

We do not differ at all from the views of the audit office.

With reference to the legalities, the solicitor of the treasury is of the opinion that the vote authorizes the action which was taken by the Comptroller of the Treasury in charging the full amount of these other accounts, because they were shown as assets on the books.

The CHAIRMAN: Thank you, Mr. Bryce. That seems to dispose of this problem, unless there are any questions on it.

The last item in which Mr. Bryce is interested is item 68, indirect compensation to chartered banks.

Mr. BRYCE: I do not wish to quarrel at all with the account of the facts as given by the Auditor General in respect of this item. I might be allowed to add, perhaps, that up until the year 1956 the government did not get interest on its deposits with banks. During the year 1956 I find that the Minister of Finance arranged to hold some of the government's cash balances in the form of time deposits for a specified number of months and negotiated with the banks to get interest on those time deposits.

At the beginning of 1957 the arrangement to which Mr. Henderson refers in his note was commenced. In view of this arrangement, which was worked out by agreement with the banks, the government receives interest on the balance held by the banks over and above an agreed level. That level, which is \$100 million in all—that is for all the banks taken together—is not a level which we undertake to maintain as minimum balances with the banks, but is a level above which they agreed to pay us interest at the rates specified. This arrangement helps us in our cash management and helps the Banks of Canada somewhat in the management of monetary affairs, while benefiting the crown by enabling it to earn quite substantial amounts of interest on those balances.

If we were going to try to earn interest on these funds without getting it from the bank, what it would require is that we would have to take the money out of the banks, invest it in securities, then sell the securities, or have them run out at the appropriate time, so that we can redeposit the money with the banks to meet our cheques as required. Alternatively, instead of earning interest we could save interest by borrowing more frequently in smaller amounts to fit into the curve of our requirements during the year. However, naturally it becomes more economical and more convenient to all of us concerned with these borrowing operations if they are in fairly substantial amounts. I am afraid we are having to borrow all too often these days. As I say, it facilitates our cash management to maintain substantial balances with the banks and obtain the interest on them.

As is noted here, the interest we get is nine tenths of the rate we would get by not issuing treasury bills.

This, then, is the purpose of the arrangement. The question is does it offend in principle against the provisions of section 93 (1) of the Bank Act? I can see that one could draw an implication that by not receiving interest on the first \$100 million we are thereby recognizing, so to speak, that the banks perform a service, and the implication might be taken that we are paying them for that service by not getting interest on that first \$100 million.

By law the banks are required to pass our cheques without remuneration; there is not doubt about that. On the other hand, the law does not impose upon the banks any obligation to pay us interest on our deposits. We have been able to get this interest only by making agreements with the banks. These agreements have been negotiated to our advantage and, we think because the banks went into this, to their advantage; these, therefore, are mutually advantageous agreements.

Nowadays the banks do not feel that the arrangement is wholly satisfactory. I do not think it necessary to do more than quote what they have said to the royal commission on banking in this regard. They submitted a