

4. Provide that the requirements in respect of capital investments applicable to chartered banks apply also to merchant banks.

5. Require that all loans and investments in excess of 5 per cent of capital and reserves be reported forthwith to the Inspector General of Banks, as recommended by the Porter Commission at page 385 of its report, and adopt the other recommendations in respect of credits or loans to directors, subsidiaries and affiliates which that Commission sets out.

6. Prescribe that merchant banks maintain reserves of, say 12½ per cent of their short term liabilities, i.e., those maturing within one year.

7. Direct that the credit of last resort for merchant banks be provided by the Bank of Canada or some other appropriate governmental agency, and that the amount of such credit of last resort be equivalent to the reserves each merchant bank must maintain.

8. Permit provincially incorporated companies to register as merchant banks provided they comply with rules governing those of federal incorporation.

9. Until enough experience is accumulated to enact a separate act, legislate here by reference to the Bank Act; i.e., set out the sections of the Bank Act which would be applicable to merchant banks. For the record, I would mention the following sections of the Bank Act: section 29, which deals with non-current loans; sections 60-62, respecting annual statements; section 63, as to shareholders audits; sections 64-68, concerning the powers of the Inspector General of Banks; sections 103-7, 152, 153, on returns; sections 139-140, dealing with inspection. It may be that minor changes would be required to apply these to merchant banks.

10. Amend any other sections of the bill which conflict with sections applicable to merchant banks.

Honourable senators, these ideas are neither revolutionary nor new, but they do recognize the value of federal safeguards. Merchant banks, as I have suggested defining them, are in fact near banks, though they lack many of the powers of the chartered bank, such as the taking of deposits, but in many areas of lending to commercial interests they are in competition with chartered banks.

The last revision of the Bank Act enlarged the areas of operation for chartered banks and brought them into closer competition

with merchant banks. It has even been suggested that the competition by the chartered banks could in time eliminate merchant banks. Some of these new provisions allow unlimited charges on loans, which permit the banks to enter the area of lower grade loans, charging higher interest rates. An example of this is the consumer loans. Banks now can enter the mortgage field too, and can supply large capital for mortgage requirements.

There is another anomaly in the situation. Most merchant banks carry their credit lines in Canada with the chartered banks, and abroad with appropriate banking institutions. Thus the merchant bank is substantially dependant upon its principal competitor, and some of the credit lines they carry abroad are very great indeed.

If the situation were reversed the chartered banks would find it intolerable, yet for the merchant bank there is no feasible commercial alternative. The problems are intensified when Canadian merchant banks, because of lack of adequate facilities in Canada, are required to carry some of their credit lines with foreign banks. This is why I suggest that the credit of last resort for the Canadian merchant banks should be an appropriate governmental agency.

Section 10 of the bill permits the issuance of certificates of registry for a term not exceeding one year. With appropriate reserves comparable to those required by chartered banks, merchant banks should be entitled to a certificate valid for a period of ten years. Problems encountered by merchant banks in terms of long-term financing could be unnecessarily difficult with the requirement of a one-year certificate.

It is understandable that Section 22—to which Senator Hayden and Senator Phillips (Rigaud) referred—as to the powers to make regulations, in the light of the definitions given, should be so wide.

I have indicated that there should be some more precise classification of investment companies, with appropriate definitions and regulations applying to each class, as Senator Hayden also indicated last night. The suggestion I have made in respect of merchant banks would relieve the Governor in Council of some of the onus cast upon it by section 22. One suggested regulation would deal with the appropriate capital requirements for merchant banks. This is a subject of serious debate within the industry. Chartered banks are not subject to a regulation in this respect.