

*Bank of Canada Act*

amendment introduced by the government had been placed before the committee and Mr. Elderkin gave this explanation:

We have a very important amendment here and I think I should bring it particularly to the attention of the committee. In clause 72, as it appears in the bill, subclause 1 provided for a cash reserve based on a split month; in other words a period during the first fifteen days of the month and then a period of the remaining days in the month. The Bank of Canada, after further consideration of this, decided that they would prefer to go back to what is the present practice, namely, to have the cash reserve based on the period of the full month; but they wish to reserve the right to place it on a twice monthly averaging period if, at some time in the future, monetary conditions appear to require it and, therefore, your first amendment to subclause 1 brings it back to the average of the month instead of the average of the two periods. Then there is a new subclause 3 which gives the Bank of Canada the power to require a twice monthly averaging if a month's notice is given and published in the *Canada Gazette*, and mailed to all the banks. It also provides that at any time after such advice has been given, the Bank of Canada may withdraw the requirement. That is, as I say, quite an important administrative difference and I thought I would like to explain to you the effect of the four amendments to clause 72.

I am sure everyone will appreciate that this is an important administrative difference. The government introduced to the standing committee an amendment to its own proposed bill which had the effect, as explained by Mr. Elderkin—and it is consistent with the wording of the amendment now before the committee—of continuing in any event for a year, the monthly averaging system as the general practice. It provided a stand-by power in a “notwithstanding” subclause that the Bank of Canada, if it felt conditions warranted it, could require the banks to go on a twice monthly averaging system. In other words, the position was entirely reversed as compared to the result which would have followed the initial draft of the legislation. The initial draft put them automatically and permanently on a twice monthly averaging system, with no provision for returning to the monthly system.

The new amendment continues the monthly system, with the provision that the Bank of Canada may put them on a twice monthly system if it feels such procedure advisable, but might also withdraw and revert to a monthly system, I assume, when monetary conditions have returned to normal. Speaking for myself, and I am sure for other members of the committee, on the basis of that explanation as to that important difference we accepted the amendment as meeting our objections, therefore rendering it unnecessary to

force the point we previously had under discussion.

I am advised that the banks similarly felt that the situation was clarified and entirely acceptable. Therefore they felt they need not continue or make further representation in respect of this clause. It went through on that basis, with a minimum of discussion as to the amendment itself, to the satisfaction of the banks as interested parties, and members of the committee who feel this requirement was unduly onerous.

The fact has been drawn to our attention that the governor of the Bank of Canada wrote a letter which was received by chartered banks on March 2, putting an entirely different interpretation on this amendment to clause 72, and expressing an entirely different intention as to how they would operate this cash reserve averaging system. The letter makes it clear that it is the intention of the governor of the Bank of Canada to operate this in a way opposite to the way which was explained by Mr. Elderkin.

Perhaps at this point I should read the letter which I am advised was addressed by Mr. Rasminsky to all chartered banks. This information is contained in a telegram from the chairman and president of the Royal Bank of Canada to the chairman of our standing committee. In this telegram, Mr. McLaughlin quotes the letter from the governor of the Bank of Canada to chartered banks as follows:

You will no doubt know that the House of Commons committee on finance, trade and economic affairs accepted a government amendment to the proposed Bank Act dealing with the twice monthly averaging period.

• (4:20 p.m.)

I am attaching hereto a copy of the relevant section as it appears in the bill reported to parliament.

The letter from Mr. Rasminsky continues:

In asking the government to introduce this amendment I had two considerations in mind, (1) that it would be desirable to complete the transition to the new method of calculating cash reserves—

In the copy before me there then appear the letters “I.M.E.” I do not know what that means. However, the letter continues:

—the 12 per cent to 4 per cent formula before introducing the twice monthly averaging period—

My understanding of that portion of the letter is that it would be desirable to complete the transition to the new method of calculating cash reserves from the 12 per cent to 4