

*Currency and Exchange Act*

in 1978. In his audits of the Exchange Fund Account beginning in 1979, the Auditor General has expressed the opinion that the policy of continuing to value the Exchange Fund Account's gold holdings at the former official price rather than at market value is not in strict conformity with the Act. Valuing the Exchange Fund Account's gold at the market price, however, has a number of drawbacks, the principal one being that it could lead to large fluctuations in the reported level of our international reserves which are unrepresentative of actual changes in those reserves. The amendments would provide for a continuation of present practice as well as for flexibility in changing the basis for valuing Canada's gold reserves, subject to the provision that the value not exceed the market price, should future circumstances warrant such a change.

The amendments would sanction explicitly the current practice of recording gains on the sale of gold as valuation gains and paying them to the Consolidated Revenue Fund over a three-year period, paralleling the treatment of valuation gains resulting from exchange rate changes. This treatment is consistent with the amendments to the Currency and Exchange Act of 1977, which distinguished between net investment income and valuation gains or losses and provided for transfers to the Consolidated Revenue Fund based on the different character of these two categories. It has the effect of smoothing year-to-year transfers to the Consolidated Revenue Fund due to abnormal and irregular movements. I should like to remark that the aforesaid changes relating to accounting practices will not affect the actual transactions of the Exchange Fund Account in any way. The Auditor General has indicated that the proposed amendments overcome the concerns expressed in his recent audits of the Exchange Fund Account.

The payment of income by the Exchange Fund Account to the Consolidated Revenue Fund is effectively only a bookkeeping entry; no cash is transferred. Income from foreign currency assets is retained by the Exchange Fund Account. The Canadian dollar equivalent which is paid to the Consolidated Revenue Fund is financed by an increase in Canadian dollar advances to the Exchange Fund Account by the Consolidated Revenue Fund, so that there is no net change in cash holdings.

It is proposed to widen the provisions under which the Minister of Finance may deal in gold loans and similar transactions in order to increase the potential income of the Exchange Fund Account. It is also proposed to modernize the wording of Section 14, repeal the obsolete provisions of Section 16, and to change the Act's title to the "Currency Act", since the additional wording serves no purpose.

● (1520)

**Mr. Dave Nickerson (Western Arctic):** Mr. Speaker, my presentation on this matter will be equally brief. It was rather astounding to hear an admission by the Minister of State for Finance (Mr. MacLaren) this afternoon that, with respect to the Currency and Exchange Act, the Government has been acting illegally for some time. One immediately asks oneself why the government did not bring in amendments to the Act

before this. Why did the Government wait until this late stage in the game, some time after this matter had been brought to its attention by the Auditor General, before it presented Parliament with amendments which would allow it to operate legally? The Government is certainly not operating legally at the present time, as the Auditor General of Canada has determined.

Let us take a closer look at the Bill, Sir. First, the Government wants to drop the title, the Currency and Exchange Act, which has a historic ring to it. I do not know why it wants to change it to "An Act respecting Currency". They still use the term "the Exchange Fund" in the proposed amendments. I guess it does not really matter whether we call it the Currency Act or the Currency and Exchange Act, but I would like a further explanation on that score.

The second change in terminology, that to change the name of the "Exchange Fund" to the "Exchange Fund Account", does make sense because that is really all it is. It is not something kept strictly apart from other funds that the Government holds. It is really an accounting mechanism whereby funds which are retained in a central fund are allocated to one account or another.

I have some reservations with respect to the authority which the Minister seeks to deal in gold. The Minister always could buy, sell and lend gold. However, he had to do it himself or through his servants. This Bill would enlarge upon that so that the Minister of Finance could deal through an agent. One might ask oneself who this agent is to be. What friend of the Liberal Party is this agent likely to be? Why do we need agents to deal in gold when the Minister of Finance does not need agents to deal with securities held by the Exchange Fund? Why do we need special agents to deal in gold? Why have the words "otherwise deal in" been added? The Minister could buy, sell or lend gold before. What does it really mean when it says that he is now able to "otherwise deal in" gold? Are we to start undertaking highly speculative operations with respect to gold? I would hope not. I think enough speculation has gone on already.

Let us take another look at the clause to which I am referring, Sir. All of these things can be done "as the Minister thinks fit". Extremely wide discretion is to be granted by a Minister of the Crown. There are apparently no regulations as to how this agent is to operate or what "otherwise deal in" means. It is all left up to the Minister. He can issue whatever directions he wants. Once we have passed this Bill, the matter will be removed from any further parliamentary control.

There is the question of valuation of gold contained in the Exchange Fund Account. To a certain extent I buy the argument presented by the Minister of State for Finance that, because the price of gold has fluctuated rather widely as of late, we may need a value to put on gold other than the current market value at the date of valuation of the account. The way this matter is approached in these amendments is that the value is to be determined by the Minister at his discretion. He can put any value on that gold that he wants, so long as that