HOUSE OF COMMONS
First Session—Twenty-third Parliament
1957

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN C. PALLETT, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

Bill 29 (Letter K of the Senate)

An Act to incorporate Investors Trust Company

TUESDAY, NOVEMBER 26, 1957

Including First and Second Reports to the House

WITNESSES:

Representing Investors Trust Company: Mr. Hugh Windsor Cooper, Parliamentary Agent and General Counsel; and Mr. Theodore O. Peterson, Financier, both of the City of Winnipeg.

From the Insurance Department: Mr. K. R. MacGregor, Superintendent.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1957.

50087-6—1

STANDING COMMITTEE
ON
BANKING AND COMMERCE

Chairman: John C. Pallett, Esq.,

Vice-Chairman: J. Chester MacRae, Esq.
and Messrs.

Ashbourne,
Bell (*Carleton*),
Benidickson,
Blackmore,
Broome,
Brown (*Essex West*),
Cameron,
Cannon,
Cathers,
Chown,
Coates,
Christian,
Crestohl,
Deslières,
Dumas,
Ellis,
Fraser,
Gardiner,
Henderson,
Irwin,
Johnson (*Kindersley*),
Jones,
Lambert,
Low,
Macdonald (*Vancouver-Kingsway*),
MacEachen,
Macnaughton,
Marler,
Martin (*Essex East*),
Morris,
Morton,
Pearson,
Power,
Quelch,
Rea,
Richardson,
Robichaud,
Rynard,
St. Laurent (*Témiscouata*),
Sinclair,
Stewart (*Winnipeg North*),
Stinson,
Thompson (*Northumberland*),
Thrasher,
Tucker,
Villeneuve (*Glengarry-Prescott*),
White,
Winkler—50.

(Quorum 10)

E. W. Innes,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS,
MONDAY, November 18, 1957.

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

Messrs.

Ashbourne,
Bell (*Carleton*),
Benidickson,
Blackmore,
Broome,
Brown (*Essex West*),
Cameron,
Cannon,
Cathers,
Chown,
Coates,
Christian,
Crestohl,
Deslières,
Dumas,
Ellis,
Fraser,
Gardiner,
Henderson,
Irwin,
Johnson (*Kindersley*),
Jones,
Lambert,
Low,
Macdonald (*Vancouver-Kingsway*),
MacEachen,
Macnaughton,
MacRae,
Marler,
Martin (*Essex East*),
Morris,
Morton,
Pallett,
Pearson,
Power,
Quelch,
Rea,
Richardson,
Robichaud,
Rynard,
St. Laurent (*Témiscouata*),
Sinclair,
Stewart (*Winnipeg North*),
Stinson,
Thompson (*Northumberland*),
Thrasher,
Tucker,
Villeneuve (*Glengarry-Prescott*),
White,
Winkler—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.

FRIDAY, November 8, 1957.

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

Bill No. 29 (Letter K of the Senate), intituled: "An Act to incorporate Investors Trust Company".

TUESDAY, November 26, 1957.

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

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

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

Attest.

LEON J. RAYMOND,
Clerk of the House.

REPORTS TO THE HOUSE

TUESDAY, November 26, 1957.

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

FIRST REPORT

Your Committee recommends:

1. That it be authorized to sit while the House is sitting.

2. That its quorum be reduced from 15 to 10 Members and that Standing Order 65(1)(*d*) be suspended in relation thereto.

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

Respectfully submitted,

JOHN C. PALLET,
Chairman.

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

SECOND REPORT

Your Committee has considered Bill No. 29 (Letter K of the Senate), intituled: "An Act to incorporate Investors Trust Company", and has agreed to report it without amendment.

A copy of the Committee's Minutes of Proceedings and Evidence in respect of the said Bill is appended hereto.

Respectfully submitted.

JOHN C. PALLETT,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, November 26, 1957.
(1)

The Standing Committee on Banking and Commerce met at 11.00 a.m. this day. The Chairman, Mr. John C. Pallett, presided.

Members present: Messrs. Ashbourne, Bell (*Carleton*), Blackmore, Brown (*Essex West*), Cathers, Chown, Coates, Christian, Deslières, Henderson, Irwin, Lambert, MacEachen, MacRae, Morton, Pallett, Rea, Richardson, Rynard, Stinson, Thompson (*Northumberland*), Thrasher, Villeneuve (*Glengarry-Prescott*), Winkler.

In attendance: From Investors Trust Company: Mr. Hugh Windsor Cooper, Parliamentary Agent and General Counsel; and Mr. Theodore Oscar Peterson, Financier, both of the City of Winnipeg. *From the Insurance Department:* Mr. K. R. MacGregor, Superintendent.

The Chairman expressed his appreciation for the honour conferred upon him on his selection as Chairman of the Committee. He then referred briefly to the Orders of Refrence and the Bill presently before the Committee.

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

Resolved.—That Mr. Chester MacRae be Vice-Chairman of this Committee.

On motion of Mr. Morton, seconded by Mr. Coates,

Resolved.—That permission be sought to print, from day to day, such papers and evidence as may be ordered by the Committee.

On motion of Mr. Winkler, seconded by Mr. Rea,

Resolved.—That the Committee request permission to sit while the House is sitting.

On motion of Mr. Henderson, seconded by Mr. MacRae,

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

On motion of Mr. Brown (*Essex West*), seconded by Mr. Richardson,

Resolved.—That the Committee print 650 copies in English and 250 copies in French of its Minutes of Proceedings and Evidence in respect of Bill No. 29, An Act to incorporate Investors Trust Company.

The Committee proceeded to the consideration of Bill No. 29, An Act to incorporate Investors Trust Company.

The preamble was called.

The sponsor of the Bill, Mr. Chown, spoke briefly and introduced the representatives of the Company.

Mr. Cooper made a detailed statement of the purposes of the Bill, outlining the past, present and future functions of the Company. Assisted by Mr. Peterson he answered relevant questions.

Mr. MacGregor was called. He supplied additional information to the Committee and was questioned thereon.

The Preamble was adopted.

Clauses 1 to 6 inclusive and the Title of the Bill were adopted.

The Bill was adopted without amendment and the Chairman was ordered to so report to the House.

At 11.45 a.m. the Committee adjourned to the call of the Chair.

E. W. Innes,
Clerk of the Committee.

EVIDENCE

TUESDAY, November 26, 1957.
11:00 a.m.

The CHAIRMAN: Gentlemen, the Clerk advises me that we have a quorum. At the outset, I would like to express my sincere appreciation for being elected Chairman of this Banking and Commerce committee. I think it is rather an historical occasion on this particular day after a period of some 22 years, that a Progressive Conservative should chair the committee, and I express appreciaton to the members for that very high honour. It will be a unique committee in that no one party will control it and I am sure that in the spirit of co-operation shown in the past years in meetings of this committee, that the work will be done expeditiously and to the satisfaction of everyone including those who appear before it.

There are some routine matters which have to be dealt with and with your consent, I would like to deal with them before we deal with the Bill that the house has referred to us.

First of all, we should put on the record that we have under the certificate of the clerk of the house "*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."

We have also been advised by the house as to the membership of the committee. Pursuant to an order signed by the Clerk of the House, it is ordered that the following bill be referred to the said committee: Bill No. 29, (Letter K of the Senate) entitled, "An Act to incorporate Investors Trust Company."

Before dealing with the actual Bill, we can do the preliminaries. The first, is to elect a Vice-Chairman of the committee and I would be prepared to hear any nominations put forth.

Mr. CHOWN: Mr. Chairman, may I first, on behalf of all members of the Banking and Commerce Committee to save repetition, congratulate you upon your appointment to the Chair of this committee and wish you every success, in all the deliberations that come before us in the future. It is with great pleasure that I place in nomination for vice-chairman the name of Mr. MacRae of the constituency of York-Sunbury.

Mr. BELL (*Carleton*): I second that.

The CHAIRMAN: Any other nominations?

Nominations closed.

I declare Mr. Chester MacRae of the maritime provinces elected as Vice-Chairman of the committee and I offer to him my sincere congratulations.

The next matter has to do gentlemen, with the power of printing proceedings. It is my understanding that all proceedings of this committee are not necessarily printed but we would like to have the power to print them if we see fit. Is someone prepared to make a motion in that regard?

Mr. MORTON: I move that, Mr. Chairman.

The CHAIRMAN: That permission be sought to print from day to day, such papers and evidence as may be ordered by the committee.

Mr. COATES: I second that.

Mr. BROWN (*Essex West*): In French as in English.

The CHAIRMAN: I think it is a point well taken, Mr. Brown. I wonder, Mr. Brown, if we leave dealing with the printing in French and English respecting bills until they are before the committee, so that where interest is shown in one language or another we may then determine the amounts to be printed. Are you prepared to let that wait?

Mr. BROWN (*Essex West*): Yes, very well.

The CHAIRMAN: Now the next matter of procedure is to obtain permission to sit while the house is sitting. From the agenda proposed, we do not know whether that will be required or not or how much work we will have but it has been done in the past and it is a procedure that we might follow. Is someone prepared to—

Mr. WINKLER: Yes, I will move it.

Mr. REA: I second that.

The CHAIRMAN: That the committee request permission, to sit while the house is sitting.

Is that unanimous?

Some hon. members agreed.

Agreed.

Now, Mr. Brown, would you like to move with respect to the proceedings, to have copies printed in English and in French?

Mr. BROWN (*Essex West*): Yes, perhaps 650 in English and 250 in French, if necessary. It is fine with me.

The CHAIRMAN: Mr. Brown moves that the committee print 650 copies in English and 250 copies in French of the minutes of proceedings and evidence adduced with respect to Bill No. 29, An Act to incorporate Investors Trust Company.

Mr. RICHARDSON: I will second that. As a matter of economy, I wonder if we really need 650 copies. After you print them it does not make much difference. I am in favour of economy; if you need 650 all right, I will second it; if you do not, cut it down.

Mr. BROWN (*Essex West*): I think 650 is a little high.

Mr. RICHARDSON: However, I will second that.

The CHAIRMAN: The clerk advises me that anything under 600 is too few. Gentlemen, if we can proceed to the bill; Bill No. 29, (letter K of the Senate), an Act to incorporate Investors Trust Company.

Mr. BELL (*Carleton*): Before the committee commences to consider the bill, will you give me the opportunity to make a brief personal statement. According to the statement made in the house by Mr. Chown, the sponsor of the bill, this company is being incorporated as a subsidiary of Investors Syndicate Canada Limited. That company has another subsidiary, Investors Mutual of Canada Limited. In balmier days when I was engaged in the practice of law, for retirement purposes I purchased some special shares of Investors Mutual of Canada Limited with some degree of satisfaction and I am presently the owner of a small number of such special shares of Investors Mutual of Canada Limited. In view of that, I believe I should disclose such interest immediately to the committee and to say to it that it is not my intention to take any part in its proceedings or in the discussion in the house on this bill.

The CHAIRMAN: Thank you, Mr. Bell.

Mr. BROWN (*Essex West*): Mr. Chairman, I did not realize that the bill, Investors Syndicate, was coming along. I, too, have some shares in Investors Syndicate, not in the trust company.

The CHAIRMAN: I think that you both followed a high course of action in this regard.

Mr. BROWN (*Essex West*): I might tell you that I pay $10.50 a month.

Mr. HENDERSON: Can we have a reduced quorum? Was that suggested? I did not hear any motion on it.

The CHAIRMAN: Are you prepared to move that, Mr. Henderson?

Mr. HENDERSON: If the clerk will give us some information.

The CHAIRMAN: The quorum is 15 and in the past it has been reduced to 10.

Mr. HENDERSON: I move that it be reduced to 10.

Mr. MACRAE: I second that.

The CHAIRMAN: Everyone in favour?

Motion agreed to.

Now we get to "An act to incorporate Investors Trust Company". We come to the preamble first. I will ask Mr. Chown to introduce Mr. Cooper, the parliamentary agent.

Mr. CHOWN: I endeavoured to explain this bill to the house in full, and in detail on November 8, 1957 as it appears in Hansard. Therefore I will not go any further today than to call on Mr. Cooper who has just moved in beside the Clerk. Mr. Cooper is the general counsel of the Investors Trust Company; and taking a place now to the chairman's left is Mr. Ted Peterson who is the president and general manager of Investors Syndicate of Canada Limited, and probably some of its subsidiaries of which I am not aware. If there are any questions you would like to ask, I am sure that both of them would be pleased to answer them.

The CHAIRMAN: Mr. Cooper, would you like to make a brief statement to the committee?

Hugh Windsor Cooper, General Counsel of Investors Syndicate of Canada Limited, called:

The WITNESS: Yes, Mr. Chairman.

Gentlemen the purpose of the incorporation as I understand from having read Mr. Chown's speech, has been explained to you. Essentially, it consists of two purposes. The first purpose is to enable our company to operate in the field of individual registered retirement savings plan on an "equities" basis.

This privilege was given to us by Section 79(b) of the Income Tax Act in so far as the fixed dollar plan, that is our certificate operation. I cannot recall for the moment the pertinent section, but we are entitled to do that business on a certificate basis. However, as far as the equity portion of the registered retirement savings plan is concerned, the privilege is unto trust companies alone; and since we have been doing this type of business in the past, that is providing for retirement income with fixed dollars and the equity dollars, we feel that it would be advantageous to us to be able to continue this business and to allow our clients to obtain a tax advantage or at least, a tax deferment under Section 79(b). This is the first purpose.

The second purpose of the incorporation is to fully administer group retirement plans, that is the group pension plans with which you are all familiar, in so far as employer and employee contributory plans are concerned. We contemplate operating these on a money purchase plan. That is to say,

the employer will contribute say 5 per cent and the employee, 5 per cent and this money will be invested as the plan dictates, perhaps, 50 per cent in equity, 50 per cent in fixed dollars, and at retirement the individual will have purchased for him an annuity from the dominion government or from a recognized underwriter of annuities. These are the two principal purposes, and perhaps if you have any questions as to details, I might answer them. If I cannot, I am sure my president can.

The CHAIRMAN: Any questions that any member of the committee would like to ask Mr. Cooper?

By Mr. Henderson:

Q. Probably you can advise the committee the return the Investors Syndicate has been making to the investors over the last two years?—A. Are you speaking now of the certificate operations?

Q. Yes, your parent company.—A. I would say that it averages between 4 and 4½%.

Q. That is on investment return. Now what about appreciation of capital return?—A. There is no appreciation on capital on the certificate operations since this is a fixed dollar type of guaranteed investment, which is the same as purchasing a government bond on a payroll deduction basis.

Now, in so far as our mutual operation, that is Investors Mutual of Canada Limited, which is a balanced type of fund, consisting principally of common stocks and balanced off with preferreds and bonds, I believe last year its return was somewhere in the neighbourhood of 19 per cent; 125.6 per cent from its inception in 1950.

By Mr. Thrasher:

Q. When was the inception?—A. Investors Mutual was formed in 1948. It began operations really in 1951.

By Mr. Henderson:

Q. What are the capital assets of your parent company, Investors Syndicate?—A. Roughly $118 million and Mutual is roughly $150 million.

Q. Just one other question which I would like to ask, Mr. Cooper. You mentioned the fixed income fund and the equity fund. Did you have anything in your mind of any other fund of some of the other trust companies which at their discretion they could invest.—A. I am not quite sure what you mean.

Q. You mentioned the fixed income fund and the equity fund and I understand at the discretion of a trustee that your company, or like companies, would be able to invest in any other funds; and I wonder if you have any other ideas. Could you tell us what your ideas are?—A. Our idea of course, is to propose to the clients, a balanced type of investment program. Now, this will consist, we hope, of perhaps purchases in our new fund, Investors Growth Fund of Canada Limited. This is a common stock fund, pure and simple. It is not a balanced fund. That is, it has no bonds and no preferreds. We hope this will be used as the equity portion and we hope that our certificates will be used as the fixed portion.

Now, that is so far as the registered retirement savings plans are concerned for individuals who are self-employed. Now, in so far as the group pension plans are concerned, we intend to set up two unit trust funds under the aegis of the trust company.

Q. I understand, Mr. Cooper, that your equity fund is going to be limited to investments in companies controlled by Investors Syndicate?—A. No. In our funds, for group pension plans, we will have two investment vehicles, one for the fixed dollars and one for the equity dollars. Now these will be unit

trust funds under the aegis of the trust company. They will be vehicles for group pension plans only. The employer and the employees will agree by way of a scheme, a pension scheme, to invest "X" number of dollars in equities and "X" number in fixed dollars so that the funds will be controlled by the trust company and it will buy investments for the trust funds. But the units in the trust fund will be owned by the group pension plans, who are members.

Q. Mr. Cooper, I take it from your explanation, that you are only asking for the two funds, the fixed income fund and the equity fund, and there are no other discretionary funds outside of that.—A. Oh, no.

Q. Nor are you asking for them?—A. No, we would have no purpose for any other type of funds in our operation.

Q. This bill would include that letter in your form of agreement with your investors?—A. No, we have no intention of operating any other type of fund within the trust company.

Q. Other than the fixed income and the equity fund?—A. Yes.

By Mr. Stinson:

Q. I wonder if Mr. Cooper would give us any information as to the ownership by Canadians of common stock in Investors Syndicate of Canada Limited? —A. I believe that the latest figures are something like 81 per cent.

By Mr. Cathers:

Q. You mentioned the incorporation of certain of these funds—and I did not get exactly what they were, but you mentioned the years 1950 and 1948; but Investors Syndicate were doing business in Canada long before that, were they not?—A. Perhaps I should give you a brief resume. Investors Syndicate of Canada Limited is a provincial company under special act of the Province of Manitoba. It was formed in 1940. Incidentally, Investors Syndicate was of course, a fixed dollar guaranteed investment program only and it was deemed advisable to get into a mutual type of fund with equities. So in 1948 Investors Mutual of Canada Limited was formed. It did not get off the ground so to speak until 1950 and our first year of operation was 1951. In 1957, just one month ago, we formed another fund, Investors Growth Fund of Canada Limited under dominion letters patent, as was Investors Mutual. This Growth fund is purely a common stock fund as opposed to Mutual, being common stock and bonds.

By Mr. Richardson:

Q. Does the Investors Syndicate of Canada Limited own all the stock of the Growth Fund Company and all the stock of Mutual Fund Company? —A. No. These, in truth, are mutual companies, and they are owned by the shareholders. Investors Syndicate does however, have a fairly substantial stock position itself, although relatively small in so far as the total amount is concerned. We are the investment managers for both funds and we are also the distributors for both funds.

Q. In respect of this trust company, it is desirable that Investors Syndicate of Canada own all the stock?—A. That is correct.

Q. Is it contemplated, may I ask, Mr. Cooper, that the trust company may buy shares of either the Growth Fund or the Mutual Fund or Investors Syndicate of Canada Limited?—A. The investment policy in regard to that matter has not been determined as yet. It is not particularly contemplated.

Q. Perhaps a little later Mr. Peterson may answer on that.

The CHAIRMAN: Mr. Peterson.

Mr. PETERSON: Mr. Chairman, so far as having the trust company purchase shares of the parent company Investors Syndicate of Canada, or the funds—I can assure this committee that will not take place. Also I think the committee should understand that the two mutual funds are controlled and owned by the public. Investors Syndicate participation was simply to start up the company, and out of $120 million of Investors Mutual, Investors Syndicate of Canada have about $100,000; and these assets are a small percentage of the outstanding stock.

Mr. HENDERSON: Does Investors Syndicate own a majority interest in any other company or companies, other than the ones mentioned here this morning?

Mr. PETERSON: I would say no; Investors Syndicate does not. Investors Mutual today is the largest shareholder of a number of Canadian companies. But, as I said before, it is a publicly-owned company. In no circumstances, however, does Investors Mutual own more than 10 per cent of the outstanding stock of any company.

Mr. RICHARDSON: May I ask Mr. Peterson if Investors Syndicate, the original company, 1894, of Minneapolis, still own some shares of Investors Syndicate of Canada Limited?

Mr. PETERSON: No; Investors Syndicate have no further interest whatsoever in Investors Syndicate of Canada. It is a company now owned by individual share holders of which there are between 3,500 and 4,000; and, as Mr. Cooper said, about 80 per cent today is owned by Canadians.

The CHAIRMAN: Perhaps the committee would like to hear from Mr. MacGregor, the Superintendent of Insurance, on this matter. He has been very helpful in the past, and I am sure that perhaps he knows more about this than anyone else in this room.

Mr. K. R. MACGREGOR *(Superintendent of Insurance)*: Mr. Chairman and honourable members, in view of the explanations that have been given by Mr. Peterson and Mr. Cooper, I doubt whether it is necessary for me to make many comments in addition.

Briefly, according to the explanations that have been given to me, the proposed trust company will confine its operations in the foreseeable future, at least, to the pension field, both group and individual.

The bill follows the form of a model bill in the Trust Companies Act, except for clauses 5 and 6, to which I might refer briefly later.

The proposed company would be granted the usual power of a trust company, without exceptions, and without supplements.

My understanding is that the company will not in the foreseeable future exercise itself in many of the fields that other trust companies do exercise themselves in.

Normally it might accept deposits from the public; and it will not be administering estates. It will not be issuing guaranteed investment certificates of the type commonly issued by other trust companies.

A word of explanation, I think, is required, or at least is desirable, in reference to clauses 5 and 6. Under the Trust Companies Act, which was originally passed in 1914, a company must have a minimum subscribed capital of $250,000, and a minimum paid capital of $100,000, before it may commence business.

Those amounts were set out in the Trust Companies Act away back in 1914, and have not since been changed. A simple explanation is that there have been so very few trust companies incorporated by parliament in the last twenty-five years that there has really been no need to give the point attention.

However, those amounts are, under present-day conditions, obsolete; and I think at the first opportunity the general act should be amended to increase them.

The purpose of clause 5 is to set aside that small minimum in the general act, and to require instead that before this company may commence business it must have subscribed capital of at least $1 million and at least $1 million paid thereon.

The proposed trust company, if incorporated, would be subject to the provisions of our department, the Department of Insurance. It would be subject to all the provisions and requirements of the Trust Companies Act, as respect its investments and in every other respect.

I might mention incidentally, in passing, that our department has not heretofore had any official connection with the Investors Syndicate of Canada Limited, the parent behind this proposed company; nor will our department have any official connection in the future with the parent company, the Investors Syndicate of Canada Limited.

Our duty and responsibility will be limited to the operations of this trust company. I do not think there are really any additional comments I can usefully make on the bill. It follows the prescribed form, and it is seeking no special powers. The capital will be ample, and there are really no justifiable grounds upon which our department can object to its incorporation.

Mr. RICHARDSON: May I ask how many trust companies have been incorporated in the last twenty-five years?

Mr. MACGREGOR: Speaking from memory, only three. There were two in 1945, the Ottawa Valley Trust Company and the Trust Company of America, both of which companies incidentally are not presently in business. Last year there was a third incorporation, the Interprovincial Trust Company which has not yet begun business.

Mr. RICHARDSON: Thank you very much; may I ask Mr. MacGregor if he has any objection to the name, at all?

Mr. MACGREGOR: Thank you, Mr. Richardson; I should have touched upon that point.

Mr. RICHARDSON: May I say that this is not the only miracle, having a meeting after twenty-two years; it is a miracle that he forgot that.

The CHAIRMAN: I agree with that, Mr. Richardson, 100 per cent.

Mr. MACGREGOR: I have been assured that the proposed name has been cleared with provincial authorities in every province, and I know it has been cleared with our own Secretary of State's branch, so far as the dominion is concerned. I know of no objection from any quarter, either a private source, or the provincial authorities.

Mr. HENDERSON: This does not apply only to this company, but to all trust companies. I imagine there will be a great many more agreements now between the individual and the trust company to take advantage of section 79B of the Income Tax Act.

I would like to ask you this question: have you any control, or do you peruse the application agreement under the retirement savings plan between the applicant and the trust company?

Mr. MACGREGOR: No, Mr. Henderson; we have no such duties. We have some duties under the Income Tax Act as respects pension schemes.

Since about 1940 we have been required to advise the Minister of National Revenue concerning the appropriateness of any proposed payment for so-called past service—liabilities arising under the group pension schemes.

Those past service liabilities may arise in two ways; a new plan may be started and credit is given to the employees for service rendered prior to the establishment of the plan, and the employer is doing something to finance those accrued liabilities.

We are asked, in circumstances of that kind, to advise him concerning the appropriateness of the payments proposed to be made for those accrued liabilities.

So also where a pension plan is administered privately, so to speak, or on an uninsured basis, in the hands of trustees, whether individuals or an incorporated trust company, where that plan has been inadequately financed in the past, so that there is a deficit in the fund at the present time, and where the employer is proposing to pay in additional funds, to remove that deficit, our department is asked to advise the minister concerning the adequacy or appropriateness of the proposed payment. But we have no special duties or responsibilities in connection with the amendment to the act last year.

Mr. HENDERSON: Do you know of any government department that has a duty in that respect?

Mr. MACGREGOR: Only the branch of the Department of National Revenue that deals with the registration of plans.

Mr. HENDERSON: I am not so much thinking of protecting the government, but I am thinking that under the present plan there will be a great many more contracts between an individual without the advantage of the group plan, and a trust company. And I just make this observation to you, Mr. Chairman, that I believe, having that in mind, that possibly it would be a very good idea to have the agreement form approved by some branch of the government for the protection of the individuals who do not have the group advantages available to corporations, where the corporation lawyer reviews the agreement before they sign it.

Mr. MACGREGOR: I quite agree as to the desirability of doing it, although I cannot speak for the branch of the Department of National Revenue that administers those plans. Nevertheless before the plan could be registered as such, under the act, and qualify under the provisions of section 79B I think an application form, and all other relevant documents would have to be inspected and passed upon by that department.

The WITNESS: May I add a comment and say that the Department of National Revenue are very jealously guarding the rights of the individual in this matter, and I have had some considerable experience with them in the past few months. I can assure you that they are very jealously guarding it.

By Mr. Henderson:

Q. I trust that is from the tax revenue point of view, not from the protection of the individual?—A. Both ways.

Mr. BROWN (*Essex West*): Would there be any restrictions on the company accepting deposits?

Mr. MACGREGOR: No, there would not. They would have the power to accept deposits; but I understand they have no intention of engaging in that form of business at the present time.

Of course, even if the company were to accept deposits, as this company may do at some time in the future, the volume of deposits, and all other forms of borrowed money from the public are limited by the Trust Companies Act in relation to the company's paid capital, and free reserves.

At present the aggregate borrowed money of any trust company operating under the Trust Companies Act is limited to ten times the paid capital and reserves of the company. So that there is, in effect, a surplus margin of 10 per cent in favour of depositors.

By Mr. Henderson:

Q. Will this make more savings available to investment in development corporations in Canada?—A. I think it certainly will make Canadian funds available for Canadian development, yes. And I think that this presents to us a situation that we are most happy with, in that we are getting Canadians to invest in Canada, and by the same token combatting inflation by encouraging a savings program.

Q. You do not intend investing your funds outside Canada?

The WITNESS: No, it is not our intention to do so.

The CHAIRMAN: Have you any other questions you may wish to ask? If not, we will deal with the bill.

Shall the preamble carry?

Preamble agreed too.

Clauses 1, 2 and 3 agreed to.

On clause 4—head office:

Mr. RICHARDSON: May I ask a question of Mr. Peterson; the head office is to be in Winnipeg; is it the present plan of the company to have offices in all the other provinces of Canada?

Mr. PETERSON: We have twenty offices across Canada at the present time.

Mr. RICHARDSON: The Investors Syndicate of Canada?

Mr. PETERSON: Yes; but we intend, so far as the trust company is concerned, to have only one office, at the head office. That is the only plan we have at the present time for the trust company.

Mr. RICHARDSON: Do you foresee within the near future having offices throughout all the provinces of Canada?

Mr. PETERSON: We do not; no discussion or consideration has been given to that at all.

Clause 4 agreed to.

On clause 5.

Mr. HENDERSON: On clause 5, this is the restrictive clause of the bill. I would like to ask Mr. MacGregor this question, in view of what he said—that his company did not intend to take deposits: if they wish to take deposits, they do not have to consult you or the branch, or parliament again, is that correct?

Mr. MACGREGOR: They would not require any amendment to the act, but they would certainly have to consult us. If they did not, we could consult them.

Mr. RICHARDSON: May I ask Mr. MacGregor one further question? The authorized capital is $3 million, and the company is obliged to subscribe $1 million before it can carry on business. According to the ratios Mr. MacGregor spoke about earlier, this seems to be perhaps onerous. May I take it, or is the committee to assume that the proposed company does not mind that amount of money?

Mr. PETERSON: It is agreeable to us, and we have so advised Mr. MacGregor.

Mr. RICHARDSON: My next and last question—and this is not by way of pettifogging in my trade or profession as a lawyer; but having drafted a few documents I was rather interested in the words, "bona fide". If they are subscribed, then they are subscribed. Does anyone interested in the bill know why the words "bona fide" were put in; or is that just a carry-over from all the other acts?

Mr. MACGREGOR: I think it is a carryover from the general act. Those words are used, I guess, in every general act that is administered in our department. I cannot say what the original intention was.

Mr. RICHARDSON: I shall not press the question, but they seem to be a little unnecessary.

Mr. BELL (*Carleton*): Does anyone else object to the split infinitive there?

Mr. RICHARDSON: I object to the fact that if you subscribe to something, is it not to be assumed that it is done bona fide? Why do you have the words "bona fide" in there at all?

Mr. MACGREGOR: My only comment is that an attempt has been made in the general act to ensure that directors, for example, are the official owners of the shares, and there are no subscriptions or shares held in the name of nominees and others.

Mr. RICHARDSON: That matter is taken up in the provisions of the Trust Companies Act.

Mr. CHRISTIAN: This will be strictly a Canadian company?

Mr. PETERSON: Yes.

Mr. CHRISTIAN: Will this capital stock be bona fide subscribed for by Canadians only; is that correct or not?

Mr. MACGREGOR: It may be subscribed by anyone; but in this case it is intended that it will be subscribed by Investors Syndicate of Canada Limited; and there will of course be some shares necessarily taken up by directors as qualifying shares. They might be sold to anyone, theoretically; but, in fact, they will not be—if the company proceeds according to its present plan.

Mr. HENDERSON: You do not intend to list the company on the public market for shares?

The CHAIRMAN: Before you came in, Mr. Christian, Mr. Cooper said that Investors Syndicate of Canada was 81 per cent Canadian owned.

Mr. CHRISTIAN: The question I wish to ask is this: supposing, for example, 95 per cent of the shares are subscribed for either by Investors Syndicate or, let us say, some other Canadian, and you have not got your full $1 million, let us say; you would still then, in that case, go outside of Canada, would you not?

Mr. MACGREGOR: Theoretically they could, but Investors Syndicate have ample money to take up all this stock, and it is my understanding that they will take it up, except for directors' qualifying shares.

Mr. CHRISTIAN: All right, thank you.

Mr. RICHARDSON: On that point, I take it that Mr. MacGregor and his department have not yet reached the point where they would like to put a limitation in an act like this preventing people outside Canada from subscribing to this kind of company?

Mr. MACGREGOR: I have given no thought to it at all.

Clause 5 agreed to.

Clause 6 agreed to.

The CHAIRMAN: Shall the Title carry? Carried. Shall I report the bill, without amendment?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Gentlemen, before we rise, shall I report also the proceedings that took place before we introduced the bill, that is, the proceedings about reducing the quorum and asking leave to sit, and so on?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Thank you; and thank you, Mr. MacGregor, for giving us your time, and also Mr. Cooper and Mr. Peterson.

—The committee adjourned.

HOUSE OF COMMONS
First Session—Twenty-third Parliament
1957

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN C. PALLETT, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

Bill No. 169

An Act to amend the Canadian and British Insurance Companies Act

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THURSDAY DECEMBER 5, 1957

Including Third Report to the House

WITNESSES:

Honourable Donald M. Fleming, Minister of Finance and Mr. K. R. MacGregor, Superintendent of Insurance.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1957.

50091-8—1

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: John C. Pallett, Esq.,

Vice-Chairman: J. Chester MacRae, Esq.

and Messrs.

Ashbourne,
Bell (*Carleton*),
Benidickson,
Blackmore,
Broome,
Brown (*Essex West*),
Cameron,
Cannon,
Cathers,
Chown,
Coates,
Christian,
Crestohl,
Deslières,
Dumas,
Ellis,
Fraser,
Gardiner,
Henderson,
Irwin,
Johnson (*Kindersley*),
Jones,
Lambert,
Low,
Macdonald (*Vancouver-Kingsway*),
MacEachen,
Macnaughton,
Marler,
Martin (*Essex East*),
Morris,
Morton,
Pearson,
Power,
Quelch,
Rea,
Richardson,
Robichaud,
Rynard,
St. Laurent (*Témiscouata*),
Sinclair,
Stewart (*Winnipeg North*),
Stinson,
Thompson (*Northumberland*),
Thrasher,
Tucker,
Villeneuve (*Glengarry-Prescott*),
White,
Winkler—50

(Quorum 10)

E. W. Innes,
Clerk of the Committee.

ORDER OF REFERENCE

WEDNESDAY, December 4, 1957.

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

Bill No. 169, An Act to amend the Canadian and British Insurance Companies Act.

Attest.

LEON J. RAYMOND,
Clerk of the House.

50091-8—1½

REPORT TO THE HOUSE

THURSDAY, December 5, 1957.

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

THIRD REPORT

Your Committee has considered Bill No. 169, An Act to amend the Canadian and British Insurance Companies Act, and has agreed to report it without amendment.

A copy of the Committee's Minutes of Proceedings and Evidence in respect of the said Bill is appended hereto.

Respectfully submitted.

JOHN C. PALLETT
Chairman

MINUTES OF PROCEEDINGS

THURSDAY, December 5, 1957.
(2)

The Standing Committee on Banking and Commerce met at 12.00 noon this day, The Chairman, Mr. John C. Pallett, presided.

Members present: Messrs. Bell (*Carleton*), Benidickson, Broome, Brown (*Essex West*), Cathers, Chown, Coates, Christian, Dumas, Gardiner, Irwin, Johnson (*Kindersley*), Jones, Macdonald (*Vancouver-Kingsway*), MacRae, Morris, Morton, Pallett, Rynard, St. Laurent (*Temiscouata*), Sinclair, Stewart (*Winnipeg North*), Stinson, Thompson (*Northumberland*), and Tucker.

In attendance: Honourable Donald M. Fleming, Minister of Finance. *From the Department of Insurance*: Mr. K. R. MacGregor, Superintendent, and Mr. R. Humphrys, Assistant Superintendent. *From the Canadian Life Insurance Officers Association*: Mr. J. A. Tuck, General Counsel.

The Committee proceeded to the consideration of Bill No. 169, An Act to amend the Canadian and British Insurance Companies Act.

Clause 1 was called.

Mr. Fleming outlined the purposes of the Bill and he was questioned thereon.

Mr. MacGregor supplemented Mr. Fleming's statement and dealt with questions relating to the various clauses of the Bill.

Clauses 1 to 6 inclusive, the Enacting Clause and the Title of the Bill were adopted.

The Bill was adopted without amendment and the Chairman was instructed to so report to the House.

On motion of Mr. Morton, seconded by Mr. Broome,

Ordered,—That the Committee print 750 copies in English and 250 copies in French of its Minutes of Proceedings and Evidence in respect of Bill No. 169, An Act to amend the Canadian and British Insurance Companies Act.

At 1.05 p.m. the Committee adjourned to the call of the Chair.

E. W. Innes
Clerk of the Committee

EVIDENCE

THURSDAY, December 5, 1957.
11.30 a.m.

The CHAIRMAN: Gentlemen, will you please come to order. The clerk advises me that we now have a quorum.

We are assembled today for a discussion of Bill 169 "An Act to amend the Canadian and British Insurance Companies Act".

I now call Clause 1 of the bill under which heading we may have a general discussion. Perhaps the hon. Mr. Fleming, Minister of Finance would care to elaborate on what he said in the house Tuesday. Mr. Benidickson agreed very much with Mr. Fleming's lucidity. And perhaps the committee might also care to hear from Mr. MacGregor.

Hon. DONALD M. FLEMING, Minister of Finance: Thank you very much, Mr. Chairman, for your reference to my lucidity.

First of all, I want to thank you, Mr. Chairman, for the opportunity of appearing before you. The purpose of the bill was reviewed in the house when I spoke on Tuesday evening, and Mr. Benidickson followed me with a very excellent statement on the bill yesterday, if I may say so.

There are four matters which are treated in the bill. The first, and perhaps the most far reaching, is the provision for mutualization. I am not dealing with them in the order in which they appear in the bill.

Up to the present time there has been no standard provision in our insurance legislation to provide for mutualization.

Of course we have mutual companies operating in the life insurance field in Canada. One thinks first of the Mutual Life Insurance Company, the head office of which is in Waterloo; it however was incorporated as a mutual company. And one thinks of another company, the North American Life Insurance Company which was incorporated originally as a joint stock insurance company.

It was mutualized some years ago, but on that occasion it was done under special legislation; so this is the first time that legislation has been proposed to provide opportunities in general legislation for mutualization for life insurance companies that are now operating on the joint stock basis.

So far as mutualization is concerned the terms of reference are purely enabling. It will remain for every company within the terms of the bill to decide whether it wishes to mutualize or not.

If it does decide to mutualize, the bill contains what I think the committee will recognize as quite ample safeguards, both of the interests of the public and also of the policy holders, and of any who may be interested in the company concerned.

The effect of mutualization will be to keep control in Canada because in the case of all of these companies which will be affected by the terms of the legislation, the great bulk of their policy holders are domiciled in Canada.

Fundamentally this bill is intended to preserve Canadian control over Canadian life insurance companies because, in our view, life insurance companies are something of a national institution in Canada. The record of Canadian life insurance companies is an enviable one.

There is a question of policy involved here: we feel that steps should be taken to preserve the Canadian quality and character of an institution which has become something of a national system in this country.

Now, the second feature of the bill requires that a majority of the directors be Canadians resident in Canada. Again this purpose obviously is to preserve Canadian control.

The third feature of the bill, the purpose of which is in harmony with this idea, relates to companies that have not or may not now decide to mutualize.

Where a company is continuing to operate on the joint stock basis, provision is now introduced to authorize the board of directors if it chooses to do so—it is purely enabling—to decline to permit the transfer on the stock register of the company of shares registered in the name of a Canadian resident in Canada to a non-resident.

When we come to the clauses of the bill this particular feature, I think, will be quite clear. This provision does not extend to stock now held by non-residents. There is no possibility of interference with the rights of any non-resident stockholder to dispose of his stock as he may wish.

However, if he chose to sell his stock and transfer it to a Canadian resident, the terms of this legislation would then apply, and that Canadian resident transferee, then could not transfer his stock to a non-resident of Canada except with the permission of the board of directors.

Now this, I submit, is not an arbitary provision. There are reasons of public policy to justify a provision of this kind.

The provision is purely enabling. The board of directors may or may not choose to exercise that power. But if a board of directors did not follow the wishes of the shareholders in this respect, then of course it comes within the power of the shareholders at the next succeeding meeting to change the board of directors and to change the policy in this respect.

I might also mention that the directors of any of these companies already possess the power to refuse the transfer of shares on the grounds that the shares are not fully paid. This is not breaking new ground in that sense.

The fourth and final feature of the bill has nothing whatever to do with the other provisions. It is taking care of something that does require legislative action. We were bringing the bill forward on these other features which we regard as urgent enough to bring before this present session, and this additional provision was added because it was desirable. Under existing legislation, fraternal benefit societies—which wrote insurance on juveniles were required to keep separate funds with respect to the insurance of juveniles. The occasion for keeping separate funds has passed. There is no occasion any longer to impose this rigid form of separation of funds upon these fraternal benefit societies and, therefore, it is proposed the law be changed to permit the mingling of these funds from this point forward.

I should be glad to answer any questions that hon. members may wish to ask. Mr. MacGregor is here to answer questions. I should explain to the new members that the Department of Finance is really two departments, the Department of Finance and a department of insurance. The insurance department is headed by the superintendent of insurance, Mr. MacGregor, and he is a deputy minister; he reports directly to the Minister of Finance; he does not report through the deputy Minister of Finance. Those who have sat on this committee before will bear me out when I pay tribute to the competence of Mr. MacGregor. He had won the respect and esteem of the former committees of Banking and Commerce to, I think, quite an unexcelled degree and he is here to answer any questions that anyone wishes to ask.

The CHAIRMAN: Are there any general questions you wish to ask on the bill? If there are no general questions we might proceed to the sections, and if you then have any particular questions you might raise them on the sections.

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

By Mr. Benidickson:

Q. May I direct a question to Mr. MacGregor. First of all, may I join the minister, as a former member of the Banking and Commerce Committee for some years, and say how much we have learned to respect Mr. MacGregor's counsel and advice. He has been a frequent visitor to this committee. As we very frequently have new members participating he has been most helpful in explaining to the committee some of these intricate matters, with which most of us are not familiar in our ordinary lives. I was wondering, Mr. MacGregor, inasmuch as I myself have read, as I recall, something in the financial papers of the prospect of permitting mutualization of stock companies, if since that time the Department of Insurance has received any objections to a necessary amendment to the Insurance Act to bring that about? Have you heard from the industry itself, shall we say?—A. My advice from the industry, Mr. Benidickson, is that they give this bill complete support, and I can say that we in the department have not received a single complaint either from a company or the industry as a whole, or anyone else.

Q. Have some of the stock companies specifically asked for an amendment in order to permit mutualization, such as this bill will now permit?—A. Yes, they have. The Manufacturers' Life Insurance Company, for example, with head office in Toronto, made a public announcement in July last, that contingent upon enabling legislation being granted they would like to mutualize; in other words, purchase their own shares and retire their stock.

Q. Would you be able to outline to the committee the mechanics that would enable them to do that? In other words, based on the present market value of those shares and the condition of assets of that company, could you indicate just how they would go about doing that and how long it might take?

The CHAIRMAN: Would you mind holding that question in abeyance until we get to clause 4?

Mr. BENIDICKSON: I will do that.

By Mr. Stewart (Winnipeg North):

Q. I have a general question to ask Mr. MacGregor. Since the announcement that insurance companies would mutualize if I may use that word—has Mr. MacGregor kept an eye on the stock market values of those shares and if so could you tell us what has been happening to them?—A. Yes, we have been quite familiar with the trend of share prices for some time now; not in the case of every company, but in the case of all companies where there have been undue activity in the shares and unduly large changes in prices.

Q. Have there been any large changes in prices recently, changes which might make you raise your eyebrows?—A. The general rise in prices began about 1950. There was a surge in the fall of 1950; some slight slackening in 1951, but prices held firm throughout that period. I would say they reached a peak about 1955, sagged a bit, then went up again in 1956, but have declined considerably in the last six months. I have in mind the price of stock in one of

our largest life insurance companies which in mid-1950 stood at about $550 per share and rose in the fall to over $1,500 per share and then rose subsequently to around $3,000 per share, I should mention that the stock was split ten for one so that prices that were then quoted at $3,000 per share would now be quoted on the basis of one-tenth of that sum. The price of that stock today would be about $200 per share.

Q. Was there any reason for such an extraordinary increase?—A. There are probably two main reasons. One is that on occasion certain investors or speculators have endeavoured to purchase a substantial amount of the stock of the company and have naturally run the price up. That happened in 1950 in the case I have just mentioned. The decline in recent times is attributable in large part to the general decline in the market.

Q. Would you have any knowledge as to whether or not these investors who are trying, perhaps not to establish a corner but to get a very substantial number of these shares, were Canadian or non-Canadian?—A. I think without exception they were non-Canadians. Certainly in every important case they were non-Canadians.

Clause 1 agreed to.

On clause 2—Qualifications of directors.

By Mr. Macdonald (Vancouver Kingsway):

Q. I wish to ask either Mr. Fleming or Mr. MacGregor if we could have in a few words an explanation of the change from the existing subsection (3) of section 6. I notice the words "ordinarily resident" appear instead of "resident". Perhaps that is one of the changes. Then I see "all the directors" rather than "a majority of the ordinary directors". I wonder if the extent of the change could be put in a very few words.—A. At the present time the provisions of section 6 as regards citizenship and residence of directors apply only to the directors representing shareholders. Now, in a company where there is only one class of directors they are, under the act, called "ordinary directors". The term "shareholders' directors" relates to stock life insurance companies where there are two classes of directors, the directors representing the shareholders being designated as "shareholders' directors" and the directors representing the participating policyholders being designated "policyholders' directors".

Up to the present the act is silent as regards the composition of the board of directors as a whole where there is more than one class of director. The effect of this proposed provision would be to require a majority of the full board of directors in every case to be Canadian citizens ordinarily resident in Canada in addition to the former requirement of a similar nature which applied only to the directors representing the shareholders.

So far as the word "ordinarily" is concerned, I would say that the origin of that word lies in the Bank Act. Heretofore the Insurance Act has used the expression "Canadian citizen resident in Canada", but the term in the Bank Act is "ordinarily resident".

By Mr. Benedickson:

Q. There is a similar requirement in the Bank Act that a majority of the directors must be ordinarily resident in Canada—A. That is true; but there is a slight difference. I think in the Bank Act the requirement is that a majority of the board shall be subjects of Her Majesty ordinarily resident in Canada rather than Canadian citizens ordinarily resident in Canada.

By Mr. Stewart (Winnipeg North):

Q. I notice in subsection (3) of section 6 the requirement is carried forward that a director must have capital stock in the amount of at least $2,500. Is there any reason for that—A. It has been in the act for a very long time. It is simply designed to ensure that a shareholders' director has a reasonably substantial personal interest in the company.

Q. In connection with subsection (3a), what would be the position, if such a position does exist there, that a majority of the directors are not citizens ordinarily resident in Canada—A. Fortunately we do not have to face that difficulty because in every case I believe the majority are Canadian citizens resident in Canada.

Mr. FLEMING: But if there should be a case where that is not the fact the company would have to comply with the terms of the act forthwith upon the act coming into effect.

By Mr. Stewart (Winnipeg North):

Q. Is there any possibility of having a *de jure* majority Canadian but not a *de facto* one—A. I can only say that in every case where we have any doubt we obtain an affidavit concerning their citizenship. As a matter of fact when a new company is incorporated, and I have particularly in mind fire and casualty companies because they are about the only kind that have been incorporated in recent years, as a routine procedure we obtain an affidavit covering the citizenship and residence of the directors in every case.

Q. That means you want to make sure the law is complied with?

By Mr. Cathers:

Q. Mr. MacGregor, have you had any objection from foreign policyholders? I do not know whether or not in the case of Manufacturers Life Insurance Company they would have policyholders' directors; but, for example, they did a great deal of far eastern business and they might have had—I do not know—a director there who was a policyholder director. Would there be any objection? —A. There is nothing to prevent their having one. Even in the case of a mutual company there is nothing to prevent such a company having some policyholder directors outside Canada.

Mr. FLEMING: There is no exclusion. It is simply that the majority must be resident in Canada.

By Mr. Christian:

Q. Does this act have any reference at all to any insurance company which is incorporated under provincial law?—A. No sir, it has not. Every provision in this bill relates solely to Canadian companies or Canadian fraternal benefit societies incorporated by parliament. The bill has no application whatsoever, directly or indirectly, to any British, foreign or provincially incorporated company or society.

Mr. FLEMING: This is simply a bill to amend the Canadian and British Insurance Companies Act, and section 2(*d*) contains this definition:

> "Company" means any corporation incorporated under the laws of Canada or of the late province of Canada, for the purpose of carrying on the business of insurance, and includes "fraternal benefit society" as defined by this act;

Clauses 2 and 3 agreed to.

On clause 4—Conversion of capital stock companies into mutual companies.

The CHAIRMAN: Mr. Benidickson, you had a question on clause 4.

By Mr. Benidickson:

Q. I wonder if Mr. MacGregor would describe for us how a company would go about buying its capital stock, and would he relate it specifically to one company, say Manufacturers Life Insurance Company, having regard to its capitalization and having regard to the assets which might be available to that company for this purpose?—A. Have you in mind more particularly the procedure or the price?

Q. Procedure, but I think tied in with price.—A. The proposed new section 90A, found in clause 4, sets forth the procedure.

Q. I am thinking largely in terms of financial ability to complete the act and the possible length of the time which might be involved in doing that having regard to the funds involved.—A. I think it is a matter which must be considered individually. There are so many features and aspects which have to be taken into account. One has to know more than the figures which appear in the balance sheet; one must know also the practices in computing reserves, the earning capacity, the kinds of business being transacted, etc. On the latter point alone, if a company is doing mainly a participating business, and relatively little non-participating business, then that company ordinarily has greater inherent strength through the mere fact that the premiums charged for participating policies are larger and if difficulties have to be faced, dividends to policy holders can be reduced, whereas in a non-participating business it is a strictly contractual matter and the margins in the premiums are consequently smaller. I might answer your comment about price by saying that this is really the $64,000 question in every case.

Q. Mr. Chairman, I apologize, but last night I mentioned something that came to me in connection with section 3, under which this discretionary power would now be given to deny a transfer from a Canadian to a non-resident. I wonder whether Mr. MacGregor has any views as to whether, according to this enactment, we would likely have shares having differing values according to the holding of these shares. In other words, shares now held by non-residents will in future be open for transfer. The shares in the same company now under Canadian ownership will be subject to this possibility, that they could not sell them to anybody in the world. Do you think as a result of that we might develop a market for shares that would have two quotations—that is, that are now held by non-residents and those that are held today by Canadian shareholders?—A. I think it is unlikely. If a person, whether he be a resident or a non-resident, buys a share, he is going to be in the same position after purchase, whether he got it from a Canadian or a non-Canadian. For example, if a Canadian buys a share from a non-resident, the rights of transfer, so far as that new Canadian shareholder is concerned, will be exactly the same as though he bought it from a Canadian. Likewise, if a non-Canadian buys a share, whether it be from a Canadian or another non-Canadian, he may transfer that share freely. The effect of this clause is that:—

Q. A non-Canadian buying from a Canadian will not be able to transfer, will he?—A. Yes. A non-Canadian holding shares now cannot be interfered with.

Q. Yes?—A. Nor can a non-Canadian who in the future, acquires a share, no matter from whom he acquired it, be interfered with. In other words, the shares now held outside of Canada, or which may in future be permitted to be transferred out of Canada, will have the same status and cannot be interfered with in either case.

Q. But I am thinking that if non-residents had a desire to acquire shares in Canadian insurance companies, and they felt there was some special value in that form of shareholdings, they would seek the shares of non-residents because they would know that the directors have no power to refuse transfer with respect to those shares.

An hon. MEMBER: They have.

The WITNESS: It would not matter. If those non-residents desire to become shareholders, and were to purchase shares from Canadians, then those non-residents could not thereafter be interfered with.

By Mr. Benidickson:

Q. If the board of directors consent to the transfer.—A. The board of directors would have no power to interfere.

Mr. FLEMING: Mr. Benidickson means in the first instance.

By Mr. Benidickson:

Q. Yes, in the first instance. That is why I base my query as to whether or not shares presently held by non-residents, which are not subject to restriction or restraint in the future, might not have a value to non-resident purchasers greater than shares presently held by Canadian residents. Consequently, are you not establishing two prices for a share?

The CHAIRMAN: I think, Mr. Benidickson, there is a possibility, but only a possibility. Would it not depend upon the circumstances at the time that surrounded the market?

Mr. FLEMING: Theoretically, the situation could arise where the stock in the hands of a non-resident person might have a value greater to a non-resident than stock held at that date by a Canadian. But I think we probably pretty well agree that this is more theoretical than real. We cannot eliminate the possibility entirely. But, if there is anything to it, it is an inevitable incident of what we are trying to do here. There have been other proposals put forward for trying to give some measure of control against the Canadian shares getting into the hands of non-residents in cases where it might involve the control of the company.

Now, this was the method chosen because it was thought to interfere least and to be most in keeping with the purposes of the present act. Other provisions do give the directors the power to withhold consent to transfer. In the case I have mentioned—and this is of that nature—it is purely an enabling power.

By Mr. Benidickson:

Q. I just raised the point as to the possibility that shares, without restriction might have a wider market, and consequently a premium.—A. It is a possibility, although—

The CHAIRMAN: Shall clause 4 carry?

By Mr. Stewart (Winnipeg North):

Q. May I ask a question—and it is probably a hypothetical question, but I find it very interesting. Take the case of a Canadian corporation, with a Canadian charter, a Canadian enterprise; but you know very well that it is controlled from outside Canada. Now, supposing this Canadian entity wishes to buy shares and their offer to buy is turned down by the board of directors, might that not be ultra vires in view of civil and property rights?

The CHAIRMAN: Mr. Stewart, is that not a legal question, and is not the answer that the shareholder buys these shares subject to the conditions attached to the shares at the time he purchases them?

MR. STEWART (*Winnipeg North*): It is a legal question, but I am not a lawyer.

THE CHAIRMAN: And, having purchased the shares, he is subject to the conditions that exist.

MR. STEWART (*Winnipeg North*): But, supposing the board of directors say, "We are not going to sell you these shares." Here is a Canadian entity which cannot buy shares, and for a very good reason cannot buy shares. I am wondering if this is ultra vires.

THE CHAIRMAN: It exists in many private companies that are created under other existing legislation. You look to the terms of the legislation. I think this is a legal poser, but I think it is one that the shareholders must accept within the terms of the bill.

MR. FLEMING: With respect, I do not think it arises under this act. Mr. Stewart has put the question of the company selling stock. The whole purpose of mutualization is to enable a company to purchase stock. The only place where the question could have any bearing is in the case of the sale of treasury stock by the company at some stage. But it is up to the company to sell to whom or where it chooses, so far as its own treasury stock is concerned. But that does not arise in this measure.

MR. STEWART (*Winnipeg North*): Supposing this Canadian company buys these shares on the market, and the board of directors say, "We will not recognize this", would there be any conflict there between civil and property rights?

MR. MACDONALD (*Vancouver-Kingsway*): Does not property and civil rights give way completely in the face of federally incorporated insurance companies?—A. I think it does.

MR. FLEMING: So far as insurance is concerned, parliament has power to legislate on the status of companies. But jurisdiction over the insurance contract and incidents flowing from the contract are vested in the legislatures of the provinces.

The WITNESS: I might say, Mr. Stewart, that the constitutional aspects of the clause were considered carefully by the Department of Justice and they have assured us that what is proposed is intra vires.

By Mr. Broome:

Q. Everywhere it refers to life insurance, does this act cover general insurance companies,—casualty, and all that sort of thing?—A. Yes, it does. Some parts of it apply particularly to life companies, other parts to fire and casualty companies, other parts to fraternal benefit societies, and other parts relate to all kinds of companies. The proposed new section 16A in clause 3, and the proposed new section 90A in clause 4 relate only to life insurance companies.

MR. MACDONALD (*Vancouver-Kingsway*): Clause 4 is the mutualization clause, is it not?

THE CHAIRMAN: Yes, it is.

By Mr. Macdonald (Vancouver-Kingsway):

Q. I have one or two questions, Mr. MacGregor.

Just looking at this quickly, I am in doubt as to whether a company can partially mutualize but still have some of its shares outstanding in the hands of private stockholders?—A. As the minister explained, Mr. Macdonald, there is nothing of a compulsory nature about the proposal in this proposed new section. It is optional whether any company mutualizes or not. Every

party concerned must be consulted, first of all the minister, then the directors, the shareholders, the policy holders, and the treasury board. The section is designed to ensure that a company having chosen to embark on the path of mutualization is in a financial position to do so, and does so with the complete agreement of all parties concerned.

It is also contemplated that if a company embarks upon this path it will complete mutualization as soon as reasonably practicable; that is to say, as soon as its surplus position permits and as soon as the shares are offered to the company for sale. No shareholder would be compelled to sell to the company—it is purely optional on his part. If shareholders offer their shares, the company is obliged to take them up, if it is in a financial position to do so. The company cannot, for example, simply buy off some troublesome shareholders, or buy up even the majority of its stock and then decide that it will do no more. If shareholders continue to offer their shares the company must continue to purchase them.

Finally, when at least 90 per cent of the stock has been sold to the company, the company would be empowered to require the residual 10 per cent to sell their shares to the company. There is precedent for that in the Companies Act. The object, of course, is to prevent a few shares that have become lost trails, perhaps, or a very few shareholders from preventing the company completing its plan of mutualization.

Q. Supposing 25 per cent of the shareholders held out for a higher price and the company in the meanwhile had mutualized to the extent of 75 per cent of the outstanding shares, who would control the company at that stage? Would the 25 per cent control the company or could the company itself vote the 75 per cent of the shares which have been mutualized?—A. The policyholders' directors would really control the company, because the shares purchased by the company are voted by the policyholders' directors.

Q. Until the whole plan was completed?—A. That is correct. In any scheme of mutualization the policyholders are really buying out the shareholders. I think it is right and reasonable that the policyholders' directors should be vested with the voting rights of the stock that has been purchased, until it is retired.

By Mr. Cathers:

Q. On the question of price, would it be set arbitrarily?—A. That is a very difficult question, Mr. Cathers. I admit that it is probably the most important element in any scheme of mutualization. It is one thing to determine the theoretical price, no matter how it is computed, and there are many ways in which it can be computed. On the other hand, it must be a practical price in the sense that it must be acceptable to the shareholders. If the price is too low the shareholders simply will not sell. On the other hand, it ought not obviously to be set so high that it is unfair to the policyholders.

When you ask who will set the price in the first instance, the directors of the company must do so, but the price must be such that the treasury board is satisfied that the price in their view is reasonable and fair.

In any mutualization it is, of course, desirable that the price should remain stable as far as possible, or as long as possible, so that all shareholders would be treated alike. Under the provision of the bill the price may be changed, but not arbitrarily, or willy-nilly, from time to time. The price set initially must stand for at least six months and can only be changed by the directors with the approval of the minister, on report from our department. Any price so changed would then have to remain fixed for at least six months.

In actual practice it would be the desire of everyone, I think—the company, the department, and the shareholders too—that the price should remain stable, so that all are paid the same. If some proportion of the shareholders do not wish to sell, they would not be forced to do so.

Q. Is there a possibility of trouble arising as a result of the company paying $200 during the six months for a certain number of shares, and then the offer of shares stops, following which they decide to change the price—at the end of six months—to $250? Is it not likely that those shareholders, who had sold their stock for $200, would get into a real scrape?—A. They would not be too happy.

Mr. FLEMING: I can assure you, Mr. Cathers, that that possibility would not be overlooked by the minister, or by the treasury board when asked to give approval either to the right price or to any change of it.

The WITNESS: The provisions of the section are designed, as far as practicable, to safeguard the position of the shareholders. The residual shareholders ought not to be put in a position where, for example, they could virtually be frozen out by dividends being arbitrarily cut, or eliminated altogether. Is is for that reason there is provision ensuring that their dividends shall be not less than the average of the last three years, prior to mutualization, unless the company makes a case to the satisfaction of the minister. On the other hand, no company can start on this path unless the majority of the shareholders approve of the plan. So that really from the start, the company is, for all practical purposes, well on that path, and it is hardly practicable for some small group of shareholders to hold out later with very far reaching effect.

Clauses 4 and 5 agreed to.

On clause 6—Separate insurance funds to be established:

Mr. BENIDICKSON: Mr. Chairman, I was going to say we have moved pretty rapidly with the bill since it was presented to the House of Commons. Of course, everything in the bill with the exception of the requirement for a majority of directors is discretionary and subject largely to the decisions of individual companies internally as to whether they take advantage of the legislation or not. I hope, however, the minister will not advance the bill into the House of Commons again too rapidly so that there would be an opportunity for the country as a whole to understand the terms of the bill adequately and communicate with us in parliament.

Mr. FLEMING: Mr. Chairman, may I say on that, I had hoped that this bill might be given third reading in the house next week. I think the terms of the bill are already well known to the insurance companies in the country. The bill was printed some time ago and distributed, so I think they have had it for some days now.

Clause 6 agreed to.

Preamble agreed to.

The CHAIRMAN: Shall I report the bill without amendment?

Agreed to.

Gentlemen, we have had the shorthand reporters here without a formal motion to print the proceedings. I would appreciate a motion from the floor that we print 750 copies of the evidence today in English and 250 in French.

Mr. MORTON: I so move.

Mr. BROOME: I second the motion.

Agreed.

The CHAIRMAN: Thank you gentlemen. There will be no meeting this afternoon. We have with your co-operation proceeded with expedition. Thank you.

The committee adjourned to the call of the Chair.