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Canada. Parl. H.of C. Standing Comm.on Banking and Commerce, 1950. Minutes of proceedings & evidence.	J 103 H7 1950 B3A1
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Comm.on Banking and Commerce,
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SESSION 1950
HOUSE OF COMMONS

STANDING COMMITTEE
ON
BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

Including verbatim evidence taken in relation to

- Bill No. 268 (Letter W-8 of the Senate), "An Act to amend the Foreign Insurance Companies Act, 1932".
- Bill No. 269 (Letter X-8 of the Senate), "An Act to amend The Canadian and British Insurance Companies Act, 1932".
- Bill No. 307 (Letter F-10 of the Senate), "An Act to amend the Trust Companies Act".
- Bill No. 308 (Letter J-10 of the Senate), "An Act to amend the Loan Companies Act".
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TUESDAY, MAY 2, 1950
THURSDAY, MAY 25, 1950
WEDNESDAY, JUNE 14, 1950
THURSDAY, JUNE 15, 1950
TUESDAY, JUNE 20, 1950

WITNESSES:

- Mr. R. W. Warwick and Mr. K. R. MacGregor, respectively Superintendent and Associate Superintendent of Insurance;
- Mr. D. K. MacTavish, Counsel for the Canadian Life Insurance Officers Association;
- Mr. J. E. Coyne, Deputy Governor of the Bank of Canada;
- Mr. L. G. Goodenough, Counsel for the Dominion Mortgage and Investment Association, and also representing the Trust Companies Association of Ontario.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY

1950

STANDARD CONTRACTS

22

SAVING AND COMMERCE

THE LAW OF PROVISIONS AND RIGHTS

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ORDERS OF REFERENCE

TUESDAY, February 28, 1950.

Resolved,—That the following members do compose the Standing Committee, on Banking and Commerce:

Messrs.:

Adamson	Fournier (<i>Maisonneuve-Rosemont</i>)	Macnaughton
Argue	Fraser	Macdonnell (<i>Greenwood</i>)
Arsenault	Fulford	Maybank
Ashbourne	Fulton	Picard
Beaudry	Gibson (<i>Comox-Alberni</i>)	Prudham
Belzile	Gour (<i>Russell</i>)	Quelch
Benidickson	Harkness	Richard (<i>Gloucester</i>)
Bennett	Harris (<i>Danforth</i>)	Richard (<i>Ottawa East</i>)
Blackmore	Hellyer	Riley
Bradette	Helme	Sinclair
Breithaupt	Hunter	Smith (<i>Queens-Shelburne</i>)
Brooks	Isnor	Smith (<i>York North</i>)
Cannon	Laing	Smith (<i>Moose Mountain</i>)
Cleaver	Lesage	Stewart (<i>Winnipeg North</i>)
Côté (<i>St-Jean-Iberville-Napierville</i>)	Low	Thatcher
Dumas	Maltais	Weaver
Fleming		White (<i>Hastings-Peterborough</i>)—50.

(Quorum 15)

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

TUESDAY, April 18, 1950.

Ordered,—That the following bill be referred to the said Committee:—Bill No. 55 (Letter E of the Senate), intituled: “An Act respecting The Limit-holders’ Mutual Insurance Company.”

FRIDAY, April 21, 1950.

Ordered,—That the name of Mr. Byrne be substituted for that of Mr. Laing on the said Committee.

TUESDAY, May 2, 1950.

Ordered,—That the quorum of the said Committee be reduced from 15 to 10 members and that paragraph (*d*), Section (1) of Standing Order 63 be suspended in relation thereto.

Ordered,—That the said Committee be granted leave to sit while the House is sitting.

TUESDAY, May 16, 1950.

Ordered,—That the following Bills be referred to the said Committee:—

Bill No. 205 (Letter K-4 of the Senate), intituled: An Act to incorporate United Security Insurance Company”.

Bill No. 207 (Letter K-5 of the Senate), intituled: “An Act to incorporate The Canadian Commerce Insurance Company”.

Bill No. 208 (Letter A-6 of the Senate), intituled: “An Act to incorporate Saskatchewan Mutual Insurance Company”.

MONDAY, June 12, 1950.

Ordered,—That the following Bills be referred to the said Committee, viz:

Bill No. 268 (Letter W-8 of the Senate), intituled: “An Act to amend The Foreign Insurance Companies Act, 1932”.

Bill No. 269 (Letter X-8 of the Senate), intituled “An Act to amend The Canadian and British Insurance Companies Act, 1932”.

WEDNESDAY, June 14, 1950.

Ordered,—That the said Committee be empowered to print from day to day 500 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence.

THURSDAY, June 15, 1950.

Ordered,—That the following Bills be referred to the said Committee, viz:

Bill No. 307 (Letter F-10 of the Senate), intituled: “An Act to amend the Trust Companies Act”.

Bill No. 308 (Letter J-10 of the Senate), intituled: “An Act to amend the Loan Companies Act”.

Attest.

LEON J. RAYMOND,
Clerk of the House.

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,

TUESDAY, May 2, 1950.

The Standing Committee on Banking and Commerce met at 10.30 o'clock a.m. Mr. Hughes Cleaver, Chairman, presided.

Members present: Messrs. Ashbourne, Breithaupt, Cannon, Cleaver, Dumas, Helme, Low, Macdonnell (*Greenwood*), Macnaughton, Quelch, Richard (*Ottawa East*), Smith (*Queens-Shelburne*), Smith (*North York*), Smith (*Moose Mountain*), Weaver.

In attendance: Mr. R. W. Warwick, Superintendent of Insurance.

On motion of Mr. Macnaughton:

Resolved: That the Committee recommend that its quorum be reduced from 15 to 10 members.

On motion of Mr. Dumas:

Resolved: That the Committee ask permission to sit while the House is sitting.

The Committee then considered clause by clause Bill No. 55 (Letter E of the Senate): "An Act respecting Limitholders' Mutual Insurance Company."

Mr. Cannon, on behalf of Mr. Lesage explained the bill and Mr. Warwick, Superintendent of Insurance, Department of Finance was questioned in relation to the said bill.

The preamble, Sections 1 and 2 and the Title were severally adopted and the Bill ordered to be reported to the House.

At 10.55 o'clock a.m. the Committee adjourned to the call of the Chair.

(*No verbatim report of evidence taken.*)

THURSDAY, May 25, 1950.

The Standing Committee on Banking and Commerce met at 10:30 o'clock a.m. Mr. Cleaver, the Chairman, presided.

Members present: Messrs. Adamson, Ashbourne, Cleaver, Dumas, Fleming, Fraser, Fulford, Gour (*Russell*), Hellyer, Hunter, Lesage, Quelch, Sinclair, Smith (*York North*), Smith (*Moose Mountain*).

In attendance: Mr. Dickey, M.P., Sponsor of Bill No. 205, and Mr. H. A. Ayles, K.C., Parliamentary Agent; Mr. Merrill Desbrisay, K.C., (Toronto), and Mr. J. B. Beckett, respectively Solicitor and Parliamentary Agent for Bill No. 207; Mr. R. C. Merriam acting for Mr. D. K. MacTavish, K.C., Parliamentary Agent, *re:* Bill No. 208; and Mr. R. W. Warwick, Sup't of Insurance.

The following Bills were severally considered clause by clause and adopted without amendment:

Bill No. 205 (Letter K-4 of the Senate), An Act to incorporate United Security Company.

Bill No. 207 (Letter K-5 of the Senate), An Act to incorporate The Canadian Commerce Insurance Company.

Bill No. 208 (Letter A-6 of the Senate), An Act to incorporate Saskatchewan Mutual Insurance Company.

At 11:00 o'clock a.m., the Committee adjourned to the call of the Chair.

(No verbatim report of evidence taken.)

WEDNESDAY, June 14, 1950.

The Standing Committee on Banking and Commerce met at 10.00 a.m. The Chairman, Mr. Hughes Cleaver, presided.

Members present: Messrs. Ashbourne, Bennett, Bradette, Byrne, Cannon, Cleaver, Dumas, Fulford, Gibson, Gour (*Russell*), Harris (*Danforth*), Helme, Hellyer, Hunter, Lesage, Low, Macdonnell (*Greenwood*), Macnaughton, Sinclair, Smith (*Queens-Shelburne*), Thatcher, Weaver.

In attendance: Mr. R. W. Warwick and Mr. K. R. MacGregor, respectively Superintendent and Associate Superintendent of Insurance; and the following Officers of the Canadian Life Insurance Officers Association: Mr. H. L. Guy, (Mutual Life of Canada), past President of the Association; Mr. R. H. Reid, Vice-President and Managing Director, London Life Insurance Company; Mr. D. K. MacTavish, K.C., Mr. J. A. Tuck, Counsels for the Association.

On motion of Mr. Hunter, it was

Resolved, That the Committee ask permission to print from day to day 500 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence.

The Committee considered, clause by clause, Bill No. 269 (Letter X-8 of the Senate), An Act to amend The Canadian and British Insurance Companies Act, 1932.

Clauses 1 to 8, both inclusive, and clauses 10 to 42, both inclusive, were severally agreed to.

On motion of Mr. Hellyer, it was

Resolved, That clause 9 and the Schedule to the said Bill stand until the Committee could question Mr. Graham Towers, Governor of the Bank of Canada, Mr. J. E. Coyne, Deputy Governor or Dr. W. C. Clark, Deputy Minister of Finance, on the terms of the said clause and Schedule.

The Committee then considered, clause by clause, Bill No. 268 (Letter W-8 of the Senate), An Act to amend The Foreign Insurance Companies Act, 1932.

Clauses 1 to 22, both inclusive, were severally agreed to and the Schedule to the Bill was allowed to stand until such time as one of the gentlemen named in the above Resolution of Mr. Hellyer, appear before the Committee.

Mr. Warwick and Mr. MacGregor were questioned on the various clauses of the two Bills.

At 12.30 a.m., the Committee adjourned to meet again at 5.30 p.m.

AFTERNOON SESSION

The Committee resumed at 5.30 p.m. The Chairman Mr. Hughes Cleaver, presided.

Members present: Messrs. Adamson, Ashbourne, Byrne, Cannon, Cleaver, Dumas Fleming, Fraser, Hellyer, Hunter, Macdonnell (*Greenwood*), Macnaughton, Prudham, Weaver.

In attendance: The same persons as are named at the morning sitting and, in addition, Mr. J. E. Coyne, Deputy Governor of the Bank of Canada.

The Committee resumed consideration of Bills Nos. 268 and 269.

Mr. Coyne was called, questioned and retired.

Mr. MacGregor answered a few questions.

At 5.50, the Committee adjourned to meet again at 11.30 a.m., Thursday, June 15, 1950.

THURSDAY, June 15, 1950.

The Standing Committee on Banking and Commerce met at 11.30 a.m. The Chairman, Mr. Hughes Cleaver, presided.

Members present: Messrs. Adamson, Ashbourne, Byrne, Cannon, Cleaver, Dumas, Gibson, Hellyer, Hunter, Lesage, Low, Macdonnell (*Greenwood*), Macnaughton, Prudham, Quelch, Richard (*Ottawa East*), Weaver.

In Attendance: Messrs. R. W. Warwick and K. R. MacGregor, respectively Superintendent and Associate Superintendent of Insurance; Mr. H. L. Guy, (Mutual Life of Canada), Past President, Canadian Life Insurance Officers Association.

The Committee resumed consideration of Bill No. 269 (Letter X-8 of the Senate), An Act to amend The Canadian and British Insurance Companies Act, 1932.

Messrs. Warwick and MacGregor were called and questioned in relation to clause 9 of the said Bill.

Clause 9 and the Schedule were severally agreed to.

The Preamble and the Title of the Bill were severally agreed to and the Bill ordered to be reported to the House without amendment.

The Committee then considered Bill No. 268 (Letter W-8 of the Senate), An Act to amend The Foreign Insurance Companies Act, 1932.

The Schedule of the said Bill was agreed to.

The Preamble and the Title of the Bill were severally agreed to and the said Bill ordered to be reported to the House without amendment.

The Chairman informed the Members that the following Bills had just been referred to the Committee for consideration:

Bill No. 307 (Letter F-10 of the Senate), An Act to amend The Trust Companies Act.

Bill No. 308 (Letter J-10 of the Senate), An Act to amend The Loan Companies Act.

After some discussion, it was agreed that the interested parties should be notified before proceeding with the study of the said Bills.

At 12.00 o'clock noon, the Committee adjourned to meet again at 11.30, Tuesday, June 20, 1950.

TUESDAY, June 20, 1950.

The Standing Committee on Banking and Commerce met at 11.30 o'clock a.m. The Chairman, Mr. Hughes Cleaver, presided.

Members present: Messrs. Adamson, Ashbourne, Bennett, Breithaupt, Cleaver, Dumas, Fleming, Fraser, Helme, Hellyer, Macdonnell (*Greenwood*), Macnaughton, Quelch, Richard (*Ottawa East*), Riley, Smith (*Queens-Shelburne*).

In attendance: Mr. R. W. Warwick and Mr. K. R. MacGregor, respectively Superintendent and Associate Superintendent of Insurance; Mr. L. G. Goodenough, Toronto, Counsel for the Dominion Mortgage and Investment Association and also representing the Trust Companies Association of Ontario; Mr. Jules E. Fortin, Toronto, Ont., Secretary Treasurer of the Dominion Mortgage and Investment Association; Mr. C. N. Bissett, the Eastern Trust Company, Montreal; Mr. E. L. Parent, the Guaranty Trust Company, Montreal, Que.

The Committee had before it for consideration the following bills:

Bill No. 307 (Letter F10 of the Senate), An Act to amend the Trust Companies Act; and

Bill No. 308 (Letter J10 of the Senate), An Act to amend the Loan Companies Act.

Mr. Warwick was invited to make a general statement on Bill No. 307 and Mr. MacGregor was questioned on the various clauses of the said Bill.

Mr. Goodenough was called, heard and retired.

Clauses 1 to 12, both inclusive, the Preamble and the Title of the Bill were severally agreed to and the said Bill ordered to be reported without amendment.

Bill No. 308 was thereafter considered clause by clause.

Mr. Warwick and Mr. MacGregor were questioned thereon.

Clauses 1 to 11, both inclusive, the Preamble and the Title of the said Bill were severally agreed to and the said Bill ordered to be reported without amendment.

At 12.10 o'clock p.m. the Committee adjourned to the call of the Chair.

ANTOINE CHASSÉ

Clerk of the Committee.

REPORTS TO THE HOUSE

TUESDAY, May 2, 1950.

The Standing Committee on Banking and Commerce begs leave to present the following as a

FIRST REPORT

Your Committee recommends:—

1. That its quorum be reduced from 15 to 10 members and that paragraph (d), Section (1) of Standing Order 63 be suspended in relation thereto.
2. That it be granted leave to sit while the House is sitting.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

TUESDAY, May 2, 1950.

The Standing Committee on Banking and Commerce begs leave to present the following as a

SECOND REPORT

Your Committee has considered Bill No. 55 (Letter E of the Senate), intituled: "An Act respecting The Limitholders' Mutual Insurance Company", and has agreed to report same without amendment.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

THURSDAY, May 25, 1950.

The Standing Committee on Banking and Commerce begs leave to present the following as a

THIRD REPORT

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

Bill No. 205 (Letter K-4 of the Senate), An Act to incorporate United Security Insurance Company.

Bill No. 207 (Letter K-5 of the Senate), "An Act to incorporate The Canadian Commerce Insurance Company".

Bill No. 208 (Letter A-6 of the Senate), "An Act to incorporate Saskatchewan Mutual Insurance Company".

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

WEDNESDAY, June 14, 1950.

The Standing Committee on Banking and Commerce begs leave to present the following as a

FOURTH REPORT

Your Committee recommends that it be empowered to print from day to day 500 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

THURSDAY, June 15, 1950.

The Standing Committee on Banking and Commerce begs leave to present the following as a

FIFTH REPORT

Pursuant to the Order of Reference of Monday, June 12, 1950, your Committee has considered the following Bills and has agreed to report same without amendment:—

Bill No. 268 (Letter W-8 of the Senate), intituled: "An Act to amend The Foreign Insurance Companies Act, 1932".

Bill No. 269 (Letter X-8 of the Senate), intituled: "An Act to amend The Canadian and British Insurance Companies Act, 1932".

A copy of the Minutes of Proceedings and of the Evidence relating to the said Bills is tabled herewith.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

TUESDAY, June 20, 1950.

The Standing Committee on Banking and Commerce begs leave to present the following as its

SIXTH REPORT

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

Bill No. 307 (Letter F-10 of the Senate), "An Act to amend The Trust Companies Act".

Bill No. 308 (Letter J-10 of the Senate), "An Act to amend The Loan Companies Act".

A copy of the Minutes of Proceedings and of the Evidence relating to the said Bills is tabled herewith.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

WEDNESDAY, June 14, 1950.

The Standing Committee on Banking and Commerce met this day at 10 a.m. The Chairman, Mr. Hughes Cleaver, presided.

The CHAIRMAN: Gentlemen, I will now call the meeting to order.

Mr. HUNTER: Before we go on with the meeting, I wonder if I could move that this committee recommend to the House that it be empowered to have the proceedings of the committee printed from day to day—500 English and 200 French?

The CHAIRMAN: Are you ready for the question? All those in favour please signify.

Carried.

The report will be tabled at 11 o'clock this morning and we will ask power to print.

Now, all of you are very busy men and I did not intend that this meeting should be called until 11.30. I know you have correspondence to attend to. I would like a show of hands to decide as to whether we will go on now or at 11.30.

Mr. ASHBOURNE: Three of us left the Committee on Public Accounts and came down here, and we understood it was just a matter of routine.

The CHAIRMAN: All those in favour of adjourning until 11.30 please signify.

Carried.

—Upon resuming.

The CHAIRMAN: Gentlemen, we have a quorum, but before proceeding with the work on Bill W8 and Bill X8 by sections, I would suggest that we have a general statement from the Superintendent of Insurance on the contents of the bills.

Bill W8: An Act to amend The Foreign Insurance Companies Act, 1932.

Bill X8: An Act to amend the Canadian and British Insurance Companies Act, 1932.

R. W. Warwick, Superintendent, Insurance Department, called:

The WITNESS: Mr. Chairman and gentlemen, while several amendments have been made in recent years to the Insurance Acts, this is the first major revision in eighteen years, and while the bill itself may appear to be quite voluminous, the number of new principles involved is very small. Many of the changes suggested are to clarify several sections and remove minor defects and also to repeal other sections which are not now applicable.

The first few sections of the bill have to do with the company clauses part and deal mainly with the composition of the boards of directors and their qualifications therefor.

Section 5 is new. This is added to facilitate the transfer of the shares of stock of Canadian insurance companies. That is a provision similar to one in the Bank Act and also in the Companies Act for some years.

Section 7 is another new clause. It provides for the reduction of the fully paid shares of any Canadian insurance company wishing to do so below the \$100 par value. At the present time, as you know, the par value of the shares of stock of Canadian banks is \$10.

Now then, we have eleven pages of the bill making up section 9, which involves a recasting of the investment section of the Act—section 60. This section relates to the investment powers. In some cases they are enlarged and in other respects the investment powers have been restricted. Briefly, the changes are as follows: At present, investments may be made by Canadian insurance companies in the securities of any government; it is proposed to limit the investment in foreign government securities, other than those of the United States, to the governments of countries in which the companies are actually doing business. The securities of public bodies operating ports, harbours and other services in the British Commonwealth are now eligible under the present Act. It is proposed to change this power to “such securities in any country in which the company is operating.”

Equipment trust certificates of Canadian railways are now eligible. It is suggested that this be extended to include United States railway certificates.

For unsecured debentures, the basis of qualification is a dividend test. It is suggested that an alternative qualification be on the basis of the earnings over a five-year period of the corporation.

In the case of no par value common stocks, the present basis is a requirement of \$4 per share per annum for seven years. That has been found most unsatisfactory because of splits in no par value shares. In the bill it is proposed to make the qualification of such shares on the basis of dividends of 4 per cent on the capital account and thus put the no par value shares on the same basis as the shares of par value.

Another subsection will permit investment in real estate for production of income. This class of investment was first permitted under the so-called “basket clause”, in the 1948 amendments; this bill will provide that the total investment in securities of that nature will be limited under the two subsections to 5 per cent. Those, gentlemen, are the principal changes in the investment section.

As regards the valuation of securities, the Canadian companies at present take the securities into their statements at not more than the market values. It is now proposed that Canadian life insurance companies may take Dominion of Canada, Canadian Provincial, United States and United Kingdom government securities in at the amortized values, but for all other securities market values are still to be used and for non-life companies market values throughout.

The present Act now provides machinery for the amalgamation and merging of life companies, but there is no corresponding provision for fire and casualty companies. It is thought that this should be permitted for non-life companies and a section to cover that is provided.

In the case of fraternal societies, it is proposed to grant power generally to all such societies to transact the business of personal, accident and sickness insurance, which is a power that some recently incorporated societies have received. It is also thought advisable to remove the \$10,000 limit on the amount of insurance which may be issued to a member and place the responsibility as to the amount which a society may issue on its actuary.

Mr. MACNAUGHTON: Could you refer to the sections as you go along?

The CHAIRMAN: Mr. MacGregor will do that when we are dealing with the sections. I thought the committee would be interested in just a general bird's eye view of the amendments and they will all be gone into later in detail.

The WITNESS: Another change in the first part of the bill will provide for simplification in the requirements for the filing of the various statements and returns.

Now, in the section relating to British insurance companies, these companies, as you know are now required to cover their liabilities in Canada by deposits with the Minister of Finance and also deposits with Canadian trustees appointed under the Act. At present the classes of securities which they may deposit with a trustee are rather limited.

It is proposed that the classes of securities which they may deposit with trustees be enlarged to include the same classes of securities in which Canadian insurance companies may invest with the limitation, however, that any such securities must be of Canadian corporations. And that applies except in the case of securities of the government of the British commonwealth or the United States government. Other changes in this part are related to the Canadian section in so far as statements and returns are concerned.

Now, Mr. Chairman, this bill has been discussed with representatives of the life insurance companies, fire and casualty insurance companies and fraternal benefit societies and we understand it has their approval.

The CHAIRMAN: Thank you, Mr. Warwick.

By Mr. Harris:

Q. Before the witness proceeds, may I ask one question there. I notice that the appropriation from profits for the surplus is necessary to the extent of 25 per cent. The question I wanted to ask the witness is: is there anything within the regulations that forbids or suggests that the directors of any of these companies are forbidden to make charitable donations approved by the Income Tax Act? I may say that a great many charitable donations are made by insurance companies and I just want to go on the record that they are quite within their rights and I want to get the information officially from the witness.—A. The section of the Act there does not prevent or limit such companies from making such donations.

Q. I am sorry, I did not hear that.—A. The section does not prevent the boards of those companies making such donations.

The CHAIRMAN: Before starting into consideration of Bill X8 by sections, is there anyone in attendance here who would like to be heard?

Mr. D. K. MAC TAVISH: Mr. Chairman, I represent—and Mr. Tuck is with me—the Canadian Life Insurance Officers Association, and officers of that association, Mr. Guy and Mr. Reid are here. We do not wish to be heard. We appreciate very much indeed the opportunity given to the association to sit down with members of the department to discuss the proposed legislation in advance, and while it would be an exaggeration to say that everything in the amendments is acceptable to us, we do not object and we are here as a matter of courtesy to the committee and are available to answer any questions that may be asked.

The CHAIRMAN: Thank you, Mr. MacTavish.

Bill X8—clause 1. Shall the clause carry?

Carried.

Clause 2. Shall clause 2 carry?

Carried.

Shall clause 3 carry?

Carried.

Shall clause 4 carry?

Carried.

Shall clause 5 carry?

Mr. HELLYER: Mr. Chairman, may I go back to clause 3?

The CHAIRMAN: Shall we revert to clause 3?

Mr. HELLYER: Subsection 15.

The CHAIRMAN: "Failure to elect directors."

Mr. HELLYER: Is there any time limit on that at all, and any penalty for failure to elect directors there?

Mr. MACGREGOR: There is no time limit, but that is the same clause as is included in the Companies Act and has been included in the Insurance Act since 1910.

In the earlier subsections companies are required to elect boards of a certain size at certain times. The purpose of this subsection is really to meet a technicality if for some reason the directors were not elected strictly in accordance with the requirements.

Mr. MACNAUGHTON: In fact, they continue in office until the next annual meeting.

Mr. MACGREGOR: It is to meet the technicality where, under the law, if the company does not elect its board as required, it could be held to be dissolved.

Mr. HELLYER: How long can that continue? There is no restriction at all?

Mr. MACGREGOR: There is no restriction, sir, but in practice we have never encountered a case where the directors have not been elected at the proper time.

Mr. MACDONNELL: There has not been any widespread refusal to act?

Mr. MACGREGOR: No, sir.

The CHAIRMAN: Are there any other questions on section 3? If not, we are on section 5. Shall section 5 carry?

Carried.

Shall section 6 carry?

Carried.

Shall section 7 carry?

Carried.

Shall section 8 carry?

Carried.

Shall section 9 carry?

Mr. HELLYER: Before section 9 is carried I would like to call Mr. Coyne of the Bank of Canada and ask him just how these investment powers fit in with the general economic welfare of the Dominion of Canada. We are here as representatives of the people and must be alive to the general advantages of the Dominion of Canada and all the citizens thereof, and I think it is only fitting that we should have an expert witness, such as he is, on the general investment powers of insurance companies before we accept this subsection.

The CHAIRMAN: I would suggest either the governor of the Bank of Canada or Dr. Clark, the Deputy Minister of Finance.

Mr. HELLYER: Well, I would say the governor of the bank.

Mr. MACNAUGHTON: I do not understand the import of that. I agree in theory.

The CHAIRMAN: I think the import is this, that for the benefit of the general economy of the country these institutions having large funds for investment have power to take up investments in as wide a field as possible.

Mr. HELLYER: It is to facilitate the working of the capitalistic private enterprise system as we know it, and to maintain that system. There is some question as to whether the Act, as presently set up, actually does that or whether it is, in some cases, a bit of a millstone around the neck of the system.

The CHAIRMAN: Mr. MacGregor, would you care to make any remarks?

Mr. K. R. MACGREGOR (Associate Superintendent of Insurance): I might make the comment, sir, that the Governor of the Bank of Canada has had these proposals before him for the last six months and also the Deputy Minister of Finance, and we have met both of those officials on several occasions to discuss these proposals, and so far as I know, they are completely in accord with the measures put forward here. I know of no objection, in any event, from either the governor of the Bank of Canada or the Deputy Minister of Finance—certainly they offered none in our discussions.

Mr. Low: Mr. Chairman, Mr. MacGregor is aware, of course, of a remark made recently in a speech by Mr. Coyne in which he urged some change of attitude on the part of the Canadian people towards investments. Now, one of the difficulties, he sees, and all of us see, is that development of resources will not go forward unless people become resource-minded. We have come to the point in Canada where everybody with money to invest wants to get in on a sure thing. A 3-per cent government bond they look upon as a sure thing and, as a result, the development of resources is not going forward as we would like to see that development go forward. I am supporting the request made by Mr. Hellyer that we do call one of the leading banking officials to give us something on section 9.

The CHAIRMAN: Are you ready for the question? The motion is that the consideration of section 9 stand until Mr. Coyne, Mr. Graham Towers or Dr. Clark be called to give evidence. All those in favour of the motion?

Carried.

Section 10:

Mr. HARRIS: May I just make one suggestion there. One of the best investments that life insurance companies can make, in my opinion, would be to invest some of their funds in hospital work and prolong the life of the present generation so they would insure their premiums as they go along. I hope they will take that to heart.

The CHAIRMAN: Shall section 10 carry?

Carried.

Shall section 11 carry?

Carried.

Shall section 12 carry?

Carried.

Shall section 13 carry?

Carried.

Shall section 14 carry?

Carried.

Mr. MACDONNELL: Could I ask a question on 14 (b)—

“redeemable security” means a security for a fixed term and which is redeemable at the end of that term at a specified value.

Does that mean that a security is redeemable at a certain price before the end of the term? Is that the meaning?

Mr. MACGREGOR: The intention there, sir, is to eliminate perpetual bonds and shares. The definition is for use in connection with amortized values and it

is intended to make it clear that all the particulars must be definite,—the term must be fixed, the redemption value must be fixed, and the bond must provide for redemption at that time at the specified value. That would eliminate perpetual bonds.

The CHAIRMAN: Mr. Macdonnell, did your question have to do with the rather recent provision with regard to municipal debentures?

Mr. MACDONNELL: No, I was thinking of bonds that are redeemable before maturity, perhaps at a premium.

Mr. MACGREGOR: Well, (b) does contemplate that kind of security also, sir, and in computing the amortized value, any earlier option must be taken into account in paragraph (c) defining "yield". That option must be taken for the purpose of computing amortized values that will give the lowest yield.

Mr. MACDONNELL: It is not very important, but my point would be: which is redeemable at the end of that term or earlier on such terms at a specified value.

Mr. MACGREGOR: Paragraphs (b), (c) and (d) ought to be read together, sir.

Mr. MACDONNELL: All right, very good. I am content.

The CHAIRMAN: Would you rather that section would stand?

Mr. MACDONNELL: No.

The CHAIRMAN: Shall the section carry?

Carried.

Shall section 15 carry?

Carried.

Shall section 16 carry?

Carried.

Shall section 17 carry?

Carried.

Shall section 18 carry?

Carried.

Shall section 19 carry?

Carried.

Shall section 20 carry?

Carried.

Shall section 21 carry?

Carried.

Section 22—are there any substantial changes, Mr. MacGregor?

Mr. MACGREGOR: There are two main changes in clause 22. This clause relates to fire and casualty companies. At the present time fire and casualty companies appear to be required to show liabilities in their annual statement of exactly 80 per cent of the unearned premiums. The first proposed change in this clause would make that the minimum, but would make it clear that they may include reserves of more than 80 per cent. We want to encourage them to include more than 80 per cent, and it is possible that in some companies it is necessary that they do include more than 80 per cent. It is designed to strengthen the requirements in that respect.

The second change relates to the reserves to be carried in the annual statements of fire and casualty companies transacting non-cancellable sickness and accident business. That class of business is a rather hazardous type which has been transacted by casualty companies for a great number of years with

varying degrees of enthusiasm, and, at the present time, the Act requires that the basis of reserves for that kind of business shall be specified by the Superintendent of Insurance. Well, it is a practical impossibility for the Superintendent of Insurance to prescribe bases for that type of business for each particular company and the principle is contrary to the general principles elsewhere in the Act in reference to life insurance and all other classes, namely, that the primary responsibility should rest upon the company officers and the Superintendent should be in a position to be able to review the bases used. Consequently, the second change requires the reserves for this type of business—non-cancellable sickness and accident business—to be computed by a qualified actuary and he must make a full report covering the bases he has used, which report will form a part of the annual statement. It is a strengthening in that respect and we think it proper, too, in view of the revival of interest at this time in this particular class of insurance.

Mr. GIBSON: Do the provisions of this Act apply to the insurance business carried on by the province of Saskatchewan—the provincial government?

Mr. MACGREGOR: No, but provincial companies may of their own volition seek registration with the Dominion. It does not apply to provincial companies that are not registered with the Dominion. We have no jurisdiction over them.

The CHAIRMAN: May we finish with section 22? Are there any other questions on section 22?

Carried.

Mr. MACNAUGHTON: May I ask a question on section 20?

The CHAIRMAN: We shall revert to section 20.

Mr. MACNAUGHTON: Merely as a matter of information, do I understand the Society of Actuaries is a Canadian society?

Mr. MACGREGOR: No, sir, it is not. There have been in the past two main actuarial bodies on this continent, both U.S.—the Actuarial Society of America, which is the older, and the American Institute of Actuaries, a newer body. A year ago those two United States organizations were amalgamated into one society, the Society of Actuaries. There are no Canadian societies of actuaries granting degrees. All persons in Canada write the examinations of the Society of Actuaries or the British Institute of Actuaries.

Mr. MACNAUGHTON: Then a Canadian wishing to qualify under section 20, would have to be a fellow of the Institute of Actuaries of Great Britain or the Faculty of Actuaries in Scotland or the Society of Actuaries in the United States?

Mr. MACGREGOR: That is right; and in practice they are. Canadians, as a rule, write the examinations of the Society of Actuaries, as it is now known, and they derive their professional status from that society.

The CHAIRMAN: Are there any other questions?

Shall section 23 carry? Would you care to explain the amendment made by virtue of this section?

Mr. MACGREGOR: The main purpose of section 101 in the Act, dealt with in clause 23 of the bill, is to build up the surplus of fire and casualty companies, the objective being a ratio of assets to liabilities of two to one—that is, to a point where the companies' surpluses are equal to their policy liabilities. The section helps to accomplish that result by limiting the amount of the profits earned each year that may be distributed as dividends.

The section says in effect that at least 25 per cent of the profits of the year last past shall be applied to increase the company's surplus. There are two things being done in this section. The first is merely to clarify what liabilities

are referred to in subsection 2. In subsection 1 there are two kinds of liabilities mentioned and in subsection 2 the words "said liabilities" appear. There is a little confusion for that reason. The revision clarifies this point.

Subsection 3 permits an exemption to the general objective of a surplus equal to the company's policy liabilities. It says that if a company has built up a surplus of \$500,000 and has a minimum paid capital of \$1 million, the total of the two being at least \$1,500,000, that it might count the \$1 million of capital as surplus for the purposes of this two to one ratio. The objection to that provision is that it meets only a particular kind of case—a company with a capital of \$1 million or more. The whole basis of the section is surplus, and it is anomalous that a company with a surplus of, say, \$1 million, and a capital of \$500,000, ought not to be exempted just as well as a company with a surplus of \$500,000 and a capital of \$1 million. In fact, the company with the smaller capital and the larger surplus is probably in a stronger position because it has not as large a drain for shareholders' dividends.

The CHAIRMAN: Are there any other questions on section 23?

Carried.

Shall section 24 carry?

Carried.

Mr. HUNTER: In this section 23 with respect to the 25 per cent, which is appropriated towards surplus, I presume that is still undistributed dividends, is it? There is no method of capitalizing?

Mr. MACGREGOR: No, sir.

The CHAIRMAN: Shall section 25 carry?

Carried.

Mr. HELLYER: Did section 24 carry?

The CHAIRMAN: Yes. Had you any questions on No. 24?

Mr. HELLYER: No.

The CHAIRMAN: Shall section 26 carry?

Carried.

Shall section 27 carry?

Carried.

Section 28—one change is made here, Mr. MacGregor?

Mr. MACGREGOR: In the present section 127, which is dealt with in clause 28 of the bill, there are four subsections at present. Subsections 2 and 3 are being eliminated, and subsection 4 is being renumbered subsection 2. The two subsections being omitted, subsections 2 and 3, relate to an exemption granted to British companies many years ago. This section applies only to British companies.

In the past, British companies and foreign companies operating in Canada did so, to a large extent, through general agents. They were required to maintain a Canadian chief agency, but by reason of delays in communications and for other reasons, these subsections permitted the general agents to report directly to their home offices in New York or wherever the officer might have been, without reporting their business through the Canadian chief agency, so long as a summary statement was sent to the chief agent. By reason of improved communications and changed conditions, these general agents now do route their business through the Canadian chief agency, which is certainly to be preferred from the department's point of view, because all of the records are now maintained in the Canadian chief agency. There is no longer any need for this old exemption, and we are glad to see it disappear.

The CHAIRMAN: Shall the section carry?

Carried.

Section 29—have you any comments, Mr. MacGregor, in regard to subsection 3 of the new section?

Mr. MACGREGOR: Section 127A simply covers the values at which bonds and stocks must be shown in the Canadian statements of British companies. This requirement was formerly dealt with by a cross-reference to the Canadian section 67. The only change brought about by this new section is that in addition to the market values for all bonds and stocks, which we have always got, British companies are now asked to report the amortized values also, for three classes of government bonds—Dominion (including provincial), United Kingdom and United States federals. It calls for a little more information than we now receive. It adds the amortized values of these three classes of government bonds to the previous requirement to show the market values alone.

The CHAIRMAN: Shall section 29 carry?

Carried.

Shall section 30 carry?

Carried.

Shall section 31 carry?

Carried.

Shall section 32 carry?

Carried.

Shall section 33 carry?

Carried.

Shall section 34 carry?

Carried.

Shall section 35 carry?

Carried.

Shall section 36 carry?

Carried.

Shall section 37 carry ?

Would you mind explaining section 37, Mr. MacGregor?

Mr. MACGREGOR: Clause 37, relating to section 150 of the Act, falls in Part IX dealing with provincial companies. That part of the Act says in effect that any provincial company may, if it wishes, seek Dominion registration. There is nothing compulsory about it; it is solely up to the provincial company. If it does make application for that purpose, then it is asked to give an undertaking that it will comply with certain sections of the Act, being the sections named in 150.

The only changes in the section are in these named sections and due to certain renumbering in the present Bill. The changes are solely of this nature.

The CHAIRMAN: And in the case of any subsequent failure to comply or make returns, what is the penalty—loss of registration?

Mr. MACGREGOR: That is right—loss of registration.

Mr. Low: Would a provincial company be required to register federally under this Act before being allowed to sell insurance in other provinces?

Mr. MACGREGOR: No, sir, a provincial company may operate in its province of incorporation or in other provinces without seeking Dominion registration.

The CHAIRMAN: Shall the section carry?

Carried.

Does section 38 carry?

Carried.

Shall section 39 carry?

Carried.

Shall section 40 carry?

Carried.

Shall section 41 carry?

Mr. CANNON: That reduces the rate of the interest for purposes of registration?

Mr. MACGREGOR: There are two changes here. This clause 41 prescribes the bases for calculating the minimum reserves for life annuity contracts. At present the maximum rate of interest is 4 per cent, which we think is too high. This clause reduces it to $3\frac{1}{2}$ per cent. That is the first change.

The second change is to add two new mortality tables that may be used for this purpose. At the present time the only table prescribed is that listed as item (b), namely, Rutherford's Annuity Tables. That table is not now mentioned in the Act, but it is described. There would be added the tables mentioned in item (a), Mortality of Annuitants, 1900-1920 and in (c), the 1937 Standard Annuity Table. These are additional tables that might be used by life insurance companies.

Mr. Low: Are they more generous than those now used?

Mr. MACGREGOR: No, more stringent, because these tables show lower rates of mortality and consequently higher reserves.

Mr. MACDONNELL: Am I correct in understanding there are two or three different tables that can be used, but they would not give different results?

Mr. MACGREGOR: Yes, they would. They are different mortality tables and they would give varying reserves. In general, the newer tables give higher reserves and, of course, the companies must use those newer tables for new business in order to maintain adequate reserves.

Mr. CANNON: I see that the Superintendent has the power to prescribe that another table of mortality may be used?

Mr. MACGREGOR: The general principle in the Act, both in reference to life insurance policies and life annuity contracts is to prescribe certain tables that are known to be safe and conservative.

In the explanatory notes opposite page 40, the present tables prescribed for life insurance policies are given, and this clause 41 is for the same purpose in reference to annuity contracts. These are permissive tables, but if any company believes that for a particular class of policies none of the prescribed tables is appropriate, then it may apply to the Superintendent for approval of the table it believes to be the most appropriate. In effect, it must make a case that none of the prescribed tables is appropriate and that the one it wishes to use is the most appropriate.

Mr. GIBSON: And you are only allowing $3\frac{1}{2}$ per cent to be used. Are not the government annuities still giving 4 per cent?

Mr. MACGREGOR: This Act has no application to government annuities, sir. The present rates for government annuities, I might say, are not now at 4 per cent; they are at a lower rate. The old rates were at 4 per cent but the newer ones are not.

Mr. GIBSON: What are they now?

Mr. MACGREGOR: Three per cent.

The CHAIRMAN: Mr. MacGregor, what increase in life expectancy has occurred comparing the 1900 table with the 1937 table; can you give us that?

Mr. MACGREGOR: That is rather difficult to answer, sir. The general improvement in mortality has been most marked, of course, at the younger ages, but these mortality tables—

The CHAIRMAN: Comparing the 1900 table to the 1937 table, what difference is there?

Mr. MACGREGOR: Well, the shapes of the curves are different, sir. If we look first at (a), the Mortality of Annuitants, 1900 to 1920, that was a table based on the experience of British companies during the years 1900 to 1920. However, the actual experience reflected by that investigation is that shown by Rutherford's Annuity Tables in (b). The table in (a) was constructed on the basis of that investigation but did not reflect the actual experience; the table was in fact a forecast, an attempt to foresee what the mortality might be in a subsequent period. There is no constant ratio between any of those tables. I can say in general that by far the most marked improvement is at the lower ages, but at the higher ages the relation between Rutherford's tables and the tables known as the Mortality of Annuitants 1900 to 1920 (*a(f)* and *a(m)*) varies considerably.

Mr. CANNON: Just one more question to understand that properly. Would it be correct to say that Rutherford's table is based on the mortality rates from 1900 to 1920?

Mr. MACGREGOR: Rutherford's tables were based on the actual experience shown by an investigation of British companies from 1900 to 1920.

Mr. CANNON: Would not they be somewhat out of date now?

Mr. MACGREGOR: They are for new business, but for certain old business written several years ago, which has now aged, they may still be satisfactory.

Mr. CANNON: They are not written for new business?

Mr. MACGREGOR: No.

Mr. GIBSON: Is it more expensive for a woman to take out an annuity than for a man, or do they even them up?

Mr. MACGREGOR: Broadly speaking, so far as life annuities are concerned, a female life may be taken, for all practical purposes, as a male life at an age about five years younger.

Mr. GIBSON: So they do differentiate between the rates?

Mr. MACGREGOR: Oh, yes, there are separate tables for each sex. In (a), there is the (*f*) table, based on female lives, and the *a(m)* table, based on male lives. So also with Rutherford's tables.

The CHAIRMAN: Are there any other questions on section 41?

Carried.

Shall section 42 carry?

Mr. MACGREGOR: Section 42, gentlemen, simply refers to "term certain" annuities rather than "life annuities," and the only change is to reduce the maximum rate of interest from 4 per cent to 3½ per cent.

The CHAIRMAN: Shall the section carry?

Carried.

The Schedule—I believe the schedule had better stand pending the calling of the witness asked for.

Mr. MACGREGOR: Perhaps, I might explain, gentlemen, that the section that was passed over earlier, being section 60, dealt with in clause 9 of the bill, relates to the investment powers of Canadian insurance companies. This schedule is a direct counterpart, but relates to the kinds of investments that a British company may invest in trust in Canada against its Canadian liabilities.

The CHAIRMAN: Inasmuch as the committee wishes section 9 of the bill to stand, I think it would be as well for us to let the schedule stand.

Mr. MACNAUGHTON: Mr. Chairman, I am still confused about this proposed calling of witnesses. What is the intended purpose? If it is a long economic discussion, it is going to be very interesting, but it seems to me that the drafters of the bill must have gone over the investment policies in general, namely, what is reasonable, safe and right. Is that the purpose—just to get a further explanation of those investments which it is desirable that insurance companies may purchase and invest in or is there some other purpose?

The CHAIRMAN: Well, the purpose was indicated at the time the motion was under discussion. The motion has been carried and I do not feel that we should revert to a motion and re-discuss a motion we have already carried at the present session of the committee. If you wanted to ask any specific questions in regard to it, in order to be prepared when the witness gives evidence, there would be no objection to that, but we did discuss the matter and decided to call the witness, and I am endeavouring to make the arrangements for the witness to be heard as promptly as possible. At this date in the session, of course, it is most important that the bill should be reported to the House as soon as possible. Also, there are some witnesses from out of town who may want to remain over and hear this evidence. I cannot say whether I can have a witness here this afternoon or not, but I will not lose any time.

Shall we now turn to bill W8, an Act to amend The Foreign Insurance Companies Act, 1932. Shall section 1 carry?

Mr. MACDONNELL: Could we have a general word about this? Perhaps it might facilitate it.

Mr. WARWICK: This bill to amend the Foreign Insurance Companies Act, Mr. Chairman and members, is the counterpart of the British section in the Canadian and British Insurance Companies Act.

Mr. MACDONNELL: Can you make that statement absolutely that it is for technical reasons covering what we have already approved?

The WITNESS: That is right, sir, with the same question about the schedule, of course, as in the other.

The CHAIRMAN: Shall section 1 carry?

Carried.

Shall section 2 carry?

Carried.

Shall section 3 carry?

Carried.

Shall section 4 carry?

Carried.

Any time I go too fast, please tell me. Shall section 5 carry?

Carried.

Shall section 6 carry?

Carried.

Shall section 7 carry?

Carried.

Shall section 8 carry?

Carried.

Shall section 9 carry?

Carried.

Shall section 10 carry?

Carried.

Shall section 11 carry?

Carried.

Shall section 12 carry?

Carried.

Shall section 13 carry?

Carried.

Shall section 14 carry?

Carried.

Shall section 15 carry?

Carried.

Shall section 16 carry?

Carried.

Shall section 17 carry?

Carried.

Shall section 18 carry?

Carried.

Shall section 19 carry?

Carried.

Shall section 20 carry?

Carried.

Shall section 21 carry?

Carried.

Shall section 22 carry?

Carried.

And the schedule will stand.

Mr. Macdonnell moves we adjourn until 4 o'clock this afternoon. I will send around notices to every member of the committee in the event there is any change.

Mr. MACNAUGHTON: The Committee on Old Age Security meets at 4 o'clock, and it is an important session.

The CHAIRMAN: Shall we say, then, 5:30, and if there is any change I shall send around a notice.

—The committee adjourned.

WEDNESDAY, June 14, 1950.

AFTERNOON SESSION

—The committee resumed at 5.30 p.m.

The CHAIRMAN: We have a quorum, gentlemen, and we will carry on. We have with us Mr. Coyne, Deputy Governor of the Bank of Canada, who has been kind enough to rearrange his appointments to come here. Would you carry on, Mr. Hellyer?

Mr. J. E. Coyne, Deputy Governor, Bank of Canada, called:

Mr. HELLYER: Well, all I would like to know is, first, how the various sub-sections of section 9 fit into the general economic welfare of the Dominion of Canada as to providing capital for the development of resources and maintaining our high level of economic prosperity, and also as regards the debt structure and the cost of servicing the debt structure on the rest of the industry in the dominion, and that type of thing.

The CHAIRMAN: It is fair to tell you, Mr. Coyne, that the reason you are asked to come here is as a result of a recent speech which you made and which was reported in the press, where you are reported to have made certain comments as to investments by insurance companies.

Now, would you care to make a statement regarding that speech, or would you rather answer the broad question which Mr. Hellyer has just asked you?

The WITNESS: Well, perhaps I should start by saying that I am not familiar with the details of the legislation before you now. I was invited by the Canadian Life Insurance Officers Association to speak to them at their annual meeting on the general subject of savings and investments in Canada and I did so. Most of what I had to say related to the significant development in that field since the war, during which period, as far as one could tell, the financial machinery of the country responded very well to changing conditions and operated in different ways at different times—sometimes the banks, sometimes life insurance companies providing the capital needed in certain areas—sometimes private investors.

But looking to the future one wonders—and this is the question I left before the meeting—from what quarters will come the capital needed for continuing the development of Canada and just what part the financial institutions will play in that process, having regard to the fact that so great a proportion of savings flows through their hands.

My purpose, as I said, was to ask questions or, at any rate, to ask a general question of that nature with a view to provoking discussion either at the meeting or later among the gentlemen concerned, with the hope that they and other interested people from time to time would provide the answers, and out of the answers that various people might give some sort of development might come. But I am no expert on insurance companies.

By Mr. Hellyer:

Q. Do you think that the insurance companies, with their experience and with their machinery as already set up, would be in a position, if given wider powers, to further the economic development of the country by supplying the needed amounts of capital as required and, at the same time, spreading the risk sufficiently to protect the policy holders?—A. I think they always have done that and it is generally a question of degree as to how far they wish to do it and how far the legislation will permit them to do it.

Q. Are there any other comparable sources of collected savings?—A. Comparable to insurance companies?

Q. Yes, to the amounts of money that they have to invest?—A. Well, I should think the various savings deposit institutions between them have a greater amount of personal savings left with them than the insurance companies do.

Q. With the exception of the savings deposit companies and the banks, is there any other collecting agency or any other method which has already been set up and effective for collecting from the people such vast amounts of capital?—A. Well, those are the institutions as generally described but, of course, the private individual may subscribe capital directly to industry or most likely not directly but through the medium of an investment dealer who advises him or lets him know what investments he can make and helps him to make them.

Q. But that is far more of a personal risk, though, than a collective risk?—A. Yes.

Q. And I think in your speech you mentioned something about the nature of Canadians generally—that they like to take risks on a collective basis where they just individually risk very little but have the benefits of development rather than taking a risk entirely from an individual standpoint?—A. I did not single Canadians out in that regard. I suggested that with higher taxation and the changing economic conditions you do not find those large individual fortunes being accumulated relatively on the same scale today as you did in earlier periods, that more and more of the personal saving in the country is done in small individual accounts by a large number of individual people and people in those circumstances do not have the same large individual sums of money and cannot afford to take the same risks that perhaps in an earlier day a few individual enterprisers were able to take.

Q. Well, do you think that the difference to the economy generally is pronounced as between one type of investment and another as for, say, supplying capital in the form of preferred shares as against buying government guaranteed bonds or something like that?—A. I think there has to be a proper balance at all times between the different kinds of investment. Partly that would depend on what the enterprises themselves want, whether they want to borrow money or to sell stock and partly on what the investors want to do with their money, whether they are looking for bonds or are prepared to invest in stocks and oil leases and things of that sort.

Mr. MACNAUGHTON: Mr. Chairman, I wonder if I might interject here? It is right along the line of Mr. Hellyer's proposition. I had the advantage of reading the speech by Mr. Coyne this afternoon and trying to bring it down to the points at issue. On page 10, for example, it says:

The only other outlet for personal savings that can be accurately measured is the annual increase of about 200 million dollars in the Canadian reserves of life insurance companies. In round figures, an amount equal to more than 60 per cent of net annual personal saving is placed at the disposal of banks, other savings institutions, and insurance companies.

Then, on page 13:

One of these facts is the dominant role of life insurance companies and chartered banks as repositories for the savings of the Canadian people. As I have already mentioned, funds equal to more than 20 per cent of the total new saving of individuals, farmers and unincorporated businesses are accruing to life insurance companies each year and, if chartered banks are included the proportion is over 60 per cent.

Then, again, on page 14:

The trend, it seems to me, is towards an increasingly important role for life insurance companies and banks in transmuting individuals' saving into productive investment.

And on page 15:

But most Canadians, I think, would look for a growing direct participation of Canadian capital in all lines of investment activity, and would expect our major financial institutions to provide leadership in that direction.

If I understand my friend correctly, the feeling is that inasmuch as a large proportion—20 per cent—of the savings of the country are going into insurance companies, perhaps it might be possible to give them greater opportunity to participate in what is called “enterprise finance” rather than tying up that savings proportion in gilt-edged securities which, perhaps, do not do as much productive enterprise financing as some people would like to see.

Mr. MACDONNELL: I take it that Mr. Coyne would approve of the fact that the amendment contained in these bills is extending somewhat the field of insurance investment and I take it that the department will consider with industry, as time goes on, whether it could be further extended?

Mr. HELLYER: The extension, Mr. Chairman, are very modest, are they not?

The CHAIRMAN: I would hardly say they are modest and I think perhaps one point is being lost sight of. All parliament can do is to extend the powers of these insurance companies and the responsibility then rests with the company directors as to what extent they take advantage of the powers.

May I ask this question? Mr. Coyne, do you know of any part of our industrial or business economy that is suffering from lack of enterprise capital?

The WITNESS: “Suffering” is a very strong word.

By the Chairman:

Q. Well, retarded—unduly retarded by lack of enterprise capital?—A. I would think it more likely that there would be some business which have found it desirable under the circumstances to borrow money by way of bond issues which might have preferred to get some more money of an equity character instead. But they got the money so far.

Mr. ADAMSON: Well, Mr. Chairman, the Steel Company of Canada is a classic example. Now, we cannot say they have any difficulty in getting money, but one of the main problems facing the company is raising more money for expansion. The president, in his annual report, made a very definite point of that requirement for getting more money for expansion and how to do it with the equity or preferred and common shareholders taking care of it.

The WITNESS: Well, I would not want to deny in any way that I think, and I am sure that everybody thinks, that it is desirable that life insurance companies should take part in that process, but what the degree should be at any particular time is a matter of judgment.

Mr. ADAMSON: Could you say in the portfolios of the life insurance companies, whether they have invested up to the maximum of 30 per cent?

The CHAIRMAN: Mr. MacGregor will be able to answer that question.

Mr. ADAMSON: Have all life insurance companies taken advantage, or most of them, of investing to the maximum of 30 per cent in common stock?

Mr. MACGREGOR: That is to say, 30 per cent of the shares of any particular corporation? The limit is 15 per cent of the insurance company’s funds that may be invested in common shares.

Mr. ADAMSON: Have they taken advantage of that?

Mr. MACGREGOR: Well, yes, sir, they have in a few cases in the past. The 15 per cent limitation was written into the Act in 1932. Prior to that time there was no limit and some companies had a very high proportion of their assets in common shares. It was that high proportion that contributed to the 15 per cent rule.

Mr. ADAMSON: Would you care to say or give your opinion as to whether 15 per cent is sufficient?

Mr. MACGREGOR: In my opinion, it is ample.

Mr. ADAMSON: You would not like to see that increased?

Mr. MACGREGOR: Not for common shares—no.

Mr. MACDONNELL: When you say "ample", do you mean as far as they can safely go?

Mr. MACGREGOR: 15 per cent—yes.

The CHAIRMAN: The meeting is adjourned until tomorrow morning at 11.30.

The committee adjourned.

HOUSE OF COMMONS,

THURSDAY, June 15, 1950.

The Standing Committee on Banking and Commerce met this day at 11.30 a.m. The Chairman, Mr. Hughes Cleaver, presided.

The CHAIRMAN: Gentlemen, we have a quorum. Are there any further questions of Mr. MacGregor on section 9 of Bill X-8?

K. R. MacGregor, Associate Superintendent of Insurance, called:

By Mr. Adamson:

Q. Yes, I would like to ask Mr. MacGregor a few questions and they arise from this: an insurance company is allowed to invest 15 per cent of its funds in common stocks. Now, that was brought about by the stock market crash in 1929. Some insurance companies, particularly the Sun Life, had a very large holding of common stock when the market crashed, and it rather jeopardized or was thought to rather jeopardize the equity of the securities behind the policies. I think there was special legislation put through this House on that account, was there not?—A. No, sir, there was no special legislation to impose a limit. The 15 per cent limitation was written in for the first time when the present general Act was enacted in 1932.

Q. Well, was not that the reason?—A. In general, yes; there were several companies at the time that were above 15 per cent.

Q. And some of them had considerably over 15 per cent?—A. That is correct, sir.

Q. Well, I want to suggest this to you, sir, because I feel that we are now in another and almost equally dangerous period. While we have not got a wild runaway stock market, nevertheless it is unfortunately or apparently the policy—certainly of the American government and I am afraid we will be forced to follow suit to a very considerable degree—to write into the national economy a constantly expanding inflationary item in the equation, and I do not see, and I think that economists in the United States do not see anything for it but a decreasing purchasing power of the dollar over the next ten, fifteen, twenty, twenty-five or forty years, and certainly there is very considerable danger of that happening both here and in the United States. I mean, our expenditures for defence, our expenditures for social security, can only have one effect, and the same thing applies in the states, and that is the decreasing value of the purchasing power of the dollar.

Now, if that takes place your only cushion against your lowering purchasing power of the dollar is in equities, and if your insurance companies are held down to the 15 per cent in equities, do you not think they are likely to be adversely affected if the conditions which are apparently causing considerable worry take place?—A. I would make two comments on that question, sir. First, the present limit is 15 per cent on common shares, but the over-all average of the investments of our Canadian life insurance companies in common shares at the present time is about 3 per cent, so that they are far away from the limit in the Act now.

With reference to preferred shares, there is no limit in the Act and the over-all average is between 2 and 3 per cent, so that I think there is hardly any need at the present time to consider any alteration of the limit under the Act now as respects common shares.

The second comment I would make is that the liabilities of our Canadian life insurance companies are monetary debts against which assets are usually held in the same currency. While they have large funds in their hands, the security of those funds is the first essential. They have not unduly large surplus funds. I do not mean to suggest by that that they are not large enough, but they are certainly not too large, and investments in any form of equity, as you undoubtedly know, sir, are subject to substantial fluctuation; if the proportions of our insurance companies' funds invested in equities, whether common or preferred, were increased, then they would have to maintain larger surplus funds as a buffer against possible fluctuations.

It boils down pretty much to whether life insurance companies can afford to take those risks. We think they cannot except in a very small degree in equities of any kind.

You made reference to the U.S.A. I may say there that New York state is perhaps the most important insurance state in the union. Companies there are not permitted to invest in common shares at all and a committee earlier this spring gave considerable attention to widening their investment powers. One suggestion was to permit 1 per cent, but no action was taken even on that proposal.

By Mr. Hellyer:

Q. Does the same rule apply to British companies?—A. We do not attempt to legislate with respect to the investing powers of British companies. We merely prescribe the kinds of investments that they may trustee here for the protection of their Canadian policy holders.

Q. What is the limit of their investment in common shares?—A. They may trustee in Canada, against liabilities of Canadian policy holders up to 15 per cent.

Q. What is their own limit on common shares?—A. There is no limit. Their investment powers are practically unlimited.

Mr. ADAMSON: They can invest in any type of security whatsoever.

Mr. MACNAUGHTON: May I pursue this a little further? Is the import of your question that the percentage should be increased?

Mr. ADAMSON: Well, I was asking for Mr. MacGregor's opinion on that. The import, I would think, would be to increase it, because I feel that with the constantly expanding and constant inflationary pressure which the economy of this country and the United States is certainly under, that equities averaged over the next period of years are probably the most secure form of investment. Of course, I am merely speaking as an individual and I was asking the experts their opinions. Their opinion is no.

The WITNESS: Investment policies vary, of course, among companies. Some lean heavily towards mortgages, some more heavily towards corporate finance—bonds and shares—with very few mortgages, and so on, but large holdings of equities are not in my opinion appropriate for life insurance companies.

By Mr. Macdonnell:

Q. Am I right in thinking that whether or not you agree with the views that Mr. Adamson has laid down—and personally I hope that sometime it will be arranged that it does not turn out in that manner—nevertheless, you say that there is a leeway of between 3 per cent and 15 per cent available to the companies if they wish to increase their investments in that type of security?—A. In common shares—yes.

By Mr. Adamson:

Q. I think the answer is that the companies do give consideration to their investment policy and it is a huge problem, but they do not utilize the facilities of the Act; they are not using up to the 15 per cent they are allowed?—A. Well, of course, the primary responsibility of companies is to their policy holders and safety is the first consideration, but companies are certainly always on the lookout for investments in securities that will yield the maximum return consistent with security of the principal, and our policy in Dominion legislation always has been to keep changing the investment provisions from time to time to keep up to date. We have followed that policy ever since the investment provisions were put in the general Act back in 1899, and really the proposals in this bill are just another step in that evolution.

We think the proposals in this bill do go far enough to permit the companies to perform every function that they should be expected to perform, both for their policy holders and for the economic system as a whole.

The CHAIRMAN: Any other questions?

By Mr. Hellyer:

Q. Would Mr. MacGregor explain the basket clause for the benefit of the members?—A. The so-called "basket" clause represented a new principle introduced in 1948, sir. In effect, it simply gives companies a margin of 3 per cent of their assets in which they have virtually complete freedom to exercise their own investment judgment.

Q. Could that be invested in common shares, say, of a new company which did not qualify under the dividend rule?—A. Yes, sir but any common shares purchased under that provision would still be subject, like all other common shares, to the over-all 15 per cent limit.

By the Chairman:

Q. To what extent has advantage been taken of that power?—A. That provision was enacted in June, 1948, and the average now is about $1\frac{1}{2}$ per cent. It has been taken up to the extent of about 50 per cent.

By Mr. Adamson:

Q. Under this legislation a company cannot buy stock, or could it, in an investment trust? There is such an investment trust holding life insurance company shares. Can a life insurance company invest its money in insurance company trust?—A. Under this so-called "basket" clause, a company may make any loan or investment not falling within the prescribed classes, subject to the limitation that the 15 per cent for common shares must not be exceeded in total, that a company may not purchase more than 30 per cent of the shares

of any particular corporation and subject to the limitation that it cannot make mortgage loans in excess of 60 per cent of the appraised value or purchase securities in default.

Q. Then it could buy trusts of insurance companies. One more question. Has any company at any time ever requested the right to pay policy holders abroad in gold?—A. I do not recall any, sir.

Q. I wondered whether it would be of advantage to them because of the tremendous business our Canadian companies do abroad—whether, if they had that right, it would be of any assistance to them?—A. I doubt it very much. Our Canadian companies happily have a reputation second to none for prompt payments. Their reputation in foreign fields is certainly second to none. I cannot see that a provision to pay in gold, even if the government were prepared to furnish the gold for that purpose, would assist them; on the contrary, it would be dangerous because the premium would not likely be paid in gold.

Q. I understand a tremendous business is done in the Orient and that Canadian companies do a bigger business than—I think I am right—the United States and the United Kingdom put together?—A. They have done a very large business—yes.

Q. And in the unsettled state of the Orient at the present time I wondered whether it might not be of advantage to them if they had the right to pay in gold?—A. I do not think so, sir. The liabilities incurred by our companies in those foreign countries are generally in native currencies that are known and understood and accepted by the policy holders in those countries.

Q. What happens when you get into a country like China where inflation takes place?—A. Well, both the assets and the liabilities go in the same direction—up or down, sir.

Q. And a policy holder in the Canadian government, say, in China cannot insure himself in dollars?—A. Oh, he can if he wishes. There are many Canadians, Americans and others working in the Orient who take policies in Canadian or U.S. dollars or sterling. Usually they would have an expectation of returning eventually to Canada or their home land.

Q. But the natives—do they do the same thing?—A. No, the native business is usually in native currency, broadly speaking.

By Mr. Hellyer:

Q. What are the percentage limits of mortgages in the United States and Great Britain?—A. There is no statutory limit in Great Britain. In the United States it is 60 per cent in some states, and it is $66\frac{2}{3}$ per cent in other states, and in at least one it is as high as 75 per cent providing the company puts a reserve in its balance sheet for the excess over $66\frac{2}{3}$ per cent.

Q. Have there been any requests from Canadian companies to increase that percentage?—A. We are always receiving requests or suggestions concerning many things. We have received requests to raise that limit but by reason of the high valuations and prices now prevailing, we have thought the present time particularly inopportune even to consider it.

The CHAIRMAN: Shall section 9 carry?

Carried.

Shall the schedule carry?

Carried.

Shall the preamble carry?

Carried.

Shall the title carry?

Carried.

Shall I report the bill?

Carried.

Bill W8 of the Senate—shall the schedule carry?

Carried.

Shall the preamble carry?

Carried.

Shall the title carry?

Carried.

Shall I report the bill?

Carried.

We have had referred to us by the House this morning amendments to the Loan Companies Act and the Trust Companies Act parallelling the amendments which have been made to the Insurance Companies Act. Is it you wish to take up these bills now? Bill F10—An Act to Amend the Trust Companies Act.

Mr. MACNAUGHTON: I think we should be given a little time to study these Acts. It may not have been possible, I know, but I do not know why it should not be possible in future.

Mr. HELLYER: Is there any reason, Mr. Chairman, why this could not have been brought down a couple of days sooner?

Mr. LESAGE: Are they the same amendments as in the other Act?

The CHAIRMAN: These bills were originated in the Senate. They reached the House of Commons yesterday. The Speaker, you will recall, read the advice from the Senate and the Commons has dealt with them very promptly.

If you wish to deal with them now, we will. If not I will take a motion to adjourn until 4 o'clock this afternoon.

Mr. ADAMSON: Could Mr. MacGregor make a statement on them?

Mr. MACDONNELL: Could I just ask this question first? I think this has had a quick passage beyond what was expected. Perhaps Mr. MacGregor could answer this question. I think the representatives of the trust and loan companies rather thought that this Bill would not be up until tomorrow or Monday. Am I right Mr. MacGregor in that?

The WITNESS: That is quite correct, sir.

Mr. MACDONNELL: In case there was anything that was controversial, it would seem a pity to deal with this Bill without the representatives of the institutions being here.

The CHAIRMAN: I think the point is well taken. If any representatives of the trust companies or loan companies wish to attend, I think the Bill had better stand over until Tuesday and they should be properly notified.

Mr. LOW: I so move that these two bills be left over to the first part of next week.

The CHAIRMAN: Are you ready for the motion. All those in favour?

Carried.

We will adjourn and thank you.

The committee adjourned.

HOUSE OF COMMONS,

TUESDAY, June 20, 1950.

The Standing Committee on Banking and Commerce met this day at 11.30 a.m. The Chairman, Mr. Hughes Cleaver, presided.

The CHAIRMAN: Gentlemen, we have a quorum.

The two bills before us this morning are Bills F10 of the Senate, An Act to amend the Trust Companies Act, and Bill J10 of the Senate, An Act to amend the Loan Companies Act. Shall we have a general statement from Mr. Warwick, Superintendent of Insurance, first?

Mr. R. W. Warwick, Superintendent of Insurance, called:

The WITNESS: Mr. Chairman and gentlemen, although the Trust Companies Act was extensively revised in 1947 it is now thought desirable to make a few rather minor changes. Page 1, section 1, of the Trust Companies Act: The Act as it stands at present appears to contemplate the issue of partly paid shares only. Changes have been made in section 1, page 1, to indicate that there is no objection to the issue of fully paid shares of capital from the outset.

Page 1, sections 2 and 3: These sections deal with the election of directors and the provision for presiding officers at meetings. These sections have been clarified and also have been extended to include the chairman of the board.

Page 2, section 4: This section will enable a by-law to be confirmed at a special general meeting held before the next annual general meeting.

Page 2, section 5

Mr. FLEMING: Mr. Chairman, I don't want to interrupt, but I thought you asked for a general statement rather than a special statement about the sections. Is there any general statement apart from the fact that this is a revision of the Act?

The CHAIRMAN: It is a very short bill, Mr. Fleming.

Mr. FLEMING: I am familiar with the bill, itself, Mr. Chairman. I was under the impression that there was nothing in the bill that called for a general explanation except as to the fact that it is a tidying up and an extension of the lending powers.

The CHAIRMAN: Yes, with parallel amendments to other Acts, particularly the Insurance Companies Act.

Mr. FLEMING: Isn't that the whole story of the general statement?

The WITNESS: That is right, sir.

Mr. MACNAUGHTON: Lets go ahead and finish the explanation.

The CHAIRMAN: It will not take long.

The WITNESS: Section 5 on page 2. This also makes clear that a company may issue fully paid shares.

Section 7 on page 3. This is being added to facilitate the transfer of shares and securities in the event of the decease of the owner. A similar provision is in the Bank Act, in the Companies Act and also proposed in the recent amendments to the Insurance Act.

Mr. BENNETT: What about section 6?

The WITNESS: Section 6 merely adds the word "Newfoundland".

Section 8 page 4, relates to the investment of trust funds. The change here is to authorize the trust companies to invest guaranteed trust funds in income producing real estate. This is similar to the authority given for the investment of the company's own funds.

Section 9, page 5: The present Trust Companies Act authorizes only one general trust fund with a limit of \$3,000 as the total of any one trust that may be invested in such fund. This section has been found to be of practically no use and it is proposed here to enlarge the powers of a trust company to permit the maintenance of one or more common trust funds for the investment of trust moneys, subject to the limitation prescribed by the laws of the province where the trust is administered.

Also on page 5, section 10: It is proposed to permit the trust companies to invest their own funds in real estate for the production of income. It is also proposed to change the basis of determining the eligibility of no par value common shares to a 4 per cent basis on the capital stock account of the company. These particular revisions are the same as have been proposed for Canadian Insurance Companies.

Section 11 on page 7: The Act now makes provision for the acquisition by agreement of other trust companies; however, the investment by a trust company in the shares of other trust companies is prohibited. To put Dominion companies on a competitive basis with provincial companies it is proposed in this section to permit the acquisition of other companies through the purchase of their shares, subject however to prior authorization in each case by the Treasury Board; also the requirement that the purchased company must be taken over completely within a two year period.

Those, gentlemen, are the more important points of the bill.

The CHAIRMAN: Thank you, Mr. Warwick.

We have with this morning also Mr. L. G. Goodenough, Counsel for the Dominion Mortgage and Investments Association and also for the Trust Companies Association of Ontario; Mr. Jules E. Fortin, Secretary Treasurer of the Dominion Mortgage and Investments Association; Mr. C. N. Bissett, the Eastern Trust Company, Montreal; and Mr. E. L. Parent, Guaranty Trust Company, Ottawa; and Mr. J. S. Shakespeare, of the Ottawa Valley Trust Company, Ottawa.

Would any of you gentlemen wish to make any representations to the committee?

Mr. GOODENOUGH: Mr. Chairman, both the Dominion Mortgage and Investments Association and the Trust Companies Association of Ontario are interested in the Trust Companies Act. As you know, the Trust Companies Act was first enacted in 1914 and it was not until 1947 that there were any amendments to any of the sections of that Act, and naturally during the intervening thirty-three years a considerable number of sections became obsolete, inadequate and out of date, due to changes in business methods and methods of financing and procedure. In 1947, as Mr. Warwick mentioned, a number of amendments were made with a view to bringing the Act up to date and more into line with corresponding provisions in the Insurance Companies Act. At that time the companies would have liked to have had a few further amendments with respect to investment powers, but those matters were deferred pending consideration of the investment powers of insurance companies, and this year the amendments that are being made follow along the lines of those made in the Insurance Companies Act a few days ago, and also are to tidy up a few other sections that were overlooked in 1947. The representatives of the companies have during the last few weeks been discussing the proposed bill very thoroughly with the department, and the companies are in agreement with the amendments as proposed.

The CHAIRMAN: Has anyone else any remarks he would like to make before we proceed with the bill?

On section 1, shall section 1 carry?

Carried.

On section 2? Shall the section carry?

Carried.

Section 3? Shall the section carry?

Carried.

Section 4? Shall the section carry?

Carried.

Section 5? Shall the section carry?

Carried.

Section 6? Shall the section carry?

Carried.

Section 7? Shall the section carry?

Carried.

Section 8?

Mr. FRASER: Could we have an explanation of this section?

The CHAIRMAN: Mr. MacGregor, would you please supply the answer.

Mr. K. R. MACGREGOR (Associate Superintendent of Insurance): Clause 8 has four clauses. Subclauses 3 and 4 relate to the lending powers of trust companies; subclause 3, relates to unguaranteed trust funds and subclause 4 to guaranteed trust funds. The change made in those subclauses is to make it clear that where a prior lien exists, the loan being made together with the prior lien, shall not exceed 60 per cent of the value of the property. As the subclauses now read the first charge might be ignored.

Looking then at subclause 1, that subclause relates to the investing powers of trust companies with respect to unguaranteed trust funds. The investment powers of trust companies with respect to guaranteed trust funds is dealt with by cross reference. That is why only one clause appears here. The change being made is to bring the investing powers into line with the lending powers expressed in subclauses 3 and 4. Not many mortgages are acquired by purchase or investment. Ordinarily, as you know, they are made by trust companies or financial institutions in the first instance as direct mortgagees. Subclause 1 relates only to the case of the purchase of an existing mortgage. At present that subclause is restricted to first mortgages and is inconsistent with the main lending powers in subclauses 3 and 4.

Subclause 2 relates to so-called "income producing" real estate. It authorizes the investment of guaranteed trust funds to the extent of 5 per cent of the total guaranteed trust funds and follows, in general, the rules for insurance companies prescribed in the Insurance Bill.

Any property being purchased must be leased back to a corporation of "substance", as the explanatory note says, being a corporation with a dividend record good enough to qualify that corporation's debentures or shares as an investment. The revenue under the lease must be sufficient, as in the Insurance Bill, to yield a fair return during the term of the lease and to amortize at least 85 per cent of the investment price during the term of the lease, not however, exceeding thirty years.

Mr. MACDONNELL: I take it that real estate which might come into the company's hands—foreclosures—would not be included?

Mr. MACGREGOR: These sections have no application to foreclosures.

Mr. ADAMSON: Why is the figure 85 per cent the amortization figure?

Mr. MACGREGOR: 85 per cent was chosen because in some of these deals that amount is specified in the lease as a repurchase option at the end of the term. It will also ensure in most cases the complete writing off the building, leaving the other 15 per cent to cover the land.

The CHAIRMAN: Are there any further questions on section 8?

Mr. ASHBOURNE: That section could apply to freehold real estate—

The CHAIRMAN: What subsection are you referring to?

Mr. ASHBOURNE: Page 8—provided the amount does not exceed 60 per cent of the value of the real estate. How is the value ascertained?

Mr. MACGREGOR: Usually, sir, by independent appraisal. The Department's examiners always look for an independent appraisal. In some cases the companies' own officers or employees make appraisals but where there is not a wide margin in the loan the examiners always look for an independent appraisal.

Mr. ADAMSON: I have just one question. Have you any machinery dealing with communities—where there is a proper town plan or a proper loaning restriction in force? I happen to know of one or two communities where there is no plan and it is impossible to get a mortgage at all to build any type of house in that community. In other communities where there is a plan mortgages can be arranged quite simply? Would you like to comment on that? Is there any machinery with regard to that?

Mr. MACGREGOR: There is nothing specific in the Act with reference to that point. The sole discretion and responsibility for making loans rests with the management of each company. The point is not referred to in any way with this Act.

Mr. HELLYER: I wonder if Mr. MacGregor would tell us whether the department appraisal is made at public expense?

Mr. MACGREGOR: Appraisals of properties owned by a company are made at the company's expense and in any case where the Department is of the opinion that a parcel of real estate is carried at an excessive value we may request the company to secure an appraisal—the department names the appraiser, and in every case the company pays the cost.

Mr. HELLYER: It has been my experience that the applicant for the mortgage pays for the appraisal?

Mr. MACGREGOR: That is the rule where a new loan is being obtained. I had in mind appraisals with respect to a property already owned by a trust company.

The CHAIRMAN: Shall section 8 carry?

Carried.

Section 9.

What is "common trusts funds" referred to in this section?

Mr. MACGREGOR: "General" and "common" are synonomous in the context. A "general" or "common" trust fund is a fund in which moneys belonging to various estates and trusts are combined for the purpose of facilitating investment. This clause, of course, permits a combination of trust funds in that manner only if the trust instrument does not otherwise direct; it does not apply if the trust instrument calls for the specific ear-marking of the assets.

The CHAIRMAN: When the funds of a general or common trust fund are invested, if the yield rates vary, how is that pro-rated among the funds which are pooled?

Mr. MACGREGOR: The interest earned by the common fund would be allotted pro rata to the various accounts in the fund in proportion to the book value of the trusts included in the common fund.

The CHAIRMAN: Are there any further questions with respect to section 9? Shall section 9 carry?

Carried.

Section 10.

Mr. FRASER: What was the amount permitted to be carried by stock companies before this 30 per cent of the total issue of the stocks of any corporation? What was the limit before?

Mr. MACGREGOR: It has always been 30 per cent in the case of insurance companies and loan companies; and it was always 30 per cent in the case of trust companies from the beginning in 1914 until the amendments of 1947 when, for some unexplainable reason in the revision of the Act in that year, 20 per cent was written into this section. The change to 30 per cent now merely restores it to what it is in all other comparable Acts and to what it was in this Act until 1947.

Mr. FRASER: With respect to your stipulation to pay dividends on common shares of at least 4 per cent of the average value at which the shares were carried etc. etc., that has to be carried for seven years?

Mr. MACGREGOR: This clause, sir, relates to the investment of the company's own funds. Heretofore, the dividend required was 4 per cent of the par value, in the case of shares of par value, or \$4 per share in the case of shares of no par value, and in each case for seven consecutive years prior to the date of the investment. The change now being made is to bring the test for no par value shares into line with the test for par value shares, being in each case 4 per cent of the average value at which the shares are carried in the issuing corporation's own books. There is no change with respect to shares of par value.

Mr. FRASER: It is simply a change in the terminology or wording?

Mr. MACGREGOR: In substance there is no change in relation to par value shares, but there is a change—

Mr. MACNAUGHTON: This is a more conservative policy than is followed in the United States, generally speaking?

Mr. MACGREGOR: The laws in the United States vary so that it is rather difficult to make a general answer. In some states, common shares are excluded altogether. There would be no change here in the seven year record required or in the basic test of 4 per cent. It is partly to meet the practical situation caused by splits in recent years. The effect is that the \$4 test has become very arbitrary and has ruled out a great many of the very best stocks.

Mr. ADAMSON: It does not mean that the trust company would have to buy stocks yielding 4 per cent?

Mr. MACGREGOR: Not in reference to the price paid for the stock.

Mr. ADAMSON: It means that the test is that the company would have to pay 4 per cent on the value of the stock, of its own common stock which it carries on its books?

Mr. MACGREGOR: That is correct.

Mr. ADAMSON: Do not many companies carry their common stock at a very nominal sum on their books?

Mr. MACGREGOR: It is not possible to change the value easily. Where shares are sold, the whole of the proceeds less a certain margin must be included in the corporation's capital account, and it is not generally possible

to change the amount in the corporation's books without obtaining supplementary letters patent. That applies both in this country and I think I can say in every state of the union, even in one state where incorporation is fairly easy to obtain.

Mr. ADAMSON: Is that Delaware?

Mr. MACGREGOR: Yes.

The CHAIRMAN: Shall Section 10 carry?

Carried.

Section 11 "Acquisition of business of other companies by purchase of shares." Shall section 11 carry?

Carried.

Section 12. Shall section 12 carry?

Carried.

Shall the preamble carry?

Carried.

Shall the title carry?

Carried.

Shall I report the bill as carried?

Carried.

Now, Bill J 10, "An Act to amend the Loan Companies Act."
Section 1.

By Mr. Macdonnell:

Q. Could we have a general word from Mr. Warwick as we did in the case of the former bill today?—A. Mr. Chairman, these two bills are identical in substance and in changes throughout except that there is no counterpart in this bill to the common trust fund section; otherwise it is the same in substance.

The CHAIRMAN: Shall Section 1 carry?

Mr. HELLYER: Is there a case of a head office, or a possible case of a head office being located where there is no daily newspaper?

Mr. MACGREGOR: Would you mind repeating your question, please?

Mr. HELLYER: It say: "...at the place where the head office of the company is situated..." Suppose there is no newspaper at the place where the head office is situated, could publication be made in the nearest newspaper? Is there any definition or reference to that possibility in the Act?

Mr. MACGREGOR: No, sir, there is not. I might say that there are only five loan companies to which this Act applies, and I think that in every case they are located where there is a newspaper published.

Mr. HELLYER: That is of course coincidental in some respects but not necessarily economical. It is possible that one might be so located.

Mr. MACGREGOR: If a company changed its head office, or if a new loan company were incorporated; but there has not been a new loan company incorporated for a good many years, and it may be doubtful whether there will ever be any more of them.

The CHAIRMAN: I think we could safely run that risk.

Mr. ADAMSON: I wonder if we could have a list of those companies for the record? I feel it might be of interest to have them.

Mr. MACGREGOR: The Canada Permanent Mortgage Corporation; the Central Canada Loan and Savings Company; the Eastern Canada Savings and Loan Company; the Huron and Erie Mortgage Corporation; and the International Loan Company.

Mr. ADAMSON: Does not the Canada Permanent Mortgage act as trustees as well?

Mr. MACGREGOR: There are two companies, the Canada Permanent Mortgage Corporation and the Canada Permanent Trust Company. There are two companies.

Mr. ADAMSON: I see. But they have more or less the same directors, do they not?

Mr. MACGREGOR: Yes, but they are entirely separate companies.

Mr. MACNAUGHTON: Publication in the *Canada Gazette* would surely cover any question of there being no local newspaper.

The CHAIRMAN: It says both, "...in one or more newspapers... and in the *Canada Gazette*".

Mr. MACGREGOR: Clause 1 relates only to the case where a new company is being started; the reference is to the provisional directors.

Mr. RILEY: Suppose you wanted to incorporate such a company in a place where there was no newspaper?

The CHAIRMAN: In that case I suppose you would have to establish a newspaper. Shall section 1 carry?

Carried.

Section 2 "President, vice-president, chairman of the board". Shall the section carry?

Carried.

Section 3. "Chairman at meetings of Board". Shall the section carry?

Carried.

Section 4 "Confirmation of by-laws".

Carried.

Mr. HELLYER: Is there anything to prevent the directors from re-making a by-law after the meeting held to ratify it has turned it down?

Mr. MACGREGOR: I do not think so, sir, but I cannot imagine any directors acting in that way and lasting beyond the next annual meeting.

The CHAIRMAN: Shall section 4 carry?

Carried.

Shall section 5 carry?

Carried.

Shall section 6 carry?

Carried.

Shall section 7 carry?

Carried.

Shall section 8 carry?

Mr. ADAMSON: That is exactly the same as the section in the other bill, Bill F.10?

The CHAIRMAN: Right.
Shall the section carry?
Carried.

Shall section 9 carry?
Carried.

Shall section 10 carry?
Carried.

Shall section 11 carry?
Carried.

Shall the preamble carry?

Mr. HELLYER: Mr. Chairman, reverting back to section 10 (c), I just wondered what the limitation is in section 63?

The WITNESS: Section 63 says: "The company shall not (a) lend or advance money upon the security of its own stock; (b) invest in or lend money upon the security of the stock of any other loan company; (c) lend upon the security of or purchase or invest in bills of exchange or promissory notes".

The purpose of paragraph (c) in clause 10 is to set aside, for this specific purpose, the prohibition against purchasing the shares of another loan company.

By Mr. Adamson:

Q. Is there such a thing as there is in insurance companies, an investment trust dealing with trust companies' stock, that you know of? I do not think there is but I just wondered if there were?—A. No, sir.

Q. There is no investment trust dealing in financial institutions?—A. As a shareholder?

Q. Yes.—A. Certain shares of some of our companies are held in trust but I do not know of any investment trust.

Q. In insurance company stocks, there is a special investment trust dealing in nothing else but insurance company stocks and I was wondering whether there was an investment trust dealing in bank stocks?—A. I know of none in reference to trust companies.

The CHAIRMAN: Shall the section carry?
Carried.

Shall the preamble carry?
Carried.

Shall the title carry?
Carried.

Shall I report the bill?
Carried.

Thank you, gentlemen. The meeting is adjourned.

The committee adjourned.





