

Bank Act

This means that the small nascent banks will not be caught by our deposit liability reserves on deposit certificates. The Mercantile Bank would come in at about \$5 billion, but it has had a good 12 years in its present form plus some years of prior experience.

I therefore commend this amendment to hon. members. I think the minister has some sympathy for it. It is an enabling amendment to cover new banks which started up in the past four or five years. The Bank of British Columbia is a little older than that, but I understand it has not done much deposit certificate writing. However, this is a field of operations into which it may wish to move. I am not grinding any particular axe, except I wish to alleviate the burden we impose upon the banks with an amendment we made in committee.

● (2020)

[Translation]

Hon. Pierre Bussières (Minister of State, Finance): Mr. Speaker, in order to justify the position I will take in respect of the amendment before us, motion No. 42 of the hon. member for Edmonton West (Mr. Lambert), I wish to review briefly rather than the change in provision in clause 202(8), to which the hon. member referred and that he wants to "correct" or to soften in a way, but a few provisions of the white paper and of the act as far as reserves are concerned.

First of all, let us consider that aspect, reserves, by comparing them with the situation provided for in section 72 of the present Bank Act. The first kind of reserves that we shall have and which is not provided for under present section 72 of the act is 3 per cent in compulsory reserves on deposits in foreign currencies, but which belong to Canadian citizens. Therefore, this is a new provision, 3 per cent on deposits in foreign currencies belonging to Canadians. This provision did not exist in section 72 of the existing act and it was included in the new legislation. According to section 72(1)(a) of the existing act, 12 per cent of the demand deposit liabilities must be in reserves. The legislation before us, and which will come into force, I hope, within a few hours, reduces the compulsory reserves on demand deposit liabilities from 12 per cent to 10 per cent. It is therefore a 2 per cent reduction of the reserve requirement, a rather considerable amount considering the volume of currency involved.

Notice deposit liabilities amounted to \$500 million, and this is extremely important for the kind of institutions which the member for Edmonton West (Mr. Lambert) wants to protect. Section 72 of the existing act specifies 4 per cent, while notice deposit liabilities have now been reduced from 4 per cent to 2 per cent. It is therefore an important relief for those first \$500 of notice deposit liabilities which particularly affect those institutions. A 2 per cent reduction is most significant.

Notice deposit liabilities, under section 72 of the act, are for an amount exceeding \$500 million. Therefore for the largest institutions section 72 now specifies 4 per cent, but now it will

only be 3 per cent. On the first \$500 million, a greater reduction from 4 per cent to 2 per cent is granted to the smaller institutions, while over \$500 million, the reduction is only from 4 per cent to 3 per cent. As for term deposits of residents in Canadian currency, as provided in clause 208(8), the hon. member indicated that we had brought in an amendment to restore or maintain a certain balance among financial institutions. We know that such reserves stipulated under section 72 of the existing act will no longer exist under the new legislation. We have agreed to reintroduce temporarily this reserve requirement—and I do say temporarily—until the government introduces legislation concerning trust and finance companies as well as savings banks. We will then create a new competitive environment for financial institutions such as trust and finance companies. This new competitive balance, so to speak, with respect to banks will allow us to reinstate the original provision and to remove the reserve requirements we had reintroduced.

However, in view of the reductions in the bank reserves, we have already provided, as I indicated and which are significant, it does not appear that the reinstatement of this provision will endanger the financial outlook of the banks and especially their competitiveness. We are maintaining the status quo in one area while providing many breaks in others where reserves are concerned, and that is why we are opposed to the amendment proposed by the hon. member for Edmonton West.

[English]

Mr. Don Blenkarn (Mississauga South): Mr. Speaker, the amendment before us deals with reserves. Its purpose is to change some of the conditions concerning reserves that we discussed with the minister and his assistant to protect trust institutions by giving them some advantage as the banks are already heavily in the mortgage industry. It came to our attention, however, that some of the smaller banks, particularly the Continental Bank, borrowed a great deal of money on term deposits. As we all know, the Continental Bank has been expanding rapidly and has been dealing with small business in particular. Indeed, in my community of Mississauga, it operates a first-class institution, which gears its entire activity to the small business community.

The amendment proposed by the hon. member for Edmonton West (Mr. Lambert) would protect banks with less than \$3 billion worth of assets. It would give an opportunity for not requiring them to have a secondary reserve.

As the minister has pointed out, when our minds were directed to reserves being required, it was with the idea that if the large banks were given permission to borrow on deposit terms in excess of one year without filing reserves for those deposit terms, they would be able to compete seriously with the trust industry. The minister pointed out that until there was an amendment to the Loan Companies Act giving trust companies certain additional powers in terms of investment, the trust industry would be in serious difficulty concerning its GICs.