

APPENDIX

(Extracts from submission to the Royal Commission on Banking and Finance by the Canadian Bankers' Association).

Government of Canada Deposits

170. The deposits of the Federal Government are allocated between the banks on an agreed ratio according to each bank's share of the unrecovered costs of handling Federal Government business. Following an agreement reached in 1953 the banks have paid interest to the Government on some portion of these deposits. The present rate, negotiated in 1959, provides for interest at a rate of 10 per cent below the average rate on accepted tenders at the weekly auction of three-month Treasury bills. This is payable on the amount by which the Government's minimum weekly balance at all banks exceeds \$100 million. It should be pointed out that the Government accepts no obligation to keep a minimum of \$100 million or more on deposit.

171. Some idea of the scope and growth of Government business handled by the banks is given by the number of Government cheques and other instruments cashed (excluding those of the Unemployment Insurance Commission) in the years 1951 and 1961. In 1951 some 36.8 million cheques were negotiated; in 1961 this figure had risen to 62.1 million, almost nine per cent of all cheques handled by banks in Canada.

172. While remuneration for some special services is paid on a per-item service charge basis, free balances are maintained by the Government and to some extent these recompense the banks for the heavy routine cheque and deposit handling functions. The question of the adequacy of remuneration for services rendered the Government is a matter of continuing concern to the banks. As outlined above, while the banks pay interest on weekly balances in excess of \$100 million, the Government is under no obligation to keep any free balances with the banks. In spite of repeated requests compensation has not been put on a properly defined basis and it is now considered very inadequate in relation to the sharp rise that has taken place in the volume of government business.

173. Under Section 93(1) of the Bank Act, the banks have been prevented from making any charge in respect of cheques or other instruments drawn on or payable to the Government, and the Government has not agreed to provide adequate compensation. Indeed it may be said that this forms a special burden not encountered by other industries in doing business with the Federal Government. As pointed out in the paragraph previously quoted from the Macmillan Commission of 1933, this, in effect, means that charges to other customers of the banks must be sufficient to offset the expenses incurred in handling Federal Government entries.

174. A section, similar to s. 93(1) of the present Act first appeared in the Bank Act of 1890. That the relation of the Government to the banks has vastly changed since then is illustrated in the following table.

TABLE VI

GROWTH OF FEDERAL GOVERNMENT IN RELATION TO THE BANKS

	1890	1961	1961 ÷ 1890
	(\$ Millions)		(times)
Canadian Federal Govt. Budgetary Expenditures	40	5,958	149
Gross National Product	803	36,844	46
Canadian Dollar Deposits at Chartered Banks ..	129	12,804	99
Federal Government Bank Deposits	3	257	86