And finally, tenth, banks are to be given, for the first time, the same flexibility as other corporations in the raising of capital funds.

Section 88 of the existing act has been amended somewhat and, as recommended by the House committee, extended to include wholesale and retail inventories. It appears as clause 178 in the bill before us today. A similar section has been part of Canadian banking legislation since the first act in 1871. In general it has served Canadians well. However, a few provincial governments have recently passed personal property security legislation and others are considering such legislation. This legislation overlaps section 88 and may result in certain confusion in the law. Furthermore, the Senate committee and the Cattlemen's Association have expressed concern about certain other features of clause 178 of the bill. The government will seek to prevent overlapping and confusion in the law and to ensure fairness in its operation.

A reduction in the cash reserve requirements of the banks is proposed in the bill. This reduction would be phased in over a three and a half year period beginning one month after the enactment of the bill. The rate on Canadian currency demand deposits will be lowered from 12 per cent to 10 per cent. In the case of Canadian currency notice deposits, the rate on the first $500 million will be lowered from 4 per cent to 2 per cent, and on the rest from 4 per cent to 3 per cent. In addition, the reserve requirement on non-encashable term deposits with an original term to maturity of one year will be completely removed.

I support these changes because the current level of reserves is not necessary for the effective implementation of monetary policy. The reduction of reserves would retain some degree of competitive balance among deposit-accepting institutions, which was visualized in the white paper. The lower reserves may redress a bias which has made it advantageous for some companies entering the deposit-taking business to do so in the form of near-banks rather than banks. Other proposals for easier access discussed earlier will also work in this direction. Finally, the lower reserves will reduce the cost of banking to the benefit of the customers and shareholders of banks.

With regard to the 3 per cent reserve requirement on foreign currency deposits used in Canada which was proposed in Bill C-15, the Canadian banks have correctly noted that this would place them at a disadvantage relative to foreign banks; foreign banks would be able to bring foreign funds into Canada with no reserve requirements and lend those funds to Canadians, while Canadian banks would have to maintain a 3 per cent reserve whether the funds were raised in Canada or abroad. Consequently, it is proposed that the 3 per cent reserve requirement be placed only on foreign currency deposits of Canadian residents booked in Canada. This would achieve the objective of removing an incentive for Canadian banks to encourage their clients to hold deposits in foreign currency rather than in Canadian dollars, while ensuring that Canadian banks are able to compete with foreign banks in offering foreign currency loans to Canadians.

The provisions in the existing banking legislation which empower the Bank of Canada to fix the level of secondary reserves which must be held by the chartered banks will remain unaltered. Mr. Speaker, it will no longer be necessary for bank directors to hold qualifying shares. This removes what might have been a substantial financial barrier for certain people, and particularly women, to sit on the board of a bank. Clause 59 of Bill C-15 would have prohibited officers or employees of a chartered bank from serving on the boards of directors of most Canadian corporations. This was proposed because of a concern that bank officers or employees who serve as directors for another corporation could be subject to conflict of interest in that corporation's relationship with chartered banks. This proposal has met with considerable resistance from senior officers of Canadian corporations who have indicated that chartered bank officers and employees are valued members of their boards, providing a high level of specialized expertise.

The submissions have stated that there has been no evidence of conflict of interest, that corporations have not felt constrained to deal with any one bank because of the presence of a bank officer on the board of directors, and that this provision would operate to the detriment of the Canadian business sector. Accordingly, I am proposing to adopt the recommendations of the parliamentary committees. Officers and employees of a bank will continue to be able to sit on the boards of other corporations subject to the approval of the board of the bank.

● (1700)

Bill C-15 contained a provision prohibiting directors and employees of Crown corporations from serving on the board of directors of a chartered bank. Our review of this provision indicated that a change of this nature would hamper the ability of the federal and provincial governments to attract qualified directors for their Crown corporations without commensurate benefits. It is being recommended therefore that, while employees of a Crown corporation should not serve as bank directors because of their direct ties to government, directors of Crown corporations will be permitted to serve as bank directors.

The Quebec Savings Banks Act applies to only one institution, the Montreal City and District Savings Bank. This savings bank has many of the characteristics of the loan companies and owns a trust company. Part IV of the bill proposes certain changes that will broaden the geographical operations of this savings bank to all of Canada and will improve its powers to provide a wider range of banking services to its retail clientele. Some of the important changes proposed for the banks such as those affecting shares and shareholders, broader powers to raise capital, requirements for auditors and capital adequacy are also introduced into this