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CNCA Breakfast Seminar Ottawa

Tuesday, November 29, 2011

“A CLOSER LOOK AT CONTINUING UNDER THE CANADA NOT-FOR-PROFIT CORPORATIONS ACT (CNCA)”

WELCOME

Welcome to the CNCA Breakfast Seminar – Ottawa, which is designed to provide a closer look, as well as practical information on the New *Canada Not-for-Profit Corporations Act* (“CNCA”), that came into force on October 17, 2011.

CHECK-IN

If you have REGISTERED AND PAID the registration fee, please obtain your name tag and handout package at the registration table in the MacKenzie Room at the Chimo Inn Ottawa. Proceed to the breakfast buffet provided, and take a seat at one of the tables.

If you NEED TO PAY the registration fee or have NOT YET REGISTERED, please proceed to the registration table in the MacKenzie Room and speak with our registrar. The registration fee can be paid by cash or cheque payable to *Carters Professional Corporation*. Please obtain a handout package from one of our greeters for more information.

BREAKFAST

Please help yourself to the buffet breakfast and then take a seat at one of the tables. If at all possible, please move to the tables near the front of the MacKenzie Room to allow room for late-comers at the back of the room.

RESOURCE MATERIALS

Included in this handout package are copies of today's presentation materials, as well as a list of related *Charity Law Bulletins* and our most recent *Charity Law Update*. Further articles, seminar materials, and newsletters of interest to charities and not-for-profits, including back issues of *Charity Law Bulletins*, *Church Law Bulletins*, and *Charity Law Updates* are available free of charge at our websites of www.charitylaw.ca, www.churchlaw.ca, www.antiterrorism.ca and www.carters.ca. A few select *Charity Law Bulletins* and *Church Law Bulletins* are on display at the Carters booth.

CHARITY LAW UPDATE

If you did not include your email address with your registration form and would like to be added to our free e-mail distribution list of the monthly newsletter “Charity Law Update”, please complete an e-mail subscription form available at the Carters booth.

QUESTION PERIOD

Questions are encouraged and will be answered during the presentation, as well as at the end of the session for those who would like to remain.

RECEIPTS

For your records, a receipt will be tucked inside your name tag.

AGENDA

7:45 a.m.	Registration and Breakfast	
8:25 a.m.	Opening Remarks	Karen J. Cooper
8:30 a.m.	A Closer Look At Continuing Under The <i>Canada Not-For-Profit Corporations Act</i> (CNCA) including questions	Jane Burke-Robertson, Karen J. Cooper, and Jennifer M. Leddy
10:00 a.m.	Program Ends	

Carters Professional Corporation

Ottawa (613) 235-4774 Mississauga (905) 306-2791 Toronto (416) 675-3766 Orangeville (519) 942-0001
www.carters.ca Toll Free / Sans frais: 1-877-942-0001 www.charitylaw.ca

BIOGRAPHIES



Jane Burke-Robertson – A partner with Carters’ Ottawa office, Ms. Burke-Robertson practices in the area of charity and not-for-profit law, is recipient of the 2011 AMS/John Hodgson Award, and has been ranked by Lexpert and The Best Lawyers in Canada as a leader in her field. She is co-author of *Non-Share Capital Corporations* published by Carswell, and a contributor to Industry Canada’s *Primer for Directors of Not-for-Profit Corporations*. Ms. Burke-Robertson is a frequent speaker and lecturer on charitable and not-for-profit matters and recently taught an advanced seminar on the law of charities and non-profit organizations at the Faculty of Law, University of Ottawa.



Karen J. Cooper – A partner with the firm, Ms. Cooper practices charity and not-for-profit law with an emphasis on tax issues at Carters’ Ottawa office, having formerly been a Senior Rulings Officer with the Income Tax Rulings Directorate of Canada Revenue Agency, as well as former counsel for the Department of Justice in tax litigation. Ms. Cooper also has considerable teaching experience, including as part-time professor at the University of Ottawa, Faculty of Common Law, and is a contributing author to *The Management of Charitable and Not-for-Profit Organizations in Canada* (LexisNexis Butterworths). Ms. Cooper has been recognized as a leading expert in charity and not-for-profit law by Lexpert and Best Lawyers.



Jennifer Leddy – Ms. Leddy joined Carters’ Ottawa office in March 2009 to practice charity and not-for-profit law following a career in both private practice and public policy. Ms. Leddy practiced with the Toronto office of Lang Michener prior to joining the staff of the Canadian Conference of Catholic Bishops (CCCCB). In 2005, she returned to private practice until she went to the Charities Directorate of the Canada Revenue Agency in 2008 as part of a one year Interchange program, to work on the proposed “Guidelines on the Meaning of Advancement of Religion as a Charitable Purpose.”

GENERAL DISCLAIMER

This handout is provided as an information service by Carters Professional Corporation. It is current only as of the date of the handout and does not reflect subsequent changes in the law. This handout is distributed with the understanding that it does not constitute legal advice or establish a solicitor/client relationship by way of any information contained herein. The contents are intended for general information purposes only and under no circumstances can be relied upon for legal decision-making. Readers are advised to consult with a qualified lawyer and obtain a written opinion concerning the specifics of their particular situation. © 2011 Carters Professional Corporation

RESOURCES

The following is a list of CNCA Practice Tips available for you to download free of charge from our website at www.charitylaw.ca and www.carters.ca:

- Countdown to the Canada Not-For-Profit Corporations Act - Practice Tip #1: To be or not to be a Soliciting Corporation by Jane Burke-Robertson, Charity Law Bulletin No. 191, dated January 27, 2010
- Countdown to the Canada Not-For-Profit Corporations Act - Practice Tip #2: Continuance of CCA Part II Corporations by Jane Burke-Robertson, Charity Law Bulletin No. 193, dated February 24, 2010
- Countdown to the Canada Not-For-Profit Corporations Act - Practice Tip #3: Election and Appointment of Directors by Jane Burke-Robertson and Jennifer M. Leddy, Charity Law Bulletin No. 199, dated March 29, 2010
- Countdown to the Canada Not-For-Profit Corporations Act - Practice Tip #4: Discipline of Members and New Remedies Under CNCA by Jane Burke-Robertson, Charity Law Bulletin No. 213, dated May 27, 2010
- Countdown to the Canada Not-For-Profit Corporations Act - Practice Tip #5: Drafting By-Laws for Continuance Under the CNCA by Jane Burke-Robertson, Charity Law Bulletin No. 215, dated June 24, 2010
- Countdown to the Canada Not-For-Profit Corporations Act - Practice Tip #6: Drafting By-Laws on Absentee Voting By Members by Jane Burke-Robertson and Theresa L.M. Man, Charity Law Bulletin No. 220, dated July 29, 2010
- Countdown to the Canada Not-For-Profit Corporations Act - Practice Tip #7: Importing, Exporting, and Amalgamation by Jane Burke-Robertson and Theresa L.M. Man, Charity Law Bulletin No.231, dated October 27, 2010
- Countdown to the Canada Not-For-Profit Corporations Act - Practice Tip #8: Corporate Records by Jane Burke-Robertson and Theresa L.M. Man, Charity Law Bulletin No.239, dated February 27, 2011
- Countdown To The Canada Not-For-Profit Corporations Act Practice Tip #9: Special Act Corporations By Jane Burke-Robertson and Theresa L.M. Man, Charity Law Bulletin No. 247, dated March 30, 2011

SEMINAR HOSTS

Carters Professional Corporation is a law firm with expertise in the area of church, charity and not-for-profit law and is committed to assisting clients in avoiding legal problems before they occur through effective legal risk management advice, including assistance with:

- Anti-terrorism Policy Statements
- Charity Audits
- Charitable Foundations (Public and Private)
- Charitable Organizations
- Charitable Registrations
- Charitable Trusts
- Church Discipline Procedures
- Church Incorporation
- Corporate Record Maintenance
- Corporate Restructuring for Charities
- Director and Officer Liability
- Dispute Resolution
- Dissolution and Wind-Up of Charities
- Domain Name Management
- Ecological Gifts
- Employment Issues for Charities
- Endowment Agreements
- Foreign Charities Commencing Operations in Canada
- Fundraising and Gift Planning
- Gift Acceptance Policies
- Human Rights Litigation
- Incorporation and Organization of Charities and Not-for-Profits
- Insurance Issues for Charities and Not-for Profit Organizations
- Interim Sanctions
- International Strategic Planning and Operations
- International Trade-mark Licensing
- Investment Policies for Charities
- Legal Risk Management Assessments
- Litigation Counsel for Charities
- Marriage Office Clergy Registration
- Multiple Corporate Structures
- National and International Structures
- Privacy Policies and Audits
- Religious Denominational Structures
- Sexual Abuse Policies
- Special Incorporating Legislation for Charities
- Tax Compliance for Charities
- Tax Opinions and Appeals
- Trade-mark and Copyright Protection and Registration

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B. OVERVIEW OF CONTINUANCE PROCESS

- The new rules do not apply automatically to CCA corporations
- Existing CCA corporations will be required to continue under the CNCA within 3 years of proclamation – i.e., until October 17, 2014
- Failure to continue will result in dissolution of the corporation
- Can make amendments to existing articles, letters patent or memorandum or articles of association at the time of applying for continuance

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- All CCA corporations will need to
 - Review its letters patent and by-laws
 - Contact CRA (if a registered charity) where there are proposed changes to the purpose(s)
 - Prepare
 - Articles of Continuance
 - Notice of Directors and Registered Office
 - Create new by-laws
 - Get membership approval - Articles must be approved by 2/3 vote

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- File required documents with Industry Canada
- No filing fee, no need to file by-laws for continuance
- Industry Canada will issue a Certificate of Continuance
- File approved new by-laws within 12 months of adoption
- Charities – send Certificate of Continuance, Articles of Continuance and new by-law to CRA

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C. KEY FEATURES OF THE CNCA

1. Understand the CNCA Framework
 - Rules in the Act
 - Details in the Regulations
 - “prescribed”
 - “regulations”
 - Need to refer back and forth between the Act and the Regulations
 - Articles
 - By-laws
 - Unanimous member agreement

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2. Incorporation and Corporate Powers
 - Replaces the letters patent system with a statutory regime similar to *Canada Business Corporations Act*
 - Incorporation as of right - removes ministerial discretion to incorporate
 - Faster, online (later)
 - Obtain certificate of incorporation, not letters patent
 - Only one incorporator is needed
 - Articles to set out statement of the purpose, any restrictions on the activities, and dissolution clause
 - Corporation has capacity, rights, powers and privileges of a natural person
 - *Ultra vires* doctrine no longer applies
 - May carry on activities outside Canada to the extent that the laws of that jurisdiction permit

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3. Soliciting and Non-Soliciting Corporations
 - Corporations that receive public funding are subject to special requirements
 - All corporations categorized into soliciting and non-soliciting corporations
 - If a corporation receives more than the prescribed amount [\$10,000] in its last financial period from public sources, it will become a soliciting corporation
 - public donations
 - federal, provincial and municipal governments
 - conduit entities
 - Status starts at the AGM in the following fiscal year for 3 years

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- Implications of being a soliciting corporation
 - Must have a minimum of 3 directors, at least 2 directors must not be officers or employees of the corporation or its affiliates
 - No material effect on registered charities due to prohibition on directors receiving remuneration at common law
 - Articles must provide for the distribution of remaining property on dissolution to qualified donees
 - No unanimous member agreement
 - Must file annual financial statements with Corporations Canada
 - Audit and public accountant rules more stringent

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- Low threshold means many corporations will become soliciting corporations
- It is possible that some corporations could oscillate between soliciting and non-soliciting
- Corporations will need to monitor their funding sources and carefully track their soliciting status

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- If a corporation is concerned about oscillation, it can voluntarily be structured as a soliciting corporation
 - Ensure at least 3 directors on the board and at least 2 are not employees (but charities cannot have any directors who are employees)
 - Ensure the articles provide that property will be paid to qualified donees on dissolution
 - Do not enter into unanimous member agreement
- For those years when it exceeds the \$10,000 threshold
 - File annual financial statements with Corporations Canada
 - Follow audit and public accountant rules for soliciting corporations – may not be an issue if the corporation's practice is to have its financial statement audited

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- 4. Public Accountant and Financial Review
 - CNCA divides corporations into two categories for purpose of determining obligation to appoint a public accountant and level of financial review
 - Designated corporations
 - A soliciting corporation with gross annual revenues for its last completed financial year that are equal to or less than \$50,000 or that is deemed to have such revenues under the Act
 - A non-soliciting corporation with gross annual revenues for its last completed financial year that are equal to or less than \$1 million
 - Non-designated corporations are soliciting and non-soliciting corporations with annual revenues in excess of these amounts

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Type of Corporation (Gross Annual Revenues)			Appointment of Public Accountant (PA)	Review Engagement or Audit
Soliciting	Designated	\$50,000 or less	Members must appoint a PA by ordinary resolution at each annual meeting. Exception – Members may waive appointment by annual unanimous resolution	PA must conduct review engagement, but members may pass an ordinary resolution to require an audit instead. (If no PA is appointed, then compilation only)
	Non-Designated	More than \$50,000 and up to \$250,000	Members must appoint a PA by ordinary resolution at each annual meeting	PA must conduct an audit, but members can pass a special resolution to require a review engagement instead
	Non-Designated	more than \$250,000	Members must appoint a PA by ordinary resolution at each annual meeting	PA must conduct an audit.

Type of Corporation (Gross Annual Revenues)			Appointment of Public Accountant (PA)	Review Engagement or Audit
Non-Soliciting	Designated	\$1 million or less	Members must appoint a PA by ordinary resolution at each annual meeting. Exception – Members may waive appointment by annual unanimous resolution	PA must conduct review engagement, but members may pass an ordinary resolution to require an audit instead. (If no PA is appointed, then compilation only)
	Non-Designated	more than \$1 million	Members must appoint a PA by ordinary resolution at each annual meeting	PA must conduct an audit.

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5. Directors – Number, Change and Term

- Non-soliciting corporations - minimum 1 director
- Soliciting corporations – minimum 3 directors, at least 2 of whom are not officers or employees of the corporation or its affiliates
 - But common law rule overrides CNCA - charities cannot have employees as directors
- Articles must specify a fixed number of directors or a minimum and maximum number of directors
- Must file notice of change within 15 days of any change or of a change in a director's address
- Maximum length of term 4 years (but no limit on number of maximum terms)
- May have staggered terms

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6. Election and Appointment of Directors

- Members must elect the directors by ordinary resolution at an annual meeting
- Directors are not required to be members
- Exceptions:
 - Vacancy in office of director - remaining directors may fill the vacancy as long as there is a quorum
 - Articles may permit directors to appoint additional directors between annual meetings
 - Number of appointed directors cannot exceed 1/3 the number elected at the last AGM
- A director not elected for an expressly stated term holds office until the close of the first AGM following his or her election

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7. Ex Officio Directors

- CNCA does not permit having ex officio directors
- Common for operating charities to have a representative sit on the board of its parallel foundation
- Examples of possible workarounds
 - Establish in by-law a special membership class that permits the class to elect a director
 - Have articles provide for the appointment of a director by the board and have a board policy that certain office holders will be appointed as directors
 - Include special qualification requirements for a particular seat on the board
- What would work will depend on the governance of the corporation

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8. Board Meetings

- May be held at the time and place that the board chooses, subject to the by-laws and articles
- Quorum may be set out in the articles or the by-laws; if by-laws are silent, a quorum shall be a majority of the number of directors or minimum number of directors required by the articles
- Directors must receive notice of board meetings as provided for in the by-laws
- Unless the by-laws provide otherwise, directors may participate in board meetings by telephone or electronically, but must comply with regulations to be made under the CNCA in the future
- Written resolutions possible, but must be signed by all directors

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9. Directors and Officers – Duties and Defence

- Directors have duty to manage and supervise the activities and affairs of the corporation
- Both directors and officers have duties to act honestly and in good faith with a view to the best interests of the corporation and to exercise the care, diligence and skill of a reasonably prudent person in comparable circumstances
- Objective standard of care, replaced common law subjective standard of care
- Directors and officers also have duty to comply with the CNCA, the regulations, and the articles, by-laws, and any unanimous member agreement

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- Directors and officers will not be liable if they have exercised the care, diligence and skill that a reasonably prudent person would have exercised in comparable circumstances, including reliance in good faith on reports prepared by professionals
- Directors but not officers may also rely on the financial statements that are prepared by the corporation's public accountant

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10. Members

- A corporation must have members
- Articles to set out the classes of members
- If only one class of members, all are voting
- If two or more classes, articles must provide voting right to at least 1 class
- By-laws must set out the conditions for membership
- Where more than one class, the members of each class have certain built in protections

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- Separate class votes
 - Certain fundamental changes, such as
 - Amalgamation
 - Continuance
 - Sale, lease or exchange of all or substantially all of the property of a corporation other than in the ordinary course of its activities
 - Certain changes of the rights attached to a class or group of members
- Regardless of whether the membership class is a voting class or non-voting class
- Thus a class of members could reject a change - effectively resulting in a class veto (limited opt-out available)

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- The treatment of members mirrors that in the *Canada Business Corporations Act* in relation to shareholder's rights
- In most circumstances, giving non-voting members the right to vote on fundamental changes may not be desirable
- If corporation wants broad-based community support, may enlist them in some capacity in the corporation, but do not refer to them as "members"

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- Some corporations may want to collapse all membership classes into one class and remove non-voting membership classes
 - Change them into a non-membership category, such as “affiliates”, “associates”, “supporters”
 - May set out their rights and duties as non-members
 - Consider timing for such change
 - But their donations will not be exempt from the \$10,000 threshold
- Right to access corporate records
- Right to submit proposals to amend by-laws, nominate directors or require any matter to be discussed at annual meetings

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11. Members' Meetings

- AGM must be held within 18 months after incorporation
- Thereafter, an AGM must be held within 15 months after the previous annual members' meeting but no later than 6 months after fiscal year
- Must be held in Canada at the place provided in the by-laws, or where no such provision exists, at the place chosen by the directors
- May hold meetings outside of Canada, but that place must be specified in the articles or agreed by all of the members
- Regulations provides a variety of prescribed means of giving notice of members' meetings – must chose one of these means
- By-law can set out any prescribed method of absentee voting (mail in ballot, electronic voting or proxy)

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- Members may participate in a members' meeting by means of a telephonic, an electronic or other communication facility that permits all participants to communicate adequately, unless by-law otherwise provide
- By-law may allow a members' meeting be held entirely by means of a telephonic, an electronic or other communication facility that permits all participants to communicate adequately
- By-laws can provide for consensus decision making
- Written resolution in lieu of holding a meeting possible, but must be signed by all voting members
- Right to requisition a meeting of members (5% of voting right, or lower if in the by-law)

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12. Members' Rights

- Right to requisition a meeting of members (5% of voting right, or lower if in the by-law)
- Right to submit proposals to amend by-laws or require any matter to be discussed at annual meetings (any one member)
- Right to submit proposal to nominate directors (5% of voting right)
- Right to access corporate records, including membership list
- Availability of unanimous members agreement (except for soliciting corporations)

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13. Members' Remedies

- Oppression remedy against the corporation
- Court order to commence a derivative action
- Compliance and restraining orders
- Court ordered wind-up and liquidation
- Special exemption of remedies for religious corporations if
 - The corporation is a religious corporation
 - The act or omission, conduct or exercise of powers is based on a tenet of faith held by the members of the corporation; and
 - It was reasonable to base the decision on a tenet of faith, having regard to the activities of the corporation

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14. Amalgamation, export and import

- Two or more corporations may amalgamate and continue as one corporation
- Federal corporations, once continued under the CNCA, will be able to amalgamate with one another
- Amalgamations between CNCA and ONCA corporations (as well as other jurisdictions) will also be possible
- Possible for a corporation from another jurisdiction to be imported and continue as a CNCA corporation
- Possible for a CNCA corporation to be exported and continued as a corporation under another jurisdiction

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15. By-laws

- No Ministerial approval of by-laws needed – by-laws are effective as soon as they are adopted according to the requirements of the CNCA
- By-laws must be filed with Corporations Canada within 12 months of their adoption

16. Special Act Corporations

- Part 19 of the CNCA automatically applies
- No continuance process or any steps needed
- May continue under the CNCA
 - After continuance, special act will cease to apply
 - Continuance process is essentially the same as that for Part II CCA corporations

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17. Conflict of Laws

- CNCA must be read in conjunction with applicable charity law
- Some provisions of the CNCA will not apply to charities

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- CNCA permits directors to fix their remuneration and to receive reasonable remuneration and expenses for any services they provide to the corporation in any other capacity
 - Common law rule overrides the CNCA – prohibits directors a charity to receive direct and indirect remuneration from the charity
 - But directors may be reimbursed out-of-pocket expenses
 - Possible to seek PGT consent court order to permit directors be paid, but generally high threshold for such an order

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- CNCA permits directors and officers to enter into contracts or transactions with the corporation as long as they disclose any conflict of interest that may exist
 - Common law rule overrides the CNCA - prohibits directors of charities to place their personal interests in conflict with their duty to the charity
 - Regardless of whether there is actual loss to the charity
 - Possible to seek PGT consent court order to permit directors be paid, but generally high threshold for such an order

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- CNCA permits corporation to invest its funds as its directors think fit, subject to its articles or by-laws or any limitations accompanying a gift
 - Section 10.1 of the *Charities Accounting Act* overrides the ONCA - states that s.27 to s.31 of the *Trustees Act* applies
 - Prudent investor rule applies to the directors of charities
 - Directors must consider certain criteria to invest
 - Authorizes delegation to an agent in certain circumstances

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- CNCA permits corporation to indemnify the directors and officers and to purchase insurance
 - For charities in Ontario, this is subject to compliance with the *Charities Accounting Act* and its regulations
 - Regulation 4/01 under the *Charities Accounting Act* requires directors to consider certain factors enumerated in the regulation before they consent to the indemnification of its directors or purchasing D&O insurance
 - The indemnification or the purchase of insurance must not render the corporation insolvent

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D. PREPARING ARTICLES OF CONTINUANCE

- Articles of Continuance will replace LP and SLPs
- Form 4031 – Articles of Continuance (transition)
- When preparing the articles of continuance, should prepare new by-laws at the same time because
 - Need to coordinate the provisions set out in articles and by-laws
 - Need to decide what default provisions in the CNCA to override and whether the overriding provision should be included in the articles or the by-laws; and
 - Even if CNCA requires certain provisions to be set out in the by-laws, it is possible to include them in the articles instead

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- What Information must be included in the Articles of Continuance?
 - Corporation's name
 - Province or territory where the registered office is situated
 - Minimum and maximum number of directors or fixed number
 - Statement of purpose
 - Restrictions on activities, if any
 - The classes, or regional or other groups of members that the corporation is authorized to establish
 - Statement regarding distribution of property on dissolution
 - Any additional provisions that the corporation may want included in the articles

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1. Current name of corporation
 - First page of letters patent
 - Refer to supplementary letters patent if name was changed
 - May include English and French forms of name
2. Change of name
 - May change corporate name
 - Insert proposed new corporate name, needs NUANS report
 - May use numbered name, number will be assigned by Industry Canada, e.g., 1947393 Canada Association

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3. Corporation Number

- Number assigned when corporation was incorporated
- Can be found from letters patent, supplementary letters patent, correspondence from Industry Canada, Industry Canada website database

4. Province or territory in Canada where registered office is located

- Insert the province or territory
- No municipality and no street address – to be indicated in Notice of Registered Office

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5. Number of directors

- Either
 - A fixed number or
 - A maximum and a minimum range
- Soliciting corporations – minimum 3 directors, at least 2 of whom are not officers or employees
- Non-soliciting – at least 1 director

6. Statement of purpose

- State the purpose of corporation
- See current corporate objects in letters patent, or as amended by supplementary letters patent
- If to be revised, needs CRA approval

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7. Restrictions on activities of the corporation

- May state restrictions, if any, on the activities that the corporation may carry on
- May state “none”

8. The classes, or regional or other groups of members that the corporation is authorized to establish

- If there is only 1 class of members, state so and list the rights the members are entitled to, e.g. to receive notice of, attend and vote at members meetings
- If there are more than 1 class of members, list the classes and the rights for each class

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9. Statement regarding distribution of property on dissolution

- State how net assets of corporation on dissolution would be distributed
- CNCA requires soliciting corporations to distribute assets to one or more other qualified donee, even if the corporation is not a registered charity

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10. Any additional provisions that Corporation may want in its articles

- Insert optional provisions
 - Override certain default rules in the CNCA; or
 - Provisions that may be included in the by-laws
- For example:
 - Insert provision to require a different membership approval majority greater than the statutory required majority (e.g., 75% approval where the CNCA requires 2/3 or majority approval where the CNCA requires simple majority), but not for removal of directors (ordinary resolution)
 - Foreign form of corporate name

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- Allow the board to appoint additional directors to hold office until the close of the next annual meeting of members, but the total number of directors so appointed may not exceed 1/3 of the number of directors elected at the previous annual meeting of members
- Specify a place outside of Canada where members' meetings may be held
- Require vacancies on the board be filled by members, rather than by a quorum of the board
- Charities - Require directors not receive remuneration
- Charities - Require corporation operated without purpose of gain for its members and profits be used to further corporation's purposes

11. Declaration

- Must be signed by a director or officer of the corporation

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E. DRAFTING INITIAL REGISTERED OFFICE ADDRESS AND FIRST BOARD OF DIRECTORS

- Form 4002 - Initial Registered Office Address and First Board of Directors
- Simple form
- The number of directors listed should be within the range of directors set out in the articles or match the fixed number in the articles
- Municipality and street address of registered office
- Name and residential address of first directors

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F. CONSIDERATIONS WHEN PREPARING BY-LAWS

- By-laws will need to be replaced or substantially revised
- CCA contained very few rules so lengthy and detailed by-laws were necessary
- Some changes may only be administrative
- Some changes may require detailed considerations and consultation with members

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1. By-law amendment mechanism
 - CNCA provides two ways for corporations to amend their by-laws, depending on the subject matter of the changes
 - Default mechanism
 - Board may adopt by-laws, effective upon passage by the board
 - Must be confirmed by members at next meeting to remain in force
 - Special approval
 - For matters affecting members' rights, e.g., notice of members' meetings, membership transferability and conditions, absentee voting
 - Effective when confirmed by members by special resolution (no need for board approval)

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- By-laws drafted under the CNCA must be very clear about which amending formula applies to various provisions (or risk certain by-law provisions not being legally in force) – for example:
 - Have 2 by-laws with all by-law provisions requiring special resolution in a separate by-law
 - Have 1 by-law, and place all provisions requiring special resolution in one clearly marked section
 - Have 1 by-law, and clearly mark throughout by-law which provisions require special resolution to amend
 - Have 1 by-law, and provide in articles that all by-law amendments require a special resolution

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2. Approaches to by-law drafting

- Minimalist approach
 - CNCA contains detailed rules, so by-laws do not require the same level of details
 - By-laws not duplicate mandatory rules or default rules that are not to be overridden
 - By-laws to set out provisions:
 - Mandatory provisions
 - Override the default rules in the CNCA
 - Utilize optional rules in the regulations
 - Important governance procedures
 - Governance policy manual to address issues that do not need to be included in by-laws
 - The minimalist approach will be reflected in model by-laws prepared by Corporations Canada

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- Advantages
 - Simple by-laws
 - No risk of amending by-laws to remove CNCA requirements or violate CNCA requirements
- Disadvantages
 - Have to work with 4 or 5 documents back and forth: CNCA, regulations, articles, by-laws, governance policy manual (and unanimous member agreement for non-soliciting corporation)
 - Need to know where to look for what and which provisions take precedence if conflict
 - May still risk amending by-law provisions that cannot be amended
 - Policy manual does not simplify the process

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- Comprehensive approach
 - The by-laws is the main document for all governance rules of the corporation where possible
 - Detailed by-laws will be a consolidation of mandatory rules, default rules that have not been overridden, overriding provisions, etc.
 - Will still need to work with articles, but limited provisions in the articles
 - Can have governance policy manuals to address other matters, e.g., committee structures (but not audit committee)
 - Helpful tool

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- Advantages
 - One go to place for essential governance procedures
 - Less documents to work with - articles, by-laws, policy manual and unanimous member agreement
- Disadvantages
 - More upfront cost and time to prepare by-laws
 - By-laws to clearly identify which provisions can be amended and which ones cannot and seek legal advice before amending by-laws

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3. Two mandatory provisions that must be included in by-laws

- Conditions of membership
- Notice of meeting of members
 - By-laws must set out the manner in which notice of meeting of members is to be given as prescribed in the regulations
 - Four options are prescribed in the regulations
 - May choose one or more of the options
- May include these provisions in the articles instead

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4. Types of CNCA rules

- CNCA provides both a general framework and sets of rules for corporations to operate
- Three types of rules in CNCA
 - Mandatory Rules – Cannot be overridden by the articles or by-laws
 - Default Rules - By-laws or articles can override
 - Alternate Rules – Articles/ by-laws can include certain optional rules provided by CNCA

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- Mandatory Rules
 - Rules that cannot be overridden by the articles or by-laws - examples
 - Directors are elected by members
 - Directors can be removed by majority vote of members (or by class vote)
 - By-laws must contain conditions for membership in the corporation
 - Notice of meetings of members - must comply with the regulations
 - Members' right to submit and discuss proposals
 - Members' right to requisition meeting
 - Corporations must ensure compliance of these rules

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- Default Rules
 - Apply automatically where by-law/articles are silent - examples
 - Directors can borrow and grant security without members' authorization
 - Membership can only be transferred back to corporation
 - Participation in meetings by electronic means
 - A majority of members constitutes a quorum
 - Directors may meet anywhere
 - Directors not required to be members
 - A majority of the directors constitutes a quorum
 - Directors can make, amend or repeal by-laws, except those requiring a special resolution of members

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- May include provisions to override default rules, some of them
 - Must be in the by-laws (may be included in articles)
 - May be in the articles or the by-laws
 - May be in the articles or by-laws or unanimous member agreement
- When drafting by-laws, must ensure the by-laws is the appropriate document to include the desired overriding provisions
- When drafting overriding provisions, ensure these mechanisms are in compliance with the CNCA

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- Alternate Rules
 - Optional rules that are provided by the CNCA - examples:
 - Consensus decision-making
 - Appointment of directors – (must be in articles)
 - Can send notice to members that financial statements available at registered office (instead of default rule which states that statements be sent to members 21-60 days before the annual meeting)
 - Requisition of meeting – default rule is 5% of members (CNCA permits by-laws to specify a lower but not higher requirement)

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- Absentee voting - by proxy, mailed in ballot or telephone/electronic means
- The articles may require a greater number of votes of directors or members to effect any action (except removal of directors)
- Discipline of members
- Audit committee
- Articles or by-laws must provide for these rules
- Ensure compliance with CNCA

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- CNCA silent
 - Can include provisions on issues that the CNCA is silent, provided that the provisions included do not contravene the CNCA and its regulations – examples:
 - Dispute resolution mechanisms to resolve disputes between members
 - Stewardship provisions dealing with charitable property of the corporation (where it is a registered charity)
 - Statement of faith subscribed to by a faith-based corporation
 - These provisions may be set out in the policies or the by-laws

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G. PRACTICAL STEPS

1. Gather current governance structure and procedure
 - Collect governing documents
 - Letters patent, supplementary letters patent
 - All current by-laws, including amendments
 - Amending by-laws
 - Members and board resolutions?
 - Are by-laws valid? Were they previously filed with and approved by Corporations Canada?
 - Contact Corporations Canada to obtain copies
 - Collect other governance related documents, e.g., organizational charts, policies, manuals

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2. Review governing documents and consider
 - Do they reflect current governance structure? If not, what is current governance structure?
 - Do they reflect current governance process? If not, what is current governance process?
 - Are changes desired? What are they?
 - Are there new provisions to be inserted?
 - Write them down
 - Come up with a wish list
3. Review the key features of the CNCA
 - This understanding will help the corporation determine how its governance structure and the content of the articles of continuance and by-laws will be impacted

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4. Compare CNCA rules with current governance structure and practice

- Are the current by-laws or the desired governance structure and process inconsistent with CNCA requirements?
- If inconsistent with a CNCA mandatory requirement, how will the corporation adjust its governance structure and process in order to ensure compliance?
- If inconsistent with a CNCA default requirement, is the preferred alternative mechanism permitted under the CNCA? Should the overriding provision be set out in the articles, by-laws or unanimous member agreement?

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- If different options are prescribed in the regulations, which one should the corporation choose? Should the preferred option be set out in the articles, by-laws or unanimous member agreement?
- Are there provisions that the corporation would like to include in its governing document and the CNCA is silent on those issues? If so, should the provisions be set out in the articles, by-laws or unanimous member agreement?

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5. Determine whether changes should be made prior to continuance

- Changes to membership rights
 - Under CNCA - separate vote by class or group of members will be required if to change the rights attached to a class or group of members or for certain fundamental changes
 - Regardless of whether the membership class is a voting class or non-voting class.
 - Each class of members (including non-voting members) will have a de facto veto right

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- Some corporations may want to collapse classes into 1 voting class
- If change membership rights as part of the continuance, then articles of continuance and by-laws also require separate class vote
- Consider changing membership classes and rights by amending the by-laws under the CCA first, prior to continuance under the CNCA

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- Changes to corporate objects
 - Purposes of the corporation will need to be stated in the articles of continuance
 - May want to update them to reflect and align with current or future activities
 - If registered charity, needs CRA approval
 - May want to apply for SLP under CCA on parallel basis

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6. Timing of continuance

- Some corporations will want to continue right away, others may want to wait
- Revising governance structure to be reflected in new by-law may need some time for directors and members to consider
- Considerations
 - Length of time and complexity of process to revise the by-laws
 - Nature of changes in new by-laws – substantive vs administrative
 - Size of membership
 - Ex officio directors
 - Changes to membership structure
 - Changes to corporate objects

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7. Drafting articles of continuance and drafting by-laws

- See issues above

8. Obtain membership approval and filing

- Need special resolution to approve articles of continuance
- May require separate class vote of the articles and by-laws if certain membership rights are amended
- Once approved, file articles of continuance and notice of initial registered office and first board of directors with Corporations Canada
- Will be issued Certificate of Continuance
- May file approved by-laws at the same time, or file them later within 12 months

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9. Other consequential filings and records updates

A) Canada Revenue Agency

- Registered charities have to file certificate of continuance, articles of continuance and new by-laws with CRA
- If purposes have been changed as part of the continuance process, the corporation may obtain pre-approval from CRA for new purposes before filing articles of continuance
- If no pre-approval is obtained, then CRA may require that the governing documents be revised if they do not meet CRA's requirements – need to apply for articles of amendment

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B) Provincial and territorial filings

- May need to update provincial or territorial registrations
- e.g., corporate registrations, business name registrations, fund-raising registrations, etc.
- Ontario charities – need to provide Public Guardian and Trustee with certificate of continuance and articles of continuance, but not new by-laws

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C) Other filings

- May be required to provide continuance documents with third parties, e.g.,
 - Funding organization
 - Umbrella organization

D) Updating corporate records and procedures

- Corporate minute book
- Other documents, e.g., corporate governance policies, manuals, etc.
- Staff and volunteers will need to be trained and become familiar with the new governance documents


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H. CONCLUSION

- Corporations Canada has continuance tools available, e.g., model by-laws, continuance guide, guide on operating under the CNCA after continuance (http://strategis.ic.gc.ca/eic/site/cd-dgc.nsf/eng/h_cs03925.html)
- See CRA requirements (<http://www.cra-arc.gc.ca/chrts-gvng/chrts/prtnq/nfpc/menu-eng.html>)
- Prepare early
- Have someone or a committee be responsible for the process
- Have the board engaged early on
- Seek legal help, conduct legal review, prepare draft by-laws
- Do not miss the 3 year time frame for continuance

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Canada Not-for-Profit Corporations Act (“CNCA”) **Mandatory and Default Rules Including Alternatives**

A. MANDATORY RULES: There are only 2 by-law provisions that are mandatory. A corporation is required to have by-laws addressing the following:

(1) **Conditions required for membership.** Section 154 of the CNCA requires the by-laws to set out conditions for being a member including whether a corporation or other entity may be a member. If there is more than one class of members, the by-laws must set out the conditions for membership in each class, the manner of withdrawing or transferring to another class and the conditions on which membership in a class ends.

(2) **Notice of Meeting of Voting Members.** Section 162(1) of the CNCA requires by-laws to set out the manner of giving notice which must be in accordance with the Regulations under the CNCA.

Note: Section 7(3.1) provides that a requirement under the CNCA to include a provision in the by-laws is deemed to be met by including the provision in the articles.

B. DEFAULT RULES AND ALTERNATIVES: Where by-laws are silent, the Default Rules will apply. Permissible Alternatives to Default Rules are set out below.

PROVISION	DEFAULT RULE	ALTERNATIVE
Right of members to vote (Section 154(5))	Each member is entitled to one vote at a meeting of members.	Articles may provide for classes of members with different voting rights, including non-voting members.
Manner of voting by members (Section 165)	Voting is by a show of hands or electronically (unless by-laws restrict electronic voting). A member that is entitled to vote at the meeting can demand a ballot.	By-laws can specify another manner of voting.

PROVISION	DEFAULT RULE	ALTERNATIVE
Absentee voting by members (Section 171)	Not permitted.	By-laws can specify that absentee voting will be allowed by the following prescribed methods: proxy, mailed-in ballot, or telephonic, electronic or other communication facility. The procedures for collecting, counting and reporting the results of any vote must also be set out.
Transfer of membership (Section 154(8))	Membership must be transferred back to the not-for-profit corporation.	By-laws may specify different rules regarding transferability (i.e. between classes or otherwise).
Place of meeting of members (Section 159)	Meetings of members must be held in Canada.	A meeting of members can be held outside of Canada if the place is specified in the articles or if all of the voting members agree.
Requisition of meeting by members (Section 167)	Members holding 5% of the votes can requisition the directors to call a meeting of the members for the purpose set out in the requisition.	By-laws can set percentage as lower than 5% but not higher.
Electronic participation at members' meetings by a person entitled to attend the meeting (Section 159(4))	Electronic participation at meetings is permitted.	By-laws can prohibit or restrict electronic participation at meetings.
Meeting held entirely by electronic means (Section 159(5))	Not permitted.	By-laws may permit directors or members to hold a meeting entirely by electronic means as long as all participants can communicate adequately with each other and the meeting is held in accordance with the Regulations.

PROVISION	DEFAULT RULE	ALTERNATIVE
Quorum for meetings of members (Section 164)	A quorum is a majority of members. If quorum is present at the opening of a meeting but not throughout the meeting, business may still proceed.	By-laws may provide for a different quorum, but it must be set out as a fixed number of members, or a percentage or number of members that is determinable by a formula. Can also provide that an opening quorum at a meeting is not sufficient where there is a loss of quorum later in the meeting.
Termination of membership (Section 156)	Membership is terminated when the member dies or resigns, when the member is expelled, when the member's term of membership expires, or the corporation is liquidated or dissolved under Part 14.	Articles or by-laws can provide otherwise.
Rights on termination of membership (Section 157)	Upon termination of membership, the rights of a member cease to exist.	Articles or by-laws can provide otherwise.
Providing annual financial statements to members (Section 175)	Annual financial statements must be sent to the members 21-60 days before the annual meeting.	By-laws can provide that instead of sending financial statements to members, that notice will be sent to members that financial statements are available at the registered office.
Annual Contributions or Dues (Section 30)	Directors can require members to make an annual contribution or pay annual dues and can determine the manner in which the dues or contributions are to be paid	By-laws, articles or any unanimous members' agreement can provide otherwise.
Lien on membership (Section 36(2)(3))	The corporation does not have a lien on memberships for debts owing by members.	Articles can provide that the corporation has a lien on any membership registered in name of member for a debt of that member to the corporation, including unpaid membership fees. By-laws can include provisions for enforcement of the lien.

PROVISION	DEFAULT RULE	ALTERNATIVE
Management of Affairs of Corporation (Section 124)	The directors shall manage or supervise the management of the affairs of the corporation.	Articles or any unanimous members' agreement can provide otherwise.
Qualification of Directors (Section 126(2))	Directors are not required to be members.	By-laws can require directors to be members.
Appointment of directors (Section 128(8))	All directors must be elected by the members.	Articles (but not the by-laws) may permit the directors to appoint additional directors to hold office until the next annual meeting of members, but no more than a third of the total number of directors can be appointed.
Quorum of directors (Section 136(2))	A majority of the number of directors or minimum number of directors required by the articles constitutes a quorum.	By-laws can provide otherwise.
Filling vacancies among directors (Section 132(5))	Directors have limited rights to fill vacancies on the board.	By-laws can provide that a vacancy shall only be filled by the members, or by a class of members that had the exclusive right to elect one or more directors.
Place of meeting of directors (Section 136(1))	Directors may meet at any place.	By-laws or articles can provide otherwise.
Notice of meeting of directors (Section 136(3))	The notice is not required to set out the purpose of the meeting or the business to be transacted unless it relates to a matter specified in Section 138(2).	By-laws can provide otherwise.
Director participation in meetings by electronic means (Section 136(7))	Directors can participate in a meeting by means of a telephonic, electronic or other communication facility that permits all participants to communicate adequately if all of the directors consent.	By-laws can provide otherwise.
Borrowing powers (Section 28(1))	Directors may (without member authorization) borrow money and grant security on property of the corporation.	By-laws, articles or any unanimous members' agreement can restrict this power.

PROVISION	DEFAULT RULE	ALTERNATIVE
Delegation of borrowing powers (Section 28(2))	The directors can delegate borrowing powers to a director, a committee of directors or an officer.	By-laws, articles or any unanimous members' agreement can provide otherwise.
Remuneration of directors etc. (Section 143)	Directors can fix the reasonable remuneration of directors, officers and employees.	By-laws, articles or any unanimous members' agreement can provide otherwise.
Indemnification (Section 144)	A director, officer or employee can receive indemnification for their expenses incurred on behalf of the corporation.	By-laws can provide otherwise.
Appointment of officers (Section 142)	Directors can designate, appoint and specify the duties of officers.	By-laws, articles or any unanimous members' agreement can provide otherwise (i.e. that members may appoint officers).
By-laws (Section 152)	Directors can make, amend or repeal by-laws except those for which a two-thirds vote of members is required. The by-law, amendment or repeal is effective until the next meeting of members when members confirm, amend or reject it.	By-laws, articles or any unanimous members' agreement can restrict the power of directors to make, amend or repeal by-laws.
Investments by corporation (Section 33)	A corporation may invest its funds as its directors think fit.	This rule is subject to limitations accompanying any gift or provisions to the contrary in the articles or by-laws.
Electronic documents (Section 267)	A requirement under the CNCA that information, including information in a notice, be created or provided is satisfied by provision of an electronic document as long as regulations are complied with.	Articles or by-laws can provide otherwise.
Statement of director (Section 131(1))	A director is entitled to submit a written statement giving reasons for resigning or for opposing the removal or replacement of the director if a meeting is called for that purpose.	By-laws can provide otherwise.

PROVISION	DEFAULT RULE	ALTERNATIVE
Consensus Decision-making (Section 137)	Decisions under the CNCA are made by ordinary or special resolution.	By-laws may provide that directors or members shall make decisions by consensus except for decisions that are required to be made under section 182(1), by special resolution, or by a vote if consensus cannot be reached.
Special majorities (Section 7(4))	Decisions under the CNCA are made by ordinary or special resolution.	Articles can require a greater number of votes of directors or members to effect any action except that the articles cannot require a greater number of votes to remove a director than required by Section 130.
Adjournment of meeting of members (Section 162(7))	If a meeting is adjourned for less than 31 days, it is not necessary for any member to be notified of an adjourned meeting other than by announcement at the earliest meeting that is adjourned.	By-laws can provide otherwise.
Fundamental Changes (Section 199)	Members of a class or a group of members are entitled to vote separately as a class or group on a proposal to make an amendment referred to in section 199(1).	Articles can provide otherwise in the case of an amendment referred to in paragraphs 199(a) and (2).

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