 members and that Standing Order 65 (1) (*d*) be suspended in relation thereto.

Respectfully submitted,

C. A. CATHERS,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, January 31, 1961.

The Standing Committee on Banking and Commerce met at 10.00 a.m. this day for organization purposes.

Members present: Messrs. Aiken, Bell (*Carleton*), Brassard (*Chicoutimi*), Campeau, Chevrier, Drysdale, Hales, Hicks, Macdonnell, McIntosh, Morissette, Morton, Nasserden, Pascoe, Robichaud, Southam, Stewart and Stinson—18.

The Clerk of the Committee attending, on motion of Mr. Campeau, seconded by Mr. Bell (*Carleton*),

Resolved—That Mr. Cathers be Chairman of the Committee.

Mr. Cathers being unavoidably absent, the Clerk of the Committee then called for nominations for an Acting Chairman of this meeting. On motion of Mr. Bell (*Carleton*), seconded by Mr. Drysdale,

Resolved—That Mr. Morton be Acting Chairman of this meeting.

The Clerk of the Committee read the Orders of Reference whereby the Committee had been activated.

On motion of Mr. Nasserden, seconded by Mr. Campeau,

Resolved—That Mr. Morissette be Vice-Chairman of the Committee.

On motion of Mr. Stewart, seconded by Mr. Pascoe,

Resolved—That the Committee seek power to print such papers and evidence as may be ordered by the Committee, and that Standing Order 66 be suspended in relation thereto.

On motion of Mr. Pascoe, seconded by Mr. Hicks,

Resolved—That a recommendation be made to the House to reduce the quorum of the Committee from 15 to 10 members.

On motion of Mr. Stewart, seconded by Mr. Drysdale,

Resolved—That a Subcommittee on Agenda and Procedure, comprising the Chairman and 6 members to be named by him, be appointed.

It was moved by Mr. Drysdale, seconded by Mr. Southam, that the Committee recommend to the House that it be granted leave to sit while the House is sitting.

On division, the said motion was resolved in the affirmative: Yeas, 15; Nays, 2.

At 10.17 a.m. the Committee adjourned to the call of the Chair.

FRIDAY, March 10, 1961.
(2)

The Standing Committee on Banking and Commerce met at 9.30 a.m. this day. The Chairman, Mr. Cathers, presiding.

Members present: Messrs. Aiken, Baldwin, Bell (*Carleton*), Bell (*Saint John-Albert*), Benidickson, Cardin, Caron, Cathers, Chevrier, Drysdale, Jung, More, Morissette, Nasserden, Pascoe, Rowe, Skoreyko, Southam, and Thomas —(19).

In attendance: The Honourable D. M. Fleming, Minister of Finance; Mr. K. R. MacGregor, Superintendent of Insurance; and Mr. R. Humphrys, Assistant Superintendent of Insurance.

The Committee proceeded to consider the following two public bills, namely,

Bill S-5, An Act to amend the Canadian and British Insurance Companies Act.

Bill S-6, An Act to amend the Foreign Insurance Companies Act.

The two said bills had been referred to the Committee by Order of the House of March 7, 1961.

The Chairman called on the Honourable D. M. Fleming, Minister of Finance, to explain the purpose of the two said Bills. He did so, and was questioned thereon.

At 9.45 a.m. Mr. Cathers temporarily vacated the Chair which was assumed by the Vice-Chairman, Mr. Morissette.

Following the conclusion of the Minister's statement Mr. Morissette read a memorandum which the Chairman had prepared to submit to the Committee in regard to the reduction of the quorum of the Committee. The statement explained that, whereas the Committee had resolved, on January 31st, to recommend to the House that its quorum be reduced from 15 to 10 members, unfortunately by a clerical error the Report presented to the House in this matter set out the recommendation as requesting the reduction of the quorum from 20 to 15 members.

The advice of the Clerk of the House was that the matter be regularized by the recording of a new resolution to the same effect as on January 31st, and that, thereafter, a Second Report be made to the House to that effect. Debate ensued thereon.

At 10 a.m. Mr. Cathers re-assumed the Chair.

Following further debate, it was moved by Mr. Pascoe, seconded by Mr. Aiken, that a recommendation be made to the House to reduce the quorum of the Committee from 15 to 10 members.

The said motion was resolved in the affirmative on the following division: Yeas, 12; Nays, 4.

On motion of Mr. Bell (*Carleton*), seconded by Mr. Jung,

Resolved—That, pursuant to its Order of Reference of February 3, 1961 the Committee print 750 copies in English and 250 copies in French of its Minutes of Proceedings and Evidence in relation to its consideration of Bills S-5 and S-6.

The Chairman advised the Committee that it was proposed that further consideration of Bills S-5 and S-6 be given at a meeting of the Committee on

Tuesday, March 21, 1961 when Mr. MacGregor, Superintendent of Insurance, might be heard in explanation of the said bills and, if the Committee so desired, representations might be heard from representatives of the Canadian Life Insurance Officers Association (who had appeared before the Senate Standing Committee on Banking and Commerce in this regard) and of the Trust Companies Association of Canada who had requested that they might be heard if they so desire. The Committee agreed with the proposed date for further consideration of the said two bills and that the said persons then be heard.

The Chairman then raised for the consideration of the Committee as to when it wished to consider Bill S-10, An Act to incorporate Canadian Pioneer Insurance Company, which bill had been referred to the Committee on March 7th. The Chairman proposed that the Committee consider the said bill on Friday, March 17th. This suggested date did not meet with the general approval of the Committee and it was accordingly agreed that the Chairman, in consultation with the Subcommittee on Agenda and Procedure (yet to be named by the Chairman) should decide upon an appropriate date for the consideration of Bill S-10.

The Chairman then named the following members of the Subcommittee of Agenda and Procedure, in addition to himself, namely Messrs. Baldwin, Benidickson, Cardin, Morissette, Morton, and a member, yet to be designated, of the C.C.F.

At 10.15 a.m. the meeting adjourned to the call of the Chair.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

FRIDAY, March 10, 1961.
9.30 a.m.

The CHAIRMAN: Order, gentlemen. Although there are some items of business we should take up initially, I am going to dispense with preliminaries this morning until such time as the minister has made a statement in regard to these two insurance bills, namely Bills S-5 and S-6.

As the minister wishes to leave at ten o'clock, I will call upon him at this time.

Hon. DONALD M. FLEMING (*Minister of Finance*): Thank you very much indeed, Mr. Chairman, both for the opportunity of appearing before the committee and saying a few introductory words about the two bills, and also for your kindness in calling the meeting at this hour. I am sorry to say that since the meeting was called I have had a call elsewhere for ten o'clock. However, these few minutes before ten o'clock will give me time to say all I wish to say. In any event if there are occasions when the committee wishes me to attend later meetings on the bill, of course, I should be more than pleased to come back to such meetings.

I am sure the debate in the house is fresh in the minds of all hon. members, Mr. Chairman, and I do not pretend that I really have anything to say this morning that is new or that was not said in the debate in the house on March 7. My remarks there, in reviewing the bill, are reported at pages 2750 to 2754, and the remainder of the debate runs over to page 2759.

I believe, Mr. Chairman, that the importance of these two bills, namely S-5, to amend the Canadian and British Insurance Companies Act and Bill S-6 to amend the Foreign Insurance Companies Act, is well recognized. They are similar bills in the two respective fields to which these statutes apply.

This is the first really major revision of our insurance legislation since 1950. Of course, with regard to our banking legislation we have a regular decennial revision of all that legislation. This has not yet become the practice in relation to our insurance legislation, although it covers a field of vast importance in the Canadian economy.

Amending bills to these two statutes were introduced in 1951, 1956 and 1957 respectively, but I think it is fair to say that these amendments were for quite particular purposes, and that the present amending bills are the first major revision of these statutes in the past eleven years.

Sometimes it is not as easy as one might wish, Mr. Chairman, to select the principle or, let us say, the policy of bills which cover as wide an area as do bills to revise general and important statutes such as these. But, in a word, if I can seek to define the policy behind these measures, it would embrace these points.

First of all, in this area of the Canadian economy there are changes going on all the time, as there are in other areas of the economy; therefore it is highly desirable that there should be a periodical examination of the legislation, and revisions of it.

Second, in the area of investment there are changes which do, I think, call for some legislative revision of the powers of the companies, and the clauses of these bills relating to the investment powers of the insurance companies are of leading importance.

Then again, in keeping with changes that are going on in this sector of business, there are some types of insurance contracts which hitherto have not been written by federal companies, which this measure would permit federal companies to write. So, we have, in a word, a measure which takes account of changes in the business and changes in the Canadian economy, which insurance is intended to serve.

With respect to the powers of investment, I think one might define the effect of the bills as to give greater freedom and flexibility to the investment powers of insurance companies. This is a field in which are generated tremendous sums of money for Canadian investment. I gave some of the figures when introducing this measure in the house on March 7. The investment policies of the insurance companies are, undoubtedly a factor of very high importance in relation to the whole question of the generation of Canadian capital and its channelling into fruitful sources of investment. We believe that the result of these measures, when adopted, will be to give both greater freedom and greater flexibility to the investment activities of this important insurance business. We think this will mean more investment in equities, and we look to these bills to produce results that will be efficacious in enlarging the amount of capital available for investment in sound Canadian enterprises.

On the side of changes in the type of contracts which insurance companies are permitted to write, I need not enlarge on what I said in the house Tuesday night concerning the proposal to amend the existing legislation so as to open the door to the writing of what are called variable annuities on the part of insurance companies. This, I stress, will be a quite separate type of business for the companies, and the funds related to this business will be segregated from those funds and contracts of the companies—

The CHAIRMAN: Excuse me, Mr. Fleming. I have just received an important call and have to leave. Mr. Morissette, will you take the chair?

Mr. EMILIEN MORISSETTE (*Vice-Chairman*), in the chair.

Mr. FLEMING (*Eglinton*): —from those funds pertaining to the first type, or guaranteed type of benefits that we normally associate with insurance contracts. I enlarged on that subject when introducing the bill last Tuesday.

I think the committee would be interested to know, Mr. Chairman, that I have received a letter this morning from Mr. J. A. Tuck, Q.C., who is the General Counsel of the Canadian Life Insurance Officers Association, and I think it would be his wish that I should communicate the contents of this letter to the committee. It reads:

> Dear Mr. Fleming:
>
> I am sorry that I shall not be in Ottawa tomorrow to hear you speak on the banking and commerce committee. I have been away most of the week and a meeting of the Ontario portable pensions committee was set, in my absence, for tomorrow morning and I think I should attend it. We shall, however, have our representatives at the committee's meeting on March 21st. We are very pleased with the bills to amend the insurance acts.

As the members of the committee are aware, the Canadian life insurance officers association represents most of the companies which will be governed by the terms of this legislation.

I might also add, Mr. Chairman, that Mr. MacGregor, the Superintendent of Insurance, will be available as a witness. He is here this morning and is no stranger to the committee. As you know, Mr. MacGregor, in relation to insurance, has the rank of deputy minister. The insurance department is a separate department. It so happens that the Minister of Finance is traditionally

the ministerial head of the Department of Insurance as well as of finance, but insurance is a quite separate department and has its own permanent head in Mr. MacGregor.

I think, Mr. Chairman, it is quite clear that those who are to be affected by this bill will be in attendance at your meetings, as you may wish, and their co-operation with the committee in its deliberations can certainly be counted upon. As far as I am personally concerned, if at any time there are any matters on which you wish me to be present, I assure you I shall be more than pleased to have the opportunity of coming back to the committee. I might also add that my parliamentary secretary, Mr. Bell, will be in attendance at your meetings.

Mr. CHEVRIER: Before the minister goes may I ask one question? I realize he has to attend a cabinet meeting but I should like him to confirm what I think is the position. I take it that the Superintendent of Insurance has gone over these bills and studied them and I should like to ask is he the one who makes the recommendations to the minister for the amendments of the statute?

Mr. FLEMING (*Eglinton*): Yes; Mr. MacGregor, being the permanent head of the department, is the source of advice to the minister and to the government on changing the act and Mr. MacGregor, of course, is charged with the administration of this legislation and can speak from first-hand experience.

Mr. CHEVRIER: Then I take it that he has given these two bills careful study and examination?

Mr. FLEMING (*Eglinton*): Very careful study. Indeed, it is no secret to say that Mr. MacGregor played a leading part in the drafting of the provisions of the two bills.

Mr. CHEVRIER: That is the answer to my question.

Mr. FLEMING (*Eglinton*): I might also tell you that there were frequent meetings with the representatives of the insurance companies. We have not operated in a vacuum. Some of the changes contained in the two bills have been asked for by the insurance companies themselves and by their association. Others are the result of experience in the department with administration of the present legislation.

Mr. DRYSDALE: The minister has mentioned to us today, as he also did in the house, the lack of systematic review of insurance legislation. I do not want to pin him down but does he have in mind a review every five years or ten years or, perhaps, on an annual basis?

Mr. FLEMING (*Eglinton*): I have nothing specific in mind in this respect but I think that the two bills now before the committee are such as to meet all the needs of revision of this legislation, so far as we can see them at this time. As to the future, if further changes appear necessary from time to time then, if I can speak for those who may be in office when those occasions arise, I am quite sure they will bring forward the required legislation.

Mr. CHEVRIER: I am glad you put it on that basis. You are very diplomatic this morning, Mr. Fleming.

Mr. FLEMING (*Eglinton*): There are times when I have to be!

Mr. BENIDICKSON: Some word was said about meeting again on March 21.

Mr. R. A. BELL (*Parliamentary Secretary to the Minister of Finance*): I think the association made a proposal to that effect, of their intention to appear before the committee meeting.

Mr. BENIDICKSON: Will that be our next meeting and will Mr. MacGregor be our first witness?

Mr. BELL (*Carleton*): I think it was understood that Mr. MacGregor would give evidence of a general type. Mr. Tuck, and others who may attend with him, will also speak.

Mr. BENIDICKSON: I think members of the committee are well aware that there has been a trial run, as far as the public is concerned, through the Senate. They had two fairly lengthy sittings on these bills and I am sure we would all find it very useful to read the evidence given before the Senate committee, before we continue. That evidence is very helpful; I have read it and I think all members of the committee will want to study what has already taken place in the Senate.

Mr. FLEMING (*Eglinton*): The representatives of the Canadian Life Insurance Officers Association appeared before the Senate committee just a month ago. They indicated their support of the bills and also indicated that they had no representations to make in detail. I also know that the chairman had a discussion yesterday with Mr. Tuck, counsel for the association, with a view to ascertaining what plans the association might have for appearance at meetings of this committee. I think that is what led to the reference of March 21. It was a suggestion which, I believe, still has to be approved by the committee. While speaking in the house on March 7, I made reference to the passage in the evidence before the Senate Standing Committee on Banking and Commerce, as to the position taken by the representatives of the Canadian Life Insurance Officers Association.

The names of those who appeared before the Senate committee are set forth at pages 2757 and 2758 of *Hansard*, and the statement of Mr. Tuck is quoted at page 2758, where he said:

> Mr. Chairman, we favour this bill and have no changes to suggest in it.

In the course of the passage of the bill through the Senate, I might say that there were several amendments which were made with my full approval. I was communicated with in regard to them. These were provisions not going to the root of the bill at all, but were changes which became necessary in the light of discussion. The amendments were drafted in the same way that the bill was drafted, that is, by the same draftsman. So I think I can say that the bills in the form in which they have now passed the Senate are—if I may commend them—in the case of both measures very good bills. The bills are broad enough, I think, Mr. Chairman, to allow a very full range of discussion in the committee.

Mr. CHEVRIER: As far as I am concerned, Mr. Minister, you may go to your cabinet meeting.

Mr. FLEMING (*Eglinton*): Thank you. I suppose if I have the permission of the opposition house leader, Mr. Chairman, I do not need much more! I shall be available at any time if the committee wishes me to return and thinks that I can be of any possible use. That may be a rather doubtful expectation. Thank you very much.

The VICE-CHAIRMAN (*Mr. Morissette*): Thank you. I shall now read to you a statement that has been prepared by the chairman:

> A matter has arisen that requires the consideration of the Committee: it is in regard to the reduction of quorum of the Committee which, by Standing Order 65 (1) (*d*) is 15 of its members.
>
> At the organization meeting of the Committee on January 31st, on motion of Mr. Pascoe, seconded by Mr. Hicks, it was resolved that a recommendation be made to the House to reduce the quorum of the Committee from 15 to 10 members. Unfortunately, by a clerical error,

when the Report of the Committee was presented to the House, it set out the recommendation of the Committee that its quorum be reduced from 20 to 15 members. Other matters also were included in that Report to the House. Subsequently that report of the Committee was concurred in by the House. Immediately after the concurrence of the House in the First Report it came to notice that there had been a clerical error in the drafting of the Report, whereby the House was requested to authorize a reduction of the quorum from 20 to 15 whereas it should have read that the quorum be reduced from 15 to 10 members.

I am advised by the Clerk of the House that, assuming that the Committee still wishes to reduce its quorum from 15 to 10 members, it will be necessary for the Committee again so to resolve by carrying a motion to that effect, and thereafter that a Report be made to the House so recommending.

Accordingly I am open to accept the motion that the Committee recommend to the House that its quorum be reduced from 15 members to 10 members. If that is agreeable to the Committee, may I have a motion along the following lines:

Moved by Mr. X.

Seconded by Mr. Y.

That a recommendation be made to the House to reduce the quorum of the Committee from 15 to 10 members.

Mr. PASCOE: I move accordingly.

Mr. AIKEN: I second the motion.

Mr. CHEVRIER: I would be very happy to leave it as it is. I think this is a very good motion, is it not? It looks very much as if providence were with the opposition.

Mr. DRYSDALE: I am glad that somebody is! What happens to the original motion, then?

The VICE-CHAIRMAN (*Mr. Morissette*): It has no effect.

Mr. CARON: It has effect until the change is made.

The VICE-CHAIRMAN (*Mr. Morissette*): Yes, of course. Until it has been changed, the quorum stands at 15, in accordance with the standing order.

Mr. CHEVRIER: Why is it not possible to leave this matter where it is now? I do not mean that in any contentious sense. What I mean is this: why should we take these powers? If we deem them necessary later on in the session,—and that is the position we took in the house—we could ask for them then. It seems to me that until they are really required, they should not be taken, because they may not be required. Certainly I should not think they would be required before the Easter recess.

Mr. DRYSDALE: When we need them, we have not got them.

Mr. CHEVRIER: It is not hard to get them. I am not giving any undertaking, but I think my position would be untenable if, after taking a position on this myself, I would not be willing to cooperate thereafter.

The Vice-Chairman has read the statement. I was merely making the suggestion again that it would seem the committee might give consideration to withholding any action on it until such time as these powers are actually needed. It occurs to us that we should not be sitting while the house is sitting at this time.

The CHAIRMAN: That is not the issue. It is the size of the quorum.

Mr. CHEVRIER: It is the reduction of the quorum, as well.

Mr. SOUTHAM: I was at the inaugural meeting when we set up this committee. I think it is just a matter of mere formality now for us to carry on and make the correction. An oversight has been made, as pointed out by the chairman, and it would be mere formality for us to pass this proposed resolution as it has been outlined by the chairman. Let us do so; then we should get on with the meeting.

Mr. CARON: Is there any special reason for reducing the quorum by that much, from 20 to 10? Last year it was reduced from 20 to 15. That may be the reason that the mistake was made this year.

Mr. BELL (*Carleton*): I think Mr. Caron said the quorum was 15, as it was according to the standing order, and that the reduction is from 15 to 10.

Mr. CARON: It was 20.

The CHAIRMAN: No. That was an error.

Mr. CARON: Oh, that was the error?

Mr. BELL (*Carleton*): The quorum as set by the standing order is 15. The motion as carried by the house was to reduce it to 15 which, in effect, made a nullity of the motion.

Mr. CARON: What is the full membership of this committee?

The CHAIRMAN: Fifty.

Mr. CHEVRIER: I do not want to discuss this and hold up other business of the committee. My view is that I think the quorum should remain as it is.

Mr. DRYSDALE: The motion in the house was to reduce it from 20 to 15.

The CHAIRMAN: Yes.

Mr. DRYSDALE: And you have indicated that it was impossible, since the quorum according to the standing orders was 15, and never 20. So I cannot see how the house could give effect to something which was not in the standing orders. Therefore my contention is that the original motion will stand.

Mr. PASCOE: As the mover of the original motion I would move that the quorum be reduced to 10.

Mr. DRYSDALE: I am interested in the technical situation, if we already have a motion which is ineffective.

The CHAIRMAN: The Clerk of the House has said that the motion is null and void.

Mr. DRYSDALE: On what basis?

The CHAIRMAN: Now, listen!

Mr. DRYSDALE: The house was trying to give effect to a change in the standing orders, because it was a motion to have a quorum of 20 in this committee. But, because it was set forth in the standing orders, I do not see how the house could give effect to that position. Therefore my contention is that the position of the matter before the house was null and void, and that the original motion stands, and that it is merely necessary to take back the original motion.

The CHAIRMAN: The Clerk says we should have a new motion to reduce it from 15 to 10; I mean the Clerk of the House says so.

Mr. AIKEN: It seems ridiculous, if there has been an error in the previous report, that we must report again. But I would second the motion which Mr. Pascoe made, without getting into any contentious matter. I think the original intention of the committee was to reduce it to 10, and not only that, but that recommendation was made and passed. All we are doing now is to correct an error.

Mr. CHEVRIER: I think Mr. Drysdale has a point. I do not want to prolong the discussion, but it seems to me that the proper way in which to rectify the difficulty is for someone to rise in the house and say that there was something done originally which was improperly done and against the rules, and by some sort of motion to annul what was done in the house the other day. Then the motion that was made earlier is brought into effect.

The CHAIRMAN: Well, Mr. Jones, our committee clerk, went to the Clerk of the House about this on my behalf, and this is his recommendation. I am the last one to want to get into a "hassle" concerning the rules of the house.

Mr. BELL (*Carleton*): If the committee wishes to do this, the simple way would be to reduce the quorum to 10 notwithstanding the provisions of the standing order, and notwithstanding the report concurred in by the house on this subject the other day. There would be no conceivable legal objection, if the motion were phrased in that way.

The CHAIRMAN: It has been moved by Mr. Pascoe and seconded by Mr. Aiken that the quorum be reduced from 15 to 10. All those in favour?

The CLERK: 12.

The CHAIRMAN: Contrary, if any?

The CLERK: 4.

The CHAIRMAN: I declare the motion carried.

Then there is one other matter. The house has empowered the committee to print such papers and evidence as it may order. A motion is in order to authorize the printing of bills S-5 and S-6. The normal quantity is 750 in English and 250 in French.

Mr. BELL (*Carleton*): I wonder if I might ask Mr. MacGregor whether there is a special demand for this and whether he thinks those numbers are sufficient.

Mr. K. R. MACGREGOR (*Superintendent of Insurance*): I should think that is a sufficient number. The great demand will arise after the discussion on the bills.

The CHAIRMAN: Will someone make a motion to that effect?

Moved by Mr. Bell (*Carleton*), seconded by Mr. Caron. All those in favour? Carried.

Probably we could leave over until Mr. MacGregor is before the committee further consideration of Bills S-5 and S-6. I don't think he is interested in these preliminaries—although he might be, in this one. I have had one call, and the clerk has had another one—from the Canadian Life Insurance Officers Association who have expressed a wish to come, and suggested the date of Tuesday, March 21, and from Mr. Scott, secretary-treasurer of the Trust Companies Association of Canada, has expressed a wish for them to appear.

Mr. BENIDICKSON: That organization did not appear before the Senate?

The CHAIRMAN: The trust companies association did not, but the Life Insurance Officers Association did.

Mr. CHEVRIER: What was the date fixed for Mr. Tucks' representations?

The CHAIRMAN: A week from next Tuesday, March 21. Is that agreeable?

Agreed.

Now, there is another bill to incorporate, the Canadian Pioneer Insurance Company. We have a suggested date for 9.30 a.m. on Friday, March 17.

Mr. BELL (*Carleton*): That would be an exceedingly awkward date.

Mr. DRYSDALE: How about the following Monday? It would be better.

The CHAIRMAN: I am not sure.

Mr. CHEVRIER: It would be most unchivalrous!

The CHAIRMAN: It will be Tuesday, next week.

Mr. CHEVRIER: Is it too much to take it on the 17th?

The CHAIRMAN: There is a voice of protest.

Mr. DRYSDALE: We could take it before the meeting on March 21. It should not take more than ten or fifteen minutes.

The CHAIRMAN: No, I do not think that is a good idea, because witnesses are coming then on the other bills. We are crowding it too much.

Mr. CHEVRIER: Suppose I make this suggestion, that you, and perhaps one from our side, agree on a date which would be acceptable to the majority of members.

Mr. DRYSDALE: Have we a steering committee?

The CHAIRMAN: No. That is one of the things I wanted to have arranged—a steering committee, to be appointed today.

Mr. CHEVRIER: Perhaps we could appoint Mr. Cardin as a member of the steering committee, and that would facilitate the selection of a date. It is difficult to fix a date when there are a number of engagements that all of us have.

Mr. BENIDICKSON: We never set a date for these things. I do not know why it is necessary. All the committee needs to do is to say ahead of time when they would meet, and we would then all be happy to attend at the call of the Chair.

Mr. MORE: I suggest we leave it to the steering committee.

The CHAIRMAN: Agreed.

At the organizational meeting of the steering committee at which I was not present, when you elected me as your chairman again—and I thank you for that great honour—the motion was made that a standing committee of six members be set up, besides the chairman, so I would suggest that our side appoint three, and the other parties appoint two and one, respectively. Is that satisfactory?

Mr. CHEVRIER: I suggested Mr. Cardin and Mr. Benidickson.

The CHAIRMAN: Mr. Morissette, Mr. Baldwin and Mr. Morton. Is the C.C.F. represented this morning? I see they are not. I can talk to them later.

Mr. MacGregor is here and I would like, if it is the will of the committee, to hear him make a presentation regarding these two bills, S-5 and S-6. It might save some time when the witnesses are here if we were properly informed on what are the details of the bills. Mr. MacGregor could give us the general idea.

Mr. BENIDICKSON: This was not my understanding. I regard Mr. MacGregor as the principal witness in connection with these important bills. I have no objection, now that we are assembled, to having Mr. MacGregor give an introductory statement which will be printed and which perhaps would be of assistance to us before we have Mr. MacGregor before us again. But, certainly, I would expect that, as in the Senate Committee where there were several very long sittings, we would examine Mr. MacGregor at considerable length.

The CHAIRMAN: This would be only a preliminary run.

Mr. BENIDICKSON: I would take it we could get from him an introductory statement, and that there would be no cross-examination following at this sitting.

The CHAIRMAN: That is correct.

Mr. MACGREGOR: I find it rather embarrassing. I came to this meeting with the understanding that a statement by the minister alone would be made.

Mr. BENIDICKSON: That is what I understood.

Mr. MACGREGOR: I had already arranged to attend another meeting at ten-thirty.

Mr. CHEVRIER: That suits me.

The CHAIRMAN: I think, having you here today, Mr. MacGregor—and I said this to the minister when he told me you were coming—that it was rather superfluous, because we would only require you at the meeting to have this preliminary run.

Mr. MACGREGOR: I am sorry if there was a misunderstanding.

Mr. BELL (*Carleton*): Let us set this aside until the 21st.

The CHAIRMAN: I thought, inasmuch as you are here, Mr. MacGregor, that we should hear from you.

Mr. BELL (*Carleton*): Before we adjourn, Mr. Chairman, I am interested in a point of economy. I wonder if all these proceedings should be reproduced in the printed record. Might we not cut the printed record at the end of the minister's speech?

Mr. CHEVRIER: I do not believe so. It would be unusual if you did that. There was a pretty substantial point of procedure by Mr. Drysdale.

Mr. BELL (*Carleton*): What conceivable public interest would there be in having that printed?

Mr. CHEVRIER: In days to come it might be of considerable interest.

The CHAIRMAN: I think we had better have the record.

HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: C. A. CATHERS, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

TUESDAY, MARCH 21, 1961

Respecting

Bill S-5—An Act to amend the Canadian and British Insurance Companies Act, and

Bill S-6—An Act to amend the Foreign Insurance Companies Act.

WITNESSES:

Mr. K. R. MacGregor, Superintendent of Insurance; and *of The Canadian Life Insurance Officers Association:* Messrs. D. E. Kilgour, President; J. T. Bryden, First Vice-President; A. H. Lemmon, Chairman, Subcommittee on Investment Provisions of the Special Committee on Federal Insurance Legislation; and J. A. Tuck, Q.C., General Counsel.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

24789-0—1

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: C. A. Cathers, Esq., M.P.
Vice-Chairman: Emilien Morissette, Esq., M.P.
and Messrs.

Aiken
Allmark
Argue
Asselin
Baldwin
Bell (*Carleton*)
Bell (*Saint John-Albert*)
Benidickson
Bigg
Brassard (*Chicoutimi*)
Broome
Campeau
Cardin
Caron
Chevrier
Clermont
Creaghan
Crestohl
Drysdale
Hales
Hanbidge
Hicks
Horner (*Acadia*)
Howard
Jung
Macdonnell
MacLean (*Winnipeg North Centre*)
MacLellan
Macnaughton
Martin (*Essex East*)
McIlraith
McIntosh
More
Morton
Nasserden
Nugent
Pascoe
Pickersgill
Robichaud
Rowe
Rynard
Skoreyko
Smith (*Winnipeg North*)
Southam
Stewart
Stinson
Thomas
Woolliams—50.

Eric H. Jones,
Clerk of the Committee.

ORDER OF REFERENCE

HOUSE OF COMMONS,

WEDNESDAY, March 15, 1961.

Ordered,—That the quorum of the Standing Committee on Banking and Commerce be reduced from 15 to 10 Members, and that Standing Order 65(1)(*d*) be suspended in relation thereto.

Attest.

LÉON-J. RAYMOND,
Clerk of the House.

24789-0—1½

REPORT TO THE HOUSE

WEDNESDAY, March 22, 1961.

The Standing Committee on Banking and Commerce has the honour to present the following as its.

THIRD REPORT

Your Committee has considered the following bills and has agreed to report them without amendment:

Bill S-5, An Act to amend the Canadian and British Insurance Companies Act; and

Bill S-6, An Act to amend the Foreign Insurance Companies Act.

A copy of the Minutes of Proceedings and Evidence respecting the said Bills is appended.

Respectfully submitted,

C. A. CATHERS,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, March 21, 1961.
(3)

The Standing Committee on Banking and Commerce met at 10.00 a.m. this day, the Chairman, Mr. C. A. Cathers, presiding.

Members present: Messrs. Aiken, Argue, Baldwin, Bell (*Carleton*), Bell (*Saint John-Albert*), Benidickson, Bigg, Cardin, Cathers, Creaghan, Hicks, Howard, MacLellan, More, Morissette, Morton, Nasserden, Nugent, Pascoe, Robichaud, Rynard, Skoreyko, Smith (*Winnipeg North*) and Southam.—(24)

In attendance: Messrs. K. R. MacGregor, Superintendent of Insurance, and R. Humphrys, Assistant Superintendent of Insurance; and *of The Canadian Life Insurance Officers Association:* Messrs. D. E. Kilgour, President (and President, The Great West Life Assurance Company); J. T. Bryden, First Vice-President (and Vice-President and General Manager, North American Life Assurance Company); A. M. Campbell, Chairman, Special Committee on Federal Insurance Legislation (and Executive Vice-President, Sun Life Assurance Company of Canada); A. H. Lemmon, Chairman, Subcommittee on Investment Provisions of the Special Committee on Federal Insurance Legislation (and Vice-President and Treasurer, The Canada Life Assurance Company); and J. A. Tuck, Q.C., General Counsel.

The Committee resumed from March 10th its consideration of the undermentioned two public bills, namely,

Bill S-5, An Act to amend the Canadian and British Insurance Companies Act, and

Bill S-6, An Act to amend the Foreign Insurance Companies Act.

The Chairman introduced the officials of The Canadian Life Insurance Officers Association who were in attendance, as set out above. He then called on Mr. K. R. MacGregor, Superintendent of Insurance, to speak on the two said bills. Mr. MacGregor sketched the history of insurance legislation in Canada and explained the purposes of Bill S-5 and S-6.

Mr. Kilgour spoke briefly on behalf of The Canadian Life Insurance Company, in expressing its support of the said two bills. He was questioned, Mr. Lemmon and Mr. MacGregor speaking in reply to certain of the questions.

On Clause-by-Clause consideration of Bill S-5.

Clause 1 was carried.

On Clause 2

Mr. MacGregor explained the said clause.

At this juncture the Committee agreed that, to permit first consideration being given to certain important clauses, intermediate clauses to stand.

Clauses 2 to 10 inclusive were permitted to stand.

On Clause 11

Mr. MacGregor made an explanation of Clause 11; he and Mr. Kilgour were questioned. Clause 11 was carried.

On Clause 12

Mr. MacGregor made explanation of Clause 12; he and Mr. Lemmon were questioned.

It was agreed that there be printed at this point in the proceedings of this day a letter dated March 17, 1961, to the Honourable Donald M. Fleming, Minister of Finance from Mr. John E. L. Duquet of Duquet, MacKay & Weldon of Montreal, Quebec, General Counsel for Canadair Limited, on behalf of which the said letter was written, in regard to Bills S-5 and S-6.

At 12.05 p.m., the Committee having lost its quorum, it adjourned until Orders of the Day are reached in the House on the afternoon of this day.

AFTERNOON SITTING

TUESDAY, March 21, 1961.
(4)

At 3.30 p.m. the Standing Committee on Banking and Commerce resumed its consideration of Bills S-5 and S-6 from its sitting of the morning of this day, the Chairman, Mr. C. A. Cathers, presiding.

Members present: Messrs. Aiken, Allmark, Baldwin, Bell (*Carleton*), Benidickson, Broome, Cardin, Cathers, Creaghan, Crestohl, Hales, Hicks, Horner (*Acadia*), Macdonnell (*Greenwood*), MacLean (*Winnipeg North Centre*), McIntosh, Morissette, Morton, Nasserden, Nugent, Pascoe, Smith (*Winnipeg North*), Southam and Thomas—(24).

In attendance: The same as at the morning sitting of this day.

On Clause-by-Clause consideration of Bill S-5

The questioning of Mr. MacGregor on Clause 12 was continued. Mr. Kilgour and Mr. Lemmon answered questions which were directed to them.

Further consideration of Clause 12 was permitted to stand.

Clauses 13, 14 and 15 were permitted to stand.

On Clause 16

Mr. MacGregor made explanation: he and Mr. Bryden were questioned. Clause 16 was permitted to stand.

Clauses 2 to 15 inclusive were severally carried. During the consideration of the said clauses, on occasion, Mr. MacGregor made explanation and answered questions.

On Clause 16

There was some debate.

At 5.08 p.m. the Committee having lost its quorum, it recessed until 5.12 p.m. when its quorum was reconstituted.

Continuing on Clause 16

There was further debate on Clause 16. Mr. MacGregor and Mr. Tuck answered questions in relation thereto. Clause 16 was carried.

Clauses 17 to 36 inclusive and the Title were severally carried. The bill was carried without amendment.

Ordered,—That Bill S-5 be reported to the House without amendment.

On Clause-by-Clause consideration of Bill S-6

On Clause 1

Mr. MacGregor explained the purpose of Bill S-6 which he stated was generally similar to Bill S-5.

Clauses 1 to 17 and the Title of Bill S-6 were severally carried. The Bill was carried without amendment.

Ordered,—That Bill S-6 be reported to the House without amendment.

At 5.37 p.m. the Committee adjourned until 9.30 a.m. on Wednesday, March 22, 1961.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

TUESDAY, March 21, 1961,
10.00 a.m.

The CHAIRMAN: Gentlemen, we have a quorum. Today we are here to discuss these two public bills, S-5 and S-6. We are honoured to have with us the representatives of the Canadian Life Insurance Officers Association. Starting on the right I will introduce to you the gentlemen who are present: Mr. J. A. Tuck, Q.C., Counsel of the Association, Mr. D. E. Kilgour, president of the Great West Life Assurance Company and president of the Canadian Life Insurance Officers Association; Mr. J. T. Bryden, Vice-President and General Manager of the North American Life Assurance Company and First Vice-President of the Association; Mr. A. M. Campbell, Executive Vice-President of the Sun Life Assurance Company; and Mr. A. H. Lemmon, Vice-President and Treasurer of the Canada Life Assurance Company. We thank you, gentlemen, for coming here today to take an interest in this bill. I know you will wish to get back to your jobs as quickly as possible.

I will start by calling Mr. MacGregor, the Superintendent of Insurance, to give us a brief picture of what these two bills contain. Mr. MacGregor?

Mr. K. R. MACGREGOR (*Superintendent of Insurance*): Mr. Chairman and honourable members, the minister gave a very comprehensive statement concerning the general purposes of these bills when they were up for second reading. He further elaborated at the meeting of this committee about ten days ago. Consequently I do not think I should waste the time of the committee in attempting to cover any of the ground that he has already covered.

At the same time, however, I think it might be useful, in bringing the present bills and the acts to which they relate into better perspective, if I were to make a few brief comments concerning the background of these bills.

Broadly speaking the business of insurance has been carried on in Canada for well over 150 years. In the early part of the nineteenth century most of the business was conducted by British companies and foreign companies, the latter being mainly United States companies. The Phoenix of London opened the first fire and casualty office in Montreal in 1904, and the Standard Life opened the first life office in 1833. The Canada Life was organized in 1847 and at that time there were also several small fire and casualty organizations in the field, notably the Halifax Insurance Company.

Our federal insurance legislation goes back practically to confederation. The first federal insurance act was passed in 1868, the same year as the Bank Act. Since most of the business transacted in Canada at that time was carried on by companies incorporated out of Canada it is quite natural that the early federal insurance legislation dealt mainly with external companies.

The act of 1868 was relatively brief. It required external companies to obtain a license from the minister and make a nominal deposit with him. That deposit, however, was a purely nominal amount and not related in any way to the volume of liabilities which a British or foreign company might have in Canada. There were many amendments to that act and several new insurance acts were passed between 1868 and the end of the century. The most important of those acts was passed in 1877. It was at that time that the principle of full deposits, so to speak, was made applicable to British and foreign companies carrying on business in Canada.

From that date, namely 1877, British and foreign companies had to cover all of their Canadian liabilities with assets in Canada deposited with their minister; that is, assets to the full extent of their liabilities in Canada. British and foreign companies then in the field which did not wish to comply with that legislation were required to discontinue new business. Several of them did so, more particularly in the life field. The withdrawal of several British and foreign companies from the life field in the latter part of the nineteenth century is, in fact, one of the main reasons why Canadian life companies got the foothold they did in the life field and have carried on the majority of the business ever since.

The next milestone that is worth mentioning occurred in 1906. Allegations had been in the United States that the practices of some of the companies in that country were not of the most salutary nature and in the United States an inquiry was launched into the business of insurance. This was called the Armstrong Investigation of 1905. There were no similar complaints in Canada, but the publicity given the Armstrong Investigation naturally prompted suggestions in this country that there also be a Royal Commission to look into the business of life insurance here. Such a Royal Commission was appointed by the government of Canada in 1906.

The work of the Royal Commission is a matter of public record. Among its recommendations the commission recommended a whole new insurance act. The draft bill put forward by the commission was considered by the government throughout the sessions of 1907, 1908 and 1909, and was finally enacted as the Insurance Act, 1910. That act was assented to on May 4, 1910. This explains the references to May 4, 1910 in some parts of the act still in force today.

There have been several amendments to the Insurance Act since 1910. The legislation was completely rewritten in 1932. The acts in force today are the two acts that were passed in 1932, namely the Canadian and British Insurance Companies Act and the Foreign Insurance Companies Act. As its name implies the Canadian and British Insurance Companies Act applies to Canadian and British companies, and the Foreign Insurance Companies Act applies to foreign companies. It is correct to say that most of the substance of the acts in force today had its roots in the Insurance Act of 1910.

I might say a word now about the main purposes of the two acts that are on the statute books today. Briefly, their purpose is to ensure the solvency of Dominion Insurance companies and to ensure that British and foreign insurance companies operating in Canada maintain adequate assets in Canada under the control of the government to cover all of their liabilities in Canada.

One may ask, how is this accomplished? As might be expected, these two acts follow a middle course between the relative freedom that British companies enjoy in the United Kingdom and the detailed type of legislation found in the United States where almost everything imaginable that companies can and cannot do is spelled out in the insurance legislation there.

Mr. BENIDICKSON: On the whole, is that under state legislation or federal legislation in the United States?

Mr. MACGREGOR: Almost entirely under state legislation, but congress now is taking a more lively interest in the business of insurance than it ever has before.

Under the acts now in force every insurance company incorporated by parliament is required to obtain a certificate of registry from the Minister of Finance before it may commence business. Likewise every British and foreign insurance company that desires to transact business in Canada has to obtain a certificate of registry from the minister under one act or the other, depending on whether it is a British company or a foreign company.

The main purposes of these acts are accomplished by prescribing the investments that Canadian insurance companies may make and, similarly, the kinds of investments that British and foreign companies may deposit with the minister or vest in trust with corporate trustees in Canada for the protection of their Canadian policy holders. That is the first main feature. Coupled with that, of course, is the requirement in the acts of a realistic basis of valuation of assets.

Similarly the acts prescribe the manner in which the companies' insurance liabilities shall be determined. The act, of course, was designed to ensure that the companies carry adequate reserves to cover all of their liabilities in Canada. Another requirement is that life insurance business be carried on completely separate from fire casualty insurance, with separate assets maintained for each broad class.

Every registered company is required to file an annual statement with the department setting forth in detail its financial position. In respect of British and foreign companies they must file not only a statement covering their Canadian business but also a copy of their general business statement, as it is called, covering their operations as a whole in the form in which it is filed in their home jurisdiction. Every registered company also is required to be examined by members of the staff of the Department of Insurance regularly, either at the Canadian head office if it be a Canadian company, or at the Canadian chief agency if it be a British or foreign company.

Another important feature of the legislation, although not used very often, is the power granted to the Superintendent of Insurance to give publicity to any feautures of the business, including correspondence he may have with companies over any matter arising in the administration of the acts. The annual reports of the department cover in detail the operations of all registered companies in Canada, so that ample publicity is given to their operations in this way. On occasion, however, correspondence dealing with special problems is published. This, of course, has a very profound effect.

I might mention, incidentally, that so far as Dominion insurance companies are concerned they cannot be incorporated by letters patent under the Companies Act. If persons desire to incorporate an insurance company, having Dominion status, it must be done by way of a special act of parliament. The situation in that respect is a little different when compared with the banks, namely, that each Dominion insurance company has a special act; but of course each such company likewise is subject to the general provisions of the Canadian and British Insurance Companies Act. On the other hand, the charters of banks are contained in the Bank Act itself.

Perhaps the committee would be interested in the distribution of the companies presently registered with the department. There are 410 Canadian, British and foreign insurance companies presently registered, or at least 410 were registered at the end of 1960. Of these, 124 were Canadian companies, 92 were British companies and 194 were foreign companies. I might say that the British and foreign companies come from places scattered almost around the globe, including England, Scotland, Australia, New Zealand, Hong Kong, India, Ireland or Eire, the United States, Switzerland, France, Denmark, Holland, Germany, Sweden, Norway, Italy and Japan.

Up to this point I have not mentioned provincially incorporated companies. Of course, both the federal government and the provincial governments have insurance legislation. I have mentioned that so far as Dominion legislation is concerned it is directed mainly towards ensuring the solvency of companies. The authority of parliament stems from its jurisdiction over bankruptcy and insolvency, as well as the regulation of trade and commerce and the authority to legislate with regard to immigration and aliens. On the other hand, the

provinces, of course, have jurisdiction over property and civil rights. Consequently, such matters as the form of insurance contracts, including their provisions, are a matter dealt with by provincial legislation. Other local matters, like the licensing of agents, is dealt with also by provincial legislation.

The provinces, of course, have the authority to incorporate companies having provincial objects; and some insurance companies have been incorporated by the provinces. Some of those provincial insurance companies also do business in other provinces, but it is by the grace of the other provinces that they do so.

As between the companies that fall under federal jurisdiction and those that fall within provincial jurisdiction, I might mention that somewhat over 90 per cent of the insurance business in Canada today is carried on by companies with federal registration, and somewhat less than 10 per cent by provincially incorporated companies and Lloyds.

Perhaps the committee might also be interested in the proportion of business in Canada that is carried on by Canadian companies, as compared with the proportion carried on by companies domiciled elsewhere. In the life field, about 68 per cent of the life business in force in Canada is transacted by Canadian companies; and I might add that a few Canadian life companies, mainly small ones, are controlled outside Canada. If one looks at the Canadian life companies that are controlled in Canada it may be said that they do about 63 per cent of the life insurance business in the country.

Mr. BENIDICKSON: What proportion of the 63 per cent are incorporated provincially?

Mr. MACGREGOR: For all practical purposes, Mr. Benidickson, I would say none. There are only four provincially incorporated life insurance companies, two of which are foreign-controlled, and the other two do a very small amount of business compared with the total volume. I am speaking, of course, in reference only to Canadian companies that are federally registered.

On the other hand, in the fire and casualty field, 36 per cent of the business in Canada is carried on by Canadian companies, but only 26 per cent by Canadian companies that are controlled in Canada.

I mentioned earlier that the present acts were enacted in 1932. There have been several amendments to them since that time, but the last major revision was carried out in 1950. Naturally, there are new developments in every field and there have been new developments in the insurance field. New forms of contracts and investments come into being, and inevitably administrative problems arise over the years as the business changes. In the fifteen years following the passage of the acts in 1932 there were, as I have said, a great many amendments to them, most of which, however, related to investments. At that time the only kinds of investments that a Canadian company could make were very specifically spelled out in the acts, and if an investment did not fall within those prescribed it was ineligible. It is not surprising, therefore, that there was a consistent need to amend the acts to keep the investments in harmony with existing conditions as new forms of investment came on the scene.

A new principle was introduced in 1948 which, for the first time, gave companies a small margin within which they might make investments not falling within the regularly prescribed classes, but solely at their own discretion. In 1948 companies were given the power to make investments up to three per cent of their total assets as they might wish. That provision has proved very satisfactory and eliminated the need for amending the acts so frequently to cover new forms of investment. However, 10 years or more having elapsed since the last revision, there has been an increasing need to consider several amendments to these acts. There has never been any particular interval at which they have been looked at in total but, with the precedent of the decennial

revision of the Bank Act, it looks as if something of the same kind of examination may form the pattern in the insurance field. It is, at least, eleven years since they were last reviewed in general.

Mr. BENIDICKSON: In the case of the Bank Act and the fact that it is only reviewed every 10 years, does not that give rise to a tendency to pospone fresh amendments within the 10-year period?

Mr. MACGREGOR: I think, Mr. Benidickson, that probably, it does. In that case, of course, the act has to be revised every 10 years, otherwise the charters of the banks would expire. They are only good for the 10-year period following the previous revision. On the whole, it would probably be correct to say that it does postpone amendments until the next decennial revision.

Turning to the present bills, S-5 and S-6, which are designed to amend the acts now in force, I may say that about two years ago the Canadian Life Insurance Officers Association appointed committees to make suggestions for desirable amendments, and they submitted a brief to the government a little over a year ago, setting forth the amendments they sought. On the other hand, the fire and casualty companies seemed to think that the acts were generally satisfactory as they stood, and they did not make any formal representations whatsoever. I might mention, however, that several provisions in these bills do relate to fire and casualty companies, touching upon matters that the department thought required revision, and I believe that, with minor exceptions, they are completely satisfactory to the fire and casualty companies.

Mr. BENIDICKSON: They have not made any representations to the Senate or made any attempt to communicate with this committee?

The CHAIRMAN: No. I might add that the only correspondence I have had is with the trust companies association and they said they would not be making any representations on these two bills.

Mr. MACGREGOR: In answer to the question put by Mr. Benidickson, it is correct to say that the fire and casualty companies made no representations when the bills were before the Senate, nor did they register any objection with us although, very recently, they have raised a few minor questions concerning the amendments. I think it is fair to say that the amendments now proposed are a compromise between the views of the companies and the views of the department. I should also mention that the department, of course, does receive many suggestions from time to time for amendments to these acts from various sections of the public. We get them from companies and individuals and even from members of parliament, including senators!

I would single out as one of the most important features of the present bills that part or those parts relating to the investment provisions. Of course there are always suggestions being made by some one or other that the investment provisions should be widened in a very substantial way, but, on that point, I think it is important to remember that the funds of an insurance company are essentially trust funds and, while the companies have a responsibility to invest their funds in a manner that has regard for the goods of the economy of the country at large, their primary obligations and responsibilities are to their policyholders. The companies have had a good record in Canada and fortunately financial difficulties have been rare indeed. But, just let one company get into a financial position where it cannot carry out its obligations to its policyholders in full, and then I think many of the suggestions for widening this or that would turn into suggestions for restrictions of all kinds; and that would be undesirable. I mention this point simply to express the view that, in all matters of this kind, it seems better to proceed gradually and make changes in the light of experience, rather than to go too far and regret it later.

There is another point I should like to mention in connection with investments, and it is that the companies have only a limited volume of funds available for investment and, if they invest them in one particular way they cannot invest the same monies a second time. That is to say, if they place funds in mortgages they cannot place the same funds in stocks. If companies, in making mortgage loans, were to make large loans in reference to the value of the property, they would obviously make fewer loans than if they spread the same money around among several relatively smaller loans. It is a matter of judgment, but it seems better to spread the money around among several loans.

I think also it should not be forgotten that we have gone through a very favourable period since the war, as far as investments are concerned; and while everyone hopes that the future will be equally rosy, we may have some testing periods that will not be quite so easy as the period we have gone through during the last 15 years.

It might be confusing if I were to attempt to pick out many clauses in the present bills and deal with them in any detail. It seems to me that detailed discussion could better be accomplished if the clauses were dealt with in turn. However, I would direct the attention of the committee to a very few clauses which I believe are the most important in the bills.

The first one is clause 12 of bill S-5, which is to be found on pages 8 to 12 of that belt, and which deals with the investment powers of Canadian insurance companies. Somewhat the same subject matter is dealt with in clauses 29 to 35 of the same bill, on pages 18 to 21, where the various kinds of investments are set forth which British companies may vest in trust for the protection of their Canadian policy holders. Another important amendment is to be found in clause 11 of bill S-5, on page 7, which clause deals with the requirement that life insurance business shall be carried on quite separately from any other class of business that a life company may transact, notably, personal, accident and sickness insurance.

Another important amendment is found in clause 16 on page 13, which clause deals with the segregation of assets and funds relating to certain kinds of annuities and pension business. In mentioning these clauses I do not want to imply that other clauses are unimportant. They are all important, but I do not think they are of sufficient importance to single them out for special mention at this time. Perhaps, when the bills are being dealt with, clause-by-clause, I might make a few brief comments dealing with each clause as it comes up.

The CHAIRMAN: Thank you very much, Mr. MacGregor, for that historical background and for the information you have given us. Mr. Kilgour, would you like to make a few remarks on behalf of your Association?

Mr. D. E. KILGOUR (*President, The Canadian Life Insurance Officers Association and President, The Great West Life Assurance Company*): With your permission, I think I should like to say a few words.

The CHAIRMAN: Would you just come up on the pedestal. This is Mr. Kilgour, President of The Canadian Life Insurance Officers Association.

Mr. KILGOUR: Mr. Chairman and honourable members, I am glad to have the opportunity of making some comments to your committee. Our association consists of some 93 insurance companies and, as one would expect with that many individual companies in an organization, it is rarely possible to get complete unanimity of opinion, but I am happy to state that the bill, as presented, is one that has our support in that it gives us valuable additional room within which to operate. In fact, I can state categorically that this bill has the support of the life insurance industry as represented by our association.

As Mr. MacGregor pointed out, it very clearly lays down the ground rules under which we must operate. Its broader investment provisions give opportunities to companies to make investments in fields that, up to now, they have been restricted in or prevented from entering, and we think that is a useful contribution.

The new provision which will permit companies to accumulate annuity funds with broader investment powers, may open up a new field for good pension contracts which many employers are very desirous of having.

I would say that basically this industry supports these bills, though I believe I personally would be inclined to disagree with any suggestion that there might not be any further amendments for a period of ten years. That is a long time, in a business which moves as quickly as ours. But, coming on top of the amendments made in recent years, I can say that this is a good bill and one we can thoroughly endorse and commend to the committee.

My association is represented by Mr. Bryden, Mr. Lemmon and Mr. Tuck, who are all here today in order to answer any questions members may wish to put to us.

Mr. BENIDICKSON: With respect to the changes in the investment authority provided by the bill, would Mr. Kilgour indicate the slight differences between the terms of the bill and the recommendations of the insurance industry? Mr. MacGregor said that the bill, on the whole, represents a compromise, and perhaps Mr. Kilgour would say what was suggested in certain instances. Would he tell us what the industry had recommended and what the differences are?

Mr. KILGOUR: Mr. Chairman, I am trying to do it from memory. Perhaps one of my associates will correct me if necessary. The companies felt that it was desirable to have a broadening of the first mortgage privileges, and with financing limited to 60 per cent, in the discretion of the life companies, it should be permitted to go to 66⅔ per cent. Somebody might have said 70 per cent.

Mr. BENIDICKSON: There is no change. Mr. MacGregor indicated that it was your industry which made representations, and subsequently we have a bill. My point would be that the 66⅔ per cent increase meant that there is no difference of opinion with the department there, or at least there is no difference of opinion that the figure in the bill is the figure which was suggested in your brief, in connection with that broad category?

Mr. KILGOUR: I would say there was substantial agreement, yes.

Mr. BENIDICKSON: For instance, with a basket investments, did you recommend a greater percentage of financing?

Mr. KILGOUR: We recommended an increase from three to six, and it is in the bill at five, which is a very narrow difference. We also recommended that mortgages of greater than 60 per cent be permitted within the basket provision. That was one recommendation that the department did not see fit to go along with.

Then there was also a recommendation with respect to the valuation of assets. We urged that there should be an extension of the amortization of bonds. Today we can amortize government bonds and those that have government guarantees. We are not permitted to amortize municipal or corporate securities.

Mr. BENIDICKSON: You have to take the market values?

Mr. KILGOUR: We have to keep our balance sheets at the market value basis. This is something which could be argued on the other side. The department has taken the view of conservatism, for which they have some support even within our industry. That was one point in which we were not completely unanimous.

Is there any other point on the industrial side to which I have not referred?

Mr. LEMMON: We referred to common stocks.

Mr. KILGOUR: Yes. Our suggestion was that common stock might be averaged over three years, because we have fluctuations in the common stock market which can cause considerable variations in the balance sheet, when "commons" are moving up and down quite rapidly; but the view of the department was that we should carry on with the market basis.

Mr. BENIDICKSON: Do you recommend anything other than the figure in the bill with respect to these general restrictions on your real estate assets?

Mr. LEMMON: This has to do with the purchase of real estate and its valuation. The former provision was one half of one per cent.

M. BENIDICKSON: Like shopping centres?

Mr. LEMMON: That is right. The previous figure limited a parcel to one half of one per cent of our ledger assets. But the new provision is for one per cent of our total assets.

Mr. BENIDICKSON: Did you ask for a figure greater than that?

Mr. LEMMON: We proposed one per cent both in the real estate paragraph and in the basket. The department saw fit to support our recommendation, as far as the real estate paragraph was concerned, but they did not see fit to support our representations as far as real estate in the basket was concerned.

The CHAIRMAN: Are there any other questions you would like to ask Mr. Kilgour or these other gentlemen?

Mr. NUGENT: Would you please explain that term "in the basket"?

The CHAIRMAN: I was wondering about that myself.

Mr. LEMMON: May I offer my humble apologies. As Mr. MacGregor has said, in 1948 companies were granted authority to invest a small percentage of their assets in investments not specifically authorized by sections of the act, with a small portion of their assets to be known, colloquially, as "the basket". That is, anything which did not specifically fall under provisions of the act, might be placed in "the basket". But it was at that time limited to three per cent of our assets. It is now proposed to be five per cent.

The term "basket" is a colloquialism in general use in investment fields and throughout industry. That particular section is known as "the basket section".

Mr. BENIDICKSON: In other sections it is stipulated by law that you investments in common stock must be made with respect to companies which have a dividend record over a certain period. But under this basket provision you would be permitted to buy equities of other companies without having regard to their investment record over a period. That is one of the types of investments you could put in the so-called basket?

Mr. LEMMON: That is quite right.

Mr. KILGOUR: As Mr. MacGregor pointed out, it has been a very valuable feature to let companies invest in constructive situations, particularly in new developments where otherwise they might have been denied the right to invest. So it is very, very helpful to have this margin which seems small in terms of percentage, but is not in terms of the industry, and to go into investments which are not specifically stipulated in the act.

Mr. BENIDICKSON: Based on the assets of the companies that are registered under this bill—I am thinking of the Canadian-British companies— what would three per cent of their assets amount to?

The CHAIRMAN: You mean of all companies?

Mr. MACGREGOR: About $270 million. The total assets of Canadian companies are of the order of $9 billion, so that three per cent would be roughly, $270 million, and five per cent would be, roughly, $450 million.

The CHAIRMAN: Thank you. Shall clause 1 carry? I am speaking of bill S-5.

Mr. NUGENT: What would happen to any South African company under this now? Would not a South African company come under this act?

Mr. MACGREGOR: The main need to revise the description of a British company is this. The present wording was enacted in 1932, and it implies that Canada is a Dominion, also that other members of the Commonwealth are likewise Dominions.

The new wording makes it clear that if a company is incorporated in the United Kingdom or under the laws of any other Commonwealth country, or any political subdivision or dependant territory thereof,—that for the purpose of this act it would be regarded as a British company.

For example, India is a member of the Commonwealth. I should say that an Indian company would be a British company within the meaning of this definition.

A company from Eire would not. It would be a foreign company, since Eire is not a member of the Commonwealth.

At the present time, South Africa is a member, but it will apparently soon cease to be a member. It so happens, however that we have no companies from South Africa transacting business in Canada, so the question has not arisen. But if, as appears likely, South Africa withdraws, then if a South African company should apply for registry, we would have to deal with it as a foreign company, the same as a company from Eire.

Mr. BALDWIN: What about this new federation of the West Indies? Would it be included substantially as a territory of the United Kingdom?

Mr. MACGREGOR: Yes, or a company from Hong Kong.

The CHAIRMAN: Shall clause 1 Carry?

Clause 1 agreed to.

On clause 2—

Mr. MACGREGOR: I might mention that clause 2 relates to a rather technical situation. Prior to 1910 the so-called company clauses to which Canadian companies were subject were not included in the Insurance Act. They were included in the old Companies Clauses Act which was later consolidated with the Companies Act. In 1910 company clauses were included in the Insurance Act of that year, but applicable in the main only to companies incorporated after May 4, 1910.

Briefly, the situation is that Canadian companies incorporated prior to 1910 look, for many of the company clauses to which they are subject, to part III of the Companies Act, whereas Canadian companies incorporated since 1910 find their company clauses right in part II of the Canadian and British Insurance Companies Act.

However, over the years, a few sections in part II have been made applicable to Canadian companies, regardless of their date of incorporation. This series of section numbers reflects those sections in part II that are of common application to all Canadian insurance companies.

It is proposed now to add two new sections that will henceforth apply to all Canadian companies regardless of the date of incorporation, namely, section 28 relating to special general meetings, and a new section 45A, relating to the power of companies to borrow money.

Perhaps the need for this amendment can be dealt with later, when the new clause relating to section 45A is under discussion.

The CHAIRMAN: Gentlemen, members of the committee will realize there are a lot of clauses in these bills. I wonder if it might be best, for the witnesses especially, if we took the clauses that Mr. MacGregor mentioned earlier—

the important ones—and any others that you might have questions on, so that you could ask the witnesses now. I am afraid we will not have time to cover the whole bill at one sitting.

If that is agreeable, we might deal with clauses 11, 12 and the others which were mentioned. I am at your discretion, gentlemen, as to which you will want to do. I know that the representatives of the Canadian Life Insurance Officers Association are anxious to get back to their jobs, and I would like to make our proceedings as brief as possible. Do you think that would be satisfactory?

On clause 11—

The CHAIRMAN: Have you any questions on clause 11, which was one that Mr. MacGregor mentioned specifically? Was his explanation of that clause satisfactory?

Mr. MACGREGOR: Would you like me to explain it?

The CHAIRMAN: Yes. Probably it would be better if Mr. MacGregor gave us an explanation of the changes which are made by clause 11.

Mr. MACGREGOR: I mentioned in my earlier remarks that one of the main requirements in the act is that life insurance business must, in the main, be carried on quite separately from fire and casualty insurance business. There is power in section 46 of the Canadian and British Insurance Companies Act for a Canadian life insurance company to transact some other classes of business. No classes are mentioned and the procedure for entering another class is set forth in this section.

In practice, the only other class of business that the life companies have transacted is personal accident and sickness insurance. Under the provisions of section 46 where a Canadian life insurance company desires to carry on personal accident and sickness insurance business it must set up a separate branch, a separate fund with separate assets for that purpose.

The wording of section 46 is very old. In order to set up a separate fund for personal accident and sickness business there is authority to create such a fund by transferring any amount of money that the life company may have to the credit of its shareholders account. It is possible also, in order to create such a fund, to transfer a part of the surplus in the insurance fund. The present wording restricts any transfer from the insurance surplus to 25 per cent thereof, or $100,000 whichever is less.

There are two main difficulties that have developed with reference to this section. First, the wording authorizes transfers of money to this separate accident and sickness fund only to create the fund, and there is no mention of any means whereby further transfers can be made if the accident and sickness insurance fund should need some additional funds to sustain it. In practice shareholders' money has been permited to be used, because shareholders' money—that is, the surplus in the shareholders' account—can obviously be used for any purpose that the shareholders choose. They can use it to pay dividends to themselves. Where a few companies have needed more money in their sickness and accident branch by reason of the development of that line of business, some transfers have been made on occasions, from the shareholders' surplus account to the accident and sickness branch. However, there is no such avenue open to mutual companies, inasmuch as they have no shareholders' surplus account, and of course several of our stock life insurance companies are now in the process of mutualization and they will be faced with a similar difficulty.

Moreover, this section and the amounts mentioned in it are now really out of date, having regard to the very large volume of sickness and accident business that is transacted by the life companies. For example, if a large

life insurance company, not now being in the sickness and accident field, wished to enter such field, it would be quite unjustifiable to permit it to do so with a nest egg, so to speak, of only $100,000; it should have far more than that.

There is one point upon which the views of the companies have differed somewhat from the views of the department. In the United States life insurance companies are not required to carry on sickness and accident business in a separate fund with separate assets. They do, of course, maintain separate accounts, but there is no segregation of assets required. We have had the latter requirement in Canada from the outset and we, in the department, have thought that, overall, it is a good principle to adhere to. Nevertheless, we do recognize that the amounts mentioned in this section as being available to create an accident and sickness fund should be enlarged and secondly that there ought to be some means whereby some further transfers within limits might be made in order to sustain the sickness and accident fund.

The present amendments in clause 11, are again a compromise between the companies' views and the views of the department. The amendments would retain the present limit of 25 per cent of insurance surplus, or $100,000, whichever is less, for small companies; but for larger companies the limit would be raised to 10 per cent of the company's surplus. That is to say, for all life companies having a surplus of $1 million or less, the present limits remain unchanged. For companies having a surplus of $1 million or more, the aggregate limit would be 10 per cent of the surplus in the life fund, and that will govern the aggregate that may at any time—together with all previous transfer—be transferred from the insurance surplus of the life fund to the accident and sickness branch. However, it is also proposed to permit transfers not merely to create such a fund, but in order to sustain it. I believe that it retains the desirable principle of the segregation of funds as between life business and other business and will provide adequate funds to start an accident and sickness branch if a company wishes to do so, or to maintain one. Most Canadian life companies are now transacting accident and sickness insurance, but there are some companies that have not entered this field.

Mr. NUGENT: I wonder if Mr. MacGregor could tell us why it is desirable to segregate so strictly these two funds?

Mr. MACGREGOR: First of all, the general desirability of keeping life funds separate from funds relating to other classes of business stems from the very nature of life insurance business itself. Life insurance contracts are long-term contracts, where the obligations may not be payable until years in the future. From that point of view it is certainly desirable to ensure the safety of those funds so that they will be available beyond all peradventure, when they are required to be paid, perhaps many years hence. The life insurance business, as compared with many forms of general insurance business, is much more stable; it is not subject to the catastrophic hazards that fire insurance, for example, is subject to.

Mr. NUGENT: That is as compared with accident and sickness insurance?

Mr. MACGREGOR: It is a matter of degree. It is hardly likely that companies would have to face the same sort of catastrophe in the sickness and accident field that they may have to face in the fire insurance field.

Mr. BENIDICKSON: But there may be an epidemic.

Mr. MACGREGOR: There is that possibility. However, there are other considerations as well. In the last fifteen years or, broadly speaking, since the war, there have been enormous strides in the development of personal accident and sickness insurance, in the manner in which it is conducted, and in the

nature of the organizations that offer it. There has been intense competition in that field, and, by and large, it has not been a very profitable field in recent years.

In the earlier days, especially after the war it was a profitable field for some companies that were transacting it on an individual contract basis. However, the great bulk of accident sickness business is now conducted on the group plan. Competition is very keen. It is our feeling that it is better to adhere to the same general principle of keeping the life funds separate from all other forms in order to insure that the life funds, which are primarily held for paying long-term obligations, will not be used in any form along the way to subsidize other classes of insurance.

Mr. NUGENT: Have the insurance companies, to some extent at least, represented that they do not see in a greater flexibility of mixing these funds any real hazard, and thereby creating any real possibility of depleting unduly the life insurance fund?

Mr. MACGREGOR: If the accident and sickness business proved unsatisfactory, some remedial steps would have to be taken. The premiums or the form of coverage would have to be changed.

Mr. NUGENT: I am trying to find out the difference of opinion. You indicated there had been some representation by them for greater leeway in this respect. I was wondering if it was based on that, that they are not quite as conservative in their ideas on how great a danger there is to the depletion of the life funds.

Mr. MACGREGOR: I think the companies are thoroughly familiar with the problems inherent in the business, and I think that they feel that any necessary remedial steps would be taken promptly. We prefer to ensure that the business is kept entirely separate along the way, and that it will pay its own way.

Mr. NUGENT: Perhaps Mr. Kilgour would like to say a word on how the insurance companies feel.

Mr. KILGOUR: Mr. Chairman, our view was that the actual segregation of the funds was perhaps an unnecessary provision. We were required to keep complete segregation of assets. We had to buy a particular security and almost keep it as a complete separate entity—as a complete separation of accounts which, in the judgment of some of us, is an unnecessary operation. We are going to have to pay our claims, and the money is going to have to be found. On the other hand, in connection with Mr. MacGregor's view on the segregation of accounts, there is a limitation in the bill that says how much money you can transfer from your surplus to the accident and health account. It produces a roadblock and by the time you get to that stage, you have to do something. Certainly you have to talk to Mr. MacGregor. If a company has the unfortunate experience of losing the amount which is stipulated in the bill that they could transfer from surplus, then they have a problem. In any event, most of us hold the view that the companies must meet their problems. I suggest that the provision in the act is not one that is required for the administration of the companies' accident and health business, and that it would be more practical for some companies to have a separation of accounts so that everyone could see the results; but not this segregation of funds, as required by the act. On the other hand, Mr. MacGregor stated that he prefers to see that check imposed.

I think that represents a fair statement of the difference of opinion. Some companies feel that we might just as well have it all in one fund which shows at all times the condition of our business. It is our feeling that this separate

fund is not required but, on the other hand, Mr. MacGregor has stated clearly that he thinks it is a worthwhile provision from the standpoint of his responsibility. I think that is a fair statement of the difference of opinion.

Mr. NUGENT: I have several additional points to make. One concerns the control or supervision. If they are completely integrated, would it be impossible for the department to properly supervise? Also, in view of the fact that this field is expanding, is there a possibility that there is not sufficient experience in judging risks to the extent that you can with ordinary life insurance?

Mr. KILGOUR: I think our experience in this particular field is getting pretty broad, and that probably we would be well able to cope with predicting the result in that field, as well as in others.

I must say that this bill is a great improvement. It does permit companies to transfer these important amounts. I might say that, while there has been that difference of opinion, this bill is a great improvement over the requirements in the former bill which had become too rigid in relation to the present size of the business.

Mr. NUGENT: You do not care to comment on the question of integration and in connection with the extra difficulties of supervision?

Mr. KILGOUR: I think I should defer the problem of supervision to Mr. MacGregor.

The CHAIRMAN: Mr. Creaghan, you had your hand up. Would you proceed?

Mr. CREAGHAN: My question refers to paragraph 12.

Mr. BENIDICKSON: Mr. Chairman, I would be pleased if Mr. MacGregor would say a little more on this point. I do recall that he perhaps did explain it a little more fully to the Senate committee. I know he is being careful, in connection with the economy of our time, and so on. However, in the Banking and Commerce Committee before the Senate, in connection with this separation of the two funds, Mr. MacGregor said:

> I think the main advantage in keeping that kind of business in a separate fund is to ensure that if corrective steps are necessary to keep that business selfsustaining, they will be taken perhaps a little more promptly.

The CHAIRMAN: To what page are you referring?

Mr. BENIDICKSON: Page 20 of the Senate printed proceedings of their Banking and Commerce Committee.

Then, in connection with this point, there was an interesting explanation given by Mr. MacGregor, at page 16 of those proceedings, where he pointed out that if a company sets up a sickness and accident branch, then that branch is subject to the same rules under the Insurance Act as applied to fire and casualty companies. In other words, there must be maintained at all times, in respect of that branch, an excess of assets over liabilities to the extent of 15 per cent of the total liabilities.

I take it that when you put the two statements together, Mr. MacGregor feels that, with a separate fund, examined separately by him, he will be able to carry out his responsibility a little more promptly in assuring that there is this surplus of assets over liabilities, and that he would be in a position to report more promptly to Treasury Board, as it is his duty to do, if that margin is not maintained.

Mr. MACGREGOR: You have described the situation very well.

Mr. BENIDICKSON: Well, it is your language which I am using.

Mr. MACGREGOR: I do believe that retention of this requirement of separate funds does ensure more prompt action. I say that because fire and casualty business, generally, being subject to wide fluctuations in experience, is required

to be conducted in a manner that will ensure a reasonably adequate surplus at all times—a more substantial surplus than is required of life companies. The accident and sickness business of life companies is subject to all the rules in the act in respect of fire and casualty business generally. One of these rules is the one to which Mr. Benidickson has referred, which is found in section 103 of the act. In effect, it says that there must be maintained at all times, in respect of fire and casualty business, a surplus of assets over liabilities to the extent of at least 15 per cent of the liabilities. If the surplus ever falls below that 15 per cent margin, the Superintendent is bound by the act to make an immediate report to Treasury Board and they, in turn, are required to fix a time within which the company shall remove the deficiency. In the event of the company's failure to remove a deficiency—and deficiency here means a deficiency in the amount of the surplus, not a deficiency of assets under liabilities—the certificate of registry of the company must be withdrawn, and technically, the company is subject to winding up. So, the situation is a very serious one, normally if accident and sickness business, or any other kind of fire and casualty business is carried on, remedial steps have to be taken promptly, and I believe they would be taken more promptly under the present set-up than if the business were merged in one fund.

Mr. NUGENT: Do you find the same fluctuation in the sickness and accident field as in the life field.

Mr. MACGREGOR: I think experience has proved that this requirement has served a good purpose. The principle was good and, of all times, I do not think the present is the time to abandon it.

Mr. NUGENT: The reason for my question is because two or three times you have stressed the extreme fluctuation of fire and casualty, and I have been trying to relate the sickness and accident with the life insurance business, as they are commonly found. Whenever I ask a question in connection with the fluctuation of sickness and accident, is there any reason why you refer to fire and casualty? Is it a fact that sickness and accident would not be subject to such great changes as fire and casualty?

Mr. MACGREGOR: Yes, broadly speaking. However, it is subject to greater fluctuations than their life business and there are serious hazards under non-cancellable accident and sickness policies. In addition, I would say that I do not think any authorities the world over would subscribe to the idea of merging fire and casualty business generally with life business, and having it in the same fund.

Mr. NUGENT: Sickness and accident—

Mr. MACGREGOR: In Great Britain and some other countries it is true that some companies carry on all lines of isurance—life, fire, casualty, marine and so on—and they maintain separate funds for many classes; but I know of no country where life business is merged or mixed up with general insurance business.

The CHAIRMAN: Particularly with health and accident!

Mr. MACGREGOR: Even with that, except in the United States.

In Great Britain, sickness and accident business is carried on in a separate fund—usually an accident and general fund. In the United States it is permitted to be carried in the life fund. However, the trend today, whether they be life companies or general insurance companies, is for companies to get into other lines; that is for general insurance companies to enter the life field; and while the life companies have not shown any great disposition, up to date, to get into the general field, there may be a tendency in that direction, not because of any attraction of profits in the general insurance field, because that

business, by and large, has not been profitable in recent years, but to defend themselves in order to maintain their agency organization.

If general insurance companies get into the life field to an increasing degree, as they are now, the point I am making is that at this particular juncture there is a tendency for one kind of company to get into other lines, and really it remains to be seen whether and to what extent life insurance companies may get into other lines of general insurance. If they do, I think it is essential that the life business be kept separate and that it be administered in separate funds from all other general lines. We have a separation now between life on the one hand, and personal accident and sickness on the other; and if by chance life insurance companies, in years to come, do get into other lines, they will have to set up separate funds if not a separate company for that purpose. I would think it preferable to continue to keep the personal accident and sickness business in a separate fund, or funds, rather than to consider merging it now with the life business, when there seems to be no compelling reason for abandoning the principle we have had for quite a long time.

Mr. NUGENT: There is a tendency by life companies to go into sickness and accident, rather than into fire and casualty.

Mr. MACGREGOR: That has been the first manifestation.

Mr. NUGENT: Is it true that fire and casualty will fluctuate more widely than sickness and accident? The way I see it is that, we have three separate categories of insurance: there is life, sickness and accident, fire and casualty. These are three broad divisions, and each one is a little different. It was my thought that sickness and accident would be more related to the life insurance business because of the personal type of insurance and, perhaps, because the fluctuations are more nearly the same between those two categories than they are as between life and fire and casualty. That is the reason why I was asking you to deal with the question of the same company doing both life and sickness and accident.

Mr. MACGREGOR: I think you are right in your statement that personal accident insurance is obviously closely related to insurance of the person and, therefore, has some common characteristics with life insurance in that respect. However, one can find all degrees of hazards throughout the casualty field, and I do not think the personal aspect of personal accident and sickness insurance can be pushed too far, because there are quite a few other lines of casualty insurance that have a strong personal element as well. Although automobile insurance is not insurance of a person, most persons have automobile insurance, and fire insurance on their dwellings. All of these things have a personal tinge as distinct from a commercial insurance.

Clause 11 agreed to.

On clause 12.

The CHAIRMAN: From a quick look at clause 12, are there any questions that you would like to ask? Perhaps you would rather have Mr. MacGregor specifically outline the suggested amendments.

Mr. MACLELLAN: Mr. Chairman, if we could have Mr. MacGregor explain the effect of the amendment, it would be very beneficial to us.

Mr. MACGREGOR: Mr. Chairman, clause 12 is quite long. It relates to section 63 of the Canadian and British Insurance Companies Act which, as I mentioned earlier, sets forth the investment powers of Canadian insurance companies, whether they be life companies, fire or casualty companies.

In running down the various subclauses, in turn, subclause 1, on page 8, is merely designed to rectify a small technical point. The present wording in the act made it appear that if a company wished to carry on business in a colony, dependency, territory or possession of another country, it had to be doing business not only in that colony, but also in the country to which it related. That was not the intention, and this amendment is designed to clarify that point.

Subclause (2), beginning about line 16, again is intended simply to clarify a small point. In several subsections or paragraphs the words "elsewhere where" are used in the act at present, and difficulty has arisen as to the proper interpretation of these words.

Generally speaking, the places where these words are found describe a situation where a company may invest not only in Canada "but elsewhere where" it is carrying on business. This involved many uncertainties as to how far these words extended. For example, if a company were doing business in New York City, do they mean that it could only invest in securities of New York City, or does it include New York State, or any other state in the United States? Consequently, the new words proposed are "in any country in which the company is carrying on business", instead of "elsewhere where". Really, it is a small technical point.

Subclause (3), beginning at line 28, is of a little more importance. It relates to mortgage bonds or bonds secured by real estate, plant and equipment or other collateral of the usual eligible kinds. Two changes are proposed here. The first is to enable companies to arrange what are called "direct placements"; that is, between the issuing corporation and the insurance company, rather than through the intervention of a trustee. Many of the large cases are arranged in that way, and have been so arranged, in the United States, for many years.

The second change is to recognize that in some cases a trustee may hold cash balances in addition to other collateral as security for bonds, but the cash has to be held by the trustee.

At the beginning of page 9, paragraph (i) relates to so-called equipment trust certificates. At the present time, the companies are authorized to purchase certificates relating to railway companies incorporated either in the United States or in Canada—and the proposal now is to extend the authority to enable them to buy equipment trust certificates issued to finance not only railway transportation equipment, but transportation equipment used on public highways. Primarily, it concerns buses.

The CHAIRMAN: What about aircraft?

Mr. MACGREGOR: No; not aircraft. It refers to transportation equipment used on the public highways. There has been a long experience with the latter type of certificate in the United States. It has proven to be equally good as compared with railway equipment certificates, and there seems to be no reason why they should not be recognized as an eligible class at this time.

Mr. CREAGHAN: Is transportation equipment defined in the existing act?

Mr. MACGREGOR: In the Insurance Act?

Mr. GREAGHAN: Yes.

Mr. MACGREGOR: No, it is not.

Mr. GREAGHAN: Before you go on, would you elaborate on what you feel that the words "transportation equipment" cover?

Mr. MACGREGOR: Primarily trucks and buses used on the public highways. However, I might say that there is an uncertainty in so far as street railways are concerned. They used to be primarily electric railways, but they have tended toward buses and may subsequently run buses exclusively. It is difficult

to say, under the present wording of the act, whether a street railway company is a railway company within the meaning or intention of that section. The proposed amendment eliminates that difficulty.

Mr. CREAGHAN: I am thinking of these large ready-mix cement units, for example, or a fleet of motorcars owned by these automobile fleet companies, large bus companies, municipal bus companies? Do you think they were all covered?

Mr. MACGREGOR: No, I would not think they are all covered. The latter would certainly be, but maybe not the cement mixers.

Mr. CREAGHAN: Why not cement mixers? It is certainly transportation equipment? It is "ready-mix on the move."

Mr. MACGREGOR: I would say that transportation was intended too.

Mr. CREAGHAN: You are transporting cement. Perhaps you are thinking of the common carriers rather than of the commercial field.

Mr. MACLELLAN: Why should it not apply, let us say, to any laundry truck?

Mr. CREAGHAN: Or to a Tilden-Rent-Car?

Mr. MACGREGOR: I would modify my comment. I think they would all be included, because it is transportation equipment.

Mr. BENIDICKSON: We are concerned here with very narrowly restricting the opportunities of the board of directors in using its judgement and experience in investments. For instance, in connection with real estate, we say that a loan cannot be made beyond 66⅔ per cent of the appraised value of the real estate. Have we any restriction here as to the term of a loan on equipment which depreciates very rapidly, and as to matters of that kind?

Mr. MACGREGOR: No, but, as a matter of fact, the practice in regard to certificates of that kind has followed a pretty well established pattern under the so-called "Philadelphia Plan", which is ages old, of course. In financing railway equipment certificates, they usually require the financing to be completed over a period of 15 years and, in the case of buses and trucks, the period is usually six years. In both cases a substantial down-payment is always required.

In the railway field, the down payment has, on the average, been about 20 per cent. It is a bit smaller in the bus field. I think it is usually of the order of 15 per cent. But these are certificates that are backed, like mortgage bonds, by physical and tangible assets which can readily be sold, if need be, if the financing is not carried through to completion. So it is not like an unsecured debenture, or anything of that kind. The assets are there in a very tangible form.

Mr. BENIDICKSON: The assets are there, but there is nothing to say actually what range of percentage of loan to real worth there is, and whether the loan on the bus is going to be for 10 years—when it would probably have little commercial value at the end of five years. It seems to me that when you say it is usual to have a term of 15 years, we are so restricted when it comes to investment in common stock, where there must be a dividend record for so many years, and in real estate, where we say that they cannot make a loan beyond 66⅔ per cent—it seems to me that this has been unwise. I wonder if it is desirable to have such a restriction which should be laid down definitely in this type of legislation.

Mr. CREAGHAN: Except that in this case it is a company which is involved in the case of a loan certificate, and it is in fact the company which is the real borrower. Is that a proper interpretation?

Mr. MACGREGOR: It is like a mortgage bond in a sense. By custom they have evolved along a particular line, and this method of financing has followed a very definite pattern, a well understood and recognized pattern amongst institutional investors, such as insurance companies. It is true that it is not stated specifically as to the proportion, or the amount or relationship which must exist between the value of the equipment and the amount of these certificates.

Mr. BENIDICKSON: Do you say in practice that in the United States insurance companies will loan up to 85 per cent—that is to say, they will require only a 15 per cent cash equity on the part of the borrower in connection with highway equipment?

Mr. MACGREGOR: Generally, yes, in connection with A-1 transportation, and inter-urban bus companies. The minimum requirement is 15 per cent down in cash at the start, and usually they will be repaid over six years. That is a fairly short period.

Mr. BENIDICKSON: But when we purchase a piece of automotive equipment, and sell it the next day, it becomes 25 per cent less valuable.

Mr. MACGREGOR: That is true with respect to depreciation, if they have to be sold in the second year. But in the case of a bus company, no company would normally be selling its buses or trucks in the second year, because they are essential to its business.

Mr. SOUTHAM: You referred to railways, and we know the changes in trend in public transportation. Now we are thinking in terms of buses and of large trucking companies. Somebody made reference to airways. What would C.P.A. do in connection with such certificates?

Mr. MACGREGOR: The possibility of including aircraft as another form of certificate was considered, but was set aside. The history of certificates secured by aircraft is very much shorter, and there has been no volume of experience to show their relative value. Furthermore, from the very nature of the security, there is far greater uncertainty of the hazards inherent in aircraft than would be the case with buses, trucks, and so on. They must, of course be fully insured, but the hazards are obviously so much greater, and the experience so short that I think it would be undesirable to recognize them as safe and sound certificates in all circumstances.

Mr. BENIDICKSON: A few years ago we amended the Industrial Development Bank Act to make aircraft eligible for loans under that statute, recognizing that, perhaps, normally sources of funds were not available to that industry.

Mr. MACGREGOR: In prescribing new classes, it has been the policy in the past to add only clauses that have proved themselves in the light of experience to be safe and sound. On the other hand, the main purpose of the so-called basket clause is to enable companies, if they wish, to make some other investments that they regard as completely safe but which do not fall within the statutory classes. If they are satisfied as to their soundness, companies may purchase equipment trust certificates backed by aircraft, but they would come under the "basket clause".

The CHAIRMAN: I said earlier that we had correspondence only from the trust company organization. But I have a copy of a letter here which is addressed to the Minister of Finance. It is from Messrs. Duquet, MacKay & Weldon of Montreal, Quebec. They are general counsel for Canadair Limited.

This letter contains a long brief which I was going to propose be incorporated in the proceedings, or read at a later date. I have not read right through this brief, because it has just reached me. I believe it probably covers the point we are discussing now. Therefore, I ask the pleasure of the

committee in regard to printing this brief in our proceedings, or shall we leave it until we see how we get along, when we might have it read to the committee at a later date? What is your wish?

Mr. MACLELLAN: I think we should incorporate it now, so we may have a chance to see it before the next meeting.

The CHAIRMAN: All right, fine!

(Note: The said brief is as follows.)

DUQUET, MACKAY & WELDON

Montreal, Quebec,
March 17th, 1961.

Urgent

The Honourable Donald M. Fleming, P.C., Q.C., M.P.,
Minister of Finance
Government of Canada
House of Commons
Ottawa

Re: Bills S-5 and S-6

Dear Mr. Minister:

We act as General Counsel for Canadair Limited and, whilst this letter is written on its behalf, the ideas suggested are equally valid for all other Canadian manufacturers who are in like circumstances or who sell for export, such as Montreal Locomotive Works, Limited in respect of diesel locomotives.

Canadair is presently endeavouring to develop a market for commercial aircraft manufactured in Canada and particularly for a four-engine freighter, known as the CL-44D-4, and a two-engine passenger transport, known as the CL-540.

Sales of these aircraft, in each case, involve substantial amounts of money. To meet intensive competition, as well as the financial requirements of the purchasers, such sales can only be made on the instalment plan with payments over a period of years. They must, therefore, be financed.

These sales may fall into three categories:— 1) those made to operators outside of Canada which are 85% insured by the Export Credits Insurance Corporation; 2) those made to operators outside of Canada which are 100% guaranteed by the Export Credits Insurance Corporation; and 3) those made to domestic operators which are neither insured nor guaranteed.

In each case, the security provided may consist of an equipment trust arrangement, through the use of a trustee to hold title and the issue of equipment trust certificates by the trustee of Canadair, or may consist of the issue of notes by the operator to Canadair with title remaining vested in Canadair until complete payment.

It is essential, if the programme is to become successful and employment at Canadair to be protected, that all avenues of financing be open to the company. Banks cannot grant long-term financing and the new banking corporation which has recently been formed may not be in a position to absorb from a single customer the large amounts involved and, in any event, would not do so without insisting on a right of recourse against Canadair which would materially affect the credit of the company.

The securities must, therefore, be made readily saleable to the public. Potential buyers of large amounts are the insurance companies, pension trusts, investment companies and like organizations. Failing them, no large issue can be successful.

At the present time, such securities are not specifically described in the Canadian and British Insurance Companies Act or in the Foreign Insurance Companies Act as being investments in which insurance companies may invest. Moreover, since many pension trusts, investment companies and other like organizations use the provisions of the insurance Acts as a yardstick, this avenue is also closed.

Under these circumstances, we strongly recommend that Bills S-5 and S-6 be amended so as to include provisions specifically permitting insurance companies to invest in:—

(*a*) the bonds, debentures, stocks or other evidences of indebtedness of or guaranteed by the Government of Canada or insured to the extent of at least 85% or guaranteed by the Export Credits Insurance Corporation of Canada (see Section 63(1)(*a*) of the Canadian and British Insurance Companies Act and Section 12(1) of Bill S-5 and relevant Sections of Bill S-6);

(*b*) obligations or certificates issued by a trustee to finance the purchase of transportation equipment for a corporation incorporated in Canada or the United States of America to be used on railways, public highways or airways...

(see new paragraph (i) of section 63 of the Canadian and British Insurance Companies Act as contained in Section 12, Paragraph 3 of Bill S-5 and see also new Paragraph (i) of Section 1 of Schedule 1 of the Foreign Insurance Companies Act as contained in Section 9(1) of Bill S-6.)

The portions underlined in the foregoing Subparagraphs (*a*) and (*b*) express the changes which we recommend.

It is true that the Canadian and British Insurance Companies Act already provides in Section 63(4) for certain broad powers of investment, subject to a limitation of 5% "of the book value of the total assets of the company" and that these powers could be used by an insurance company to purchase the securities in question. The practical fact, however, is that they would not be so used to any large extent and that the lack of a specific provision containing authority to invest in the type of securities in question affects the market ability thereof, both to the insurance companies, as well as to other potential investors.

It is not possible to deal with the matter here as extensively as its importance would merit and I would be pleased to discuss it with you further at your convenience.

In the meantime, however, I hasten to submit the foregoing suggestions to you so that you may be in a position to place them before the Standing Committee on Banking and Commerce which I understand, will meet to discuss Bills S-5 and S-6 on Tuesday, March 21st.

Since the persons mentioned below are also interested, I am taking the liberty of sending a copy of this letter to them.

Yours sincerely,

(signed) John E. L. Duquet

cc: The Honourable George H. Hees, P.C., M.P.,
Minister of Trade and Commerce.
The Honourable Raymond J. M. O'Hurley,
Minister of Defence Production.
Mr. Kenneth W. Taylor, C.B.E., M.A.,
Deputy Minister of Finance.
Mr. K. R. MacGregor,
Superintendant of Insurance, Department of Finance.
Mr. C. A. Cathers, M.P.,
Chairman of the Standing Committee on Banking and Commerce.

Mr. MACLELLAN: Was this paragraph (i) an amendment suggested at the request of the insurance companies?

Mr. MACGREGOR: Yes.

Mr. MACLELLAN: It seems to be an enlargement of the basket clause, because it introduces a type of investment which seems to be foreign to other types which are available to the companies under the basket clause.

Mr. MACGREGOR: I think that equipment trust certificates of this kind, following the so-called Philadelphia Plan, must be about 100 years old. In relation to railway equipment, this provision was put in the act away back in the thirties, I believe, with respect to Canadian railways. Then it was extended to United States railways.

Mr. MACLELLAN: It seems to me there is quite a difference between a transit certificate with respect to railway equipment and the wide words "transportation equipment" here used on railways. That could include anything.

Mr. MACGREGOR: On the highways.

Mr. MACLELLAN: Yes, on the highways.

Mr. KILGOUR: Perhaps Mr. Lemmon, the chairman of our investment sub-committee, would say a few words of explanation.

Mr. LEMMON: The superintendent of insurance is quite right about railway equipment. Certainly, during the difficulties of the railways in the thirties, railway equipment certificates were honoured when other obligations of the railways fell down.

The financing of transportation equipment such as buses, trucks, and cars is not new at all. I have been in the investment field for thirty years. I think they go back at least that far. Prior to 1948 there was not provision for them, but since 1948 the number of companies dealing in them has increased, and they have had excellent experience with them.

Behind the certificate itself you have the covenant, and the corporation which is leasing and paying rent until the obligation is retired. This is not an untried investment. This is one in which we have had experience.

We asked the department to put in the words "equipment used in transportation" to cover the things mentioned here.

I have personally known a number of transactions involving vehicles of various kinds; and there are covenants and trustees who pay rent for such equipment. We do not consider them as an unproven type of investment.

Mr. MACLELLAN: Would you agree with me that this is the type of investment which has filled a demand, which was previously accepted under the basket, and which gives you wide powers to invest wherever you want?

Mr. LEMMON: We had no specific authority to do it up until now. Therefore we had to do it under the basket. We considered it was a function of the basket to experiment with new types of investment. After a period of years, if it has been proved by the companies, through experience, to be safe. Thus we feel it is eligible to be incorporated along with other forms of investment in the act by specific authorization.

Mr. NUGENT: Do you think we shall have new requests in the future to bring other things out from under the basket?

Mr. LEMMON: I am sure that would be of value to the industry, and so far the department has gone along with us to a large measure.

Mr. CREAGHAN: What rate of interest is your company allowed to charge for this transportation equipment loan? Banks loan at 6 per cent. How high a rate can you charge?

Mr. LEMMON: There is no specification in the Insurance Act of the rate that insurance companies may charge.

Mr. CREAGHAN: Would you charge more than the finance companies charge?

Mr. LEMMON: If we could get it, yes, but unfortunately the market will not let us.

Mr. MACGREGOR: The next important change in clause 12 is to be found at page 9, being subclause 4, beginning at line 13. It relates to the so-called guaranteed investment certificates issued by the trust companies.

This amendment emanates in the kind of way that one honourable member was just referring to. Up to date, these certificates have had to be purchased under the so-called basket clause. Guaranteed investment certificates of trust companies have now become a well-known form of investment, and the time seems to have arrived when they ought to be recognized as a regular class.

The requirement here is that the certificates must be issued by trust companies incorporated in Canada. It could be either a dominion or a provincial trust company and the issuing trust company must have a dividend record as good as any other company must have in order to qualify its debentures.

Mr. CREAGHAN: I have one further question before we leave paragraph (*i*). I would like to direct this question to Mr. MacGregor. The wording reads "to be used on railways or public highways". I wonder what the industry would think if an amendment were brought in which would read "to be used on railways, public highways, waterways or airways"? In other words, an amendment to deal with the whole problem of transportation? Originally the act defined transportation. Years ago railways were the only means, but now we have highways, airways and waterways. I wonder if these words were added, if the industry would be satisfied, or opposed to it.

Mr. LEMMON: The Superintendent of Insurance said before that this was discussed among the companies, as well as with the department. There is as yet no waterways equipment financed under this type of instrument.

In the United States there have been one or two airways' fleets financed under this kind of vehicle. The experience has been good. None of us has had the experience and there has been little pressure for it. Therefore, the industry would tend to leave it under the basket clause. It is not confined to that solely.

We have financed ships of various kinds under the mortgage bond clause. That has been interpreted leniently enough to allow financing of ships of various

kinds. We may also purchase obligations of airline companies under other sections of the act, provided that they made certain earnings. We have done this, and we shall continue to do so.

We think for the time being that this makes the power broad enough to meet the investment requirements. I think that is about all I can say on this subject now.

Mr. CREAGHAN: Thank you. That explains my problem. I might look to clause (i), or to some other subsection.

Mr. MACGREGOR: May I draw attention to two words in paragraph (*h*), in the mortgage bond clause, and in paragraph (*i*), relating to equipment trust certificates, namely, that mortgage bonds or equipment trust certificates, as the case may be, must be "fully secured". I repeat the words "fully secured". That means that there must be a physical evaluation of the assets behind all such bonds or certificates.

Mr. MACLELLAN: If this bill is passed, is there any further check which would prohibit any insurance company from accepting certificates on ready mix plants or anything which you yourself might consider to be a hazardous investment for an insurance company? Once this section is passed, is there a further check in your department?

Mr. MACGREGOR: No. If the investment falls within the prescription of the statute, then the company making the investment does so on its own responsibility. But there is the requirement that it must be shown in the balance sheet of the company at its current market value. So, any investment which did not prove to be quite 100 per cent, cannot be carried at the book value; it must be reflected there at the current market value prevailing for that investment.

The CHAIRMAN: I had hoped that we might go on for at least another half hour, when we could decide whether we would adjourn until, let us say, 3.30, or after the orders of the day are reached in the House. I am keeping the convenience of our witnesses in mind.

Mr. ROBICHAUD: I am sorry, Mr. Chairman, but I have to leave. We have a subcommittee meeting of the Public Accounts committee at twelve o'clock.

Mr. SKOREYKO: Mr. Chairman, I, too, have a prior engagement.

The CHAIRMAN: What is your wish regarding the witnesses? Do you think we shall need them further?

Mr. NUGENT: I suggest we ask them if they would like to be here when we go over the rest of the bill.

Mr. TUCK: Mr. Chairman, we shall be pleased to be here, of course, if it would be possible for the committee to meet again today. It might not be possible for all our people to be here, but we will certainly be represented.

The CHAIRMAN: We have lost our quorum. Are you in favour of adjourning until 3.30, or until after the orders of the day are reached? Most likely it will be in this same room, but the clerk will send out notices to you by hand.

AFTERNOON SITTING

TUESDAY, March 21, 1961.
3.30 p.m.

The CHAIRMAN: Gentlemen, before we adjourned at noon we were dealing with clause 12 and had got to subparagraph 3.

Mr. NUGENT: I wonder if I could comment that this morning the C.C.F. asked you to note that they were in attendance, and they promptly disappeared and have not been seen since.

The CHAIRMAN: That was carefully noted.

Mr. BROOME: Is it equally carefully noted that they are not here now?

The CHAIRMAN: Is there any further question on subclause (4), clause 12, or on (5) or (6)?

Mr. CRESTOHL: Paragraph (6) says "in any country in which the company is carrying on business". Might we have some explanation on that? This is adding "in any country". I thought that was taken care of now in the very beginning of the act, where the countries are indicated, where this act will be in force.

The CHAIRMAN: We started really at clause 11. We are just picking out the clauses. We will be going back. We did cover one and two. We dealt this morning with the point you are raising.

Mr. CRESTOHL: That was the point I was making. I wonder if you referred to the definition of a British company, as to where a British company can operate.

The CHAIRMAN: We dealt with that this morning.

Mr. BROOME: On clause 12, paragraph 6, in regard to the increase in maximum amount from 60 per cent to 67 per cent—66⅔ per cent—I wonder if we could have a comment on that.

The CHAIRMAN: We had that this morning also. You could read it in the record.

Mr. MACGREGOR: Perhaps I might explain that there may appear to be some duplication between subclause 5, more particularly paragraph (*m*) on page 9, and subclause 6, paragraph (*b*) on page 10. In the Insurance Act the investing powers of a company are dealt with separately from the lending powers. Paragraph (*m*) on page 9 relates to the investing powers of a company and substantially the same authority is given in paragraph (*b*) on page 10 in reference to lending powers. That is why there appears to be some duplication.

The CHAIRMAN: Anything in subclause (7)?

Mr. BENIDICKSON: This is a section that goes over a great number of pages in this bill. A lot of us do not know too much about the technicalities of the insurance business, and here in the House of Commons I think we are concerned chiefly sometimes with how these matters relate to our constituents. This bill got a good preview from the Senate; but the *Financial Post*, in its issue of February 4, 1961, has a headline "Big money flows into the market if Ottawa moves", referring to this legislation. I think that must relate to the increased opportunity for insurance companies, under what we discussed this morning as the basket provision, to use a percentage of their assets in investments that would not be as restricted as those specially pinpointed by parliament in other sections of the Insurance Act.

I raised the question this morning as to what would be the increase in the amount of money that might be available in this new freedom for investment—I do not think I can say "in Canadian equities" as that is not proper, but for Canadian investment—available in the basket provision, and also in the other provisions. Does this, in the opinion of the Superintendent of Insurance, justify this kind of a headline, "Big money flows into the market if Ottawa moves". If so, what kind of money is going to flow, and into what sources is it going to flow, or could it flow?

Mr. MACGREGOR: I think, Mr. Benidickson, that the headline may be somewhat misleading. On the face of it, it implies that companies have not kept their funds fully invested and that in some fashion in the future new moneys are going to flow into the investment market. Of course, the companies keep their funds fully invested at all times, to the best of their ability and to the best advantage of the company and its policyholders.

I would say that the main changes in this bill with respect to investing powers are first of all to give the companies somewhat more freedom to make somewhat larger mortgage loans through the increase in the proportion of loanable value from 60 to 66⅔ per cent. Also, by another amendment referred to in paragraph (*o*) at the foot of page 9, dealing with so-called income real estate, or real estate for the production of income, they will be able to put—

Mr. BENIDICKSON: —from ½ to 1 per cent.

Mr. MACGREGOR: —and raise their aggregate investments from 5 per cent to 10 per cent on their total assets. In other words, the amendment would enable them to put a little more money into that particular form of investment.

However, the greatest increase in freedom granted to them now will be under the so-called basket clause to which you refer, being subsection 4 of section 63 of the act.

Heretofore, as was discussed this morning, or at least referred to, companies have been permitted to invest up to 3 per cent of their assets within their own discretion.

The proposal in this bill—we have not get come to it—is found on page 11, line 21—is to increase that area of freedom to 5 per cent of a company's assets.

Mr. BENIDICKSON: Yes; and then we discussed the total value of present assets and they were very considerable. Did you say $9 billion?

Mr. MACGREGOR: About $9 billion for Canadian companies—so that 5 per cent thereof amounts to about $450 million, which means that the companies have a larger area in which they may invest virtually within their own discretion.

I think it is misleading to suggest that in some fashion new money is going to be created, or that new funds are going to be found for investment.

Mr. BENIDICKSON: That is up to the board, of directors of the insurance companies.

Mr. MACGREGOR: Well, the companies have only so much money to invest. These amendments of course give them greater freedom in one direction or another, but it does not mean that some new money is going to be found for investment overall.

Mr. BENIDICKSON: No, you explained this morning that if it goes in one direction it will not be available in another.

Mr. MACGREGOR: If the companies lend it on real estate, they cannot buy corporate bonds or municipal bonds with the same money.

Mr. BENIDICKSON: Perhaps, on the amendment we have in front of us, the *Financial Post* article analysing this bill would be correct in saying that another $150 million to perhaps $170 million would be available on a basis of greater freedom than hitherto, based on a percentage of assets of the insurance companies. Is that correct?

Mr. MACGREGOR: I think that is correct.

Mr. BELL (*Carleton*): Is not that really all that the headline was intended to indicate?

Mr. BENIDICKSON: I think that is so, but I am not sure that we got that this morning. Might I ask another question?

Mr. MACGREGOR: I might comment that one amendment, which has not yet been dealt with, is to be found in clause 16. It relates to so-called accumulation funds which will, in addition, give to the companies considerable additional latitude to invest in equities.

Mr. BENIDICKSON: You mean variable annuities?

Mr. MacGREGOR: Yes, in a broad way.

Mr. BENIDICKSON: Then they would segregate this fund in that regard, in the same way that we were discussing this morning?

Mr. MacGREGOR: Yes indeed.

Mr. BENIDICKSON: With the health and accident provisions?

Mr. MacGREGOR: Yes, but we have not come to that subject yet. The companies will have substantial additional freedom there.

Mr. BENIDICKSON: I know it was my desire. I wanted to bring up this one point: it was the desire of the chairman of the committee, perhaps, to advance this afternoon to areas where the representatives of the insurance companies—the life insurance companies this time, because the other side of the insurance business in the act, did not seek to put in any representations—since the life insurance companies representatives have been here and are available. The chairman was anxious to direct attention of committee members to clauses in the bill on which we would expect to ask them questions. I want to cooperate in that field, and I think, after this morning's discussion, perhaps the only point where I would want to advance a question, Mr. Chairman, would be with respect to the representations that I have with respect to the—shall I call it an industry, or a field of industrial activity, or a monetary activity—where the industry has asked that parliament put a restriction of 15 per cent as a maximum of the amount of their assets that can be invested in common stock funds, equities.

Every member of this committee, every member of the House of Commons, knows that this has become an item of interest of late. I refer to equities. Unfortunately I think they have to tie up with inflation. I know that the insurance companies of the land would be the first that would want to hold the line in so far as inflation is concerned. But, on the other hand, there is some uncertainty about inflation as it affects the contribution that an individual has made steadily through his savings, throughout his career, for benefits that would accrue when he is at the point of receiving no salary, but has become dependent upon retirement benefits.

This was the point that I was wondering about. In fact I think it is the only point in connection with this bill on which I would personally have another question to raise with the representatives of the insurance industry.

They, I believe, said to the government that our legislation which limits investments on their part in common stocks, even with respect to companies which have a long-term dividend payment record, would be restricted to 15 per cent of their investment assets. I believe they made representations to the government that this 15 per cent ceiling was inadequate.

I would like to hear, not only from the Superintendent of Insurance, but also from the industry at this point, because I think all members of the committee know that there is a great discussion about the importance of investment in equities, vis-à-vis the importance of fixed term investments of any particular kind, having relation to it, unfortunate or otherwise.

The CHAIRMAN: May I interrupt, Mr. Benidickson? Will you please ask your question ?

Mr. BENIDICKSON: I mean in its trend towards inflation.

The CHAIRMAN: What is your question? Please state it briefly.

Mr. BENIDICKSON: I think the record is fairly clear that there is a controversy in the minds of a great number of people about whether or not inflation is inevitable. There is a controversy as to whether insurance companies should be restricted, as they will be under the act, with no change, I take it, under the amendment with respect to the percentage of their assets that can be invested in equities.

I understand that the industry asked that the ceiling of 15 per cent be increased, be enlarged. It is not in this bill. I think it is a proper question to raise. I want to give full respect to the insurance industry. I believe that they advanced this request. They properly reasserted what I would expect from them, since I have practically my sole assets in their field.

They properly associated their emphasis with a suggestion of this kind. In a way it indicated that they expected that inflation was inevitable, or would agree that they felt that a little more freedom in this field was necessary.

The CHAIRMAN: Mr. MacGregor?

Mr. MACGREGOR: You have raised a question which I think we might spend at least the rest of this afternoon in discussing. It is true, in the first place, that in the brief filed by the Canadian Life Insurance Officers Association, they asked that the limit of 15 per cent on common stocks be raised to 25 per cent.

It is also true that there is no change in that respect in bill S-5, indicating that the limit will remain at 15 per cent.

Just by way of a bit of history, let me say that the 15 per cent limit was put in the act in 1932. Prior to that year there was no limit in the act. But at that time one company had over 50 per cent of its assets in common stocks, while most of the rest of the companies, on the average, had two or three per cent.

The department, as early as 1928, as evidenced by comments in our annual reports, felt that there should be some statutory limitation on the proportion of a company's assets that could be invested in common stock.

In 1930, in our annual report to parliament, 25 per cent was recommended. When these acts were dealt with in 1932, the bills, when introduced, had a limit of 25 per cent in them. But upon representations—in fact upon the insistence of the Canadian Life Insurance Officers Association—the 25 per cent limit was reduced to 15 per cent, which still stands.

Mr. BENIDICKSON: This was done at the request some years ago, of an organization which is similar to that which is represented in front of us today?

Mr. MACGREGOR: The same organization.

Mr. BENIDICKSON: Quite. My reason in asking is that the same organization requested, a year or so ago, that the government give consideration to amending this provision.

Mr. MACGREGOR: Yes, I mentioned that. That is so.

Mr. CRESTOHL: Could you tell us what reasons they advanced for it?

Mr. MACGREGOR: Yes, of course.

Mr. CRESTOHL: Will you tell us what reasons they advanced for it?

Mr. MACGREGOR: Yes. Opinions, of course, differ as to the extent to which life insurance companies should invest their funds in common stocks. After all their obligation are in guaranteed amounts of dollars and are payable, in the main, years hence. Consequently, the general feeling is that most of their funds should be invested in fixed term or guaranteed types of investments.

Mr. BENIDICKSON: Whose opinion is that?

Mr. MACGREGOR: I would say it is almost world wide, although, as in every investment matter, there are all degrees of opinion. In the United Kingdom we find that the companies there traditionally have invested substantial portions of their assets in equities. In the United States, however, the opposite situation has obtained. In some states, for instance, New York, the limit is five per cent of their assets, or half of their surplus, whichever is less. In Canada, with the fifteen per cent limit we have had since 1932, the Canadian life companies as a whole have about three and one-half per

cent of their assets invested in common stocks and one and one-half per cent in preferred stocks. There is no limit on preferred stocks.

Mr. BENIDICKSON: I regard that as rather amazing in view of the representations which I understand were made by the insurance companies to the effect that the fifteen per cent ceiling was perhaps too low.

Mr. MACGREGOR: Their suggestion was made really for another reason, and not because, overall, the companies are now crowding the fifteen per cent limit. The reason is bound-up with clause 16 relating to accumulation funds. In other words, the companies have wanted to extend their activities in the pension and annuity business and to be in a position to invest pension monies to a greater extent in equities than is permitted under the fifteen per cent rule. Perhaps that is not the best way to put it. Before these amendments dealt with in clause 16 were settled upon, which will authorize the companies to administer accumulation funds or segregate funds for pension and annuity purposes, and which will grant freedom to invest those funds to as great an extent as they like in the equities, some companies felt they would like to develop this business even under the existing rules in the act and that they could do so if only the fifteen per cent limit were raised. They had in mind that they would invest substantial sums in equities which would be set aside against these pension funds, but the authority to ear-mark assets for particular policy holders was, in the view of the department, doubtful. If that course had been followed instead of the proposed clause 16, then they would need more than the fifteen per cent limit. I believe that was the real reason why they requested an increase in the limit from fifteen percent to twenty-five per cent.

Mr. BENIDICKSON: I wanted to raise that problem because I thought it was pertinent to the kind of evidence which might be given by the representatives of the industry.

The CHAIRMAN: Mr. Kilgour, do you wish to say anything on this point?

Mr. Benidickson, are you satisfied with Mr. MacGregor's explanation?

Mr. BENIDICKSON: No. I think it is pertinent to the attendance here of the representatives of the industry, because it is my understanding, despite the evidence of the Superintendent of Insurance, that only perhaps three per cent of their assets overall have been invested in common stocks—equities—still subject to the dividend requirements in the act and that the industry asked that this ceiling be raised. I know Mr. Kilgour will say something.

Mr. KILGOUR: I know that Mr. Benidickson's questions have been asked from the standpoint of bringing out light.

Mr. BENIDICKSON: Public interest.

Mr. KILGOUR: Yes. It is perfectly true there are many and varied investment positions within the various companies. For example, some of the British companies long have been pressing on the fifteen per cent with regard to their total operations, and one or two Canadian companies have been very close to that limit.

On the other hand, there is a preponderance of companies that has been far below the limit and has two, three or four per cent in common stocks.

We could say that the desire for a higher limit probably was an expression of a very few companies and the majority of the companies, as demonstrated by their portfolios, felt a smaller proportion was more in keeping with their responsibility. This twenty-five per cent suggestion was put up at a discussional stage when companies were expressing their interest in the accumulation of pension funds in equities. If we had been bound by the previous fifteen per cent rule it could have been, if the assets in these funds grew large, that even those companies below the limit could hit that if doing

substantial business. The amendment in clause 16, which is now proposed, would give companies the right to accumulate certain types of pensions or annuities in equities without regard to the 15 per cent.

I think it is fair to say that for the majority of the companies the desire for any increase above fifteen per cent was eliminated by this other provision. I do not care to speak for them but I think there may be one, two or three companies which would prefer to see it higher, but on balance our industry feels the new act does give us very useful and sound liberalizations and that the earlier request to which Mr. Benidickson referred was in a sens withdrawn as we saw this total pattern unfold.

Mr. BENIDICKSON: This morning I believe you said that you could not expect unanimity among 93 members.

Mr. KILGOUR: Yes. I think there is very substantial unanimity that this new bill, with its additional elbow room, is good and does give us an additional desirable investment opportunity which, with clause 16, satisfies the majority of the companies that we have the additional opportunities we need, again on the premise that this is not being locked up for all time but could be opened up some years hence if there should be reason for it.

Mr. BENIDICKSON: May I ask one additional question of the president of this Association? I recognize him as being one of the most effective exponents of the necessity of avoiding inflation in Canada during the last two or three years. I commend him for the speeches he has made in that regard. I know he abhors the thought that we would have a dilution in assets—

The CHAIRMAN: Mr. Benidickson, we are not discussing inflation here. We have a lot of ground to cover, and if you have a direct question, I wish you would put it at this time.

Mr. BENIDICKSON: Yes.

Mr. CRESTOHL: On a question of order, Mr. Chairman, may I say that we are studying this bill. We are not cross-examining the witness. We merely want to hear whatever information there is to offer in connection with this bill.

The CHAIRMAN: But, Mr. Crestohl, we are not studying inflation.

Mr. CRESTOHL: We are studying the bill and all the side effects it might have. I think the members should be given as much latitude as is reasonably possible, to go into any matters they may wish to.

The CHAIRMAN: We are dealing with a bill, Mr. Crestohl. We have not the time to deal with economics, inflation, and everything else.

Would you proceed, Mr. Benidickson.

Mr. BENIDICKSON: Thank you, Mr. Chairman.

I commend the insurance companies for asserting very positively, when they thought the 15 per cent ceiling on their opportunities to invest in equities should be advanced, that this did not mean, in any shape or form, that they regarded inflation as inevitable. They were just as anxious to line up against that result as any other segment of our economy. However, I still think that 15 per cent in equities is not a large segment of insurance company investments. They asked for an increase, and I am astounded that utilization of the present law is only up to—

Mr. MACGREGOR: 3½ per cent.

Mr. BENIDICKSON: Yes, 3½ per cent. Would the president of the Association explain why there should be some suggestion that parliament should allow an extension of this privilege, when the industry itself has been so—and I do not know whether the word I should use is "conservative". Or has the industry, in its practice, decided that this is not its field, and that these assets to the extent of only 3 per cent have been invested in equities.

Mr. KILGOUR: I could comment briefly on that, although it is not a question on which I did any homework—other than my own thinking, as I stand here. Probably two things have actually influenced the fact that many companies hold a small portion of their portfolios of common stocks. Claims have to be paid and, in the last analysis, it is more important that the companies be able to pay their debts than to have a profit on top. It is much more important that we meet our obligations on the barrelhead than have 10 per cent more than our obligations on the one hand, or risk not having enough on the other.

Then, there is the question of market values. All Canadian life insurance companies have to meet the test of market values in their annual reports each year. There is no question that many companies have had to have regard to their surplus and, if they had 20 or 30 per cent of their assets in common stocks and there was an important market break, they might find themselves in a rocky position at the end of the year.

Then, in connection with income, one sees the composition of investment judgment that must come together to make up the board of directors, the various judgments of financial institutions, and so so on. There are changing patterns within the investment judgment of particular companies, and I do not hesitate to express my own view that the broader liberalizations that are presented in these other proposed amendments—the fact that so few companies have yet come up to the 15 per cent—are such that most companies would have to say this new act as proposed does give up the elbow room that we are likely to use within the immediate foreseeable future. I know that there are some few companies, particularly some of the British companies, which would like to see a higher limit in Canada than 15 per cent.

Mr. BENIDICKSON: I think the president has answered the queries that I raised, and the only point which perhaps I would advance on that is that there has been no real pressure, except perhaps by a minimum of the members of the 93 corporate memberships who have asked for an increase beyond 15 per cent, because the average rate, the superintendent says, of utilization of what parliament has now given these companies is 3 per cent of their assets in common stocks.

Mr. MACGREGOR: Perhaps I might amplify what has been said in further answer to your question. One Canadian company has as much as 12 per cent in common stocks, while a few others have nothing at all. However, the average is still 3½ per cent.

Another aspect is the one to which I referred this morning, that if companies invest their funds in one way, they cannot use them for investment in something else. Since the war they have invested very heavily in real estate mortgages—mortgage money for home construction and other construction and, as well, they have bought substantial amounts of municipal and corporation bonds. Having done that, they have not had the same money to invest in equities. Furthermore, the yields on Canadian equities have not been particularly attractive.

Mr. CRESTOHL: In connection with the same matter, Mr. Chairman, would any relief be found in this little amendment which is set out in subclause 7 to change the language from the book value of total ledger assets, to just book value total assets? You delete the words "ledger assets", and now you suggest it should be "total assets". Is there some relief to be found in the calculations of the available funds for investment?

Mr. MACGREGOR: There is a little additional relief in that respect, as well. The ledger assets are slightly less than the total assets. The so-called non-ledger assets, like accrued interest on securities and outstanding premiums in a life company amount to perhaps 1 per cent of their total assets.

Mr. CRESTOHL: Was enough intention of the original act left to keep some control in connection with this wide latitude? You were speaking of allowing them more latitude. As the last sentence mentions, certain fixed liabilities must be preserved. Could not those fixed liabilities which should be preserved be effected by a more speculative type of investment than a restrictive type of investment?

Mr. MACGREGOR: I think the answer to Mr. Crestohl's question is that the companies themselves are anxious to invest wisely and to their best advantage. In the United Kingdom the companies there have complete freedom in regard to their investment powers. In the United States they are under restrictions substantially the same as ours but, even in the United States, broadly speaking, they have since the war had some additional margin—a so called "basket clause"—within which the companies may invest at their own discretion. The various state laws provide margins running up to ten per cent and even higher, representing freedom of investment power within that limit.

When our clause was put in the act of 1948 the companies asked for a margin of five per cent, since five per cent was quite common in the United States at that time. The amendment actually made at that time granted them three per cent and, in recent representations, they asked that the three per cent be raised to six per cent, and this bill sets it at five per cent. There is no new principle in this provision. The principle was introduced in the act of 1948. It is quite common in the United States and it extends right across the board in the United Kingdom.

The CHAIRMAN: I happen to know that Mr. Kilgour has a 5.05 p.m. plane to catch and, if it is agreeable to members of the committee that he catch that plane, he may leave; provided of course that he leaves his secondary defence.

Mr. CRESTOHL: A very excellent defence.

The CHAIRMAN: Then you may leave, Mr. Kilgour. I do not think anyone has an objection to that.

Mr. BENIDICKSON: Mr. Chairman, perhaps I took up too much time. I know Mr. Kilgour would stay over if it were necessary to defend his industry. However, I shall cooperate.

Mr. BELL (*Carleton*): His industry needs no defence.

Mr. KILGOUR: Then, if I may be excused, I shall leave. The other gentlemen present may be able to answer many questions more lucidly than I can.

The CHAIRMAN: Thank you very much for coming, Mr. Kilgour.

Mr. CRESTOHL: Is there anything in our history since 1932 regarding the operations of these insurance companies and the type of investment they have been making, that produces a deleterious effect on them? Have there been bankruptcies or any question of companies going out of business through unwise investments?

Mr. MACGREGOR: Not a single one, Mr. Crestohl. Canadian life insurance companies have an unexcelled record of never having defaulted a single dollar on a life insurance policy issued by them.

Mr. CRESTOHL: Which also speaks for the excellence of our Superintendent of Insurance.

Mr. MACGREGOR: The companies run their own business and I do not think the life insurance companies of any country in the world have a record to equal ours. The same applies with almost equal force to fire and casualty insurance companies but, of course, that field is subject to much greater risks and fluctuations, and one never knows when a company may be in trouble. In answer to your question, the companies have exercised their investment powers in a most responsible manner.

Mr. CRESTOHL: I am very pleased to hear that.

The CHAIRMAN: We shall now go on to clause 16, to which Mr. MacGregor referred this morning.

Mr. NUGENT: With regard to the pattern of the investment funds operated by Canadian companies, do you expect a substantial shift because of the increase in the basket clause? Do you expect a big shift to foreign investment, and do you expect it will have an effect on the percentage of money invested in Canada and Great Britain?

Mr. A. H. LEMMON: Mr. Chairman, I may say that the headlines in the *Financial Post* are very misleading so far as this is concerned. Regarding the increased limit in the basket clause, I do not expect that within a period of two months there will be any large shift in the funds invested by life insurance companies. It would be a gradual broadening process.

Mr. NUGENT: I was wondering if there would be any tendency to foreign investment as a result of the raising of the limit in the basket clause.

Mr. LEMMON: Perhaps I should answer that negatively. I do not know of any specific field now closed to us that we may start to enter in a big way as a result of these amendments. Does that answer your question?

Mr. NUGENT: I think that is a fair answer.

Mr. MACGREGOR: May I supplement what Mr. Lemmon has said? Up to date, as far as investments have been made under the basket clauses, about one eighth has been in stocks, about three eighths in bonds, and about half in real estate for the production of income. That, roughly, is the distribution of investments made under the basket clause.

The CHAIRMAN: On clause 16—insurance against accidental death, accidental dismemberment or accidental loss of sight—Mr. MacGregor pointed out the important parts of these amendments to that this morning.

Mr. MACGREGOR: Clause 16 has two subclauses, (1) and (2). The first subclause is relatively unimportant and we had quite a little discussion this morning about the operations of sickness and accident insurance, separately from life insurance. Section 81 applies to Canadian life insurance companies and starts out in effect by saying that separate funds, accounts and securities shall be maintained by every company in respect of its life insurance business. It goes on to say that a company may include minor sickness and accident benefits in a life policy, but it sets out quite stringent limitations in secton 81 governing such benefits.

Mr. BENIDICKSON: What are these?

Mr. MACGREGOR: For many years life insurance companies have had the power to include in a life insurance policy, or to add by way of a rider, the so-called double indemnity accident benefit whereby, if a policyholder is killed by accident, the face amount of the insurance is paid in addition to the regular face amount. Policies may also be offered with a so-called waiver of premium benefit in the case of disability of the policyholder, or providing for a limited monthly income in the event of disability caused by accident or sickness.

Subclause 1 of clause 16 would extend slightly the kinds of accident benefits that might be included in a life policy. Heretofore, as I mentioned, the only lump sum benefit that could be paid was an additional amount equal to the face amount of the policy, in the event of death, whereas the amendment permits the payment of limited sums in the case of accidental dismemberment or the accidental loss of sight. This is being proposed as the result of a strong desire to include in group life policies some accidental dismemberment benefits—for example, half the sum assured in the event of the loss of a leg or an arm and payment of a smaller sum in the event of

the loss of a few fingers as the result of an accident. That type of coverage is relatively safe, and it seems reasonable to give the companies some slight additional latitude in this respect. That is really the whole effect of the revised paragraph (*b*) set forth in subclause (1) of clause 16.

Subclause (2) is by far the more important. Subclause (2) would add new subsections (5), (6), (7) and (8) to the existing section 81 of the act.

Mr. BENIDICKSON: How new is this? Did I read somewhere that New Jersey was the initiating state in making this permissive, as recently as 1959? I just could not believe that we would be so concerned within two years to follow that course. I raised the question this morning as to whether insurance in this field was largely a state jurisdiction south of the border or a federal jurisdiction, and I was told it belonged to the 50 states.

Mr. MACGREGOR: I am reluctant to leave the question unanswered even by implication. In the United States some old judgments held that insurance was not commerce. Until about 1944 the business of insurance in the United States was completely under state supervision. There was a court action at that time that went to the Supreme Court of the United States, and the decision held that where insurance was conducted across state lines it constituted interstate commerce and was therefore subject to the Sherman Act and was a subject for supervision and jurisdiction on the part of the federal government. There have been many hearings since then, congressional inquiries and so on, respecting the various phases of the business. It remains to be seen whether supervision of insurance in the United States will continue essentially as it has for many years, or whether the federal government there will get into supervision to a much greater extent.

Section 81, if I might continue, now grants power, without any amendment, to Canadian life insurance companies to issue "annuities of all kinds". That power is found in paragraph (c) of subsection (1) which is not reproduced in the bill. The companies also have the power in the same section to make contracts of insurance "providing for the establishment, accumulation and payment of sinking, redemption, accumulation, renewal or endowment funds". So Canadian life insurance companies now have very broad powers in the pension and annuity field.

Since the war, as I am sure every hon. member knows, the whole subject of pensions has become one of increasing importance, and there are probably few employers that have not set up pension funds in one way or another. Traditionally, the life insurance companies have felt that they are well equipped—in fact, I think they feel they are the best equipped—to administer pension schemes by reason of their long experience in investment matters and the actuarial wisdom that they have amongst their staff. However, the contracts they have made up to date have provided annuities for fixed dollar amounts. After the war, there was an increasing feeling amongst some people, perhaps many people, as they saw prices rise and annuities that had been purchased years earlier become inadequate in the light of higher prices—there was a feeling that in some fashion it would be desirable to provide pension and annuity schemes whereby the payments would be correlated in some way to the cost of living. Some committees studied the subject in the United States and a new concept evolved, about 1952, a concept that involved the payment of annuities not of fixed dollar amount but of varying amount, depending upon the investment experience of the assets held to finance the scheme. There was, of course, an increasing feeling during the postwar years that with rising stock prices, if pension funds were invested more widely in equities, that that would help to offiset any danger of inflation and the inadequacy of pensions bought in earlier years. I think there was a feeling too that, quite apart from any danger of inflation, over many long years, equities would show a good capital appreciation and were a desirable form of investment for pension funds.

In any event, in 1952, the Teachers Insurance and Annuity Association in New York state, an organization founded about 1918 by the Carnegie foundation mainly to provide pensions and insurance on a voluntary basis for teachers and professors, brought out a new scheme providing so-called variable annuities. A new company was formed for that purpose called the College Retirement Equities Fund, and it has since operated as a running mate to the Teachers Insurance and Annuity Association. Under that scheme, the considerations for pensions and annuities are invested entirely in equities, administered in a separate fund, and the payment of annuities from that fund from year to year depends upon the market value of the equities held in that fund.

In addition to that particular development, that gave rise to the expression "variable annuities", it is very clear that employers generally have shown an increasing interest in seeing their pension schemes invested in equities. The result has been a distinct drift in pension schemes away from the life insurance companies to the trust companies, because the trust companies could invest funds as widely as the employer might direct. That is the main reason for the amendments now proposed in subclause (2) of clause 16—a desire on the part of the life insurance companies to be in a better position to compete with the trust companies in the group pension field, and to be permitted to invest pension fund moneys in equities, if the employer so desires, to a greater extent than is permitted under the regular rules.

Mr. BENIDICKSON: When you say "trust companies" does that include mutual investment companies?

Mr. MACGREGOR: I did not have that in mind. I have the trust companies, properly speaking, in mind. Admittedly, there are other employees who are endeavouring to use mutual funds for the accumulation of moneys for pension purposes, and then surrendering their interests in those funds and purchasing annuities later.

Mr. BENIDICKSON: I do not want to use names unnecessarily. I am thinking, of course, of people like the Montreal Trust, who offer opportunities under the budget proposition of 1957 for private pension savings that could be eligible for registered retirement savings, eligible for a tax advantage just as is available to an employee, and has been for a long time. Am I wrong in thinking that that type of plan is available from other than trust companies? I am thinking of the subsidiary of the Investor Syndicate at Winnipeg. Have not they got something that is entitled to income tax recognition in the same way as—

Mr. MACGREGOR: Under that particular tax legislation it is true that the moneys could be accumulated in the hands of a trustee or of a mutual investment company of the kind you mention, but when the time comes to pay the pension it has to be purchased from a life insurance company or from the Government Annuities Branch.

Mr. BENIDICKSON: Hitherto?

Mr. MACGREGOR: Yes.

Mr. BENIDICKSON: And again now?

Mr. MACGREGOR: This rather embraces a different ground.

Mr. THOMAS: Do you understand that the effect of this clause 16 is to provide life insurance companies with an opportunity to administer what you might call municipal policies for mutual benefit, each one of which would be carried in a separate account?

Mr. MACGREGOR: In broad outline the answer is in the affirmative. The main object of the amendment is to permit the companies to operate funds separately from their regular life insurance funds, such separate funds to be held and administered to provide pension and annuity benefits where the obligations of the fund are not guaranteed 100 cents in the dollar, but rather depend upon

the investment results of the fund. It would enable them to operate pension schemes with a larger proportion of the funds invested in equities than has hitherto been the case.

As these amendments are set out, the companies will still be required to invest all moneys in the same kinds of securities—the quality must be the same—but the separate funds would not be subject to the 15 per cent limitation on common shares, or the 5 per cent limit, or as it is now proposed, the 10 per cent limit, on real estate held for the production of income. They will be relieved of these quantitative limitations.

I mentioned earlier that that is the main desire of the companies, as they have described their desire to the department, namely, to have greater freedom in the group pension field.

The subject of variable annuities, of course, goes further than that. Perhaps before touching variable annuities I should have gone on to say that the main intention is to have wider investment powers during the period before an employee retires and to invest the pension fund moneys more widely, as I say, in equities. When the pension age arrives, the main desire, as expressed to us, is to take the money out of the fund as the employee retires and purchase a fixed dollar annuity in the regular insurance fund. These amendments would permit annuities of variable amounts to be paid, but there must in all cases be some element of insurance in the contract.

I would like to make it clear at this stage that opinion is not completely unanimous within the industry, whether it is desirable to depart in any fashion from the idea or concept of life insurance companies paying only fixed dollar annuities. There has been quite a debate in the United States. One very large company feels that common stocks are an undesirable form of investment for life insurance companies and they look with disfavour upon anything of this kind whereby pension payments are not fully guaranteed. Another very large company holds the very opposite view.

Mr. BENIDICKSON: We are not too concerned about what representations are made in the United States. Would the Superintendent of Insurance tell us about the representations that have been made to our Canadian government by what we might recognize as its spokesmen here?

Mr. MCINTOSH: I was interested in the witness' argument for investment in this type of fund, and some of the reasons why they should not invest in this type of fund. He may have answered my question before he was interrupted, but my question was: You said these amendments would allow an insurance company to invest in the same type of fund. You mean the same type of fund as mutual companies are investing in?

Mr. MACGREGOR: The same type of investment as are prescribed in regard to their life insurance funds, that is, investments of the same quality. But they would be freed from the quantitative limits of 15 per cent on equities.

The views of companies which look with disfavour upon anything of this kind are based largely upon the fear that the reputation of the companies may suffer if payments are not fully guaranteed. Heretofore they have issued contracts providing only for the payment of a fixed sum of dollars guaranteed beyond all peradventure.

Mr. BENIDICKSON: Who made these representations?

Mr. MACGREGOR: Two companies made them earlier to us, Mr. Benidickson. But my understanding is that the overwhelming preponderance of opinion within the industry is in favour. The industry as a whole requested amendments of this type.

Personally I feel that if the companies are careful to explain this type of contract, there should be little danger of misunderstanding; and, besides, the present intention is to operate schemes of this type only in connection with employers who are ordinarily in a position to know pretty well what they are doing.

Mr. BENIDICKSON: You have no quarrel with the recommendation in these clauses with respect to variable annuity companies?

Mr. MACGREGOR: What is that again, please?

Mr. BENIDICKSON: Have you any quarrel, personally, which you would advance to this committee with respect to the legislation advanced in this section relating to variable annuities?

Mr. MACGREGOR: I would like to answer you in this way, if I may: There is obviously a demand in the country from employers for facilities whereby they may operate their pension schemes and invest substantially in equities. There is at the same time a strong desire on the part of the insurance companies to meet this demand but to do so they require greater freedom than is now open to the insurance companies in that respect.

I think that the life insurance companies are in the best position of any institution to meet pension needs. Personally, I am not a proponent of variable annuities. I would prefer a guaranteed annuity myself, but I would say this, that the companies now have the corporate power to do these things anyway. One of the main difficulties is that the ground rules are not then set out, how they shall administer schemes like this. There is nothing in the act to say they cannot do these things. Also there is nothing in the act to say that if they do them they must keep such funds separate from their regular life insurance funds. That is one of the important things accomplished by these amendments. Also I would like to say that the British companies have always enjoyed wide enough powers to operate schemes of this kind although few do so, and more United States companies are getting such powers. There are not many states which have moved specifically in the variable annuity field—only about three. Some states, however, like Massachusetts and Connecticut have authorized group pension schemes to be administered substantially along these lines. A few provincial companies have the power and one provincial company is offering variable annuities in the country. So really one of the main decisions to be made at this juncture is whether the corporate powers of Canadian life insurance companies, which they now enjoy, should be withdrawn from them at the very time when the powers of companies elsewhere are moving in the direction of greater freedom; or whether they should be left with the powers they have, which are wide enough, and provide the ground rules. This bill follows the latter course.

Mr. THOMAS: Looking at these provisions from the standpoint of a possible recipient under a company pension or retirement scheme such as you have described, any individual recipient would not know what his pension would be worth until the date of his retirement at which time his accumulated share in the fund would be determined and then invested at a fixed rate of income. Is that correct?

Mr. MACGREGOR: Not quite. The most common type of a pension plan is one whereby the pension formula is fixed; that is, the pension that will be paid to the employee is fixed in terms of a percentage of his salary for each year of service. The plan usually goes on to call upon employees to contribute a percentage of their pay, perhaps five per cent, six per cent or whatever it is, and the employer makes up the remainder. The kind of scheme most companies have shown interest in operating under these amendments would be one of that kind, where the pension formula would be fixed and the employee would know what he would get. He would make the same contribution as determined by the plan, but the employer would take up the slack in the cost. If the investments proved to be profitable it would mean the employer's cost would be reduced, and vice versa, of course.

I should not want to mislead you by saying anything that would imply that the companies could not do anything under these amendments whereby the amount of pension ultimately received by the recipient might not be

guaranteed; they could. Under a variable annuity scheme the amount is never known in advance and varies from year to year. Companies could issue that kind under these amendments; but as I understand it at the present time, their intention is not to enter that field. It may develop that way. I do not know.

Mr. BROOME: Mr. Chairman, I would like to ask a question of the industry, and perhaps Mr. MacGregor would like to make a brief comment on it. It is a general question which has application to clause 16. Because of the growth in mutual funds, syndicates, trust companies, and insurance companies with pension funds, as well as private companies with pension funds in seeking good equity common stocks, is there now a scarcity of good Canadian common stocks, or new Canadian issues? Also, will the pattern in future be that of more investment in common stocks in larger industrial areas, where these stocks are more readily available? In other words, is the supply keeping up to the demand? If it is not, is that pushing the supply to the point where the return is such that you have a better return from European, American and other foreign stocks?

Mr. BRYDEN: Well, that is a general question. If you go back over history, you normally find that if there is a demand for something, the supply is very likely to catch up. As far as common stocks in the Canadian market are concerned, the list of eligible securities to meet the requirements of insurance legislation is quite wide and they can be purchased. I assume that the pressure of demand may tend to raise prices just a bit. However, I think that once that kind of demand is established, then you will find corporations and others who issue the common stocks tending to fill that demand, raising some of their own money in that fashion.

I do not think that this amendement necessarily would result in any great immediate increase in the demand for common stocks in Canada. I think this merely offers the insurance companies a facility for getting in and assisting employers in the administration and investment of their pension fund monies. In a number of cases now you have the self-administered plan, which is practically 100 per cent invested in equities. You have the trustee plan, which Mr. MacGregor has mentioned. The insurance companies have issued group annuities for pension plans. However, over the years we have found a great desire on the part of employers to at least have some part of their money invested in equities.

As far as the life insurance companies are concerned, I think this allows us a facility for that kind of funding to employers' pension plans. There is, as Mr. MacGregor has suggested, the employer who has a pension plan which has a fixed benefit formula. The employees contribute as well as the employer. In most of these cases you find that the employees' money is accumulated in fixed dollar obligations; but, the employer, on the other hand, may wish some part of his contribution to be in equities. Under this type of plan the final benefit formula is stated in advance and, if there is any deficiency on the plan, the employer must make it up. If there is any overage on the plan, then he has that money available. He could reduce his contributions, or hold the overage in reserve or increase his benefits; but essentially the employee, the member of the fund, has no benefit one way or the other. That is the type of thing, we envisage. Individual variable annuities, as far as I know, are not contemplated in this country at the moment. Would you agree, Mr. MacGregor?

Mr. MACGREGOR: That is my understanding.

Mr. BRYDEN: But I think some of the companies are quite anxious to be able to offer employers the facilities for equity investment of part of their pension plan.

There is just one other point I should like to make and that is that, so as far as the life insurance companies are concerned whether the pay out is a fixed an-

nuity or whether it is a variable pay out, we still have to have an insurance principle in it, and in the process of pay out we would apply our mortality guarantees.

The CHAIRMAN: Does that answer your question, Mr. Broome?

Mr. BROOME: It does not, but it answers three or four other questions.

The CHAIRMAN: I think that is a good average. Now, if it is the committee's wish, we shall start back and go through the bill again. Clause 1 is carried. Mr. MacGregor had a few comments to make on clause 2.

Mr. BELL (*Carleton*): I thought we carried that.

Mr. BENIDICKSON: Mr. Chairman, you saw my hand but you did not recognize me on clause 16. I wish to cooperate with you, but go a little slowly.

The CHAIRMAN: We shall come to clause 16 again.

Mr. BENIDICKSON: Yes, but I raised my hand.

Mr. BROOME: I think we are ready to carry clause 16 once Mr. Benidickson's question is answered.

Clauses 2 to 8, inclusive, agreed to.

Mr. MACGREGOR: On clause 9—subsequent increase in capital—this is simply the correction of a typographical error which has existed since 1932.

Clauses 9 to 11 inclusive agreed to.

The CHAIRMAN: We did not carry clause 12 this morning because we moved on to clause 16 before we completed it. Is there any question on clause 12? Does clause 12 carry?

On clause 12.

Mr. BENIDICKSON: This is a very large clause and there was one question on it which I was not able to ask. It would not require the attention of officials of the insurance companies, but my point is that the biggest thing today, in so far as new powers of investment are concerned, relates to common stocks and I had intended to pursue that point.

Clause 12 agreed to.

On clause 13—power to invest in stock of other insurance companies.

Mr. MACGREGOR: This clause relates to the power of Canadian fire and casualty insurance companies to own subsidiaries. At the present time, and in fact back to 1927, such companies have had the power to own the shares of another fire or casualty insurance company only if the latter is registered in Canada. However, there has been an increasing trend in fire and casualty insurance to operate through subsidiary companies all over the world, and this amendment would authorize Canadian companies to invest in the shares of another fire or casualty insurance company regardless of whether it is registered here or not. For example, a Canadian company might have a subsidiary in Australia, but any investment in the shares of another fire or casualty insurance company has to be included in the overall limitation of 15 per cent. There is a further limitation in this section that the investment in shares of subsidiaries must never exceed 50 per cent of the company's assets. Any investment of this kind is subject to very stringent conditions.

Clauses 13 and 14 agreed to.

On clause 15—life insurance companies.

Mr. BENIDICKSON: Could the superintendent explain whether the explanatory note to clause 15 is adequate?

Mr. MacGregor: Clause 15 involves a small technical point. Section 79 is at the beginning of part IV which relates to life insurance companies, and the present wording would imply that some of the sections in part IV apply only in respect of the companies' life insurance business. However, the fact is that some sections in part IV apply to the company as a whole, and this simply makes the application more clear.

Mr. Benidickson: But the Superintendent will agree that on some previous clauses the explanatory notes were not quite adequate, including the explanatory note starting at clause 1 or going to clause 2. Clause 2 indicates the difference between the old section and the new, but gives no reason as to why we are really passing clause 2. That is perfectly all right, and I am not going to prolong the discussion. That is the reason why I asked the question on clause 15.

Mr. MacGregor: I am disappointed that you think any of the explanatory notes are inadequate. Clause 2 relates to two other sections, 28 and 45(a), both of which are dealt with and explained later in the bill.

The Chairman: Is clause 15 carried?

Mr. Benedickson: It would be difficult for a member of the committee to follow the explanatory note with respect to clause 2 without the explanation that the Superintendent of Insurance kindly gave. But I say it is necessary to have this kind of explanation.

The Chairman: Clause 15 agreed to. Have you another question?

Mr. Benidickson: I thought we had an understanding that we would deal with the sections in respect of which the representatives of the insurance industry would, in our opinion, be helpful to us. Apart from that, I thought we were going to have a short sitting. I realize that I have, perhaps, been the chief offender in taking up some time this afternoon, but certainly clause 16 is one of the important sections, and I would suggest we now adjourn.

Mr. Bell (*Carleton*): I think, Mr. Chairman, perhaps we should inquire whether there are any further representations that the life officers would like to make before we do adjourn.

Mr. Bryden: I do not think we have any further representations on clause 15. We are in favour of it the way it is put forward. We have tried to answer most of the querries. I do not think we have anything further to say.

The Chairman: Mr. MacGregor tells me that from clause 24 onward there is only duplication, and as the witnesses have planes to catch I would suggest, if we have no further questions, that we thank them for coming and we will excuse them. I would like the committee to continue sitting and to finish the remaining clauses. We have only one or two that are not duplications, Are we agreed to that?

Agreed.

Mr. Benidickson: It is with just one limitation. I had wanted to ask a question, and I had raised my hand but the chairman has not seen it. I am speaking of the previous clause. However, I will agree with it. Clause 16 is carried.

Clause 16 agreed to.

The Chairman: The next is clause 17, ...*And proceedings having been suspended for lack of a quorum*...

...*Upon resuming*...

Mr. MACGREGOR: Clauses 24 to the end are almost a complete duplication of the clauses that were dealt with earlier in the bill. Clauses 24 to the end apply to British companies in the same way that the earlier clauses applied to Canadian companies.

Mr. BELL (*Carleton*): I suggest we give Mr. Benidickson an opportunity to pick up any questions he may have to ask up to clause 16.

The CHAIRMAN: Yes. We have a quorum now.

Mr. BENIDICKSON: I believed that we were dealing with a preliminary rather than with a final run with these clauses, in the presence of certain witnesses whom we wanted to accommodate. My question related largely to the clause which would amend the law with respect to directors of insurance companies. I believe that the association made certain representations to the government and, I think, to the department, Mr. MacGregor, with respect to directors, which I think, in the public interest, are of some importance.

They relate to a director's personal investment in shareholdings in his company as an entitlement to a directorship. I think they related to his citizenship, and his nationality. I think they related to the possibility of his self-interest in his obligations on a board of this kind where, to all intents, and purposes, the assets are really a trust fund.

Then there was another field.

The CHAIRMAN: May I ask which clause you are dealing with, Mr. Benidickson?

Mr. BENIDICKSON: I do not know, because you have passed these things very rapidly. I think they were in an earlier clause.

Mr. MACGREGOR: I can answer all these questions very quickly.

Mr. BENIDICKSON: That is fine.

Mr. MACGREGOR: There is no change in this bill with respect to the nationality of directors. There was an amendment made in 1957 which became applicable to all kinds of Canadian companies, whether they be life, fire, casualty, or general, stock or mutual companies to the effect that the majority of the board of directors must at all times be Canadian citizens ordinarily resident in Canada.

Mr. BENIDICKSON: Did the association not have a recommendation suggesting that the law should be changed? There is no change in this amending bill.

Mr. MACGREGOR: No, not in that respect; but there are some other changes in this bill respecting the directors and their interests.

Mr. BROOME: But not in regard to their nationality?

Mr. MACGREGOR: That is correct.

Mr. BROOME: May I ask one supplementary question: do the provisions of this bill as respects directors extend to the Excelsior Life?

Mr. MACGREGOR: No, they do not, because the Excelsior Life is one of the two provincial companies that were registered under the dominion act many, many years ago. And while they are subject to most of the restrictive provisions of this act—for example, restrictions on investments and so on—they cannot legally be made subject to some requirements. But I might say that they have, in practice, invariably had similar bylaws—or at least up to date they have followed the restrictive provisions of our act in that respect.

Mr. BROOME: Are there other companies in the same position as the Excelsior Life?

Mr. MACGREGOR: Yes; there is the Continental Life. Those are the two provincially incorporated life companies owned outside of Canada now.

Mr. BENIDICKSON: It was not with respect to changes necessarily. My question goes back to a question I raised originally this morning when I asked the

Superintendent of Insurance to spell out in the field of investment requirements the difference between the amendment here and the request from the association of insurance companies. My question again is to ask the Superintendent of Insurance to spell out the differences between the representations to which he referred this morning—made to the department—and, I think, another submission to the Minister of Finance by th life insurance organization with regard to the duties, capacities, rights and liabilities of the directors of insurance companies. What I want to know is what they asked for, what was put in this bill, and what was not put in this bill; and, of course, the Superintendent will indicate why their requests were not granted. I have dealt with "majority of directors to be Canadian citizens," old section 6(3a).

Mr. MACGREGOR: There is no change in that.

Mr. BENIDICKSON: And the suggestion with regard to paid officers and how many of them might be made directors of a company.

Mr. Chairman, as the chairman of this committee you know very well that a former Minister of Finance, in connection with banking felt that perhaps there should be an amendment to the Bank Act which would be restrictive in this field, so that paid officers would be under some limitation in so far as their representation on the board of directors was concerned. What consideration was given to this?

Mr. MACGREGOR: On that point, the act as it stands prior to these amendments says that the manager of a Canadian company may be a director, but no agent or paid officer may be. However, the section goes on to say that the chairman of the board, the president and the first vice-president are not included in the term "paid officer". In practice, therefore, it has meant up to date that the chairman of the board, the president, the first vice-president and the manager could all be on the board of directors. In recent years, of course, there has been a trend away from the designation "manager" or "general manager" and companies now have more vice-presidents. The effect of the amendment in the subclause at the foot of page 4 is that two paid officers other than the chairman of the board and the president may be on the board of directors. It would enable two vice-presidents, for example, to be on instead of one vice-president and a general manager. Many companies today have no general managers, but several vice-presidents.

Mr. BENIDICKSON: Is there a stipulation in our insurance act as to the maximum number of directors for any one company?

Mr. MACGREGOR: Yes, 21. The minimum is 9 and the maximum is 21.

Mr. BENIDICKSON: Then, does this bill take care of a suggestion that was made by the insurance companies that the act should be amended to empower the board to appoint an executive committee to delegate powers and, if you do not deal with that recommendation, could you explain why?—I am sorry, it is not a fair question to ask you why it was not dealt with, as that is up to the government. But has this been dealt with?

Mr. MACGREGOR: No, it has not been.

Mr. BENIDICKSON: Was there any recommendation by the insurance association?

Mr. BELL (*Carleton*): Mr. Tuck wants to make a comment.

The CHAIRMAN: Will you proceed, Mr. Tuck?

Mr. TUCK: Mr. Chairman, I think perhaps I might be helpful on this. We made some suggestions to the Superintendent and, in connection with this particular one we found, in discussion with him, that no amendment was required. In respect to all our suggestions about directors, I think that the main ones that concern us have been met in one way or another.

Mr. MacGregor: There is one important change in respect to the qualification of a shareholder's director. The act has required that a shareholder, in order to qualify as a director of a Canadian insurance company, must hold shares in his own name and in his own right, having a par value of at least $2,500, regardless of the amount which may have been paid thereon.

Mr. Benidickson: In this bill you have reduced the actual investment, and this is at a time when the dollar is not supposed to purchase as much as it used to. Why?

Mr. MacGregor: In addition to the qualification I mentioned, there has been an alternative one, namely the holding of any number or amount of shares so long as at least $1,000 has been paid on capital account.

Mr. Benidickson: Does it not reduce it to $500?

Mr. MacGregor: This bill reduces the latter requirement from $1,000 to $500.

Mr. Benidickson: But we are told that $500 does not buy what $1,000 did when we had our last important revision. What is the reason for this?

Mr. MacGregor: The alternative qualification that I referred to, namely, $1,000 paid, was put in the act in 1950 because, even at that time, the qualification that was in the act prior to that time, namely stock having a par value of $2,500, meant a very large investment before a person could qualify. At that time it meant an investment of $15,000 or $20,000. Then, at the present time, the holding of shares having $1,000 paid thereon means, in the case of a company having shares of a par value of $10 each, 100 shares, and where the shares are selling at $400, it means an investment of $40,000 before a person may qualify as a director. We have not felt it wise that only the very wealthiest men are eligible as directors, and that qualification has been reduced to $500. But, again, where the shares are selling at $400, it still means an investment of $20,000.

Mr. Benidickson: I am glad to hear that, because I think in the case of shareholding companies a director should have some real pecuniary interest in the financial success of his company. However, you explained that these figures really are not realistic in so far as the average reader is concerned.

Mr. MacGregor: Generally speaking, the market value is a large multiple of the par value.

Mr. Benidickson: In mutual companies that is a shareholders' election.

Mr. MacGregor: Or course, I was speaking of joint stock companies. In a mutual company the qualification for a director is the holding of a participating policy of at least $4,000, on which premiums have been paid for at least three years.

Mr. Benidickson: Have we a fixed amount in our present statute as to what the director of an insurance company can receive as director's fees?

Mr. MacGregor: No, there is no limitation. Fees, as a whole, must be authorized by a general meeting of the company. That is required by section 88.

Mr. Benidickson: If I substituted the word "salaries" would that be any different to "fee"?

Mr. MacGregor: Salary could not be paid to a director unless he were an officer of the company.

Mr. Benidickson: Did you receive any suggestion from the industry that section 88, subsection 2, required revision?

Mr. MacGregor: Yes, and that is dealt with in the bill, but it does not relate to officers or directors. It relates to employees and agents. At the present time if the remuneration paid to any employee or agent exceeds $5,000 per annum it must be authorized by the board of directors. The proposal now is to raise that

from $5,000 to $10,000 so as to relieve the board of directors from the burden of approving many contracts relating to relatively small remuneration.

Mr. BENIDICKSON: Then what did the Association really mean in its memorandum to you, when it said that under section 88 subsection 2, with respect to the approval of salaries of directors, there should be a change in the amending bill which would provide a salary of $10,000 rather than $5,000?

Mr. MACGREGOR: These are salaries of employees and the remuneration paid to agents. Section 88, subsection 2 reads as follows:

> No salary, compensation or emolument shall be paid to any director of any company for his services as director unless authorized by a vote of the members in the case of a mutual company, and by a vote of the shareholders and other members, if any, in the case of a company having capital stock.
>
> (2) No salary, compensation or emolument shall be paid to any officer or trustee of any company unless authorized by a vote of the directors, nor shall any salary, compensation or emolument amounting in any year to more than five thousand dollars be paid to any agent or employee unless the contract under which such amount becomes payable, if made after the 4th day of May, 1910, has been approved by the board of directors.

This means that in every case where the salary of an employee, or the compensation of an agent, exceeds $5,000 per annum, the contract must be approved by the board and this, of course, gives rise to a lot of routine work. The request of the insurance companies, which is carried out in the bill, was to raise the level from $5,000 to $10,000 and so relieve boards of directors of the necessity to approve contracts where remuneration is less than $10,000.

Mr. BENIDICKSON: In recent times we have heard a great deal about the disclosure of self-interest, not only in the holding of elective office but in the holding of appointive office, such as in the case of a board of directors of a corporation. Is there any change in this bill which defines with greater clarity the obligation of the director of an insurance company to indicate self-interest with respect to any decision that might be taken by the insurance company?

Mr. MACGREGOR: There is no section dealing specifically with that point but, of course, insurance companies, not being in the field of commodities generally, but dealing rather with investments as their stock in trade, are subject to a very restrictive provision in that respect. Section 66 is not being amended at the present time.

Mr. AIKEN: Then I suggest we leave the matter if we are not dealing with section 66.

Mr. MACGREGOR: Section 66 says briefly:

> no director or other officer thereof and no member of a committee having any authority in the investment or disposition of its funds shall accept or be the beneficiary of, either directly or indirectly, any fee, brokerage, commission, gift or other considerations for or on account of any loan, deposit, purchase, sale, payment or exchange made by or in behalf of the company or be pecuniarily interested in any such purchase, sale or loan, either as borrower, principal, co-principal, agent or beneficiary, except that if he is a policyholder he is entitled to all the benefits accruing under the terms of his contract.

Clauses 16 to 23 inclusive agreed to.

Mr. MACGREGOR: Clauses 24 to 35 all relate specifically to British companies and are duplications of corresponding clauses applying to Canadian companies.

Clauses 24 to 36 inclusive agreed to.

Title agreed to.

Shall the bill carry without amendment? Carried.

The CHAIRMAN: Shall I report the bill without amendment?

Some Hon. MEMBERS: Agreed.

The CHAIRMAN: We shall now consider Bill S-6.

Mr. MACGREGOR: Bill S-6 applies to foreign companies in exactly the same way as the latter part of Bill S-5 applies to British companies. The only substantial difference between the two bills is in clause 1 of S-6 which refers to fraternal benefit societies. There is no counterpart of that clause in Bill S-5. Clause 1 of Bill S-6 relates to the deposits that foreign fraternal benefit societies must make to cover their liabilities in Canada. I might explain briefly that our insurance legislation in reference to foreign fraternal benefit societies was first enacted in 1919. There were, at that time, many United States fraternal benefit societies operating in Canada, and many of them, in fact most of them, were not in good financial condition. The legislation of that year required these societies to attain a sound financial position and to make deposits thereafter to cover in full their liabilities to Canadian members arising under certificates issued on or after January 1, 1920. The legislation did not require these foreign societies to make deposits in respect of liabilities incurred before that time. At that time also it was not the practice of fraternal benefit societies to make policy loans, for example, and consequently the section of the Foreign Insurance Companies Act dealing with the deposits that such societies were required to maintain in Canada, was silent as respects the deduction of policy loans from liabilities in determining the amount of assets that had to be kept on deposit.

The United States societies have been requesting for some years that the deposit provision of the act applying to them, namely section 13, be amended to follow section 12 which deals with the deposits that foreign life companies must make and in which section policy loans may be deducted. The department has taken the view that it would be unreasonable to provide for the deduction of policy loans until all of these foreign fraternal societies had covered all liabilities relating to certificates issued prior to 1920. That position has now been reached. Every registered foreign fraternal benefit society now covers in full, through deposits with the minister or with trustees, all of their liabilities in Canada, whether incurred prior to 1920 or since then. Consequently, it seems reasonable to provide now that they may, in determining their deposit requirements, deduct any policy loans from their liabilities the same as foreign life companies may do. That is the full effect of clause 1.

The CHAIRMAN: Shall clause 1 carry?

Clause 1 agreed to.

The CHAIRMAN: Clause 2?

Clauses 2 to 17 inclusive agreed to.

Title agreed to.

The CHAIRMAN: Shall the bill carry without amendment? Carried.

Shall I report the bill without amendment?

Some Hon. MEMBERS: Agreed.

HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: C. A. CATHERS, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

TUESDAY JUNE 20, 1961

Respecting

Bill S-16—An Act to incorporate National Mortgage Corporation of Canada.

WITNESSES:

Mr. K. R. MacGregor, Superintendent of Insurance; Mr. J. L. Whitney, Q.C., registered Parliamentary Agent; Hon. C. P. McTague, Q.C.; Mr. H. Woodard, financial adviser, Central Mortgage and Housing Corporation.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

25499-5—1

STANDING COMMITTEE
ON
BANKING AND COMMERCE

Chairman: C. A. Cathers, Esq., M.P.

Vice-Chairman: Emilien Morissette, Esq., M.P.

and Messrs.

Aiken
Allmark
Argue
Asselin
Baldwin
Bell (*Carleton*)
Bell (*Saint John-Albert*)
Benidickson
Bigg
Bourque
Brassard (*Chicoutimi*)
Broome
Campeau
Cardin
Caron
Clermont
Creaghan
Crestohl
Drysdale
Garland
Hales
Hanbidge
Hicks
Horner (*Acadia*)
Howard
Jung
Macdonnell
MacLean (*Winnipeg North Centre*)
MacLellan
Martin (*Essex East*)
McIlraith
McIntosh
McMillan
More
Morton
Nasserden
Nugent
Pascoe
Pickersgill
Rowe
Rynard
Skoreyko
Smith (*Winnipeg North*)
Southam
Stewart
Stinson
Thomas
Woolliams—50.

Clyde Lyons,
Clerk of the Committee.

ORDERS OF REFERENCE

MONDAY, April 24, 1961.

Ordered,—That the name of Mr. McMillan be substituted for that of Mr. Macnaughton on the Standing Committee on Banking and Commerce.

TUESDAY, June 13, 1961.

Ordered,—That Bill S-16, An Act to incorporate National Mortgage Corporation of Canada, be referred to the Standing Committee on Banking and Commerce.

FRIDAY, June 16, 1961.

Ordered,—That the name of Mr. Garland be substituted for that of Mr. Robichaud on the Standing Committee on Banking and Commerce.

MONDAY, June 19, 1961.

Ordered,—That the name of Mr. Bourque be substituted for that of Mr. Chevrier on the Standing Committee on Banking and Commerce.

Attest.

Léon-J. Raymond,
Clerk of the House.

25499-5—1½

REPORT TO THE HOUSE

FRIDAY, June 23, 1961.

The Standing Committee on Banking and Commerce has the honour to present its

SIXTH REPORT

Your Committee has considered Bill S-16, An Act to incorporate National Mortgage Corporation of Canada, and has agreed to report it without amendment.

However, your Committee recommends that the Title of the Bill be altered to read "An Act to incorporate General Mortgage Service Corporation of Canada", and that a consequential amendment be made in Clause 1, in lines 15 and 16 of the said Bill.

A copy of the Minutes of Proceedings and Evidence respecting the said Bill is appended.

Respectfully submitted,

C. A. Cathers,
Chairman.

MINUTES OF THE PROCEEDINGS

TUESDAY, June 20, 1961.
(8)

The Standing Committee on Banking and Commerce met at 9.30 a.m. The Chairman, Mr. C. A. Cathers, presided.

Members present: Messrs. Aiken, Baldwin, Bell (*Carleton*), Benidickson, Bigg, Bourque, Brassard (*Chicoutimi*), Caron, Cathers, Clermont, Crestohl, Drysdale, Garland, Hales, Hicks, MacLellan, Martin (*Essex East*), McIlraith, McIntosh, McMillan, Morissette, Morton, Nasserden, Nugent, Pickersgill, Rynard, Skoreyko, Southam, Stinson and Thomas. (30).

In attendance: Mr. M. D. Morton, M. P., Sponsor of the Bill; Mr. K. R. MacGregor, Superintendent of Insurance; Mr. J. L. Whitney, Q.C., registered Parliamentary Agent; Hon. C. P. McTague, Q.C., and Mr. H. Woodard, financial adviser, Central Mortgage and Housing Corporation.

Agreed,—That the Committee print 750 copies in English and 250 copies in French of the Minutes of Proceedings and Evidence relating to Bill S-16.

Before proceeding to its Order of Reference, namely, Bill S-16, An Act to incorporate National Mortgage Corporation of Canada, Mr. Martin (*Essex East*) moved, seconded by Mr. Pickersgill, "that the Governor of the Bank of Canada be invited to appear before this Committee at the earliest available opportunity."

The Chairman ruled that the discussion of Mr. Martin's motion be deferred until after consideration of Bill S-16.

Mr. Martin (*Essex East*) appealed the Chairman's ruling and it was negatived on the following division: YEAS, 7; NAYS, 8.

And a discussion still continuing, the Chairman ruled Mr. Martin's motion out of order on the grounds that it did not come within the ambit of the Committee's Order of Reference.

Whereupon Mr. Martin (*Essex East*), seconded by Mr. Pickersgill, moved "that the Committee ask the leave of the House to call the Governor of the Bank of Canada for the purpose of examining him on the annual report of the Bank."

Mr. Baldwin moved, seconded by Mr. Nasserden, that Mr. Martin's motion be referred to the subcommittee on Agenda and Procedure for consideration.

The question being put, Mr. Baldwin's motion was agreed to on the following division: YEAS, 15; NAYS, 9.

The Committee then proceeded to consider Bill S-16, An Act to incorporate National Mortgage Company of Canada.

The Sponsor, Mr. Morton, also a member of the Committee, introduced Mr. J. L. Whitney, Q.C., and the Hon. C. P. McTague, one of the promoters.

Mr. Benidickson moved, seconded by Mr. Garland, that "the officers of this Committee notify Mr. Coyne that it wishes his attendance at this Committee to obtain his views on Bill S-16 because of the views expressed in a

memorandum to the Minister of Finance dated February 19 in which he deals inter alia with questions of capital needs, a mortgage market and interest rates relating thereto, loan companies, etc.

At 10.55 a.m., the discussion still continuing, the Committee adjourned until 12.00 noon.

AFTERNOON SITTING
(9)

The Committee reconvened at 12.00 noon. The Chairman, Mr. C. A. Cathers, presided.

Members present: Messrs. Aiken, Bell (*Carleton*), Bigg, Bourque, Broome, Clermont, Crestohl, Drysdale, Garland, Hales, Hanbidge, Hicks, Horner (*Acadia*), Jung, MacLellan, Martin (*Essex-East*), McIlraith, McIntosh, McMillan, Morissette, Morton, Nasserden, Nugent, Pascoe, Pickersgill, Rynard, Skoreyko, Southam, Stinson, and Thomas. (30)

In attendance: same as at morning sitting.

The Committee resumed its consideration of Bill S-16.

On the Preamble

The question being put on the motion of Mr. Benidickson, it was negatived on the following division: YEAS, 8; NAYS, 21.

The Committee called and questioned Mr. MacGregor and the Hon. Mr. McTague on the purpose of the Bill.

The Preamble, Clauses 1 to 13 were severally carried.

On the Title

Mr. Garland moved, seconded by Mr. Broome, that "the word 'National' be deleted from the Title and accordingly from Clause 1, Line 15."

Mr. H. Woodard was there called and read a statement on behalf of Mr. S. Bates, President of Central Mortgage and Housing Corporation, in which he took exception to the word "National".

Mr. Woodard withdrew.

Whereupon Mr. Crestohl, seconded by Mr. McIlraith, moved that the promoters further consider the Title of the said Bill as discussed by the Committee.

On motion of Mr. Benidickson, seconded by Mr. Nugent, the Committee adjourned.

At 2.05 p.m. the Committee adjourned to the call of the Chair.

EVENING SITTING
(10)

The Committee resumed at 6.05 p.m. The Chairman, Mr. C. A. Cathers, presided.

Members present: Messrs. Bell (*Carleton*), Cathers, Clermont, Drysdale, Garland, Hanbidge, Horner (*Acadia*), Macdonnell (*Greenwood*), McIntosh, Morton, Nasserden, Rynard, Skoreyko, Stinson, and Thomas. (15)

In attendance: Mr. K. R. MacGregor, Superintendent of Insurance; Mr. J. L. Whitney, Q.C., Registered Parliamentary Agent.

The Chairman informed the Committee of the sudden passing of Mr. H. Woodard, from Central Mortgage and Housing Corporation, who appeared as a witness.

On the Title

Mr. Garland moved, seconded by Mr. Morton, that the Title of Bill S-16 be altered to read "General Mortgage Service Corporation of Canada".

The motion was carried.

The Committee agreed to recommend to the House that the Title of the said Bill be changed accordingly.

This agreement was subject to clearance by the Superintendent of Insurance before the report is made to the House.

The Bill was carried without amendment.

Ordered,—That Bill S-16 be reported to the House without amendment.

At 6.25 p.m. the Committee adjourned until Thursday, June 22nd, at 9.30 a.m.

Clyde Lyons,
Clerk of the Committee.

EVIDENCE

TUESDAY, June 20, 1961.

Mr. MARTIN (*Essex East*): Mr. Chairman, just before we start proceedings on this bill, which is a very interesting bill, I wish to say that there is another matter I would like to bring to the committee's attention. This should not engage our attention for very long because I think there will be wide support for the view I am going to express.

As you said yourself the other day in the House of Commons—and you shared the view of others there—you thought it would be desirable to have brought before this committee the governor of the Bank of Canada. As you know, the Liberal party has been urging in the House of Commons that the report of the governor of the Bank of Canada should be placed before this committee for examination and that the governor of the Bank of Canada himself should be invited to come before us so that we can examine him on that report—

The CHAIRMAN: Mr. Martin, may I interrupt?

Mr. MARTIN (*Essex East*): Yes.

The CHAIRMAN: This committee has been called today—

Mr. MARTIN (*Essex East*): Yes, I know.

The CHAIRMAN: May I state my case?

Mr. MARTIN (*Essex East*): Yes.

The CHAIRMAN: This committee has been called today to deal with this bill of the National Mortgage Corporation, and I would suggest that we deal with it first and then we will deal with your suggestion later.

Mr. MARTIN (*Essex East*): Well, Mr. Chairman, unfortunately I have another engagement and this will not take very long. I am sure it will be the most expeditious way of dealing with it.

Mr. BALDWIN: On the point of order you raised, I find the notice of meeting which was delivered to me advises that the standing committee on banking and commerce will today deal with Bill S-16, an act to incorporate National Mortgage Corporation of Canada. Having in mind that our procedure in committee is as nearly as possible related—

Mr. MARTIN (*Essex East*): This is not a point of order, Mr. Chairman.

Mr. BALDWIN: It is a point of order.

Mr. MARTIN (*Essex East*): It is not.

Mr. BALDWIN: I am speaking on a point of order. I think I am entitled to speak without being interrupted.

The CHAIRMAN: Mr. Baldwin is speaking on a point of order, Mr. Martin.

Mr. BALDWIN: The procedure in this committee is as nearly as possible related to the procedure in the house, and we are here to deal with something raised on orders of the day, which I think should have precedence. I think the point you have made is quite correct. Only after we have completed this matter should Mr. Martin or any other member of the committee be permitted to raise any other issue at all. I submit he is out of order.

Mr. MARTIN (*Essex East*): This is obviously a specious argument. We all know that in committee matters may be raised by members at any time, and

I am going to raise one. If my friend had raised his point before we started, it would have been more arguable.

The CHAIRMAN: Mr. Martin, I have ruled that this should be dealt with afterwards.

Mr. MARTIN (*Essex East*): Mr. Chairman, you did not make any such ruling. I saw you going over to talk to the hon. gentleman, who then raised the point, and it looked like an effort on the part of the chair to prevent this committee—and the same thing has been done in the House of Commons—from bringing the governor of the Bank of Canada here, and we do not propose to have that kind of steam-rollering imposed on us, minority though we may be. We propose to take steps in this committee to see that the governor of the Bank of Canada is ordered to appear before us.

Mr. BALDWIN: Mr. Chairman, I think the hon. member should check his facts. I want to assure you that when the chairman came over to see me he said nothing at all about this matter.

Mr. MARTIN (*Essex East*): If my hon. friend says that, I will accept it.

Mr. DRYSDALE: Liberal smear tactics!

The CHAIRMAN: Before we go any further, I have suggested that this be deferred until the close of this meeting.

Mr. MARTIN (*Essex East*): Yes.

The CHAIRMAN: Are you going to appeal that?

Mr. MARTIN (*Essex East*): You say you have suggested—

The CHAIRMAN: I suggested.

Mr. MARTIN (*Essex East*): Are you making a ruling?

The CHAIRMAN: I am making a ruling.

Mr. MARTIN (*Essex East*): Well, I appeal your ruling forthwith.

The CHAIRMAN: All right. Gentlemen, you have heard the question. All those in favour?

Mr. CARON: What is the question?

The CHAIRMAN: He is appealing my ruling, and we are going to get rid of this thing properly. Are you ready for the question? All those in favour of upholding the chairman in his ruling that this matter be dealt with at the close of this meeting? All those in favour? All against?

The Chairman's ruling was negatived on the following vote: Yeas, 7; nays, 8.

Mr. MARTIN (*Essex East*): Mr. Chairman, I accordingly move that the governor of the Bank of Canada be brought before this committee for the purpose of examining him on his report, and also examining him on very important declarations which he has made during the past year, and recently.

The Minister of Finance has taken the position that the governor was responsible to parliament and that those aspects of monetary policy which were disturbing—infact all monetary policies—were matters which came under the exclusive authority of the governor of the Bank of Canada, but that he was responsible to parliament.

The governor of the Bank of Canada has been asked to resign his office. He is still the governor of the Bank of Canada. Yesterday he issued a statement of utmost importance, a statement in which he outlined his solution for the economic problems facing us.

Mr. DRYSDALE: A confidential statement, too.

Mr. MARTIN (*Essex East*): That is a matter on which my friend might examine the governor. In any event, he has made a statement in which he has

offered, as of February 15, solutions for our economic problems, solutions that would mean a reduction in unemployment beyond the level of 4 per cent of the working force.

Now, Mr. Chairman, if the governor of the Bank of Canada is responsible to parliament, as the Minister of Finance said, then parliament cannot, through one of its committees, be denied the opportunity of examining the governor. We ask for that right; and considering the fact that you yourself in the house expresed the view that you would like to see him come before this committee—which, I would like to say, was a very courageous view for you to take—

The CHAIRMAN: Tell the rest of the story, Mr. Martin.

Mr. MARTIN (*Essex East*): The Minister of Finance did refuse to allow parliament to exercise its parliamentary rights. Mr. Chairman, I hope that we might have the opportunity to have the governor of the Bank of Canada here today so that we could examine him on matters which we all regard now as vital to our economy, as vital to the maintenance of our economic welfare and matters which come, as the Minister of Finance said, within the responsibility of parliament and not the responsibility of the government.

A further reason for putting this motion forward at this time is that the governor said yesterday, in the statement he issued as a supplement to his statement of February 15, that for four years he had been denied by the Minister of Finance the right and the opportunity to come before this committee. We need to find out whether or not that is a fact. If that is the fact, of course, the Minister of Finance has been in contempt of this committee and stands in contempt of parliament.

Mr. BELL (*Carleton*): That is not the fact at all.

Mr. MARTIN (*Essex East*): My friend says that is not the fact. Let the Minister of Finance come here and be a witness, like the governor of the Bank of Canada, so that we can get an answer to this particular question. The public is now greatly concerned about the way the government has acted in this matter. The public is entitled to a full disclosure in this committee—the only forum authorized to bring forth all the facts involved in the dispute between the governor of the Bank of Canada and the Minister of Finance.

Therefore, I move, seconded by Mr. Pickersgill, that the governor of the Bank of Canada be telephoned by you at once—I change my motion because there is some objection and I want to have a measure of unanimity in this committee—I move that the governor of the Bank of Canada be invited at the earliest possible moment to appear before this committee in accordance with his right outlined in his statement yesterday, and which we have been advocating in the House of Commons now for five months.

Mr. AIKEN: I think we can dispose of this matter very quickly. This committee has no authority to deal with this matter at all. The only thing referred to us is this bill, and we can only act on that.

Mr. PICKERSGILL: That question has been settled.

Mr. AIKEN: I realize that the hon. members of the opposition have stirred this up, and they have called the press in and made a big fuss. It is quite obvious to us—

Mr. MARTIN (*Essex East*): Mr. Chairman, the hon. gentleman has said we called the press in. That is a slur on the press.

The CHAIRMAN: I hope they will not forget that.

Mr. MARTIN (*Essex East*): I would ask you not to make any observations that reflect upon the impartial attitude which you want to have here. A few hon. gentlemen have said that we invited the press. That is not a true statement. If the press are here it is undoubtedly because they have exercised their usual alertness.

Mr. AIKEN: All right. But in general, with regard to what has been said, I say it is very clear that any committee of the House of Commons is only set up to deal with the matters referred to it by the house. This matter has not been referred to us by the house and we have no authority whatever to consider it.

I do not care whether or not we have decided to discuss it here. Perhaps we have, and it is perfectly proper to discuss it if the committee so decides, but it is the most outrageous suggestion that we should phone the governor of the Bank of Canada to get him here. What ground would we have to go into this matter at all? We are the banking and commerce committee. We have a bill before us and at the moment we have nothing else referred to us.

Mr. MARTIN (*Essex East*): I cannot accept the chairman's ruling.

Mr. AIKEN: We can argue all day, but we have no authority to consider this matter until it has been referred to us by the house. It has not been referred to us, and that is the end of it.

Mr. PICKERSGILL: If you had taken the trouble to consult the motion made when all the standing committees were set up, you would have found that that motion included the sending for persons and papers, and what my hon. friend Mr. Martin is asking is to send for the governor of the Bank of Canada to appear before this committee to discuss certain matters which are within the competence of parliament and of this committee. Therefore, Mr. Aiken has been attempting to raise a point which was settled by the committee while he was absent from the room. It seems to me that he is putting forward an argument that has no validity whatsoever.

Mr. BELL (*Carleton*): All that was settled by the committee was the order of discussion.

Mr. PICKERSGILL: Mr. Bell suggests that all that was settled by the committee was the order of discussion. What was settled was that we would discuss the matter of whether or not Mr. Coyne would be invited to come before this committee.

The CHAIRMAN: The motion we voted on was that it be deferred—that the discussion would be deferred until we had dealt with this bill. Am I correct?

Mr. PICKERSGILL: What discussion?

The CHAIRMAN: The discussion about the proposal that the governor of the Bank of Canada should come here. The only thing decided by the vote here was that that discussion would be deferred until the close of this meeting.

Mr. PICKERSGILL: That is exactly what I said. It was moved by the chair that discussion of Mr. Martin's suggestion to call here the governor of the Bank of Canada be deferred. The committee overruled the chair and decided we would discuss the calling of the governor of the Bank of Canada. Mr. Aiken, who did not trouble to stay in for that discussion, is now trying to re-open the question which has already been settled by the committee. This committee made a majority decision that it would discuss the calling of the governor of the Bank of Canada.

Mr. AIKEN: We are doing that.

Mr. PICKERSGILL: We are now discussing the calling of the governor of the Bank of Canada, and we have a perfect right to call him because the house empowered us to call for persons and papers. Mr. Coyne is a person, and if he chooses to bring papers with him—or if he does not—that is his own affair, because there is no motion to produce papers.

My friend Mr. Martin wants Mr. Coyne to come here so he can ask him certain questions, and the suggestion that this committee has not the power to call Mr. Coyne or any other witness is, it seems to me, a preposterous one. This is, of course, evidence of the deliberate attempt at concealment in this

whole matter which has obtained from the beginning. The Minister of Finance, in a sneaking fashion, tried to go behind the back of parliament and to fire the governor of the Bank of Canada, after putting his hand on his breast and saying—

Mr. BALDWIN: That remark is out of order.

Mr. PICKERSGILL: —that he was responsible only to parliament. This is just another attempt to prevent parliament from having anything to do with this matter. It is an attempted closure of the worst description that has ever been seen in the parliament of Canada.

Mr. MORTON: On a point of order, Mr. Chairman—

The CHAIRMAN: Mr. Pickersgill, will you take your seat?

Mr. MORTON: Mr. Chairman, I rise on a point of order because of this disgraceful exhibition of one of our senior statesmen calling our Minister of Finance—

Mr. MARTIN (*Essex East*): This is not a point of order. Mr. Chairman, if you want to have an orderly discussion, I would ask you to recognize what are points of order and what are not. The hon. gentleman might not agree with the argument advanced by Mr. Pickersgill—

Mr. MORTON: Mr. Chairman, it was not his argument—

Mr. MARTIN (*Essex East*): It may be that the presentation is particularly offensive to the hon. member, but that is not a point of order, and these continuous obstructions by hon. gentlemen are only for one purpose—to render impossible our desire to examine the governor of the Bank of Canada in this committee.

Mr. DRYSDALE: Nonsense; sheer nonsense!

Mr. MARTIN (*Essex East*): I would ask you, Mr. Chairman, to restrain these young gentlemen from the kind of running interference they are directing, and that includes Mr. Baldwin and some of the older ones.

The CHAIRMAN: You are asking me to stop them from doing what you are doing now.

Mr. MARTIN (*Essex East*): I am rising on a point of order to ask you to prevent this kind of interjection.

Mr. DRYSDALE: Mr. Chairman, I object to this whole procedure.

Mr. MORTON: Mr. Chairman, I was not objecting to their arguments. They are quite free to make whatever arguments they wish, but what I did object to, when the hon. member refused to yield the floor, was when he accused the Minister of Finance of using sneaking tactics, which I consider unparliamentary. As to the point of order I raised, it was not against the argument—I am quite amused by their argument.

Mr. PICKERSGILL: If Mr. Morton is offended by my saying that the Minister of Finance used sneaking tactics, I will change that word and say the Minister of Finance went behind the back of parliament, after repeatedly making statements—which will be found all through *Hansard*—that he had no authority over the bank, that only parliament had. He then tried to subvert parliament's powers and arrogate to himself powers which parliament did not give to him—refused to him—and he tried to assume a dictatorial attitude toward this whole matter. This is exactly comparable to an attempt on the part of the Minister of Finance to try to get rid of the Auditor General.

Parliament decided that the governor of the Bank of Canada could only be removed through cause. That was in the statute, and the Minister of Finance had no business—if he had any respect for parliament—no business whatsoever to take for himself the authority that parliament kept for itself. But of course it is very characteristic of the arrogant and dictatorial attitude of the minister,

as he has repeatedly shown himself in this whole mater in contempt of all the traditions of parliament. It is just inconceivable that any government since confederation should repeatedly refuse, or even once refuse, the request of the official opposition to have the governor of the Bank of of Canada, or the Auditor General, or any other officer occupying a similar position, appear before a committee. However, it is just another sample of the way in which this government—

Mr. AIKEN: Talk about the point of order.

Mr. PICKERSGILL: There is no point of order.

Mr. AIKEN: There is. I have raised it. What authority have we to call the governor of the Bank of Canada, and on what basis? I have no heard it yet.

Mr. PICKERSGILL: I recognize no point of order, sir, unless the chair says there is a point of order. The mere fact that Mr. Aiken, who is a self-appointed authority on the rules, says there is a point of order, does not make it a point of order, and I think the chair—

Mr. AIKEN: I asked the chair—and I did not rise in the first place on a point of order—if we had the authority to deal with this matter. This is the point. I would like to discuss it.

The CHAIRMAN: You have got lost in the heat here. You will admit it, will you not?

Mr. PICKERSGILL: He attempted to raise it.

The CHAIRMAN: But you would not let him.

Mr. AIKEN: Just a sounding board for speeches they like to make!

Mr. PICKERSGILL: This is just my attempt to preserve freedom of speech.

Mr. DRYSDALE: This is a Liberal political manoeuvre on the day of the presentation of the budget. I have never seen so many Liberals at a meeting as there are here today.

Mr. AIKEN: I do not have to take that from you. Do not blow up, your top is coming right off!

The CHAIRMAN: Mr. Pickersgill, will you take your seat for a moment?

Mr. PICKERSGILL: Yes, for a moment.

The CHAIRMAN: This is not the railways committee, you know. I am not Donald Gordon.

Mr. PICKERSGILL: Are you reflecting on Mr. Rowe?

The CHAIRMAN: Gentlemen, Mr. Martin has moved that the governor of the Bank of Canada be invited to appear before this committee at the earliest available opportunity. There is the motion.

Mr. PICKERSGILL: I am speaking to that and I have not completed what I have to say. I think at the end of half an hour, under the rules, I have to sit down. Perhaps that half hour would go more quickly if I were allowed to speak without these interruptions. If other members want to reply to my comments that applies to them in the ordinary parliamentary way after I have completed my remarks.

It is true—and I know it is a sad experience for some hon. members here this morning—that they were not able to muster a majority to prevent freedom of speech, which they are usually able to do.

Mr. DRYSDALE: You are one of the last group that should talk about freedom of speech.

The CHAIRMAN: Mr. Pickersgill, I wish you would speak to the motion.

Mr. PICKERSGILL: That is precisely what I am speaking to. I am speaking to the motion moved by my friend Mr. Martin that the governor of the Bank of Canada should be called before this committee at the earliest available opportunity.

Mr. AIKEN: On what ground, to discuss what matter?

Mr. PICKERSGILL: When I have finished Mr. Aiken can make his speech.

Mr. AIKEN: On a point of order, I think we are not discussing the matter at all.

Mr. PICKERSGILL: There is a point of order?

Mr. AIKEN: If Mr. Coyne is to be called on the National Mortgage Corporation of Canada we have something for him to talk about. If he is not, then we have nothing for him to talk about.

Mr. PICKERSGILL: He can be called whether or not he has anything to talk about. The committee decided by a vote—when Mr. Aiken was out of the room and caught napping—that this matter would be discussed. The committee decided by a majority vote and Mr. Aiken is seeking to substitute himself for that majority. He is taking too many lessons from Mr. Fleming, who is also trying to substitute himself for parliament.

Mr. BALDWIN: On a point of order, I think Mr. Pickersgill is right to this extent, that the committee did decide, with respect to your ruling, that Mr. Martin could discuss the matter. However, after discussing it, Mr. Martin has brought in a motion, and I think Mr. Aiken is saying that the motion is out of order. I think he is entitled to speak on the question of whether or not Mr. Martin's motion is out of order and should now be disposed of and voted on.

Mr. MARTIN (*Essex East*): Well, after the discussion on the point of order, Mr. Chairman, I am prepared to argue very strongly that this committee has the right to call the governor of the Bank of Canada.

The CHAIRMAN: Will you quote your reference to the authority for that—that we have the right?

Mr. MARTIN (*Essex East*): If you will just delay, Mr. Chairman—

The CHAIRMAN: I should like some guidance.

Mr. MARTIN (*Essex East*): I am trying to give you guidance because I know that is what you honestly want.

The CHAIRMAN: You mean that is what I need.

Mr. MARTIN (*Essex East*): No, I did not say that, and I think you are honestly looking for guidance because, as you say, you are anxious to have the governor of the Bank of Canada come before this committee, and the point of order is as to whether or not we have the authority in the present context of this committee to ask the governor of the Bank of Canada to come before us.

What is there in the point of order raised by the hon. member for Muskoka? I will say that the point of order of the member for Muskoka was given substance by the refinement and experience of the hon. member for Peace River. This committee has the power to call persons, to call for documents, and that is precisely what we are seeking to do.

Now, the Minister of Finance has given us his view as to our authority. He said he would not stand in the way of the banking and commerce committee exercising its rights. I put the question in the House of Commons on two occasions to our distinguished chairman, as he will recall. I asked the chairman when would the banking and commerce committee be called for the purpose of enabling us to have an opportunity of examining the governor of the Bank of Canada. The chairman of this committee never took refuge in the cowardly view that we did not have the right to call the governor of the Bank of Canada. But the government gave that as a reason. He, of course, recognized that we had that right, and apparently because of the influence exercised upon him by the Minister of Finance he now takes the position that we are not allowed to call the governor of the Bank of Canada.

The CHAIRMAN: Mr. Martin—

Mr. MARTIN (*Essex East*): Mr. Chairman, on the point of order—

The CHAIRMAN: Your statement that I did not object, that I wanted this—if you will go back and read *Hansard* you will find that I felt, quite frankly, that you were out of order.

Mr. MARTIN: Yes.

The CHAIRMAN: As you are now.

Mr. MARTIN (*Essex East*): Well, Mr. Chairman, I would again—

The CHAIRMAN: Will you correct your statement?

Mr. MARTIN (*Essex East*): I am going to correct it at once. You are quite right. You did say to the House of Commons, much to the amusement of the members of the house, that my question was also out of order and you were repudiated in that by the Minister of Finance. However, that was just an aside which you yourself invited. I just wanted the record straight.

Mr. NUGENT: Mr. Chairman, you have been much too hard on Mr. Martin.

Mr. MARTIN (*Essex East*): The hon. members are obviously stunned by the government defeat in this committee this morning. That is something which will go out to the country as a reflection upon hon. members because of the fact that the government of the country this morning in this committee was defeated by a vote of the committee.

Mr. DRYSDALE: This is the first time I have seen any Liberals in this committee for a long time.

Mr. MARTIN (*Essex East*): This committee decided to give priority to discussion of the question as to whether or not the governor of the Bank of Canada should be here.

The CHAIRMAN: Order. You made a statement to the effect that we voted on whether or not we would have the governor of the Bank of Canada.

Mr. MARTIN (*Essex East*): No.

The CHAIRMAN: You just said so. What we voted on here this morning was that this matter should be adjourned until the end of the meeting. Am I right?

Mr. MARTIN (*Essex East*): No. It was that the other matter would be deferred.

The CHAIRMAN: Mr. Martin, please be a little accurate in your statements.

Mr. MARTIN (*Essex East*): Mr. Chairman, may I again warn you of the great danger of a chairman expressing from the chair views that are so obviously partial. This is a very serious thing for the chairman to do.

The CHAIRMAN: I am just checking you on your statements.

Mr. MARTIN (*Essex East*): If I have made a statement which is not in accordance with the situation, then it is open to some hon. member to call on the chair for a point of order.

Mr. DRYSDALE: Do not filibuster it, Paul?

Mr. MARTIN (*Essex East*): What we are now asking this committee to do, in accordance with its rights, in accordance with practice and in accordance with the traditions of parliamentary committees is to call the governor of the Bank of Canada. Why is that in order? First of all, the government of Canada, through the Minister of Finance, says that the governor of the Bank of Canada is responsible only to parliament and that he has nothing to do—he being the Minister of Finance—with matters having to do with monetary policy and the like. The governor of the Bank of Canada has made an annual report which has been presented to parliament.

Mr. AIKEN: It has not been referred to the committee.

Mr. MARTIN (*Essex East*): We have asked in parliament for this.

An hon. MEMBER: Parliament has not—

Mr. MARTIN (*Essex East*): Just contain yourself.

Mr. AIKEN: Mr. Chairman, we are not discussing this.

An hon. MEMBER: Take your seat.

Mr. AIKEN: I will not take my seat for the hon. senior member who considers me a junior member.

The CHAIRMAN: Will you both sit down. Mr. Martin, you rose on a point of order and you have gone over this thing. Mr. Aiken wishes to rise on a point of order. He should have the opportunity to make his statement so that every member will know what it is.

Mr. PICKERSGILL: He does not know, himself.

The CHAIRMAN: I am ruling that he should state what his point of order is.

Mr. MARTIN (*Essex East*): The point of order is clear. I know what the point of order is.

The CHAIRMAN: I do not.

Mr. PICKERSGILL: Why do you not allow it to be discussed if you do not know what it is.

The CHAIRMAN: I have my own ideas on this.

Mr. AIKEN: Mr. Chairman, I thank you. My point of order is this: There is no subject before this committee which the governor of the Bank of Canada could discuss. There has been nothing referred to this committee unless they want to call the governor of the Bank of Canada to discuss the National Mortgage Corporation of Canada which is before us. There is nothing else before us or referred to us. I would like to see someone discuss that subject instead of everything else.

Mr. MARTIN (*Essex East*): Mr. Chairman—

The CHAIRMAN: Mr. Martin, on the point of order I would like to quote Beauchesne's fourth edition, citation 304(1):

> A committee can only consider those matters which have been committed to it by the house.

Mr. MARTIN (*Essex East*): May I continue my argument?

The CHAIRMAN: Wait a minute.

Mr. MARTIN (*Essex East*): I am dealing with this question.

Mr. DRYSDALE: When are you going to get to it?

Mr. MARTIN (*Essex East*): Mr. Chairman, would you allow me to make my argument on the point of order. I am addressing myself to it. I was taking the committee through various steps, which have taken place in the last few months, in order to substantiate my points in replying to the point of order raised by the hon. member for Parry-Sound-Muskoka. Hon. members may not agree with what I have to say, but I am entitled to state it in my own imperfect or perfect manner. I would ask the chair to assist me, against the resistance which attends every argument we in this party make.

Mr. DRYSDALE: You never have a point.

Mr. MARTIN (*Essex East*): I pointed out, first of all, that the government of Canada said that the governor of the Bank of Canada was responsible to parliament and that in matters assigned to it under the Bank of Canada Act the government had no responsibility in the matter. Consequently, a report tabled by the governor of the Bank of Canada in the House of Commons is now the subject matter for consideration by the House of Commons. The third point is—

Mr. DRYSDALE: It is not referred to the committee.

Mr. MARTIN (*Essex East*): I am coming to that.

Mr. DRYSDALE: We have the budget at 7:30 tonight and I do not want to miss it.

Mr. MARTIN (*Essex East*): When that comes down, I suspect it will be found that the governor of the Bank of Canada has clearly assisted the government in the proposals it is about to make.

Mr. DRYSDALE: That is the purpose of this discussion today.

Mr. MARTIN (*Essex East*): No; it is in answer to your interruption. The Minister of Finance has said that he would not stand in the way of this committee exercising what it conceives to be its right to examine the governor of the Bank of Canada. You yourself as chairman, as I have already established, have expressed the view that you would have liked us to have had the opportunity to examine the governor of the Bank of Canada.

The CHAIRMAN: May I point out that you are not discussing the point of order which has been raised. The point of order is whether or not we should deal with anything in this committee that was not referred to it by the house.

Mr. MARTIN (*Essex East*): I am now going to deal with that.

The CHAIRMAN: You do not mind if I call you back when you go off into the hay field?

Mr. MARTIN (*Essex East*): No. I appreciate that you have difficulty in resolving a very simple argument; because that is the case, I now move that the committee ask the leave of the house to call the governor of the Bank of Canada for the purpose of—

The CHAIRMAN: Order! Order!

Mr. MARTIN (*Essex East*): I am now dealing with the point of order.

Mr. MORTON: Then follow the procedure, which you should know.

The CHAIRMAN: You know that you cannot have two motions. I am going to deal with this motion first.

Mr. MARTIN (*Essex East*): I am now dealing with the point of order. The hon. gentleman said we do not have the power in this committee. I am now proposing a modification of the motion which is now before the committee.

The CHAIRMAN: I am ruling it out of order.

Mr. MARTIN (*Essex East*): What?

The CHAIRMAN: Your motion.

Mr. MARTIN (*Essex East*): On what grounds?

The CHAIRMAN: I have a motion here.

Mr. MARTIN (*Essex East*): What are the grounds?

The CHAIRMAN: That you cannot have two motions before the committee at one time.

Mr. PICKERSGILL: There is only one.

The CHAIRMAN: We are dealing with a point of order in which the member for Muskoka raised the point that we should not deal with this matter because it has not been referred to us by the house. I am going to ask you again to deal with that and that only.

Mr. MARTIN (*Essex East*): That is right. I am glad you finally mentioned that. I was interrupted by the intervention of the hon. member for Muskoka.

Mr. NUGENT: He is going to make a motion. He has finished dealing with the point of order. Can someone else speak?

Mr. MARTIN (*Essex East*): I have not finished. Perhaps the hon. gentlemen would just contain themselves. The member for Muskoka has taken the position, obviously supported by members of his party, that this committee does

not have the power to call the governor of the Bank of Canada. I have indicated that if that is the view of the majority, then there is no difficulty in putting forward a motion which will deal with the situation.

Mr. DRYSDALE: Wait until later.

Mr. MARTIN (*Essex East*): Now the chairman takes the position that there is a motion before the committee. I suggest that we can meet the constructive suggestion—if that is what it is—put forward by the member for Muskoka and ask leave of parliament so that we can obtain the necessary authority, if it is now lacking, to call the governor of the Bank of Canada before us. So I would suggest, in view of the ruling you just made, that we dispose of that matter and deal with the other one which will meet the objection of the hon. member for Muskoka.

Mr. DRYSDALE: May I speak on the point of order. We have heard the hon. member for Essex East. I must compliment him on the excellent turn-out of Liberals in this committee now. I do not think I have ever attended a meeting when I have seen so many Liberals at one time.

Mr. MARTIN (*Essex East*): We thank you for the compliment.

Mr. DRYSDALE: There was a remark made by the hon. member for Bonavista-Twillingate which reflected on the Minister of Finance. I believe he used the word "sneaking". I think that the particular reference to the word "sneaking"—

An hon. MEMBER: It was withdrawn.

The CHAIRMAN: I would advise the member that we are dealing with the point of order raised by Mr. Aiken.

Mr. DRYSDALE: I am trying to show that the one point which is before this committee is that the only way we could logically and obviously be entitled to examine the governor of the Bank of Canada is if the house had referred the report of the Bank of Canada to this committee. That has not been done. The hon. member for Essex East, despite his constant ramblings, has omitted this particular point. The only thing we have had referred to the committee at this particular time is the National Mortgage Corporation of Canada. If the hon. member for Essex East wants to take the obvious method, I suggest he should ask the house to have the report of the Bank of Canada referred to this particular committee; then he would be able to deal with the governor. I suggest the only reason he has raised this particular matter at this time is for purely political manoeuvering.

Mr. MARTIN (*Essex East*): Mr. Chairman, I rise on a question of privilege.

Mr. DRYSDALE: You are a little too sensitive.

Mr. MARTIN (*Essex East*): No hon. gentleman has the right to impute motives which reflect upon the character of a member. My friend said that the only reason why we have brought this matter forward is for political considerations.

Mr. DRYSDALE: Manoeuvres.

Mr. MARTIN (*Essex East*): He said we could have resorted to this procedure in the House of Commons. It is well known we did try.

The CHAIRMAN: Order.

Mr. MARTIN (*Essex East*): I am rising on a question of privilege.

The CHAIRMAN: Order, order!

Mr. MARTIN (*Essex East*): The hon. gentleman has insinuated that the only reason why we have taken this particular course this morning is for political motives. I am pointing out that in the House of Commons we did try by moving the adjournment—let me finish—by moving the adjournment of the

house to obtain leave to have the governor of the Bank of Canada come before this committee. That motion was turned down by an overwhelming vote supported by the government.

Mr. AIKEN: You never even voted on it. You let it pass. There was not a recorded vote on it in the house.

Mr. MARTIN (*Essex East*): We are not raising this question for political reasons.

Mr. AIKEN: You never even voted on it. You let it pass.

Mr. MARTIN (*Essex East*): This is a question of privilege. We are not raising this because of political reasons. We are raising this because we feel that in view of this regrettable incident parliament has the right to examine the governor of the Bank of Canada. That is a right you have. The hon. gentleman has accused us of political motives—

Mr. DRYSDALE: "Political manoeuvres". I never saw so many Liberals in the whole place at one time.

Mr. MARTIN (*Essex East*): I ask the hon. gentleman to withdraw that remark.

The CHAIRMAN: What was his remark?

Mr. MARTIN (*Essex East*): He said the reason we brought this matter up was for political motives.

The CHAIRMAN: His remarks were referring to what Mr. Pickersgill said, which I think was far more critical.

Mr. MARTIN (*Essex East*): Mr. Chairman, I move on a question of privilege—

Mr. DRYSDALE: I am on the question of privilege. I want to get an explanation. I accused the hon. members of conducting political manoeuvres and I did say, I passed the view, that I had never seen so many Liberals attending any committee meeting. The second point is, there appears to be an all-out effort to examine governor Coyne, despite the fact that these were confidential documents referred to the Minister of Finance. The third point is, the budget is being introduced at 7:30 tonight and when you take the whole thing together, I can see nothing but political manoeuvres.

Mr. MARTIN (*Essex East*): Are you not going to call members of your own party to order? I am on a point of privilege.

The CHAIRMAN: What is your privilege?

Mr. MARTIN (*Essex East*): I am telling you for the third time, a political motive.

Mr. DRYSDALE: I did not say "political motives": I said "political manoeuvres".

The CHAIRMAN: I do not think there is anything unparliamentary about "political manoeuvres".

Mr. DRYSDALE: What is wrong with "political manoeuvres"? You do it all the time.

Mr. CARON: But you cannot impute political motives.

Mr. DRYSDALE: I never used the word "motives". "Political manoeuvres" was what I said based on the circumstances. If you can come to any other conclusion I would be interested to find out.

Mr. MARTIN (*Essex East*): Mr. Chairman, do you take the position that there is no point of order?

The CHAIRMAN: I am not the Speaker of the house: I would ask for a little guidance whether "political manoeuvres" is unparliamentary. I will ask Mr. Pickersgill.

Mr. DRYSDALE: He is good at political manoeuvres, so he can speak as an expert.

Mr. PICKERSGILL: As a matter of fact, the chairman has asked me a question. I do not think the chairman has any right to ask members questions, any more than he has the right to answer them. I would say that, so far as I am concerned, I do not think there is anything that any hon. members of this committee could say about me that would worry me very much. But I do say this: that I always try to abide by the rules of parliament, both in and out of committee, and I think—

Mr. DRYSDALE: When do you start?

Mr. PICKERSGILL: I think it is in the interests of orderly debate to do so. There is absolutely no doubt that Mr. Drysdale did make a reflection upon the motives of Mr. Martin. He said it was done either for purposes of political manoeuvring or—

Mr. DRYSDALE: Get it straight, political manoeuvring.

Mr. PICKERSGILL: The hon. member is the master of his own words.

Mr. DRYSDALE: Thank you.

Mr. PICKERSGILL: If he meant by "political manoeuvring", that we were exercising the right and the duty of the opposition in a political assembly, then I say to him that that is a perfectly proper thing to do. But if he meant that we were trying to get some partisan advantage when all I was trying to do was uphold the rights of parliament, then, of course,—

The CHAIRMAN: Order.

Mr. PICKERSGILL: He is being slanderous. I am answering the question the chairman asked me. Now, the chairman does not seem to want to hear the answer to the question he himself put.

Mr. BALDWIN: May we have a ruling on the point of order of Mr. Aiken?

Mr. BENIDICKSON: Mr. Chairman, I want to speak on the point of order.

Mr. NUGENT: Does the Chair need more assistance on the point of order? Members speak to it only if the chair needs more assistance. I submit the Chair does not need any more assistance.

Mr. BENIDICKSON: He obviously thought the Chair needed more assistance, because only about sixty seconds ago he rose on a point of order.

I intend to be brief and to speak succinctly. My point of order is this, that this committee has some rights. This committee has privileges. The question of whether or not this committee should consider the report of the bank of Canada has been raised in the House of Commons on many occasions since this parliament assembled. I, myself, raised it in 1959 and on subsequent occasions.

Now, hon. members will realize that on each occasion when the question was addressed—not to the chair, Mr. Chairman, but to the Minister of Finance,—he said, with blandness, that he considered it should not be discussed. He said with persuasiveness for those who listened to him, that he was not influencing in any way the decision of this committee—

The CHAIRMAN: I did ask you to speak to the point of order.

Mr. PICKERSGILL: That is what he is doing.

Mr. BENIDICKSON: I am saying that we members of the committee are stating what our agenda should be. We have heard the Minister of Finance and we now have a statement diametrically opposed to that, from the governor of the bank of Canada, who says that the Minister of Finance is responsible for the fact that he has been prevented from coming to this committee. It is the privilege of members of this committee, and I suggest to you that I, myself, have the privilege—

The CHAIRMAN: Will you state your authority for that?

Mr. BENIDICKSON: Well, I am confident that this is right.

The CHAIRMAN: All right, state your authority. I am asking for guidance.

Mr. BENIDICKSON: Any member has a right to raise a question of privilege as to his status as a member of parliament and a member of a committee. I think this striking difference in the statements of the Minister of Finance and the governor of the bank of Canada has to be cleared up by this committee because it involves the rights and the authority of this committee.

Mr. DRYSDALE: I wonder if we can get some clarification? I was trying to speak on the original point of order. I seem to have been sidetracked. I do not think I finished my observations. Is it in order now?

The CHAIRMAN: I think I am prepared, after listening to a great deal of discussion—and I am now referring back to Beauchesne, that great authority, who states that a committee can only consider those matters which have been submitted to it by the House of Commons. I am ruling that to discuss this today is out of order.

Mr. MARTIN (*Essex East*): Mr. Chairman—

Mr. DRYSDALE: Mr. Chairman—

Mr. MARTIN (*Essex East*): I have the floor.

Mr. DRYSDALE: You have had it all morning.

The CHAIRMAN: Mr. Martin rose on my ruling.

Mr. DRYSDALE: I am rising on another matter. You made a ruling and I rose to make a motion.

The CHAIRMAN: I do not think I can deal with another motion until I deal with the ruling.

Mr. MARTIN (*Essex East*): He is making another motion.

The CHAIRMAN: He is dealing with the ruling. I do not know anything about being chairman, I admit that, but, by God, I am finding out that there are an awful lot of law breakers right in this committee.

Mr. DRYSDALE: I am sure you are referring to the hon. member for Essex East.

The CHAIRMAN: I am dealing with this matter where he is appealing my ruling.

Mr. MARTIN (*Essex East*): No, Mr. Chairman, you misunderstood me. I said that I rose—

Mr. DRYSDALE: I want to rise to make a motion.

Mr. MARTIN (*Essex East*): Will you please take your place?

Mr. DRYSDALE: You are not in the chair.

Mr. MARTIN (*Essex East*): I was recognized by the chair.

The CHAIRMAN: Order. I recognize you, Mr. Martin; you rose to appeal my ruling. Those were your words.

Mr. MARTIN (*Essex East*): Mr. Chairman, I just said the opposite. I said that I rose to accept—

Mr. DRYSDALE: Then, I want to rise and make a motion.

Mr. MARTIN (*Essex East*): I would like to make a motion which I now make. I move that the committee ask leave of the house to call the governor of the Bank of Canada for the purpose of examining him on the annual report of the bank. This motion is seconded by Mr. Pickersgill.

Mr. DRYSDALE: Can you read out the motion, Mr. Chairman?

The CHAIRMAN: I will. Mr. Martin moves that the committee ask leave of the house to call the governor of the bank of Canada for the purpose of examining him on the annual report of the bank. You have heard the motion; what is your pleasure, gentlemen?

Mr. AIKEN: I wish to speak on the motion. This morning we have had one discussion already on general points and now we have a second motion. Naturally I am going to oppose this motion. We have gone all round the block this morning on this subject and have not really discussed the subject at issue at all.

In the first place this committee has business before it. I think the committee ought to conclude its business before it discusses anything else. In the second place, the order of business of any committee is a matter for the steering committee; it is not a matter for the committee itself. In the matter of an orderly conduct of the business of any committee, the steering committee is appointed as the committee on agenda and procedure. I think it is quite wrong for us to bring up a matter on the spur of the moment without any regard to the committee.

An hon. MEMBER: Spur of the moment?

Mr. AIKEN: There was no notice given to members of the committee that this was going to be brought up this morning. The only notice I had was when I came in at 11 o'clock and saw all the press here. Then I realized they were going to bring up something else. This has been so obvious that I comment on it. I am not being unfair to the press; I merely say it. Then when all the Liberal members started walking in, that was my second notice.

I say that this is not a proper matter to be discussed in the committee in the partisan attitude in which it was brought in this morning. I do not think anyone will argue that it was not partisan. It was worse than that at times. We cannot discuss this thing on a spur of the moment motion when everybody is in the mood they are in this morning. The business of the committee on agenda and procedure is to discuss these matters in a cool, calm and collected manner. There is no possibility of that this morning. It is obvious that part of the manoeuver was that—and I use that word advisedly—on the day of the budget it should cause some embarrassment to the government.

Mr. MARTIN (*Essex East*): The last thing we would do.

Mr. AIKEN: I submit that I do not think we should be pushed around in this sort of way to the point where we are losing all sense of propriety in the running of this committee.

We have business before us. Our committee on agenda and procedure meets and makes a decision on what we should do, and then brings in a recommendation to the committee. We have business to discuss this morning. I am going to vote against this, and if it is defeated I am going to make a further motion.

Mr. BALDWIN: Mr. Chairman—

Mr. PICKERSGILL: Mr. Chairman, I suggest that—

Mr. BALDWIN: I think I have been recognized.

Mr. PICKERSGILL: It is usual to alternate the parties.

Mr. BALDWIN: I have been recognized.

Mr. MARTIN (*Essex East*): Then that is another ruling of the majority.

Mr. DRYSDALE: You have had an hour.

Mr. BALDWIN: Having invited the president and members of this corporation here, it is quite obvious that what has happened has been for political purposes and it is a shocking disregard for the rights of people who were called here at 9:30 on a very important measure. The committee is the master of its own destiny. These gentlemen, however, were called here for this purpose and were given a specific hour. We have embarked upon a course which is entirely at variance to what we were called here to do and should be doing.

I quite agree with what Mr. Aiken has said, and as a matter of fact I am going to move an amendment to the motion to the effect that this matter should be referred to the steering committee. I think that is proper.

The CHAIRMAN: You would be out of order.

Mr. MORTON: No. This is an amendment.

Mr. BALDWIN: I have moved an amendment to the motion and we might have a discussion as to whether or not it is in order; I do not know, but I think it is. I think the matter should be discussed in a place where there would be more light and less heat. For the reasons Mr. Aiken mentioned it is most unlikely we will get anything but heat here this morning. I think the members of the steering committee should meet to consider this interesting motion of Mr. Martin's. He could press it in the same vigorous way before the steering committee. Of course, it would be in more of a cloistered atmosphere.

Mr. DRYSDALE: It would be too late after the budget.

Mr. BALDWIN: For this reason I move the amendment, seconded by Mr. Nasserden, who I am sure will wish to speak on the amendment in due course.

Mr. DRYSDALE: I would like to speak on the amendment.

Mr. BALDWIN: I will write out the amendment which is to the effect that this motion be referred to the steering committee for consideration.

Mr. MCILRAITH: If I understand the amendment correctly, it is that the matter be referred to the steering committee. If you read the motion you will see that it asks that we ask the house, or recommend to the house—what is the language?

The CHAIRMAN: Ask the leave of the house.

Mr. MCILRAITH: The amendment now is that we ask the steering committee to recommend.

The CHAIRMAN: No.

Mr. DRYSDALE: Refer it to the steering committee first.

Mr. MCILRAITH: I would like to point out to you, Mr. Chairman, that it is not an amendment. That is a complete negation of the motion. Therefore, it is out of order and ought not to be received; it is clearly out of order.

Mr. DRYSDALE: On the point of order—

Mr. MCILRAITH: I have stuck to the point of order and have tried to make it relevant. The point of order is that an amendment cannot be a mere negation of the motion.

The CHAIRMAN: It is not.

Mr. MCILRAITH: It is. If you will read the motion and then the amendment you will see that the amendment is not proper, because it merely dispenses with the motion in an indirect way. It does not vary the motion in any way at all. It is therefore not in order.

The CHAIRMAN: I cannot agree. The amendment is that the motion be referred to the steering committee. Is that a negation of the motion.

Mr. MCILRAITH: I understood the mover to say that the subject matter be referred.

The CHAIRMAN: No. It says that the motion be referred to the steering committee. Is that a negation?

Mr. MCILRAITH: Yes; it is, because the motion has to do with the privileges of members of the House of Commons who are seeking from one authority—the House of Commons—the right as set out in the motion. The intent is to submit that to the House of Commons. This refers it to a steering committee. It affects the privileges of members, and the steering committee has no authority whatever over the rights and privileges of members. Therefore, it is negation of the motion itself and is completely out of order and ought not to be received.

Mr. DRYSDALE: On this very narrow point of order raised by the hon. member, I would suggest that this is the usual procedure in the committee, for

motions of this nature to be referred to the steering committee. It is a reference to the steering committee for their consideration and reporting back to the main committee. This merely is an interim step in the procedure, and it is not a negation of the motion. I suggest that since this is done all the time that it is proper to have this type of amendment, because all we are doing is giving a greater detailed consideration to the motion itself, so as to have the steering committee examine into it, have the hon. member from Essex East make his representations, and then report back to the committee. Then we can consider at that time referring it back to the house.

It is merely an interim step and it is a quite proper one and done regularly.

Mr. CRESTOHL: On the point of order, Mr. Chairman, no one will admit that the steering committee is a superior body to this committee. I understand that the hon. member is now inferring that the steering committee is a superior authority to this committee or the House of Commons.

Mr. DRYSDALE: I never said it was.

Mr. CRESTOHL: All we are asking now is this should be submitted to the highest authority, and not to an inferior authority.

I respectfully submit that this body, the entire committee is superior, after all, to the steering committee. We are asking that this matter be decided by the superior body.

Mr. BELL (*Carleton*): Mr. Chairman, we are debating an amendment, not a point of order.

Mr. CRESTOHL: Even an amendment should not be submitted to an inferior authority. Rather, it should be kept at the highest level and submitted to the highest authority. That is why I think the motion is in order.

Mr. MORTON: Mr. Chairman, may I speak to the point of order that has been raised. We have two things before us. One is a motion in which we are asking authority from the house to call the governor of the Bank of Canada.

Mr. MARTIN (*Essex East*): One at a time.

Mr. MORTON: The amendment has nothing to do with the substance. It is a matter of procedure. It is when the matter comes before the committee that the committee then has discretion as to how to deal with the motion before it, either reference to another place for consideration or, in some cases, tabling it, and then it is considered at a later time.

Therefore, the amendment is in order because it is a matter of dealing with the motion. The amendment is to refer to the steering committee, which is the committee which deals with our order of procedure in full committee. The steering committee will not deal with the substance of that motion. They will deal with a consideration as to the best time this matter might be brought forward, and when it can be considered with more light than heat.

I agree with the observation that has been made that we are not in the best of moods to deal with this situation.

Mr. MARTIN (*Essex East*): You mean that the members are not?

Mr. MORTON: I am not going to refer to which members are not. I think this matter is in order. It is a matter of how to deal with it and it is perfectly in order to move the referral to the committee.

The CHAIRMAN: Order.

Mr. AIKEN: Mr. Nugent wants to speak.

The CHAIRMAN: I think I have heard and I am ruling that the amendment is in order and I am going to call on those in favour—

Mr. AIKEN: Shall we have any discussion on the amendment? Mr. Chairman, keep the thing in order please. You have just ruled that the amendment

is in order. We have had no discussion on the amendment whatever. I see Mr. Nugent on his feet and he wants to speak on the amendment. Surely we should deal with one thing at a time.

The CHAIRMAN: Do you wish to speak?

Mr. NUGENT: That is my ambition.

The CHAIRMAN: Your ambition has been attained.

Mr. NUGENT: I am now speaking on the amendment to the motion. As I understand it the question of the amendment is that this should be referred to the steering committee and the motion is that we should ask leave of the house to call the governor of the bank.

I thought I would comment on some of the points that were mentioned when we were discussing this so that this comimttee could properly consider what our duty is. I am stressing the word "duty", Mr. Chairman, because I heard Mr. McIlraith interject, when Mr. Aiken was mentioning the fact that it is possible that these people who are sponsoring bill S-16 were here today and had been called and had not been heard, that it was a pity we could not get on with the bill they originally came here to discuss. I heard Mr. McIlraith say in respect to these people that they came here asking for that. Then, a couple of minutes later, he interjected that they were not called here, but that they were permitted to come. Mr. Chairman, I am suggesing that the purpose of this committee is to deal with this sort of matter.

The CHAIRMAN: Mr. Nugent, will you deal with the amendment please?

Mr. NUGENT: I will get to that, Mr. Chairman. This is on the frame of mind we must have in order to properly approach this question. I am saying that this committee does not have just privileges—we have duties and I wanted to be sure that Mr. McIlraith and the Liberals understand these rights and then I will deal specially with the amendment.

There is a suggestion here that these are people who find it necessary to have an act passed by parliament to achieve their purpose and parliament has seen fit to refer that bill to this committee. They are faced with wrangling and see an attempt made to put in something that has not been referred to us, so arranged apparently for their edification rather than their business.

Mr. PICKERSGILL: I rise to a point of order.

Mr. DRYSDALE: Liberals ignoring the rights of parliament again.

Mr. PICKERSGILL: I rise to a point of order, the decision taken by the committee, the point Mr. Nugent is now speaking to. Votes in the committee like votes in the house, are not debatable. Therefore, he should not proceed in that line.

Mr. DRYSDALE: Some time ago Mr. Martin said he had another engagement.

The CHAIRMAN: Mr. Nugent, will you please deal with the amendment. In fifteen minutes we have to be in the house.

Mr. AIKEN: He is leading up to it.

The CHAIRMAN: In fifteen minutes we have to be in the house.

Mr. NUGENT: He said—

Mr. MARTIN (*Essex East*): Would Mr. Nugent permit me to make one remark in the interest of expedition. We have these other gentlemen here and I think we are all anxious to be fair to those who have representations, and I would submit that we deal with the amendment and then dispose of the main motion. We could then meet at 12 o'clock to deal with the bill.

Mr. NUGENT: I suggest that Mr. Martin is perhaps a little late. It shows the state of mind in which we are approaching our problem. We already have one of the Liberals repenting. I am hopeful that with a little more pointing out of the seriousness of their transgressions we might in future avoid some

of the scenes we had this morning and avoid having people come before this committee and finding themselves unable to be heard, and also avoid having them insulted by members like Mr. McIlraith who said that they came here asking a favour—"we just permitted him to come here: we are handing out largesse".

Mr. Chairman, I think that with these few words as to our mental attitude —I cannot see that the committee can consider adequately this amendment without putting itself in a proper state of mind. As you have already seen, Mr. Martin has had his state of mind improved some, and I would bet that a few more Liberals will find themselves in the same position.

Mr. PICKERSGILL: I suggest that the mental attitude of some of the members is against the rules of the house.

Mr. NUGENT: We cannot expect people to come to this committee and put up with a show like we have had before us today. We cannot let the press or people come to this committee and go away with the idea that we are handing our favours.

The CHAIRMAN: Mr. Nugent, you are out of order.

Mr. NUGENT: Well, I have been in better form, I confess.

The CHAIRMAN: I called you to order three times.

Mr. PICKERSGILL: Put the question, the amendment.

The CHAIRMAN: The question is that the motion be referred to the steering committee; all those in favour will please signify.

Yeas, 15.

Mr. PICKERSGILL: Are you satisfied that every member who voted is a member of this committee?

Some hon. MEMBERS: Shame.

Mr. PICKERSGILL: I just asked the question.

The CHAIRMAN: All those against will please signify.

Mr. AIKEN: Call the names of the members.

Nays, 9.

The CHAIRMAN: Against?

Mr. DRYSDALE: It would take a Liberal to think of something like that.

Mr. AIKEN: Would you call the names of the members?

The CHAIRMAN: The clerk of the committee will call the names of the comittee.

The CLERK OF THE COMMITTEE: Mr. Garland, Mr. Martin, Mr. Pickersgill, Mr. Crestohl, Mr. Caron, Mr. Clermont, Mr. Benidickson, Mr. McIlraith, and Dr. McMillan.

An hon. MEMBER: And Mr. Macnaughton.

The CHAIRMAN: He is not on the committee. Dr. McMillan went on for Mr. Macnaughton.

Mr. MARTIN: Mr. Bourque.

The CHAIRMAN: Your name is not on the list.

Mr. BELL (*Carleton*): Yes, it is, that was put on last night.

The CHAIRMAN: Against? Nine. It is fifteen to nine. I declare the amendment carried.

Now, we will deal with the motion.

Mr. MORTON: No, it is referred to the committee.

Mr. MARTIN (*Essex East*): I suggest that we adjourn now and meet at 12 o'clock and listen to the representations in connection with the bill before us.

Mr. BELL (*Carleton*): Let us proceed.

Some hon. MEMBERS: Proceed.

Mr. BELL (*Carleton*): Call the bill.

Mr. MORTON: Just call it.

The CHAIRMAN: The bill is S-16.

Mr. BENIDICKSON: In connection with this bill, an act to incorporate National Mortgage Corporation of Canada, I would like to move, seconded by Mr. Garland, that the officers of this committee notify Mr. Coyne that it wishes his attendance at this committee to obtain his views on bill S-16 because of the views expressed in a memorandum he submitted to the Minister of Finance dated February 15th in which he deals inter alia with questions of capital needs, a mortgage market and interest rates relating thereto, loan companies et cetera.

In that connection, I want to be very brief.

Mr. HICKS: I move that we adjourn.

Mr. THOMAS: I second that motion.

Mr. BENIDICKSON: The validity of this motion may be questioned, Mr. Chairman, and I want to briefly say that page 3 of the memorandum deals with housing and interest rates; page 8 deals with mobilization of capital investment in Canada, and page 10 deals with loans and mortgage companies—also, page 11; pages 14 and 15 deal with the refinancing of mortgages, and I want to refer the committee, Mr. Chairman to the last clause of the bill, which says:

> Except as in this act specifically provided, the corporation has all the powers, privileges, and immunities conferred by, and is subject to all the limitations, liabilities and provisions of,

—and I want to emphasize—

> the Loan Companies Act.

—which, of course, is another item of discussion in a memorandum to the Minister of Finance under date of February—

Mr. THOMAS: On a point of order, Mr. Chairman. It was moved by Mr. Hicks and seconded by myself that the committee adjourn.

Mr. AIKEN: Mr. Chairman, I want to speak to this matter.

The CHAIRMAN: It is now ten minutes to eleven, and I would like to hear when you would like to proceed with this meeting this afternoon. If it is agreeable to the committee, I would suggest that we meet at two-thirty this afternoon.

Mr. MORTON: What about 12 o'clock?

Mr. MARTIN (*Essex East*): Why not 12 o'clock?

The CHAIRMAN: You would like it when?

Mr. MARTIN (*Essex East*): The War Measures Act committee meets at one o'clock, and I suggest we meet at 12 o'clock.

Mr. PICKERSGILL: Or, as soon as the orders of the day are over.

Mr. AIKEN: Mr. Chairman, I want to say something before the committee adjourns, on the motion. I think it is the most outrageous thing that ever has happened to draw these gentlemen, who are here on a private bill, into the midst of a political discussion. I think it is terrible. I cannot think of a word to describe it.

Mr. CRESTOHL: Don't hide behind that.

Mr. AIKEN: I am not.

Mr. PICKERSGILL: You should have been around here during the pipeline debate and learned some of the facts.

The CHAIRMAN: Order, gentlemen.

Mr. AIKEN: I am going to finish what I had to say. This is the most outrageous disregard for the rights of private individuals that I have ever seen. Mr. Nugent touched on it, and I am going to insist on continuing. These gentlemen came here to have a bill discussed, and—

Mr. BENIDICKSON: Are you speaking to my motion?

Mr. AIKEN: I certainly am. This has nothing whatever to do with the political discussion between the Minister of Finance and the governor of the Bank of Canada. Why should these gentlemen be drawn into this thing because they just happen to be here this morning? I think it is outrageous. I will vote against it for no other reason than that.

Mr. THOMAS: On a point of order, Mr. Chairman.

The CHAIRMAN: Order. I have had a motion to adjourn, and it has been properly seconded. My suggestion is that we meet at—

Mr. NUGENT: Two-thirty, not 12 o'clock.

Mr. AIKEN: What further time was set for today for a second meeting?

The CHAIRMAN: None.

Mr. AIKEN: Then I do not know how we can go ahead. We have three or four other committees meeting today. We cannot proceed this afternoon.

Mr. BENIDICKSON: Now, who wants to be considerate to the witnesses?

Mr. DRYSDALE: We were not expecting this Liberal circus.

The CHAIRMAN: I think in view of the fact these witnesses have come here today—

Mr. HICKS: And it has been a real jamboree.

The CHAIRMAN: I would like to do something which would be agreeable to them. What time would you like?

Mr. NUGENT: There will be nothing done but wrangling today, because Mr. Benidickson has given notice of what he is going to do.

The CHAIRMAN: All those in favour of adjourning until 12 o'clock? All those opposed, if any? Carried.

Gentlemen, we will meet again at 12 o'clock and, I hope, in this room.

AFTERNOON SITTING

TUESDAY, June 20, 1961.

The CHAIRMAN: Well, gentlemen, I believe we now have a quorum.

Mr. BROOME: We had a quorum two minutes ago.

The CHAIRMAN: Gentlemen, we have to finish here at least by 2:30 because this room will be occupied at that hour. Rooms are scarce today, so I am going to ask you to make your deliberations as brief as possible. Do you have your motion, Mr. Benidickson?

Mr. BENIDICKSON: No, I think the clerk has it.

The CHAIRMAN: Oh, the reporter took it away.

Mr. BENIDICKSON: Just before 11:00 o'clock, in answer to a question—I just forget who asked it—but it was a question on order, and it said that my motion was inconsiderate of the present witnesses who had been notified to come to this committee today. I know very definitely what was in the motion, even though the copy has gone to the reporter. But it did not say that we should hear Mr. Coyne in any priority to hearing the witnesses who are here with us today. It simply said, as I recall it, that the committee should ask the

officers of the committee to communicate with Mr. Coyne and indicate to him that the committee was hoping to hear his views in connection with this bill to incorporate the National Mortgoge Corporation of Canada, because I used a number of phrases which relate to the mortgage business; I referred to mortgages in general, and to the capital market, and to interest rates which were related to mortgages, and also the fact that this bill refers to loan companies and mortgage companies and that Mr. Coyne's memorandum dealt with all these matters.

Now I could, if the committee is in any way uncertain as to the appropriateness, or shall I say the tie-up, give you the basic considerations which must be before us when we are dealing with the mortgage business and the references which I gave this morning, which referred to the statement in the submission of Mr. Coyne to the minister, of February 19th, if there is any doubt as to the relevancy.

The CHAIRMAN: Mr. Benidickson, I rule that anything you are referring to is out of order because we are dealing with your motion to hear Mr. Coyne before this committee.

Mr. BENIDICKSON: No one has challenged it; I think it could be taken as granted. Nobody apparently has challenged the question of its relevancy.

Mr. DRYSDALE: Well, I challenge it now, and I raise a point of order. This is a private bill, not a public bill. I think the distinction is fairly obvious in the way it was introduced, and the great limitations whch have been placed before the committee. There might possibly have been some right or justification, had this been a public bill which was referred to this particular committee, to bring in the governor of the Bank of Canada; but I suggest it would be ludicrous with every private bill which was introduced which may refer to mortgage matters or to banking—even if the hon. member were right in his submission that even though this is a private bill it does not matter how infinitesimal the change was—that he would be entitled to call in the governor of the Bank of Canada for a full scale debate on banking policy in Canada, because it has been mentioned in the particular bill. I think it is obvious from the very nature of the matter before us that this situation should not prevail; and it is quite clearly stated in Beauchesne in regard to the other matter, in citation 304, that a committee may only consider those matters which have been committed to it by the house. The only thing we have had committed to us is this particular private bill dealing with a mortgage company. It has gone through the Senate, and it has gone through the necessary procedures regarding the introduction of a private bill, and I think it is obvious that it is beyond the scope of this committee to bring in the governor of the Bank of Canada because there is something mentioned about money or mortgages in the bill.

Mr. PICKERSGILL: On a point of order, may I say that when a motion is submitted by a member, the point of order must be raised at once. But he accepted the motion. Mr. Aiken spoke to the motion and did not question the appropriateness of the motion. He said that he was speaking to the motion itself, not to a question of order, and it was accepted by the whole committee before 11:00 o'clock that this motion was in order, and that we should just divide on the motion in due course one way or the other. I suggest that since that decision was already taken, and since there was no point of order,—and I am quite prepared to argue Mr. Drysdale's point if you think it is necessary—I submit that the motion is in order, and I think we are only wasting our time in arguing a question of order. I think we might debate the motion briefly, and then have the question put, so that we could get on with the work of the committee.

Mr. BENIDICKSON: Mr. Drysdale raised two points of order which led him to oppose my motion. The first one was that we are not dealing today with

bill S-13, which is a public bill, but rather we are dealing with a private bill, S-16; and I indicated to him that I am not proposing to make long speeches on my motion. However, I do not want it thought that I have brought forward something which in my opinion is not relevant. The memorandum of Mr. Coyne does distinctly deal with private mortgage and private loan companies. This bill will have the powers which are granted under the Loan Companies Act. I will quote from page 10 where Mr. Coyne says:

> More encouragement should also be given to existing institutions . . . credit unions, local savings banks, loan companies and mortgage companies.

Mr. AITKEN: Is this the confidential document?

Mr. BENIDICKSON: I am reading from the document which has been widely quoted in the press. It is the document dated February 15 and appears to contain ideas given by the governor of the Bank of Canada to the Minister of Finance which he thinks would correct many of the difficulties in the economic system in Canada at the present time. I could give you many other quotations from it which would indicate that the suggestions of Mr. Coyne in this memorandum are worth hearing, because it refers very definitely not to a public incorporation for mortgage purposes, not for the purpose of having loans provided by some central government mortgage company, but rather deals definitely with private corporations. That was Mr. Drysdale's first point.

Mr. DRYSDALE: Then, following the hon. members logic, does he mean that any time a public official makes any pronouncement dealing with banking and commerce that he is then automatically entitled to appear before this committee and deal with every bill?

Mr. CRESTOHL: If he can help the committee.

Mr. DRYSDALE: Has the hon. member any statutory authority in respect of this?

Mr. BENIDICKSON: We have the authority given by the house. That is my second point. Mr. Drysdale asks, are we, in connection with every incorporation of a mortgage company, going to call the governor of the Bank of Canada. My answer was that I was going to say "Of course not necessarily"; but this is the first incorporation of a private mortgage company with substantial capital which has come before us.

Mr. BROOME: Would you not agree that Mr. Coyne most likely will make a pronouncement on this as he makes a pronouncement on everything?

Mr. BENIDICKSON: I cannot speak for Mr. Coyne. I was preparing to answer by saying that this is the first incorporation of a mortgage company to come before us. It is known to us that this very important official in the economic sphere has made very important and widespread observations with regard to what should be done in the mortgage field and what should be done to encourage capital in Canada for housing, and what should be done in respect of the interest rates in matters related thereto. Perhaps I would not be making a motion that everytime we have a similar mortgage company incorporation that we also have the governor of the Bank of Canada; but we do say that we would be very negligent in our duties in respect of this very important matter if we did not have his economic views and definite observations on this subject.

Mr. GARLAND: I would like to say a few brief words in support of the motion of Mr. Benidickson.

Mr. NUGENT: Might I suggest that we give the witnesses who have been called an appointment to come back another time. It seems that the Liberals are going to take up all the time on this.

Mr. GARLAND: Mr. Chairman, I am in your hands.

The CHAIRMAN: You have the floor. I would like to point out, as I announced earlier, that we can only stay here for so long and we have this very important bill to deal with. I would hope that we could deal with this motion as rapidly as possible.

Mr. GARLAND: Mr. Chairman, I am always very brief; I am a man of few words. I would like to see effect given to the purpose of this motion, because I think Mr. Coyne could make an important contribution here. Surely this bill, S-16, with which we are dealing gives the broadest possible power—power to buy and sell mortgages, power to administer mortgages of their own and all others, and powers to raise money. These things have a great effect on our economy. Some of us for a long time have supported the idea of the establishment of an effective secondary mortgage market in this country. I would like to remind you, Mr. Chairman and the other members of the committee, that in the 1956 report of the bank, Mr. Coyne recommended the establishment of a secondary mortgage market in this country. In view of the importance of the steady flow of mortgage money, if this incorporation is not going to affect the flow of money into housing at reasonable interest rates, then, of course, it has no meaning. In view of the importance of this motion, I think members of the committee should give it the most careful consideration and should support it.

The CHAIRMAN: I will read the motion. Moved by Mr. Benidickson, seconded by Mr. Garland, that the officials of this committte notify Mr. Coyne that the committee wishes his attendance at this committee at the present time and his views on bill S-16, because of the views expressed in the memorandum he submitted to the Minister of Finance dated February 15, in which he deals inter alia with questions of capital needs, of mortgage markets, and interest rates related thereto, loan companies and so on.

All those in favour of the motion?

Mr. HORNER (*Acadia*): Mr. Chairman, I had no idea you were going to present the motion.

The CHAIRMAN: All those against the motion?

I declare the motion defeated.

Gentlemen, today we have with us the Hon. C. P. McTague and Mr. J. L. Whitney, Q.C., who is the parliamentary agent. Mr. Morton is the sponsor of bill S-16, an act to incorporate the National Mortgage Corporation of Canada.

Is Mr. McGregor here? Mr. McGregor, would you come up here and give us the benefit of your guidance and assistance?

Mr. MARTIN (*Essex East*): I think it is very important that we should have the distinguished servant who is with you now sitting at your right at this committee meeting. I just point out how absurd it is to argue that it is not proper to have the governor of the Bank of Canada or any other governmental servant to discuss the bill.

Mr. BELL (*Carleton*): It is improper to reflect upon a decision of the committee.

Mr. AIKEN: Not only that; it is nonsense. I have never seen such utter nonsense.

The CHAIRMAN: Gentlemen, I am going to try to get the bill through today and I hope I will have the cooperation of Mr. Martin and everyone else in carrying this out.

The CHAIRMAN: Now, I will call the preamble.

On the preamble.

The CHAIRMAN: Will the sponsor of this bill, Mr. Morton, who is a member of this committee, introduce the parliamentary agent and other interested parties?

Mr. MORTON: Mr. Chairman, there is very little I would like to say in introduction. I just want to introduce, as you have named, the Honourable Mr. C. P. McTague and Mr. John Leo Whitney, who have come before us. They have developed this bill, and the idea of it. It is a very important step, I think, in the development of mortgage lending, and I would like to call on Mr. McTague first, to explain the procedure to us.

The HON. CHARLES PATRICK MCTAGUE: Mr. Chairman and gentlemen, I think we might make more rapid progress in connection with this bill by perhaps calling on the superintendent of insurance, Mr. MacGregor, because we did prepare the draft of a bill which we submitted to him, and because we will be under his jurisdiction. Prior to the meeting of the senate committee in regard to this bill, Mr. MacGregor, together with us, settled on the terms of the bill in so far as they satisfied the policy, and also in so far as they satisfied the mechanical ways of dealing with this type of bill. We came to a clear understanding, and no problem developed in the senate committee, except in regard to the matter of the name.

I would suggest, Mr. Chairman, if I am in order, that Mr. MacGregor is probably the person most concerned and the person most able to explain the general setup in connection with this bill.

All we are trying to do, I might say, Mr. Garland, is to be the first instrument in connection with a secondary market in N.H.A. mortgages principally, and in that regard we have as much interest in the type of interest charges, what they are going to be, and what can be done to be of help, as you have. We do not want to be of anything but help in regard to the whole situation.

Mr. GARLAND: Mr. Chairman, could I clear up a point at this time, as I think it will save the time of the committee.

I would like to say, as I said in the house when we discussed this bill, that I in no way am objecting to the principle of the bill. I think there is a place for this kind of institution in our country. In fact, I have spoken out for a measure such as this for the last three or four years in the house. It is only in the one aspect of it that I have any concern, and that is in the matter of the name. I think the use of the name "National" and "of Canada" clearly implies a federal agency, and I think that is wrong. It is only in that one aspect that I have any objection to it.

The CHAIRMAN: We will be dealing with the title a little later on. If we are able to proceed in an orderly manner at this time, I would like to do so.

Mr. DRYSDALE: On a matter of procedure, Mr. Chairman, before Mr. MacGregor speaks I would like to hear Mr. McTague's comments on the bill, since they are coming before us to ask us to approve this particular legislation. Then, I think after they have made their statements, it would be appropriate for Mr. MacGregor to make his comments; otherwise, we are putting Mr. MacGregor in the position of carrying the bill. I must say that I have taken this stand before, and I think it is purely a matter of procedure.

The CHAIRMAN: Mr. McTague has made a statement, and he has asked Mr. MacGregor to speak at this time.

Mr. DRYSDALE: Mr. Garland has raised a question in connection with the name. Mr. McTague referred to it, but said nothing about it. I would like to hear a statement from Mr. McTague in regard to the name.

Mr. MCTAGUE: I am prepared to deal with the question of name at the proper time. However, in the meantime, in regard to the contents of the bill, I would like Mr. MacGregor, who, of course, is perfectly neutral in regard to the question of name, to speak to the other matters in the bill.

The question of the name is going to be my problem. However, as regards the different sections of the bill, as was his duty and obligation, and as he

has not so much endorsed but cooperated and worked on it in his official capacity, I think the best possible explanation you could hear in regard to that part of it is from him. I, myself, will deal with the name, and I am content to do that. However, I would like to see an outline of the bill. This bill, and its operation, will be under the jurisdiction of Mr. MacGregor as long as Mr. MacGregor is around, and then his successors.

Mr. MARTIN (*Essex East*): I think Mr. McTague's request is a reasonable one.

Mr. DRYSDALE: Just on the one point of clarification, I still feel, as a matter of principle, that somebody is coming before this committee asking for some legislation to be passed, and that the onus should not be put on the Superintendent of Insurance to set out the principles and the understanding of the bill.

What I was interested in, Mr. McTague—and it is not a criticism of you personally, or this particular legislation—is that I think that it is of some value to the committee, when those sponsors of the bill give their impression, —because they are trying to introduce it—their understanding of the principles involved and, after that, it would be an appropriate time for Mr. MacGregor to make any comments he wishes.

Mr. STINSON: Mr. Chairman, I do not intervene frequently in a matter of this kind. However, it seems to me that when an advocate appears before a committee to put forward a proposal for this committee's consideration, he should come here and describe personally the substance of this proposed legislation, and then we might appropriately hear the comments of Mr. MacGregor on what Mr. McTague has said.

It seems to me to be quite improper for a government officer to have to carry the burden of explanation initially. Surely this is a fundamental principle of the committee's proceedings and I, as most other members, am interested in having those persons who are proposing this legislation come forward, stand up and set out for us the principles of the legislation. Then, as I say, I think it would be appropriate to have the comments of Mr. MacGregor on what the proposal is. Surely, that is basic procedure.

Mr. PICKERSGILL: Mr. Chairman, I do not disagree with what is being said, if there is any controversy about the matter. However, I think the whole committee is in favour of every aspect of this bill, as far as I know, except the question of the title.

Mr. DRYSDALE: How do you know?

Some hon. MEMBERS: How do you know?

Mr. PICKERSGILL: I don't know.

Mr. DRYSDALE: Well, let us find out, then.

Mr. PICKERSGILL: Perhaps I might be allowed to continue without interruption. I am seeking to assist in getting through in the time during which this room is available. I thought that unless there were those who felt they needed to hear advocacy of the bill, which my friends and I do not because we are in favour of it, we would save a lot of time by carrying out Mr. McTague's suggestions and letting Mr. MacGregor tell us very briefly what is involved in the bill, and then get on to what seems to be the only subject, the title, to which there is objection.

The CHAIRMAN: Is that agreeable to you, Mr. Drysdale? I think that is the normal practice.

Mr. DRYSDALE: I have objected to it in the past as a method of procedure, and I still feel the same way.

The CHAIRMAN: We have called upon Mr. McTague, who has given us a brief summary of the bill, and he has requested that Mr. MacGregor speak on it. I think we should carry on.

Mr. STINSON: Mr. Chairman, he has not given a brief summary of the bill at all. That is the sum and substance of my objection. I think it is very improper for an advocate to appear here and delegate his responsibility to Mr. MacGregor.

Mr. MARTIN (*Essex East*): I am sure Mr. Stinson really does not mean any reflection on the integrity of Mr. McTague, whom we all recognize as a very distinguished lawyer. If Mr. McTague made a certain suggestion it was only because he wanted to facilitate our work. I do not think Mr. Stinson would want to leave on the record any suggestion there was any impropriety in the course that so distinguished a counsel has pursued before us.

Mr. NUGENT: I object, like Mr. Drysdale, to this being taken as a means of procedure. However, I think the witnesses have been held up by other matters and we could make an exception in this case and hear Mr. MacGregor directly; but I think it should be recognized it is not the usual method of doing things. I think Mr. Stinson's remarks and those of Mr. Drysdale are perfectly in order, but I think we should make an exception, and call it an exception.

The CHAIRMAN: Shall we hear Mr. MacGregor?

Some hon. MEMBERS: Agreed.

Mr. K. R. MACGREGOR (*Superintendent, Insurance Department*): Mr. Chairman and hon. members, the purpose of the bill, is to incorporate a so-called loan company. This company, if incorporated, would operate under the provisions of the Loan Companies Act. The distinguishing characteristic of a loan company under the Loan Companies Act is the power to lend on the security of real property and otherwise deal in real estate mortgages.

There are not many loan companies federally incorporated which are now operating in Canada. There are actually five licensed under the Loan Companies Act. Of these, three were incorporated before the turn of the century. One was incorporated in 1920 and the last in 1955. Therefore, they are not a common type of company being incorporated now.

Their original purpose was, of course, to provide mortgage funds, and these companies raised their funds to lend on mortgages, usually through the acceptance of deposits from the public or through the issuance of debentures to the public. Sometimes in the early days the companies issued debentures in the United Kingdom in sterling, and they lent the proceeds in Canada on the security of real estate here.

One of the reasons why there have not been so many loan companies in recent years is, of course, that the function of mortgage lending has been taken up and absorbed to quite an extent now, as all hon. members know, by the insurance companies, the banks, pension funds and so on. In that sense, the need for a loan company is perhaps less than it originally was when there were not other companies and agencies in the field for that purpose.

I might say a word about the only loan company that has been incorporated in recent years, that being the Gillespie mortgage corporation, which was incorporated in 1955. That company was incorporated for a rather special purpose, namely, to act as a mortgage correspondent in this country, a practice which is quite common in the United States but which is much less common here. A mortgage correspondent company of that kind usually works in association with a United States life insurance company doing business in Canada. The mortgage company arranges and makes the mortgage loans and then sells them to the insurance company, thus saving the United States insurance company the trouble of setting up a mortgage lending department here. But, of course, in cases of that kind the funds of the mortgage company are always revolving, and that company, the Gillespie mortgage corporation, has operated largely on bank loans.

Hon. members are aware of the talk we have heard in recent years about the desirability of creating a so-called secondary mortgage market in Canada,

and that purpose or objective really underlies the proposed incorporation of this company. Of course all loan companies of this type, help foster a secondary mortgage market, in the sense that through the issuance of debentures to the public they enable the companies to invest the proceeds largely in real estate mortgages. I may say that the assets of the five loan companies already licensed are invested in mortgage loans to the extent of between 75 and 80 per cent, the remainder being largely in government, provincial, municipal and corporation bonds, stocks and so on.

There is a model bill at the end of the Loan Companies Act, for the purpose of incorporating a loan company. This bill follows, so far as possible, the provisions of the model bill, but it has two or three clauses of a rather special nature. I would draw attention in particular to clauses 8 and 9.

Mr. MARTIN (*Essex East*): And clause 10.

Mr. MACGREGOR: Not so much to clause 10, Mr. Martin. The main thought and purpose of the promoters of this company is that they would segregate the funds of the loan company. Ordinarily the funds of a loan company are pooled and whether the company accepts deposits or issues debentures, or both, its liabilities to the public are backed by all of its mortgages, bonds and other assets of the company. In this case the promoters thought there would be a particular popular appeal if a series of debentures were offered to the public backed solely by National Housing Act mortgages. Consequently the purpose of clause 8 is to provide for a separate fund for the sale of what is called in the bill "series A mortgage bonds". These bonds would be offered to the public and the proceeds from their sale would be put in a separate fund and invested wholly in National Housing Act mortgages.

Clause 9 is of a similar nature and it would provide for the creation of another separate fund in connection with the sale of what is described in the bill as "series B mortgage bonds".

Series B bonds would be offered to the public on the basis that the proceeds from their sale would be put in this separate fund B and would be invested in conventional mortgage loans, and perhaps also to some small extent in real estate for the production of income.

In addition to these two separate funds, there would of course be the company's own funds comprising its paid capital and reserves. I would like to draw one point to the attention of the committee in connection with any loan company operating under the Loan Companies Act. These companies are not in the position where they may accept an unlimited volume of deposits from the public or where they may issue an unlimited volume of debentures to the public regardless of the amount of capital, reserves and surplus they may have.

The Loan Companies Act has a provision in it that limits the volume of what is called "borowed money" to 12½ times the company's unimpaired paid capital and reserves, and borrowed money includes not only deposits accepted from the public, but all debentures issued to the public, money borrowed from a bank or borrowed money of any other kind. In other words, this provision ensures that the Company's liabilities to the public are kept commensurate with its capital and reserves so as to provide a reasonable margin of protection for the public.

By reason of that kind of clause, the loan companies usually have a fairly substantial capital. I might mention that of the five loan companies presently licensed, two have an authorized capital of $20 million, one has an authorized capital of $10 million and the other have an authorized capital of $2 million and $1 million, respectively. The last one mentioned, with a capital of $1 million, is the Gillespie Mortgage Corporation which I referred to earlier, and that company, by reason of the special nature of its operation where its funds are always revolving, does not need a very large capital.

Would you wish me, Mr. Chairman, to run through the bill briefly, making a few comments on the clauses that have a special aspect to them?

Mr. THOMAS: I would appreciate it, Mr. Chairman.

The CHAIRMAN: Is that the wish of the committee?

Agreed.

Mr. MACGREGOR: Clauses 1 and 2, of course, follow the usual pattern of the model bill.

Clause 3 states that:

> Not less than seventy-five per cent of the directors of the corporation shall at all times be Canadian citizens ordinarily resident in Canada.

Mr. DRYSDALE: How many directors were envisaged in this section or are envisaged by this company?

Mr. MACGREGOR: The Loan Companies Act provides a minimum of five and a maximum of 30 directors. The significant feature of clause 3 is not the size of the proposed board but rather the proportion of the board that shall be Canadian citizens ordinarily resident in Canada. The Loan Companies Act simply requires that a majority of the board shall have the qualifications stated here.

Mr. DRYSDALE: How many are contemplated under this particular bill?

Mr. MACGREGOR: The size of the board? I do not know.

Mr. MCTAGUE: Five to commence with, but they have perhaps eleven and they may later develop a larger board in accordance with the Loan Companies Act.

Mr. BROOME: Is that particular provision in your bill?

Mr. MCTAGUE: The Loan Companies Act.

Mr. MACGREGOR: The Loan Companies Act reuires that a majority of the board shall be Canadian citizens. This goes a little further, requiring 75 per cent rather than a bare majority.

Referring now to clause 4, the authorized capital of the corporation would be $10 million, which may be increased to $15 million. This kind of clause is included in the model bill, and the Loan Companies Act recognizes that the initial capital may, through subsequent action of a special general meeting of the companies, raise it higher but not beyond the upper limit stated in the bill.

Mr. CRESTOHL: It would not require supplementary letters patent to increase the capital stock?

Mr. MACGREGOR: No, Mr. Crestohl, a loan company cannot be incorporated by letters patent.

Mr. CRESTOHL: Or the supplementary bill?

Mr. MACGREGOR: That is correct. Section 37 of the Loan Companies Act states that after the initial authorized capital has been fully subscribed and at least 50 per cent paid, then the directors may pass a resolution increasing the capital to any amount not beyond the upper limit stated in the special act, but it must be dealt with at a special general meeting and be carried by a majority of at least two-thirds of the issued capital stock.

Subclause (2) of clause 4 is not usually included, and it ensures, or is designed to ensure, that at least 60 per cent of any offering of the stock shall be reserved for a period of 15 days for purchase by corporate or natural persons ordinarily resident in Canada.

Mr. DRYSDALE: How would it be reserved?

Mr. MACGREGOR: It would be offered only in Canada.

Mr. HORNER (*Acadia*): For a period of 15 days.

Mr. MACGREGOR: The intention is to allow Canadians to subscribe first.

Mr. BENIDICKSON: Is there nothing to prevent a Canadian national, after exercising this privilege during the 15-day period, from immediately selling his stock?

Mr. MACGREGOR: I should think not.

Mr. DRYSDALE: What does "ordinarily resident in Canada" mean under this clause? Is there no prerequisite of Canadian citizenship for this particular offer?

Mr. MACGREGOR: It is the same wording as the wording included in the insurance acts, the Trust Companies Act and the Loan Companies Act. In practice it pretty well means domiciled in Canada, a Canadian citizen ordinarily resident in Canada. As it states, the person must, of course, be a Canadian citizen, but so far as residence is concerned, the word "ordinarily" is usually interpreted to mean domiciled in Canada—a person who spends most of his time at that place of residence.

Mr. DRYSDALE: It would be rather difficult to supervise in case you relied on the bona fide of the company's issuance.

Mr. MACGREGOR: We have not had any difficulty in administering that provision, and it has been in all our acts for quite some years.

Mr. THOMAS: Might I ask, Mr. Chairman, what is the source of the word "natural"?

Mr. MACGREGOR: It means an individual, as against a corporate person.

Mr. GARLAND: Mr. Chairman, I notice that the brief that was presented by the sponsor of the bill in the house makes reference, and I will read this part of the sentence "A group of Canadians have joined in common interest with the assistance of certain U.S. associates". I was wondering what was meant precisely by those words.

Mr. MACGREGOR: I should rather leave that question to be answered by the promoters of the bill. I am quite happy to give you my understanding of the situation, and it has changed from time to time along the way.

Mr. GARLAND: That is what I wanted—your understanding. How is this to be carried out?

Mr. MACGREGOR: As I understand it, the first block of stock will be offered in Canada. I understand that the stock generally will be offered in Canada, and it rather looks as though a good deal of it may be taken up in Canada. If it cannot all be raised in Canada, then I understand that it will be raised in the United States.

So far as the issuance of debentures is concerned, they will be offered everywhere, but I think the company probably hopes to attract quite a bit of money from the United States. That is a general statement. At the same time I might perhaps mention the amounts involved. In the bill we just got to clauses 5 and 6 dealing with the initial capital required before it may commence business. Clause 5 is of the usual kind. Clause 6 states that:

> The corporation shall not commence business until at least five hundred thousand dollars of its capital stock has been bona fide subscribed and at least two hundred thousand dollars paid thereon.

That, of course, would only permit a very limited operation because the volume of borrowed money could not exceed 12½ times the amount of paid capital. I understand the initial plans of the company are to raise a capital of about $5 million, and to offer, in the first instance, only series "A" mortgage bonds, that is bonds or debentures backed by National Housing Act mortgages. The initial fund, series "A", is expected to be of the order of $50 million.

Mr. GARLAND: Could I ask you one further question in respect to the series referred to? If these bonds were offered to the banks at 6 per cent, I notice a reference to this legislation was made by the sponsor, Senator Brunt who had this to say:

It is further proposed that the holders of series "A" bonds shall participate in any profit earned by the fund which is created by this particular investment.

My question is this, could the banks which purchased these bonds participate in further profits and thus earn more than 6 per cent?

Mr. MACGREGOR: That was a provision that was discussed in the early stages, Mr. Garland, but my understanding is that it has been abandoned.

Clause 7 is of the usual kind. It is included in the model bill, in this case providing for the location of the head office of the company in Toronto.

Mr. MARTIN (*Essex East*): I wish Mr. McTague could arrange for the head office to be in Windsor.

The CHAIRMAN: Mr. McTague will give that careful consideration.

Mr. MACGREGOR: Clauses 8 and 9 are the significant clauses. Clause 8 deals with the establishment of the separate fund which will be invested solely in national housing act mortgages, which, in turn, back the series A mortgage bonds.

Clause 9 is exactly the same, except that the investment of the fund will be confined to conventional loans and real estate for the production of income.

There is not much that need be said about the substance of these two clauses. Their whole purpose is to ensure that each series of bonds will have assets earmarked for the protection or security of those particular bond holders. These clauses provide that if at any time the investments in these funds deteriorate, if losses are incurred on mortgages, then the company must transfer from time to time from its own general funds a sufficient amount to keep the fund in balance with its liabilities.

Mr. CRESTOHL: In connection with the rate of interest, what is the authority which fixes that?

Mr. MACGREGOR: There is nothing I can say, Mr. Crestohl, except that it is usually left to the directors of the company to fix the rates of interest which will attach to a new debenture issue. It is settled by the directors. You will see that in clause 8(1). They may change the rate from time to time, but only for new issues, of course.

Mr. CRESTOHL: There is no ceiling?

Mr. MACGREGOR: There is none in the act.

Before leaving clauses 8 and 9 it might be noted that power is given to set up an investment reserve in each of these funds against mortgages which may call for action of that kind.

Clause 10 is exactly the same but refers to the company's own funds, where power is given to set up an investment reserve for the protection of the general funds. There is nothing unusual in that respect. There is power in the general act to set up investment reserves and the only purpose in spelling it out here is because of the segregation of the company's funds into three parts.

Clause 11 is significant and is not usually included, of course, in one of these bills. The general act gives every loan company the power to accept deposits from the public. In this case the corporation has no desire to accept deposits and our view in the department was that by reason of the segregation of funds it would be undesirable if the company were to accept deposits, because if it were to do so, the depositors would not have the general protection of all of the funds of the corporation, as they usually do.

Mr. BENIDICKSON: To average out.

Mr. MACGREGOR: Yes, to average out. The assets would be kept in separate accounts—the series A fund, the series B fund, and so on.

Neither is clause 12 ordinarily included in bills with which the department is familiar. Clause 12 provides for paying a commission upon the sale of the company's stock. Usually, when insurance companies, trust companies and so on

are being incorporated, the money to capitalize the company is in sight. In this case, however, it is intended to offer the stock to the public, and hence the promoters desire to have some provision in the bill which would sanction that practice. Without specific authority, my understanding is that the company would be precluded from paying a commission, since it is tantamount to offering shares at a discount.

Clause 12 follows very closely a similar clause which has been included in recent pipeline bills, but this clause limits the maximum commission to 7½ per cent, whereas the pipeline bills set the limit at 10 per cent.

Mr. CRESTOHL: Would it the unfair to conclude that anyone subscribing to the stock can do so at a discount of 7½ per cent?

Mr. MACGREGOR: It is a fine legal point, Mr. Crestohl, the whole theory of offering shares at a discount and the authority necessary to pay a commission. I think the Hon. Mr. McTague might explain it.

Mr. MCTAGUE: You will notice that that is a permissive clause, Mr. Crestohl, and we certainly hope that we are not going to have to pay any 7½ per cent as far as that is concerned, but as to what we do pay, you can understand we are in negotiations with underwriting houses, and so on, right now. The way you put it applies, but it does not necessarily have to be 7½ per cent, and in our negotiations it is not anything like that at the moment.

Mr. BENIDICKSON: I suppose you can avoid it by simply refusing a subscription.

Is Mr. McTague familiar with the charge, the commission range for a mutual fund for the discharge of the mutual subscriber, when he placed his money in the fund? There is usually an organization which supervises that. It is not just a normal term—there is a special word for it—is it a fee?

Mr. MCTAGUE: You mean someone has paid a fee in regard to the mutual fund?

Mr. BENIDICKSON: I saw about two weeks ago in the *Financial Post* a list of the practices of all the Canadian mutual funds. My recollection is that 7½ per cent was higher than the fee charged by any of the management organizations of the mutual fund.

Mr. MCTAGUE: I think roughly that is correct.

Mr. MACGREGOR: Then, so far as clause 12 is concerned, it is not of course for me to express any personal opinion about it. We have heard a good deal, nevertheless, about the desirability of getting Canadians to invest in their own institutions. Yet, when stock is offered, it seems to be necessary to put pressure on and to pay a commission to sell them stock.

From the departmental point of view, as I said earlier, we usually see the money in sight to start a new insurance company, trust company and so on. From our own administrative point of view, naturally we prefer that. Where stock of a new company is offered to the public, I always have the fear that, because of the fine reputation of insurance companies and dominion loan and trust companies, the public may expect too much, and expect it too soon. If the stock is widely held by the public they may expect dividends before the company is really in a position to pay dividends. There may be pressure to pay a larger dividend than the company should pay in its early stages. That is cause for fear, from an administrative point of view. But it is no reason for suggesting that stock ought not to be offered to the public, in their own institutions.

Then, clause 13, the final clause of the bill, starts out by referring to exceptions. It says:

> Except as in this act specifically provided—

and the main exceptions to the powers granted to a loan company under the general act are, first of all, the prohibition set out in clause 11 of this bill against the company accepting deposits.

Ordinarily a loan company would have that power, without anything more being said about it.

Then, another exception is the reference to the proportion of the board that must be Canadian citizens. In this instance it is 75 per cent, instead of a bare majority.

Another exception, in a sense, is the provision or the requirement for the establishment of these two separate funds, namely series "A" and series "B" mortgage funds. Ordinarily, the funds of a loan company would be pooled, and would not be segregated.

Mr. DRYSDALE: I do not understand clause 13 (3) where it refers to "general funds defined". It says:

> (3) In this act "the general funds of the corporation" means all of the funds of the corporation other than mortgage fund A, mortgage fund B or funds held by the corporation in its capacity as agents.

I am trying to relate that to section 11 which says:

The corporation shall not accept money on deposit.

What funds are envisaged?

Mr. MACGREGOR: In the ordinary course these funds simply would be the company's paid capital, reserve funds and surplus, being funds belonging solely to the shareholders themselves. But there is a provision in the Loan Companies Act that authorizes or permits a company to act as an agency association, as it is called.

In other words, a company of this kind may accept money from the public, under direction, for investment. In that case the investments made by the company as agent are as restricted as for its own funds.

But, subclause (3), the one to which you have referred, is worded particularly to take into account the possibility that a loan company might have some agency funds, as well as the series A or series B funds or general funds.

The CHAIRMAN: Thank you, Mr. MacGregor, for your assistance. I am sure every member of the committee appreciates it.

Mr. THOMAS: Mr. Chairman, I have one question. Under the Loan Companies Act, is a mortgage company permitted to deal in second mortgages?

Mr. MACGREGOR: There is no prohibition against second mortgages. But the amount lent, after taking into account any mortgage ranking equally with the mortgage being made, or superior to it, must never exceeed 60 per cent of the appraised value of the property, and there are amendments now before the House of Commons for the purpose of raising that limit to 66⅔ per cent. Under the Act, a loan company is empowered to make a second mortgage, if it wishes. But the second mortgage, together with any first mortgage, must not exceed 60 per cent of the appraised value of the property.

I may say, that in practice, they do not make second mortgages.

The CHAIRMAN: Shall the preamble carry?

Mr. GARLAND: May I ask this question, whether Mr. MacGregor has any objection to the name of the company?

The CHAIRMAN: Well, let us take that later, in the discussion on the title.

Mr. BELL (*Carleton*): Let us proceed with clause 1 and then continue through the rest of the bill.

The CHAIRMAN: Then, what about clause 1?

Mr. BELL (*Carleton*): Let it stand.

Mr. BENIDICKSON: Are the incorporators likely to control the company, or are they, at the moment, agents for the people who are likely to own the majority of the stock?

Mr. McTAGUE: At the present time, and for some little time, we shall have the control of it. But as we have these debentures sold, and as we make offerings of the company stock, where the control might end up is hard to say. However, what we have tried to do, in every way possible, is to keep it Canadian.

Mr. BENIDICKSON: Have you any approach, as yet, in connection with American capital?

Mr. McTAGUE: Oh yes, we have had discuusions, on a combined basis, with some of the top American investment houses, and some of the top Canadian investment houses, all in a group.

Mr. BENIDICKSON: I may say that I think members of the committee will all want to express their satisfaction at the presence here today of the Hon. Mr. McTague, who is looking so well.

Members of the committee will know that he has undertaken a great many public services during his career. I am sure, too, that they are familiar with the fact that, when he undertook his last important task, namely the chairmanship of the recent transportation commission, that while assuming those heavy duties his health was impaired—and, indeed, his successor found perhaps the same circumstances—although I believe he was able to struggle through with the report.

However, let me say just how pleased we are to see the Hon. Mr. McTague here today, after his illness.

Mr. BELL (*Carleton*): So say we all.

Mr. McTAGUE: Well, gentlemen, I still have my successor on my conscience a little bit, because I do not think that, perhaps, he is as well as I am.

Mr. GARLAND: As a matter of policy, will there be any specific attempt made to offer these to the small investor?

Mr. McTAGUE: Yes.

Mr. GARLAND: I mean the real small one, the man with only perhaps $200?

Mr. McTAGUE: Oh yes, that is the reason why the stock is on a $10 basis. And then, also, in regard to bonds, mortgage bonds, debentures, we hope to sell them in small proportions, in order to involve as many people as possible.

Mr. GARLAND: How do you propose to offer it?

Mr. McTAGUE: Just through small denomination debentures.

Mr. GARLAND: Then, one other aspect; when this measure was given second reading in the other place there were two references made by the sponsor in that place, Senator Brunt, where he made reference to the possible use of the funds for older homes. At one point he said this:

> This fund will be used in connection with the financing and the sale and purchase of older homes, and to provide funds for investment in the conventional mortgage field—

and so on. And in the next paragraph he said:

> Finally, under this particular fund, the company intends—and this, to me, is a rather unique feature—to give consideration to ways and means of making houses and homes already built and requiring conventional mortgage financing—

and so on. Have you any comment on that?

Mr. McTAGUE: Well, you will have noted, in that connection, that we have not asked power to accept deposits. That is founded on this principle, that we feel, dealing exclusively and in a major way with N.H.A. mortgages, and providing secondary markets, that those mortgages have to be serviced.

Our theory is—and I may say the bill really has nothing particular to do with it—but our theory is that we can, by directing our energies in just that

way, lend, handle and service mortgages on a cheaper and better economic basis than our competition can do, when it is only part of a general operation with him.

Basically, gentlemen, that is our theory in the whole matter.

In other words, you probably realize that you can take four people, perhaps, and service a good many million dollars worth of securities and debentures in one way or another. But you will need four people to handle and service mortgages.

Mr. GARLAND: But you would here envisage more than in the normal course of events.

Mr. MCTAGUE: No, but that will be part of our contemplated job. In that regard we will have to be working with C.M.H.C., and so on.

The CHAIRMAN: We will leave the matter of the title, and proceed to clause 2.

Clause 2 agreed to.

Clauses 3 to 7, inclusive, agreed to.

On clause 8—power to issue series A mortgage bonds.

Mr. BENIDICKSON: I do not wish to say much on this section, except that, as Mr. MacGregor has pointed out, this is somewhat unusual, so far as the model is concerned.

However, I do not want to hold up the proceedings of the committee, more than to say that I was not attempting to be irrelevant this morning in what I said at that time. I think the governor of the Bank of Canada had quite a bit to say on this general subject of encouragement to an increase in savings, and of course encouragement for the savings of Canadian nationals.

This whole policy is close to the subject of this matter of savings by Canadian nationals. I will say no more on the subject, but I should add that what I said this morning was not by way of a superfluous motion, by any means.

Clause 8 agreed to.

Clauses 9 to 13, inclusive, agreed to.

The CHAIRMAN: Shall the title carry?

Some hon. MEMBERS: No.

The CHAIRMAN: I should point out that I received a phone call from Mr. Woodard of Central Mortgage and Housing Corporation.

Mr. MACGREGOR: He was here this morning, I believe.

The CHAIRMAN: Do you wish to be heard on this? I believe he is here today.

Mr. H. WOODARD: Yes, Mr. Chairman, I would like to.

The CHAIRMAN: Then, those who are in favour of hearing Mr. Woodard would please signify.

—And, consent having been given—

Mr. WOODARD: Gentlemen, in view of the time available, I shall be brief in what I have to say. I have some notes here to which I shall refer.

May I say that I appear before you today as the representative of Mr. Stewart Bates, president of Central Mortgage and Housing Corporation. Mr. Bates is unable to be with you today.

Already you will be aware of the views he has expressed opposing the name of the proposed new company. As these views are of official record, I need not repeat them but possibly some explanatory comment would be of assistance.

First, let me say, that C.M.H.C. is in total accord with the aims and objectives of the proposed company. We feel that such companies, and there will

be more of them, can aid us greatly in implementing the government's expressed desire to see an active secondary market develop in N.H.A. insured mortgages. We stand prepared to offer any possible assistance to the new company.

Our sole reservation is as to the possible confusion in the mind of the investing public as to whether the new corporation, with its proposed name, is in any way owned by, or has its bonds guaranteed by, Canada. Already, as Mr. Bates has pointed out, there is evidence of such confusion, and we feel it will be accentuated, and thus be more serious in effect, at the time that the new corporation offers its bonds to the public.

During the last month or so, both Mr. Bates and I have received totally undeserved congratulations as to the speed with which we were proceeding with the incorporation of a new crown company to aid us in our secondary mortgage market operations. It has been necessary for us to explain, to several investment firms and to others well-versed in financial affairs, that the proposed company is not associated with Central Mortgage and Housing Corporation in either an ownership or guarantee capacity. As such confusion exists in the minds of competent financial people, I think that it is a fair conclusion to anticipate even greater misunderstanding from the general public when it considers buying the bonds of the proposed new company, National Mortgage Corporation of Canada.

It is customary for companies, such as this, to advertise extensively and to issue attractive investment brochures. Great accent will likely be placed on the fact that the series a mortgage bonds of the new company will be supported by an investment of the company in National Housing Act mortgages, substantially guaranteed or insured by C.M.H.C. or the federal treasury. Such a statement in itself is a perfectly justifiable one. However, when coupled with the proposed name of the company, and in the hands of competent and aggressive salesmen, it would be easy, without intent, to create the picture that the bonds themselves are actual obligations of, or guaranteed by, Canada. It is this we wish to avoid.

We do not criticize the principals for asking for incorporation under a name which would have the greatest possible attraction in investment circles. Neither do we hold any brief for competitors who object to a titular appellation similar to those which they themselves enjoy. Our sole concern is for the protection of the general public whose interests we endeavour to serve.

C.M.H.C. therefore suggests your earnest consideration to a change in the name proposed for the new company so as to make it clear to the investing public that the company is not crown-owned and that the bonds to be offered are not obligations of, nor guaranteed by, Canada.

I would like to close by leaving one other, but less important, thought with you. There may come a time when it might be expedient or necessary for a government to further its secondary mortgage marketing operations by establishing a Canadian counterpart to the United States secondary market corporation. Should this ever be necessary, the government would be searching for a distinctive appellation to indicate that such new corporation was owned by Canada and that its obligations were obligations of Canada. It is conceivable that the terms "national" and "of Canada" might be desirable parts of such appellation. Within the corporation we know of no such plans but we cannot overlook that circumstances, someday, might indicate such a development as being a necessary or desirable one.

Central Mortgage and Housing Corporation appreciates this opportunity of making known to you its views on and objections to, the proposed name "National Mortgage Corporation of Canada".

The CHAIRMAN: Thank you, Mr. Woodard. Now, gentlemen, are there any questions you would like to ask?

Mr. BENIDICKSON: I would be prepared to yield to Mr. Garland but, before doing so, I should like to ask one question. Does the witness know whether or not the statement made by Mr. Bates is made in the light of the views expressed in the Senate, and there recorded before their committee on banking and commerce. I know that they do not invariably have a record of the proceedings of their committee on banking and commerce, but they did on this occasion.

Mr. WOODARD: Yes.

Mr. GARLAND: I wish to say that I do not think there could be any statement made by anyone in this committee that would prove more clearly the only objection that I have expressed to this bill, and which was voiced at an earlier date.

The principle of the bill is sound. The thing that the bill proposes to do is welcome. But, certainly, there is some confusion as to whether the proposed company should be allowed to combine the use of the word "national" with the words "of Canada" in the title. In connection with what Mr. Benidickson has said, there does appear in the record of the proceedings of the Senate banking and commerce committee, some comment on this subject by Mr. Bates.

Mr. MCILRAITH: What is the date of that?

Mr. GARLAND: It is dated May 3. Anyone who is interested could find it at page 20 of those proceedings.

Mr. BENIDICKSON: Was there a vote in that committee and, if so, what was the vote?

Mr. GARLAND: There was a vote in the Senate banking and commerce committee. The hon. senators in the other place divided twice, I believe, in the committee of the whole, too, where the recorded vote was 30 to 34. So there was quite a considerable difference of opinion there.

Then, the statement this morning in my view states much more clearly than I can the only objection I have. Certainly there is confusion at the present time, and I believe there will be confusion in the future because, in the future the government of that day may well wish to establish an organization of this nature.

The CHAIRMAN: I might say that Mr. Garland extended to me the courtesy of pointing out that he was going to bring this matter to the attention of the committee. I believe we should hear what he has to say.

Mr. NUGENT: Surely this witness could be excused, and should not be required to stand here.

Mr. CRESTOHL: Apart from the merit of what he has said, it would be of interest to know how this witness comes to us today. Was he summonsed, or did he just remain alert and come here, knowing this would come up today?

The CHAIRMAN: I thought I explained that to you. I received a telephone call from Mr. Woodard telling me that he wished to come to the committee. He explained that Mr. Bates would have been here; however it would not be possible for him to be here because he would be out of town. Mr. Woodard has come in his place.

Mr. CRESTOHL: That is very good.

Mr. BELL (*Carleton*): Let us hear what Mr. McTague has to say about this.

Mr. MCTAGUE: Gentlemen, we have been quite aware naturally, of the difficulty that has been expressed. The vote before the Senate banking and commerce committee was a fairly small representation with 12 to 6 being in favour of retaining the name.

Then, in the Senate, on the debate on third reading, to which reference has been made,—and that reference is quite correct—there was a vote recorded of 30 to 34.

In addition to that, I may say that we have had representations, or that representations have been made by the National Trust Company, in which that company has expressed opposition to the use of the word "national" in our name. So far as they are concerned—and I may say that we are quite aware of the fact, that it becomes clear to us that there could be some reasonable ground for misgivings when one refers to "national" housing, and so on.

At the same time, our people, who want to get along in the world, and who also carry the good wishes of C.H.M.C. and Mr. Woodard's operation there, want to be on friendly terms. In other words, I think it is not necessary for us just to be bull-headed about the thing. We do not wish to be obstinate about things of this kind.

Having this in mind, and although we started out without any desire whatever of treading on anyone's toes, I have prepared on behalf of those who have been promoting this venture, something by way of an amendment whereby we would delete the word "national".

Mr. McILRAITH: What would you use instead?

Mr. McTAGUE: Mortgage Corporation of Canada.

Mr. McILRAITH: Why "of Canada"?

Mr. McTAGUE: Because in "of Canada", our reason is that, as you have heard it said, we are endeavouring to get some funds in the United States. We do hope, of course, to get a majority of funds here; but we do not want to get into any difficuty down there with regard to any confusion that might result from the so-called Fanny-Mae which, as you probably know, is the federal national secondary mortgage operation in the United States.

We have given considerable thought to this matter. It has got to be "mortgage". That is what we are dealing with. It is a clear description. Then, it is "of Canada". Personally, in that form, I cannot see that anybody is going to be hurt. I cannot ask Mr. Woodard, of course, to make an admission to that effect; but I believe what I have suggested would cure it.

Mr. McILRAITH: Perhaps I did not make my question clear. It seems to me that the words that are objectionable, and that you are seeking to correct, are "national" and "of Canada".

Mr. McTAGUE: "National" associated with "of Canada".

Mr. McILRAITH: Then, to correct that, you would take out only part of it, namely the word "national" and you would retain the words "of Canada".

Mr. McTAGUE: Yes.

Mr. McILRAITH: Then, since the words "of Canada" are, at least partially, objectionable, in that they indicate public ownership, why do you not use some distinctive wording in substitution for "national"?

Mr. McTAGUE: Well, I guess it is because I do not know of anything that would be appropriate, in connection with the operation of raising the money.

One must keep in mind that the name is of considerable importance, when you are offering securities to the public. Being simply "mortgage corporation of Canada"—well, I think that fits it very well.

As a matter of fact, may I say that if you will look up the 1939 statutes—and I am sure Mr. Garland will be aware of this—you will find that there is an institution known as the Federal Mortgage Bank of Canada.

That has now gone out of use. Perhaps there is some idea of reactivating it. However, "of Canada"—and I am trying to be reasonable about this—

Mr. McILRAITH: I think that you have misunderstood my position in respect of the name. I was trying to narrow down what I had to say. I under-

stand that you want to retain "of Canada" in the name, for a reason which you have given. For my purposes, I am prepared to admit that it is a good and valid reason.

Now, since those words are considered objectionable because they indicate public ownership, and since within the last hour and a half in the house we have been dealing with another identical situation, where reference was made to a name which had been wrongly given by this committee to a private corporation, and a publicly owned similar type of corporation came along a few months later and, of necessity, had to take almost the same name—well, we have just finished with that one experience—

The CHAIRMAN: Which company is that?

Mr. MCILRAITH: Export Finance Corporation—which is a private corporation, incorporated in 1959. Then, later in the same year the Export Credits Insurance Corporation added a clause to their act of incorporation which put them squarely into the export paper discount business. I can envisage that our National Housing Act amendments could put the crown in. So that is the basis of the objection.

I was going to suggest—

Mr. MCTAGUE: Well, I have no particular problem, if the word "national" is left out.

Mr. MCILRAITH: Just hear me out, please.

Mr. MCTAGUE: Yes.

Mr. MCILRAITH: So that we can overcome the objection. Since you, for other reasons, which are not really related to the objectionable one, want to retain the words "of Canada", for U.S. financial purposes, you would have to try to relate those words to something that is distinctive. Or, if you like, there is another suggestion—and you may not have considered this—and that is that you would just use the words "Canada Limited".

Mr. MCTAGUE: What words?

Mr. MCILRAITH: Mortgage Corporation (Canada) Limited.

Mr. MCTAGUE: We cannot use the words "limited" in regard to a corporation created by statute.

Mr. MCILRAITH: It would be the word "Canada" in brackets.

Mr. NUGENT: What is wrong with the suggestion which was made earlier?

The CHAIRMAN: I would like to hear you—

Mr. BROOME: I would like a word on this. I think I have a right to talk on it. Everybody else is doing so. First of all, I do not see why C.M.H.C. should say that "national" or "of Canada" is their preserve, or that a crown corporation can say this, because we have all sorts of incorporations under provincial law, and they can do anything they want to do—just so long as they do not infringe on some other name.

I think C.M.H.C. had better make up its mind as to what they do not like. I would be prepared to go along with the name Mortgage Corporation of Canada. This is going to be a major enterprise, and it needs prestige, and the best name they can pick out. These names are not the prerogative of the government.

The CHAIRMAN: I would like to point out that Mr. MacGregor has drawn to my attention the fact that in the Senate, in the debate on third reading, on motion of Senator Isnor there was the request in that motion that the word "national" be eliminated.

Mr. BROOME: That is sufficient.

The CHAIRMAN: I would like first, if I may, to hear Mr. Woodard tell us whether Central Mortgage and Housing Corporation would be agreeable to the name if the word "national" were dropped?

Mr. WOODARD: I should like to clear the record in this respect. I thought I had made it clear in my statement that we were not suggesting that "national" and "of Canada" were the prerogative of Central Mortgage and Housing Corporation. My statement was predicated on the point that we wished to eliminate confusion from the minds of the public. We believe that both sets of words would be equally confusing in the minds of the public.

Perhaps I might make a suggestion. A father is usually very proud of his child. Mr. MacGregor made reference to a somewhat similar organization, namely, the Gillespie Mortgage Association. Why could this not be the McTague-Whitney Corporation of Canada. Nothing could be better than that, and I am sure they would be very proud of it. It would be by way of a compromise.

Mr. BENIDICKSON: May I point out that I have not had the time to read the report of the proceedings in the Senate. Did the Senate banking and commerce committee ask any representative from the companies branch in the Department of Secretary of State to outline to the Senate banking and commerce committee what the reservations have been, in practice, in recent years, when there is an application made for the use of a name for a limited company.

The CHAIRMAN: I shall read the names of the witnesses. They were Mr. MacGregor; the hon. C. P. McTague; Mr. Stewart Bates; Mr. N. M. Simpson, solicitor for National Trust Company and Mr. J. H. Macdonald, solicitor for the National Diversified Mortgage Corporation.

Mr. MCTAGUE: I believe what Mr. Benidickson has in mind is this—and I think it is quite possible for me to say this—that the companies branch do not send witnesses or ask to be heard before committees, at all. However, they do give their own rulings, so far as they are concerned. I think in Canada, and in all provinces, that is done.

What I have tried, by way of compromise, to give way, they take no chance with.

Mr. GARLAND: I do not think those are quite all the facts. As I understand it, all that is done in the appropriate division of the Department of the Secretary of State is that they request that you, as sponsor, write to them and ask if there is any conflict in the name, and they write back to say that there is not—or perhaps they would not even say anything. They just send you a list.

Mr. MCILRAITH: They merely send a form.

Mr. MCTAGUE: That is their practice, yes.

The CHAIRMAN: Are you satisfied with this suggested name, Mr. Garland?

Mr. GARLAND: I am not altogether satisfied. The objection I tried to make was that the use of these two words together, namely "national" and "of Canada", created the impression of a federal agency.

I have pointed out in this committee meeting my objections. I believe Mr. MacGregor has objections in his branch. I am sure, too, that the office of the Secretary of State would frown upon the use of a combination of any set of words that would create the impression of a federal agency.

Then, in that connection, I would move at this point, if I may, an amendment to clause 1 of the bill, that the name "national" be deleted.

Perhaps I should put it this way, that I would move that the words "national" and "of Canada" be taken out, and that it be sent back for renaming. I appeal to the good sense of the committee in this connection. What we are doing here perhaps never will be undone. There is some confusion, and there is evidence to that effect. There is certainly bound to be more confusion in the future, because there is no doubt that in the development of this particular field of activity there will be undoubtedly a national agency of some kind. I would like to move—

Mr. BROOME: Before you move, I have one already written out. I would suggest that you move that the title be deleted, and that there be substituted therefor the words "Mortgage Corporation of Canada"—rather than just delete one word.

Mr. DRYSDALE: It is the same thing.

Mr. THOMAS: In connection with that matter—

The CHAIRMAN: Order; Mr. Crestohl is next.

Mr. CRESTOHL: I do not think there is anybody on this committee who holds a brief for this, one way or the other. We are concerned only with doing our duty in this connection.

There has been a tendency, in the last number of years, for government departments including that of the Secretary of State, and others, to try to direct lawyers particularly, who apply for incorporation, to keep away from any name that might signify or give character to being either provincially or federally sponsored.

They want to keep away from that. They have eliminated names such as "royal" and "Canadian"; and "Maple leaf" and "Queen" and "King".

They want us to keep away from these names. I remember, too, that this committee, some years ago—and Mr. MacGregor will remember this, I am sure—even when a company asked to be incorporated using the name "first", was subjected to some questioning. There was a suggestion of "first" in the name of an insurance company.

This was in connection with a name using the name "first" as it is used in connection with the First National Bank of the United States. At that time the objection was raised that this was not really the "first" insurance company or the principal insurance company. There was objection to any name of that kind that would give the public the impression that it was national, or that it was the first Canadian insurance company, or the first banking company in Canada.

As I said earlier, none of us here has any brief in the matter. We should recommend that it be given a name which would not even remotely give the wrong impression, or an impression that it is of a Canadian national character. Whether that would be shown in the name itself, or not, I do not know; but it should be some name which would remove it from that category.

I am sure the Department of the Secretary of State would prefer it that way, and the country would prefer it, and it would be more in line with the tendency in connection with the incorporation of new companies.

Mr. BROOME: I second the motion. Now, Mr. Chairman, you have a motion.

The CHAIRMAN: Well, may I read the motion, as it is moved and seconded.

Mr. THOMAS: I do not think we can be too careful in this matter; but so far as I am concerned, I think we had better refer the matter back to the company, and have them revise the name in such a way that there can be no doubt about its being a proper name.

The CHAIRMAN: I shall read the motion. This is your motion—and you have not signed it yet.

Mr. GARLAND: Yes.

The CHAIRMAN: It is moved that there be the following amendment to the title as set out in clause 1, that the word "national" be deleted from line 15 thereof. That is moved by Mr. Garland and seconded by Mr. Broome.

Mr. CRESTOHL: I would like to move that this be referred back for further study.

The CHAIRMAN: The motion is as I have read it.

Mr. CRESTOHL: I move an amendment to the motion.

Mr. BROOME: No; that is just a negative of the original motion.

Mr. BOURQUE: Would there be any objection to just adding the word "general", thus making it General Mortgage Corporation of Canada? There would not be any difficulty then. The word "national" would not be in it.

Mr. MCTAGUE: There is a General Accident Insurance Company.

Mr. MCILRAITH: Before you put the motion, Mr. Chairman, might I say that it is obvious that this matter, left in this fashion, will be debated again in the house when the bill comes back to it. I am wondering if it would not be the wise procedure to adjourn at this point, with the expressed wish that the promoters of the bill, and the petitioners concerned, would consider the question of the name, in the light of what they have heard in this committee. We could have it brought up again in committee. I believe there is another bill referred to the committee, later on; so that there is no time being lost by this procedure.

Mr. BENIDICKSON: I do not think Mr. McIlraith has made a motion, has he?

Mr. MCILRAITH: No.

Mr. BENIDICKSON: It was just by way of a suggestion. A motion to adjourn, I understand, is not debatable. I do not wish to make any statement at this time, but I think if there is any suggestion of adjournment, or of accepting the very commendable suggestion made by Mr. Thomas, that we should be as fully informed as possible before we direct the incorporators to come to another meeting. My question would be directed to the superintendent of insurance—

Mr. BROOME: Mr. Benidickson is out of order, surely. You have a motion in front of you, Mr. Chairman.

Mr. AIKEN: I would like to say a word about that motion.

Mr. BENIDICKSON: I can get up and make a speech, if that is what you want.

Mr. BROOME: So long as it is on the motion, fine.

Mr. BENIDICKSON: I will make a statement, and that is that I imagine the members of this committee will want to have some idea as to the accuracy of my statement. I do not vouch for it completely, but I do say it is my belief that we have in the Department of the Secretary of State a practice under which the department—and I think this is done invariably—denies companies seeking incorporation the use of a company name which would include words such as are in this title.

I have not been allowed to ask the superintendent of insurance any questions, but I will say it is my belief and understanding that, inasmuch as a very large percentage of the companies that come to parliament for incorporation approach the department of insurance, I am sure that the department would be consistent with another department of the federal government. I am sure that if it was approached by the incorporators of this company, and it was indicated to them—that is, to the insurance department—that it was proposed to use not only the word "national" but also the words "of Canada" that department, either verbally or by letter would indicate to the applicants that the incorporation they might be urging might be delayed until the incorporators sought another name.

The CHAIRMAN: I would ask Mr. MacGregor to answer that point. Mr. Benidickson has stated that the Secretary of State—and I would like to hear this—

Mr. AIKEN: And before you do that, Mr. Chairman, my question is along the same lines and it could be answered at the same time.

Mr. NUGENT: And mine, too.

Mr. AIKEN: The difficulty I see is that we must be careful that we do not go out of the frying pan into the fire. When we eliminate the word "national" we have eliminated the word that goes along with "mortgage". From the limited practice I have had in corporation work, the provincial department or the Secretary of State would never permit the granting of a general name such as Mortgage Corporation of Canada. I think it is too broad. But if we eliminate the word "national", then we are putting it back into the spot where perhaps nobody else could ever apply for a name which included Mortgage Corporation of Canada.

This disturbs me.

If we adopt Mr. Garland's motion which, I think, is perhaps well founded, and drop the word "national", then we have nothing left but Mortgage Corporation of Canada. I say that this is a rather general wording, and I think we would be in difficulties in the future.

The CHAIRMAN: Would you like to speak to that, Mr. MacGregor?

Mr. NUGENT: Mr. Aiken has said exactly the same as I was going to say, except that I wanted to add that if you were trying to get a trademark registered you could not get it registered under Mortgage Corporation of Canada, because it occupies the whole field.

I thought Mr. Garland's suggestion was good, when I first heard it; but you take away the identifying word if you take the word "national" out of it. You have left nothing but a name which occupies the whole field and does not identify the company at all. If you take the word "national" out, then you would have to put another name in substitution, before we pass it.

Mr. MCILRAITH: That is the point.

Mr. NUGENT: I think Mr. McIlraith's suggestion covers this. They should choose a name which would be more suitable, because I believe the name they have chosen is not a proper one. "National" and "of Canada" cannot go together. It is not up to us to substitute a name. I think Mr. McIlraith's suggestion should be followed. Let them go and find another name which would properly identify them.

The CHAIRMAN: Do you wish Mr. MacGregor to speak?

Mr. MACGREGOR: In our experience there is not any question that gives rise to more trouble than that in respect of a name. So far as the department is concerned, naturally we try, first of all, to see that a name is chosen that will not lead to confusion with companies already in the same field. Usually our first step when we are advised by promoters that they intend to go ahead with the incorporation of a company, is to get in touch with the Department of the Secretary of State and ask them for a search list of all companies within their knowledge, whether federal or provincial, that have the same key word or words, as those proposed.

In this case we followed that course and we got the usual list with the word "national" in the name. There were three companies on that list which registered protests—three provincial companies, two loan companies and a trust company. Our own view in the department was that there was little likelihood of any danger of confusion between this name and any other company in the field, but we did fear confusion with C.M.H.C. and National Housing Act mortgages, and we so advised the promoters. We have always felt in the department that parliament may give a company any name it likes. Our understanding of the practice followed by the Secretary of State Department is that they will refuse to grant incorporation with the word "royal", lest it be confused with a royal charter or royal patronage. They might permit "dominion", "federal", "crown", "imperial", and so on, depending upon the circumstances.

Mr. DRYSDALE: How about "trans-Canada"?

Mr. MACGREGOR: They will not grant a general name like "tools and hardware limited" lest the company be presumed to have a monopoly in the whole field. They will permit the name of a province only if that province gives its consent. On the other hand, they will permit names of cities, towns and so on, for example "Toronto Tools and Hardware", or "Cape Breton Tools and Hardware" and so on. They will not permit the word "Canadian" or the words "of Canada". However, on the other hand, some of the provinces grant incorporation with the word "Canadian" or "of Canada" in the name without consulting the Secretary of State Department here at all.

Further still, there are many special acts of parliament passed from time to time with the words "of Canada" at the end of the name, and I must say that there have been several insurance companies incorporated with the words "of Canada" at the end. Sometimes they are most distinctive. For example, last year the "Munich Re-insurance Company of Canada" was incorporated, being a subsidiary of the parent Munich company of Germany. The Allstate Insurance Company of Canada and other acts contain the words "of Canada", and they were special acts passed by parliament just last year. There seems therefore to be no complete elimination of names in special acts where the words "of Canada" come at the end.

Mr. DRYSDALE: How about the name of "Trans-Canada Mortgage Corporation"? Would that be permissible?

Mr. MACGREGOR: I would think so. I think I am correct in summarizing the discussion in the Senate by saying that the general feeling of those, as expressed in the record, against the proposed name was that there ought not to be both the word "national" and the words "of Canada", that either one or the other would be better deleted. It was on those issues that the votes were taken.

Mr. BENIDICKSON: Mr. Chairman, Mr. MacGregor indicated that after receiving the proposal for incorporation, he wrote to the proposed incorporators indicating hesitation about the granting of the name "National Mortgage Corporation of Canada". What was the date of that?

Mr. MACGREGOR: I can look it up, but I may say, Mr. Benidickson, that that point was mentioned in correspondence or orally several times. Our view in the department was that there would be difficulty with that name and that they would be well advised to choose some alternative, or at least give consideration to an alternative.

Mr. BENIDICKSON: Subsequent to this decision of the department, did the Superintendent of Insurance discuss the name "National Mortgage Corporation of Canada" with either the Minister of Finance or his parliamentary assistant?

Mr. MACGREGOR: No, sir.

The CHAIRMAN: Gentlemen, I have a motion here.

Mr. NUGENT: Just before you put that motion, might I suggest to the sponsors of this bill that having heard the discussion here it would seem to me that a majority of the members of the committee are not happy with the names they have brought to us.

The CHAIRMAN: The new name?

Mr. NUGENT: For the reasons expressed by Mr. Aiken and myself, there are going to be a lot more of us not happy with the deletion and we would be in a position of voting against the amendment because we think it would put it in an even more unsatisfactory state. We would have to vote against the name. The chance of these sponsors getting out of this committee today with either one of these names is very, very remote. What is more, if they are going to put in another qualifying word which would satisfy our immediate

objections, we would still have the thought in our minds that that qualifying word might have been objected to had other people known they would be applying for such a name. So that I think we would be on rather shaky ground to even give them a new word right out of the air at this time. I do not think we should pass it without giving a chance to object to anyone else.

I wonder if the sponsors would not now reconsider the views of the committee. Let us adjourn this matter now and let them give a little more thought and perhaps come back to us with a name which would pass without difficulty.

Mr. BENIDICKSON: Have you made the motion?

Mr. MORTON: Could I just raise a question here? We have got into perhaps a bit of a hassle over this. There has been a suggestion that either "national" or "of Canada" should be dropped.

Now, I gather from Mr. Nugent that he is suggesting that both be dropped.

Mr. DRYSDALE: They are both objectionable.

Mr. MORTON: What about "National Mortgage Corporation"? Would you object to that? The other suggestion would be "Mortgage Corporation (Canada) Limited", as was suggested. It is no use adjourning unless we have some idea of the thinking of the committee.

The CHAIRMAN: We are trying to do that, Mr. Morton. I think Mr. Nugent has offered a reasonable suggestion and I think that Mr. Morton's idea here is also reasonable, to get the views of the committee before we adjourn.

Mr. NUGENT: It would be safer without either one of those words. "Of Canada" is not going to bother us if there is a qualifying word before.

Mr. MORTON: I would point out that the company is quite hopeful that we have one of the words in the name, because they want to have the prestige of a company that is going to operate clear across the country, and if you limit them to a two-bit name, they are not going to get started on their work.

Mr. BENIDICKSON: That would not include the Toronto Mortgage Corporation?

Mr. MORTON: I will make no comment on the two-bit name, but I am trying to get across to the committee that we are trying to get a name.

Mr. CRESTOHL: You want to give it a national character, and that is a dangerous thing to do.

Mr. MORTON: I am not saying it is dangerous. The only dangerous thing about it would be to have it thought that we are sponsored by the government of Canada, and I understand that that is the objection of the committee. If we have either a combination of "National Mortgage Corporation" or "Mortgage Corporation of Canada", maybe that would be all right.

Mr. NUGENT: You are qualifying "National Mortgage". What I was suggesting is that the words "National" and "of Canada" together are bad. If in place of "national" you had a purely private word such as "Johnsons", or anything else you wanted, it would be all right, but then you want to have "of Canada" tacked on the end. I do not think having "of Canada" is going to be objected to at all, provided you have sufficiently qualified the first part to indicate that it is not a government agency, and you occupy the whole mortgage field.

Mr. MORTON: Would you have objection if we used the name "National Mortgage Corporation of Canada"?

Mr. NUGENT: "National" would still be subject to objection.

Mr. THOMAS: My understanding is—and I am partial to the suggestion that was made, that it could be included in the motion, although I have not heard the motion read. What we need is a substitute word for the word "national". We would leave the rest as it is but put in another word instead of the word "national".

The CHAIRMAN: The motion is to delete the word "national".

Mr. THOMAS: No, Mr. Chairman, I would substitute some other word for the word "national".

The CHAIRMAN: I am saying merely that the motion made by Mr. Garland was merely to delete the word "national".

Mr. THOMAS: We would have to have something there to substitute.

Mr. GARLAND: If we interpret this according to the spirit or the attitude of the committee, I think what the last speaker has just said will find general endorsement here. Without making the motion for adjournment, would it be a reasonable suggestion that the parties concerned get together, having had the benefit of the views expressed here this morning and the thinking of the members, and then come back to us at a later time today? There is no desire to hold up the proceedings. I am sure all members want to be helpful.

The CHAIRMAN: Your thought is for us to adjourn now and reconvene at a later time today?

Mr. GARLAND: Yes. Would that give the sponsors adequate time to suggest a possible substitution for the name we are now proposing?

The CHAIRMAN: There is a little complication here. There is no room for us to meet this afternoon.

Mr. BELL (*Carleton*): Not only rooms, but the *Hansard* staff are unable to take care of it today.

Mr. BENIDICKSON: I think there are objections of various types. In view of the fact that this is a corporation that is going to last a long time and is going to do a very large business, and in view of the fact that this committee has further work ahead of it, already referred to it by the house, I do not think, in the interest of the committee itself, that we should be hasty in arriving at a name. Again, I do not want to cut off other people's rights, but we were told we must adjourn at this time. Unfortunately, I have to leave and cannot continue the discussion—but that is a personal view. I think the whole matter deserves, on the part of the company and in the interests of the company, greater thought. I would like to put my motion now that we adjourn.

The CHAIRMAN: Let us take everybody into consideration around this motion. I would like to ask Mr. Whitney, Mr. MacGregor and Mr. McTague for their thoughts on the matter. Would you be agreeable to meeting a little later today or would be agreeable to coming back another day?

Mr. MCTAGUE: I think we should both be agreeable to coming back on another day, if it serves any constructive purpose. From what has been said it is about impossible to get it done today.

The CHAIRMAN: You mean by that you do not think between now and, say, 5 o'clock you could come up with a suggestion which would meet the objections?

Mr. MCTAGUE: It is possible that we could, but we do not want to get into a situation that the committee will meet at a certain time and we have some suggestion which is not going to meet with your approval.

The CHAIRMAN: That is your wish? Would you rather we adjourn until another day?

Mr. NUGENT: There is no alternative. Let the motion be put to adjourn.

Mr. AIKEN: Several of us have other meetings to attend this afternoon, and in fact most of us should be attending the research committee which was due to meet at 2 o'clock.

Mr. BROOME: Are you not going to put Mr. Garland's motion?

Mr. BENIDICKSON: A motion to adjourn supersedes anything else.

Mr. BROOME: What about Mr. Garland's motion?

Mr. BENIDICKSON: It is on the books.

The CHAIRMAN: Then, if it is agreeable, we shall adjourn.

EVENING SITTING

TUESDAY June 20, 1961

The CHAIRMAN: Gentlemen, we now have a quorum. I might say that I received a bit of bad news just about an hour ago. A Mr. Woodard, who appeared before the committee on behalf of Central Mortgage and Housing Corporation, left the meeting at 2.15 to go to his doctor's office, where he passed away.

Mr. McTague has asked to be excused from coming back, he had a pretty trying morning. But Mr. Whitney and Mr. MacGregor are here. Mr. MacGregor kindly came back. Mr. Whitney and Mr. McTague held a little meeting, when they came up with a suggestion which I hope will meet with the approval of the committee.

Mr. GARLAND: The proposal name would be General Mortgage Service Corporation of Canada; and if I might be in order, I would like to withdraw the amendment I made earlier and suggest that this name be incorporated in my amendment, at this time.

The CHAIRMAN: You want to withdraw your amendment?

Mr. GARLAND: The amendment that I submitted earlier.

The CHAIRMAN: And this would be the amendment to the bill?

Mr. GARLAND: That is right.

The CHAIRMAN: Is there any discussion?

Mr. BELL (*Carleton*): I wonder if Mr. MacGregor has any comments to make in relation to it.

The CHAIRMAN: What is your opinion, Mr. MacGregor?

Mr. MACGREGOR: We have not had an opportunity to obtain a search report from the Department of the Secretary of State, giving the names of the companies that have the word "general" in them. I can only say that in my opinion the suggested name would not conflict with any insurance company, loan company, or trust company within my knowledge; certainly not with any dominion company; and I also have the names of most provincial loan companies, and there would apear to be no conflict there. I would think that this name would not give rise to confusion; but we have not had a chance as yet to obtain a search report from the Department of the Secretary of State covering all names with the word "general" in them.

Mr. MACDONNELL: For the benefit of those who were not present this morning, I wonder if you would be good enough to tell us what the problem is?

The CHAIRMAN: We are dealing with bill S-16, an act to incorporate National Mortgage Corporation of Canada. There was an amendment moved that the word "national" be deleted, and that it be called "mortgage service corporation of Canada"; and then there was further objection to that, and we adjourned the meeting at 2:30 with the understanding that if Mr. McTague and Mr. Whitney could come forward this afternoon with another name to substitute for it, we would proceed. They have now come forward with a new name.

Mr. GARLAND: It seems to me that this meets all the objections that we heard in the committee this morning. I think that the only fear

that many of the members had was that this name could be interpreted as being a federal or national institution. But I am sure that this name meets that objection satisfactorily, and I refer to General Mortgage Service Corporation of Canada.

Mr. MACGREGOR: The only names of companies that I have been able to obtain in the short time available, which would be at all similar, are these: Mortgage Service Company; this was incorporated,—no, it was not incorporated; it is a Manitoba partnership, registered in December 1958, with its head office in Winnipeg. The Secretary of State's Department also indicates —and I might say that I got this information some time ago in another connection—that there is a company called Mortgage Services Limited. This is a New Brunswick Company, which was incorporated in 1957, with its head office in Saint John. But I would think that General Mortgage Service Corporation of Canada would not conflict with these two, Mortgage Service Company, and Mortgage Services Limited.

Mr. GARLAND: Is there a seconder for my motion?

Mr. MORTON: I second the motion.

The CHAIRMAN: You have heard the name. You have it clear. It is General Mortgage Service Corporation of Canada.

Mr. MACDONNELL: What is the usual procedure with regard to these names? Are the companies with names somewhat similar asked if they have any objection? I was wondering if the New Brunswick company might think that this was apparently similar, and as a result this prompted me to ask the question whether in a case of similarity, the holder of the existing name is asked to agree.

Mr. NUGENT: I think they are sufficiently different so that if they did express an opinion of their own, they could agree. This name is very distinctive.

The CHAIRMAN: Would it be possible for you to check to-morrow with the Secretary of State Department, or is that within your realm?

Mr. MACGREGOR: We could do it, but it might take longer than a day.

Mr. DRYSDALE: I would be agreeable to doing that.

The CHAIRMAN: All those in favour of the amendment?

Mr. DRYSDALE: Subject to search of the Secretary of State Department.

The CHAIRMAN: All those in favour? It is unanimous.

Mr. DRYSDALE: I move we adjourn, unanimously.

The CHAIRMAN: Shall the title carry as amended?

Carried.

Shall the bill carry?

Carried.

Shall we report the bill as amended?

Carried.

We have a motion for printing 750 in English and 250 in French. It is approved. Shall I report the bill?

Agreed.

HOUSE OF COMMONS

Fourth Session—Twenty-fourth Parliament

1960-61

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: C. A. CATHERS, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

THURSDAY, JUNE 22, 1961

Respecting

Bill S-28, An Act to amend the Trust Companies Act,

and

Bill S-29, An Act to amend the Loan Companies Act.

WITNESS:

Mr. K. R. MacGregor, Superintendent of Insurance.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1961

25505-9—1

STANDING COMMITTE

ON

BANKING AND COMMERCE

Chairman: C. A. Cathers, Esq., M.P.

Vice-Chairman: Emilien Morissette, Esq., M.P.

and Messrs.

Aiken
Allmark
Asselin
Baldwin
Bell (*Carleton*)
Bell (*Saint John-Albert*)
Benidickson
Bigg
Bourque
Brassard (*Chicoutimi*)
Broome
Campeau
Cardin
Caron
Clermont
Creaghan
Crestohl
Drysdale
Garland
Hales
Hanbidge
Hicks
Horner (*Acadia*)
Jung
Macdonnell
MacLean (*Winnipeg North Centre*)
MacLellan
Martin (*Essex East*)
Martin (*Timmins*)
McIlraith
McIntosh
McMillan
More
Morton
Nasserden
Nugent
Pascoe
Pickersgill
Regier
Rowe
Rynard
Skoreyko
Smith (*Winnipeg North*)
Southam
Stewart
Stinson
Thomas
Woolliams—50.

M. Slack,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS,
MONDAY, June 19, 1961.

Ordered,—That the following Bills be referred to the Standing Committee on Banking and Commerce:

Bill S-28, An Act to amend the Trust Companies Act.

Bill S-29, An Act to amend the Loan Companies Act.

Ordered,—That the name of Mr. Bourque be substituted for that of Mr. Chevrier on the Standing Committee on Banking and Commerce.

WEDNESDAY, June 21, 1961.

Ordered,—That the names of Messrs. Regier and Martin (*Timmins*) be substituted for those of Messrs. Argue and Howard respectively on the Standing Committee on Banking and Commerce.

Attest.

LÉON-J. RAYMOND,
Clerk of the House.

25505-9—1½

REPORT TO THE HOUSE

FRIDAY, June 23, 1961.

The Standing Committee on Banking and Commerce has the honour to present the following as its

EIGHTH REPORT

Your Committee has considered the following Bills and has agreed to report them without amendment:

Bill S-28, An Act to amend the Trust Companies Act; and

Bill S-29, An Act to amend the Loan Companies Act.

A copy of the Minutes of Proceedings and Evidence respecting the said Bills is appended.

Respectfully submitted,

C. A. CATHERS,
Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, June 22, 1961.
(12)

The Standing Committee on Banking and Commerce resumed at 2.30 p.m. this day. The Chairman, Mr. C. A. Cathers, presided.

Members present: Messrs. Bigg, Bourque, Brassard (*Chicoutimi*), Cathers, Clermont, Hanbidge, Hicks, Martin (*Timmins*), Morton, Pascoe, Rynard, Skoreyko, Southam.—(13).

In attendance: Mr. K. R. MacGregor, Superintendent of Insurance; *From the Dominion Mortgage and Investments Association:* Messrs. Laurence G. Goodenough, Q.C., General Counsel, and Jules E. Fortin, Secretary-Treasurer, Toronto.

The Committee resumed consideration of the following two public bills which commenced at this morning's sitting, namely:

Bill S-28, An Act to amend the Trust Companies Act.

Bill S-29, An Act to amend the Loan Companies Act and at which Mr. MacGregor made an explanatory statement on Bill S-28.

(*See Evidence of morning sitting attached.*)

On motion of Mr. Morton, seconded by Mr. Hanbidge,

Resolved,—That the Committee print 750 copies in English and 250 copies in French of its Minutes of Proceedings and Evidence in relation to its consideration of Bills S-28 and S-29.

On Clause by Clause consideration of Bill S-28.

Mr. MacGregor was questioned and supplied additional information.

Clauses 1 to 4 and the Title were severally carried; the Bill was carried without amendment.

Ordered,—That Bill S-28 be reported to the House without amendment.

The Committee then proceeded to consider Bill S-29, An Act to amend the Loan Companies Act.

On clause by Clause consideration of Bill S-29.

Mr. MacGregor made a brief explanatory statement.

Clauses 1 to 6 and the Title were severally carried; the Bill was carried without amendment.

Ordered,—That Bill S-29 be reported to the House without amendment.

At 3.05 p.m. the Committee adjourned to the call of the Chair.

M. Slack,
Clerk of the Committee.

EVIDENCE

THURSDAY, June 22, 1961.

The CHAIRMAN: Gentlemen, we now have a quorum and the meeting will now come to order.

Mr. MARTIN (*Essex East*): Mr. Chairman, following the meeting that we had the day before yesterday, has the steering committee met yet?

The CHAIRMAN: No, they have not.

Mr. MARTIN (*Essex East*): Will they be meeting this afternoon? The clerk has advised me that the transcript of the evidence taken the day before yesterday will be available this afternoon. I hope the steering committee will meet very shortly to deal with the proposition which was before us the day before yesterday.

The CHAIRMAN: We have these public bills to deal with, and I doubt if we can get finished this morning. I am going to suggest that we meet this afternoon because of the witnesses who have come here today. I assure you that as soon as we have the transcript of evidence from Tuesday, the steering committee will be called together.

Mr. AIKEN: I think we should welcome Mr. Martin to the committee.

The CHAIRMAN: I had a very nice conversation with Mr. Martin this morning at breakfast time.

We now have before us bill S-28 "an act to amend the Trust Companies Act". I wonder if Mr. MacGregor would be good enough to explain the bill, and give us his blessing on it.

Mr. K. R. MACGREGOR (*Superintendent of Insurance*): Mr. Chairman and hon. members: this bill, I think, may fairly be said to be a short sequel to the amendments that were recently made to the two insurance acts, the Canadian and British Insurance Act, and the Foreign Insurance Companies Act. It has been the policy and practice for many years to keep the lending and investment powers of loan and trust companies incorporated by parliament as closely in line as practicable with the lending and investment powers of Canadian insurance companies.

As the hon. members of the committee know, a good many amendments were made to the insurance acts, at this session of parliament, and some of those amendments respecting investments are now being proposed in reference to trust companies in this bill, and in reference to loan companies in the companion bill, bill S-29.

Bill S-28, respecting trust companies, has only four clauses.

Clauses 1 and 2 relate to investment powers. Clauses 3 and 4 in general relate to the merger or amalgamation of trust companies.

Perhaps I might now remind hon. members that the funds of trust companies are in general divided into three categories. First, there are the company's own funds comprising its capital, surplus, reserves and any other moneys belonging to the shareholders themselves. Secondly, there are guaranteed trust funds, being deposits accepted from the public, or guaranteed investment certificates issued by the company. The third category, of course, are the unguaranteed trust funds, being estates, trusts, and other funds under administration.

It must appear to the hon. members that the investment provisions or lending provisions set forth in clauses 1 and 2 seem to involve some duplication or repetition. This is explained by the segregation of funds that I have just mentioned. The investment and lending powers in the Trust Companies Act are spelled out in three different places applicable to the three different kinds of funds—company funds, guaranteed trust funds, and unguaranteed trust funds. So that gives rise to the mention of the same matter three times. Secondly, the company's lending powers are spelled out separately from the investment powers. That also gives rise to duplication.

Taking the clauses in order, clause 1 would amend section 64 of the act, and section 64 sets forth the lending and investment powers of the company as respects trust funds, both guaranteed and unguaranteed.

Clause 2 would amend section 68 of the act which sets forth the lending and investment powers applicable to the company's own funds. Take mortgages, for example. One of the main amendments proposed is to raise the limit on mortgage loans from the present 60 per cent of the appraised value of the property to 66⅔ per cent.

I might mention that subclause (1) of clause 1 re-enacting subparagraph (ii) relates to the investment powers applicable to unguaranteed trust funds.

Subclause (3), near the top of page 2, revising subparagraph (iii) deals with substantially the same matter regarding the lending powers in connection with unguaranteed trust funds.

About the middle of page 2, in subclause (4), beginning at line 25, the same subject matter appears again in reference to the lending powers of a company in connection with guaranteed trust funds.

The fourth possibility, namely the investment powers in connection with guaranteed trust funds, is not mentioned. It is the only apparent omission, because it is dealt with by cross-reference in the act itself. Briefly, therefore, those clauses are essentially for the same purpose.

Honorable members may wonder why the lending powers are spelled out separately from the investment poyers. Taking mortgages as an example, the lending powers apply, of course, where the company makes the mortgage loan on the security of real estate; whereas the corresponding power as respects investments in mortgages relates to the case or the possibility where the company may invest in or purchase a mortgage made by some other company.

Going back to page 1, clause 1, I would draw attention to subcause (2).

The second most important amendment proposed is in reference to the company's power to invest in real estate for the production of income. This real estate is the lease-back type where a trust company or an insurance company, as the case may be, purchases the real estate—it might be a service station, or a groceteria—and then leases it back under a long-term lease to Loblaws or Shell Oil or whatever the case may be.

The act is very specific as to the nature of that kind of investment. The lease must be for a term not exceeding 30 years, and it must enable the company to make a reasonable rate of return and to recoup at least 85 per cent of its investment within the period of the lease, and, most important, the company to which the real estate is leased must have a dividend record of its own equally as good as that required to qualify that company's debentures. This is an old clause that is in the act now. It has been there for some years. All that is proposed in this case is to raise the limit on the size of any one parcel of real estate from the existing one-half of one per cent of the combined guaranteed trust funds and company funds to one per cent of such funds. It is an amendment exactly similar to the amendment that was made to the Insurance Acts.

Mr. BOURQUE: It says here:

> ...the mortgage, hypothec or agreement for sale...shall not exceed two-thirds of the value of the real estate;

What is considered the value of real estate—the appraisal value or the valuation on the roll of the municipality?

Mr. MACGREGOR: A realistic appraised value of the property, quite frequently by an independent appraiser. Also quite frequently if a company has the necessary staff, by its own appraiser. It must be a realistic, appraised value, not the assessed value or any other nominal value.

Mr. RYNARD: I wonder if you would enlarge on unguaranteed trust funds. I am not quite clear on that.

Mr. MACGREGOR: Unguaranteed trust funds are assets under administration, for example, estates, pension funds, etc. administered by a trust company. The trust company follows the directions of the instrument creating the trust, but is under no obligation to guarantee the principal or to pay any specific rate of interest. The company follows the directions of the trust, investing the trust moneys in accordance with the directions of the trust deed.

Mr. RYNARD: It isjust the administration of the estate.

Mr. MACDONNELL: I wonder if you would explain the guaranteed trust fund and explain the different situation as between trust companies and banks in that respect, the legal position. What about trust companies taking deposits and paying out?

Mr. MACGREGOR: Trust companies are empowered to accept moneys on deposit in trust, but in practice it constitutes essentially the business of deposit banking. That is one of the main forms of unguaranteed trust money. The other main form is the one I mentioned earlier, namely where the trust company issues guaranteed investment certificates—they are very much like a debenture —issued for a specific term but it is a trust arrangement and not a debtor-creditor arrangement. The principal payment at the end of the term is guaranteed and usually the rate of interest is guaranteed by the trust company. Under the Trust Companies Act, there is a definite limitation on the volume of all borrowed money that a trust company may have on its books. "Borrowed money" is defined to mean all guaranteed trust moneys, including deposits, guaranteed investment certificates, moneys borrowed from a bank or from any other source. The limit in the Trust Companies Act applicable to all moneys of this kind is 12½ times the company's paid capital, surplus and reserves. The purpose is, of course, to ensure a reasonable protective margin to the public, amounting to about 8 per cent of the liabilities. In practice, the companies, of course, must keep within such limits and this is one of the points I might mention which has led to a company, like the Guaranty Trust Company, whose bill was dealt with earlier, desiring to increase its capital. If a company's business grows, as reflected by its deposits and the volume of its guaranteed investment certificates, its capital and reserves must grow commensurate with the volume of its liabilities to the public. Therefore, it either has to keep on increasing its capital and building up its reserves, or else it must arbitrarily curtail the volume of its business. There is a definite protection for the public in this respect.

I might say that provincially incorporated trust companies in some provinces are similarly limited, and in other provinces they are not. In Ontario there is no limit in the Loan and Trust Corporations Act of Ontario, applicable to Ontario trust companies; but in practice I may say that they do keep within the limit, as Dominion trust companies do.

The CHAIRMAN: Would it be agreeable if we adjourn now and reconvene in this room at 2.30 p.m.?

Agreed.

AFTERNOON SITTING

THURSDAY, June 22, 1961.

The CHAIRMAN: Order, gentlemen, we now have a quorum, thanks to Mr. Hanbidge. First I would like to have a motion for printing 750 copies of our minutes in English and 250 copies in French, in connection with bills S-28 and S-29.

Mr. MORTON: So I move.

Mr. HANBIDGE: I second the motion.

The CHAIRMAN: You have all heard the motion moved by Mr. Morton and seconded by Mr. Hanbidge that we print 750 copies in English and 250 copies in French of the minutes of proceedings of this committee in respect to bills S-28 and S-29.

Motion agreed to.

Mr. BOURQUE: What about bill S-25, Mr. Chairman?

The CHAIRMAN: We did not pass any motion this morning on printing.

Mr. BOURQUE: But if you had minutes taken, I think we ought to have copies of them printed.

The CHAIRMAN: That was a private bill.

Shall we start now with bill S-28, clause 1?

Mr. BOURQUE: Mr. Chairman, this morning we listened to Mr. MacGregor. I have great respect for Mr. MacGregor's statements because of his experience and long-standing here. But there is one thing I would like to have explained, and that has to do with the question I asked this morning about real value. For instance, in Montreal—I do not know if you know this or not—but each school commission has its own assessor; and the legislature has given the right to any municipality to say what your valuation will be. In my municipality, for instance, the protestant school board may write us a letter and say for school purposes you will raise your valuation by 55.1.

The CHAIRMAN: You are speaking of assessment value on a piece of real estate. That is not what Mr. MacGregor was referring to.

Mr. BOURQUE: I understood that Mr. MacGregor was speaking about it.

The CHAIRMAN: No, Mr. MacGregor was speaking about the value for mortgage purposes, which is a different thing altogether.

Mr. BOURQUE: But when you apply to get a loan or mortgage, it has some effect; and in order to bring up our standards, according to the Protestant school board, we have to raise our valuation by 55.1. When we were paying on a pro rata basis in Montreal, the metropolitan board said that the assessments would be equal in all the municipalities on Montreal Island. But when they assessed our pro rata share, they raised our valuation by 45.1; and in Montreal I understand that they are assessed at the present time to the extent of 80 per cent of the real value. That has always been a bone of contention, as to what the real value is in Montreal. Let me tell you that in 1930 in my municipality, properties which are selling now, today, for $75,000 sold in 1930 for $8,000.

The CHAIRMAN: Mr. Bourque we are not dealing with assessed valuations of property. The valuations we are dealing with are valuations for loan purposes, and there is a great difference between the two things. Assessment valuations vary across Canada, and it does not apply in this case.

Mr. BOURQUE: I understand that; but it does have a great bearing, if any municipality—let us say there would be a variation of what we call the term, 55.1 per cent; I think that has a bearing on the real value.

The CHAIRMAN: No, the trust companies do not go by the assessed value in any municipality. They send in their own valuator, and they say that they may loan up to 66⅔% of the market value of the property.

Mr. MACGREGOR: The market value of the property is really the important point.

The CHAIRMAN: This is not what the town assessor arrives at; that has nothing to do with it as I see it.

Mr. BOURQUE: That is the point I wanted to make. We have had at different times properties assessed by three different firms, who assessed the property, and all their assessments varied.

The CHAIRMAN: When you speak of "we", whom do you mean?

Mr. BOURQUE: The municipality.

The CHAIRMAN: You say you had an assessed value taken on the property.

Mr. BOURQUE: When we went to buy it.

The CHAIRMAN: But whom do you mean by "we"? I am trying to find out who this "we" is. Are you a trust company?

Mr. BOURQUE: I mean Outremont.

The CHAIRMAN: Oh, you are the municipality?

Mr. BOURQUE: Yes. And we come to expropriate a certain parcel of land; we have to hire assessors to say what we will pay.

The CHAIRMAN: That has nothing to do with this. We have with us a former chairman of the board of education of the city of Toronto, and he may be able to help us.

Mr. MORTON: When sometime you get into a dispute as to the valuation of property, when you are expropriating it for the purpose of setting up a value, there is a difference of opinion between real estate appraisers as to its value. The act cannot be that recise in trying to get a formula that works across the country. Generally speaking in these appraisals, if a department or whoever they hire are legitimate appraisers of real estate and are recognized by the real estate board, then that is all that is required, to give an appraisal of what they consider the market value in that area and in that district for this particular house, and provided the loan does not exceed two-thirds of the value. Quite often in these transactions, of course, they are helped, as there may be a sale going on. The definite purchase prices are then established by that sale, and naturally it is quite easy because they can use the two-thirds value, if they so desire. It does not necessarily follow that they must do so. I think that all this act is saying is that it should be a reasonable appraisal of what is considered market value, and then use the two-thirds value.

The CHAIRMAN: Two-thirds of the value of real estate. That is not assessed value.

Mr. MACGREGOR: May I say, Mr. Bourque in answer to your question, that the main basis of valuation for all assets under the act and in the annual statement prescribed by the minister to be filed annually under the act, the market value is the criterion. There are sections in the Trust Companies Act dealing with that point specifically. For example, section 75 says that:

> In his annual report prepared for the minister under section 73, the superintendent shall
>
> (c) be at liberty to increase or diminish the assets or liabilities of such companies to the true and correct amounts thereof as ascertained by him in the examination of their affairs at the head office thereof, or otherwise.

Then section 78 deals specifically with the appraisal of real estate. It says in part:

> (2) Where, upon such examination, it appears to the Superintendent, or where he has any reason to suppose that the amount secured by mortgage or hypothec upon any parcel of real estate, together with the interest due and accrued thereon, is greater than the value of such parcel, or that such parcel is not sufficient security for such loan and interest, he may in like manner require the company to procure an appraisement thereof, or may himself at the company's expense procure such appraisement, and where from the appraised value it appears that such parcel of real estate is not adequate security for the loan and interest, he may write off such loan and interest a sum sufficient to reduce the same to such an amount as may fairly be realizable from such security, in no case to exceed such appraised value, and may insert such reduced amount in his said annual report. R.S., c. 29, s. 77.

In practice we have obtained valuations from independent appraisers where we have felt that the value of the property used for mortgage loan purposes has been too great. If one gets an appraiser's report, quite frequently it will give the depreciated replacement value, which is one thing, and also the assessed value for municipal tax purposes, which is something else. It may quote recent sales of that property or adjacent properties, but it must give the market valuation. It may also give the economic value, so to speak, on the basis of rental income and expenditure of the property, but we take the most conservative value, and that is invariably the market value.

The CHAIRMAN: Does clause 1 carry?
Clauses 1 to 4, inclusive, agreed to.
Shall the title carry?
Title agreed to.
Shall the bill carry?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Shall I report the bill without amendment?

Agreed.

The CHAIRMAN: The next bill, Bill S-29, is an act to amend the Loan Companies Act.

Mr. MACGREGOR: There were four clauses in bill S-28 just dealt with. There are six clauses in Bill S-29 relating to loan companies. Four of the six clauses in Bill S-29 are simply the counterpart of the four clauses in Bill S-28. The only differences in Bill S-29 are found in clauses 1 and 3, which have no counterpart in the bill just dealt with.

Clause 1 simply amends in a slight degree the definition of a loan company. A loan company, like a trust company or an insurance company or a bank or a railway company must of course, if federally incorporated, be incorporated by a special act of parliament. The present definition of a loan company in the Loan Companies Act simply refers to the essential characteristic usually expected of a loan company, namely the power to lend on the security of real estate. We are running into the incorporation of some companies where the company itself may not arrange the loans; they may buy loans made by some other lender.

The bill dealt with two days ago, to incorporate the National Mortgage Corporation of Canada, is a case in point where they intend to deal largely in National Housing Act mortgages probably made by life insurance companies or banks. We have had two or three cases where promoters of a company thought that since, in their scheme of things, they would be investing in mortgages made by others, that they consequently would not fall within the

definition of a loan company as presently found in the Loan Companies Act. As a consequence, they have argued that they can quite properly go to the Secretary of State and seek incorporation in a much simpler way by letters patent under the Companies Act and not be subject to the provisions of the Loan Companies Act.

Now, it would be an anomoly and most unsatisfactory if promoters could circumvent the application of the act, where they desire to have and operate a mortgage company, by seeking incorporation by letters patent by the simple device of getting somebody else to arrange the loans, and then the company would buy the loans from that other third party.

The purpose of clause 1 is to extend the definition of a loan company so as to include not only a company that lends on the security of real estate but also invests in mortgages on real estate. That is the only purpose.

Clause 3 relates to particular cases where loan companies own trust companies. The two cases involved are the Canada Permanent Mortgage Corporation, a loan company which owns all of the shares except the directors' qualifying shares, of the Canada Permanent Trust Company. The other case is the Huron and Erie Mortgage Corporation, another loan company which likewise owns all of the shares of the Canada Trust Company.

There is a section in the Loan Companies Act now, namely section 61, which says in effect that where a loan company on June 28, 1922 owned at least 50 per cent of the shares of a trust company, the parent loan company may continue to hold those shares or may invest in any additional shares of stock issued by the subsidiary trust company. But the present wording means that if the subsidiary trust company issues any additional stock, then the mortgage loan company, the parent, must take it up at once or it has no power to buy those shares if they were sold to other persons. In other words, the loan company now is in a position where, if its subsidiary trust company issues any new stock, it must take it all up at the time of issue or it has lost its chance forever. One of the purposes of the amendment is to enable the loan company to have a second chance, so to speak, to purchase additional shares of its subsidiary trust company if they should get into a third party's hands.

It is also necessary to amend section 61 by reason of the new clause 4 in Bill S-28 respecting trust companies, which deals with the amalgamation of trust companies. For example, in the case that was dealt with this morning in respect of the Canada Permanent Trust Company, which is a subsidiary of the Canada Permanent Mortgage Corporation, if it amalgamates with another trust company as it proposes to do, then of course new shares will be issued by the amalgamated trust company. They will be shares of the Canada Permanent-Toronto General Trust Company, and this section 61 as at present worded gives the Canada Permanent Mortgage Corporation no power to receive or invest in or take up shares of any other trust company except shares of the Canada Permanent Trust Company. The proposed amendment would enable the Canada Permanent Mortgage Corporation to continue to own and control its subsidiary trust company even though the latter may amalagamate with another trust company.

Clauses 1 to 6, inclusive, agreed to.

Title agreed to.

The CHAIRMAN: Shall I report the bill without amendment?

Agreed.