

Bank of Canada Act

C-222 as it went to the committee, a twice monthly averaging period. When that clause was discussed with the governor of the bank when he first appeared before the committee no questions were raised. At that time the proposal was for twice monthly averaging.

Mr. Fulton: May I offer what I think is a correction? I raised this matter with the governor of the Bank of Canada at the first opportunity. As the minister will remember, he appeared before the committee once and then had to go abroad for a trip. I did not raise it with him on his first appearance but I would like it to be quite clear that I raised it at the first opportunity in the committee.

Mr. Sharp: I accept that explanation. I am not trying to score points here; I am simply trying to clarify the situation as it appears to me. The governor of the Bank of Canada then suggested to me that because of the particular problems involved in making the transition from the present method of determining cash reserves to the proposed method, the bank would be willing to accept an option which would enable it to revert for any period to monthly averaging if, for some reason not foreseen by the bank, this should prove to be desirable. If the option were to be available, the bank would propose to retain monthly averaging during the transition period when the minimum cash ratio is being shifted from a uniform 8 per cent rate to the split rates of 4 and 12 per cent provided in the new act, and, as the hon. member for Kamloops has pointed out, the banks have been so informed.

The particular form of the amendment that is now before the committee, and that was before the standing committee of the house, was determined by technical considerations of legal drafting relating to the retention of monthly averaging in the transition period. When Mr. Elderkin appeared before the committee on February 15, 1967 I regret to say that, perhaps because he misunderstood the position of the bank, he misrepresented the purpose of the amendment. In writing to the general managers of the chartered banks the governor of the Bank of Canada put forward the purpose of the amendment as he had proposed it. Therefore I can only say to the hon. member for Kamloops that Mr. Elderkin did misunderstand the purpose of the amendment and regrets very much that he misled the committee as to the way in which the Bank of Canada intended to use this clause. There was never any misunderstanding in the mind of the Bank of Canada about it. I would

[Mr. Sharp.]

like to join with the hon. member for Kamloops in paying tribute to Mr. Elderkin because this is the only mistake that he made in his long appearance before the committee.

Mr. Fulton: I agree.

Mr. Sharp: He is aware of this and he is not quite sure how the misunderstanding arose.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Will the minister permit a question? I presume he has seen the full text of Mr. Rasminsky's letter to the banks. I presume that the letter specified, as is set out in the clause, the number of months in which the twice monthly average is to apply. Is that correct?

Mr. Sharp: Yes. Perhaps I might put the letter on the record so that the committee will understand the situation fully. I have here only a copy of it. I am not quite sure of the dates on which it was transmitted to the various general managers, but it has been sent to the general manager of each of the chartered banks. It reads as follows:

You will no doubt know that the House of Commons committee on finance, trade and economic affairs accepted a government amendment to the proposed Bank Act dealing with the twice monthly averaging period. I am attaching hereto a copy of the relevant section as it appears in the bill reported to parliament.

In asking the government to introduce this amendment I had two considerations in mind: (1) that it would be desirable to complete the transition to the new method of calculating cash reserves, i.e. the 12 per cent-4 per cent formula, before introducing the twice monthly averaging period, and (2) that in the event, which I consider extremely unlikely, that the twice monthly averaging period presented unexpectedly serious problems, it would be desirable to be able to revert to the monthly averaging period without having to seek new legislation.

● (4:40 p.m.)

To avoid any misunderstanding, I am writing now to inform you that it is my intention to go to a twice monthly averaging period twelve months after the new act comes into force.

Now, as the committee will see, that represents a very different position from the position set before the house committee by Mr. Elderkin.

Mr. Cameron (Nanaimo-Cowichan-The Islands): But it is a requirement that the Bank of Canada shall specify in advance and give each chartered bank written notice of its action specifying the month for which it will be effective.