

 <p>BARRISTERS SOLICITORS TRADEMARK AGENTS</p>	<p>COUNTY OF CARLETON LAW ASSOCIATION (CCLA) 18th East Region Solicitors Conference 2012</p> <p>Montebello – May 12, 2012</p>
<p>The New Not-for-Profit Corporations Acts</p> <p>By Karen J. Cooper, LL.B., LL.L., TEP kcooper@carters.ca 1-866-388-9596</p> <p>© 2012 Carters Professional Corporation</p>	
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<p>OVERVIEW</p> <ul style="list-style-type: none">• Both the Federal and Ontario government enacted new corporate legislation for the non-profit sector• <i>Canada Not-for-Profit Corporations Act (CNCA)</i>• <i>Ontario Not-for-Profit Corporations Act, 2010 (ONCA)</i>• Practical steps to prepare for continuance	
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A. STATUS AND OVERVIEW OF CNCA

- Enacted on June 23, 2009, in force October 17, 2011
- Replaced Part II of *Canada Corporations Act* (CCA)
- See Industry Canada's website for resources:
http://strategis.ic.gc.ca/eic/site/cd-dgc.nsf/eng/h_cs03925.html
- See paper by Theresa Man "The Practical Impact of the *Canada Not-For-Profit Corporations Act*" May 2011, <http://www.carters.ca/pub/article/charity/2011/tlm1005.pdf>
- See *Charity Law Bulletins* on "Countdown to the *Canada Not-For-Profit Corporations Act* - Practice Tips" 1 to 9, Bulletin Nos. 191, 193, 199, 213, 215, 220, 231, 239, 247

- 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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- This means 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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B. STATUS AND OVERVIEW OF ONCA

- The Ontario *Corporations Act* (“OCA”) has not been substantively amended since 1953
- Bill 65 introduced the new Ontario *Not-For-Profit Corporations Act, 2010* (“ONCA”)
- Enacted on October 25, 2010, expected to be proclaimed in force late 2012
- Regulations not released, many details missing
- See *Charity Law Bulletin*. 262 “Nuts And Bolts of the Ontario *Not-For-Profit Corporations Act, 2010*”
<http://www.carters.ca/pub/bulletin/charity/2011/chylb262.htm>

- Unlike the CNCA
 - Optional for corporations to file articles of continuance or adopt new by-laws to comply with ONCA requirements in 3 years of ONCA in force
 - If no continuance process taken, then
 - Corporation will not be dissolved
 - LP, SLPs and by-laws will be deemed amended to comply with new ONCA requirements, resulting in non-compliant provisions deemed invalid
 - Will result in uncertainty in relation to which provisions remain to be valid
 - Better to do continuance process

- Social clubs with share capital will have 5 years to continue
- As part of the continuance process, OCA corporations can, by articles of amendment, amend any provision in its letters patent, supplementary letters patent, by-laws or special resolution to bring the provision into conformity with the ONCA

- This means that all OCA 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 and other required documents
 - Create new by-laws
 - Get membership approval
 - File required documents
 - Certificate of Continuance will be issued
 - Charities – send Certificate of Continuance, Articles of Continuance and new by-law to CRA

C. ESSENTIALS TO KNOW ABOUT THE CNCA AND ONCA

1. Corporations that Receive Public Funding
 - Corporations that receive public funding are subject to special requirements
 - Different rules in the CNCA and ONCA

CNCA - Soliciting and Non-soliciting Corporations

- Where a corporation receives more than the prescribed amount [\$10,000] in its last financial period from public sources [(a) public donations, (b) federal, provincial and municipal governments or (c) conduit entities], it will become a soliciting corporation
- Status acquired on the prescribed date [AGM] for a prescribed duration [3 years]
- Low threshold means most corporations will become soliciting corporations

- Implications of being a soliciting corporation
 - Must have a minimum of 3 directors, at least 2 of whom are not officers or employees of the corporation or its affiliates
 - Required to file annual financial statements with the Industry Canada
 - Audit and public accountant rules more stringent
 - On liquidation, the articles must provide for the distribution of any remaining property on dissolution to qualified donees

ONCA - Public Benefit Corporations (PBC)

- PBCs include
 - A charitable corporation (at common law), or
 - A non-charitable corporation that receives more than \$10,000 in a fiscal year in funding from public donations or the federal or provincial governments, or a municipality
- When a non-charitable corporation reaches the \$10,000 threshold, the PBC status won't attach until the first annual meeting of members in the next fiscal year

- Consequences of Being a PBC
 - Not more than one-third of the directors of a PBC may be employees of the corporation or of any of its affiliates
 - Higher thresholds for dispensing with the auditor and/or review engagement requirements
 - On liquidation, the articles must provide for the distribution of any remaining property on dissolution
 - Charitable corporation - to a charitable corporation with similar purposes to its own or to a government or government agency,
 - Non-charitable corporation - to another PBC with similar purposes or to a government or government agency

2. Directors Taking Office

- CNCA
 - Elected by members by ordinary resolution at an annual meeting
 - Maximum 4 year term
 - Ex-officio directors not permitted, need to find “work arounds”
 - May have staggered terms
 - Articles can provide for appointment of directors by board (up to 1/3 of those elected at previous AGM)

- ONCA
 - Elected at meetings of members
 - Board may appoint one or more additional directors up to 1/3 of the number of elected directors to hold office until the next AGM
 - Ex-officio directors continue to be permissible
 - Directors are no longer required to be corporate members
 - Maximum 4 year term

3. Directors and Officers – Duties
 - Similar rules in CNCA and ONCA
 - Every director and officer has a duty to
 - Act honestly and in good faith with a view to the best interests of the corporation
 - Exercise the care, diligence and skill of a reasonably prudent person
 - Reflects the standard that applies to for-profit corporations

4. Due Diligence Defence – Directors and Officers

- Similar rules in CNCA and ONCA
- Not liable if exercised the care, diligence and skill that a reasonably prudent person would have exercised in comparable circumstances – objective standard of care
- Replaced common law subjective standard of care
- Good faith reliance on financial statements and reports of professionals

5. Members

- Both CNCA and ONCA provide the same principles but different detailed rules
- A corporation must have members
- Can have
 - One class of members in which case all are voting; or
 - Two or more classes as long as articles give right to vote to at least one class
- Where more than one class, the members of each class have certain built in protections
- All classes of members, even non-voting classes of members, are entitled to vote separately as a class on certain amendments to articles and by-laws dealing with rights and classes of membership

- Non-voting members are given voting rights in some limited circumstances, e.g.,
 - Extraordinary sale
 - Amalgamation
 - Continuance to another jurisdiction
 - Change to any rights or conditions attached to those non-voting members or a change in the rights of other classes of members relative to the rights of the non-voting members
- Thus a class of members could reject a change - effectively resulting in a class veto (limited opt-out available)
- Corporations wanting maximum flexibility will have one class of members

6. Public Accountant and Financial Review

- CNCA
 - Corporations divided into two categories
 - Designated corporations:
 - A soliciting corporation with gross annual revenues for its last completed financial year that is 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 is equal to or less than \$1 million
 - Non-designated corporations are soliciting and non-soliciting corporations with annual revenues in excess of these amounts

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.

- ONCA
 - PBCs are subject to higher thresholds for dispensing with the auditor and/or review engagement

Type of Corp/Gross Annual Revenues (GAR)		Requirements for an Auditor	Audit/Review Engagement
Public Benefit Corporation (PBC) with GAR of →	Less than \$100,000 (s.76(1)(b))	May, by extraordinary resolution (80%), decide not to appoint an auditor	May dispense with both an audit and a review engagement by extraordinary resolution (80%)
	Over \$100,000 but less than \$500,000 (s.76(1)(a))	May dispense with an auditor and have someone else conduct a review engagement. This requires an extraordinary resolution (80%)	May elect to have a review engagement instead of an audit by extraordinary resolution (80%)
	Over \$500,000 (s.68)	An auditor must be appointed annually	Audit is required

Type of Corp/Gross Annual Revenues (GAR)		Requirements for an Auditor	Audit/Review Engagement
NON-PBC corporation with GAR of →	Less than \$500,000 in annual revenues (s.76(2)(b))	May, by extraordinary resolution (80%), decide not to appoint an auditor	May dispense with both an audit and a review engagement by extraordinary resolution (80%)
	Over \$500,000 (s.76(2)(a))	May, by extraordinary resolution (80%), dispense with an auditor and have someone else conduct a review engagement.	May elect to have a review engagement instead of an audit by extraordinary resolution (80%)

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7. Amalgamations

- CCA 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

8. Change of Jurisdiction

- Possible for a corporation from another jurisdiction to be imported and continue as a CNCA or ONCA corporation
- Possible for a CNCA/ONCA corporation to be exported and continued as a corporation under another jurisdiction

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9. Incorporation as of Right

- Both CNCA and ONCA permits incorporation as of right
- Both contemplate simpler and faster incorporation process

10. By-laws

- CNCA - by-laws no longer require to be approved by Industry Canada, but must be filed with Industry Canada within 12 months, but failure to file will not affect validity
- ONCA – no need to file by-laws with the Ministry

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D. TIMING OF CONTINUANCE

- Some corporations will want to continue right away after the applicable legislation becomes effective, 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
- Some considerations
 - Increased director protection
 - Existing by-laws already require amendment
 - Contemplation of fundamental changes
 - Different levels of financial review

E. PRACTICAL STEPS

- Collect governing documents
 - Letters patent, supplementary letters patent
 - Locate all copies
 - Amendments made by board or members resolutions alone not valid, must have SLP issued
 - CCA corporations – can contact Industry Canada to obtain copies
 - OCA corporations – can obtain microfiche copies from Ministry

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- 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? What are they?
 - Write them down
 - Come up with a wish list

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- Understanding the CNCA and ONCA framework
 - Rules in the Act
 - Details in the Regulations
 - “prescribed”
 - “regulations”
 - CNCA also permits unanimous member agreement for non-soliciting corporations
 - Need to refer back and forth between the Act, the Regulations, articles, by-laws and unanimous member agreement

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- Draft articles of continuance
- Draft new by-laws - by-laws will need to be replaced or substantially revised because the old and new rules are very different
- Minimalist vs detailed by-laws?

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- Industry Canada has continuance tools available, e.g.,
 - Model by-laws (minimalist approach) and by-law builder
 - Guides for transition, operation and incorporation
 - Sample Articles of Continuance
- Ontario Ministry will have continuance tools available, e.g.,
 - Plain language guides
 - Default by-laws
 - Updating the Not-for-Profit Incorporator's Handbook
 - Information sheets

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- Some changes may only be administrative
- Some changes may require detailed considerations and consultation with members
- Have someone or a committee be responsible for the process
- Have the board engaged early on

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