

to the preparation of the minutes of proceedings and evidence.

• (4:10 p.m.)

Mr. Chairman, I also feel bound to point out the effective work performed by committee members and by other colleagues who took part in this decennial review.

Allow me, Mr. Chairman, to submit an analysis of Bill No. C-222, an act respecting banks and banking. Financial systems all over the world have experienced a record increase in the demand and the resultant upward trends of the rate of interest.

It is customary in Canada to effect every ten years a thorough study of the country's banking legislation and to renew bank charters.

On October 18, 1961, was set up a royal commission under the chairmanship of Chief Justice Dana Porter on our banking and financial system. In the spring of 1964, on April 24, the commission published a far-reaching report on its work and studies.

Several recommendations were made and I believe the main recommendations are the following: greater competition between our banking and financial institutions to give an adequate choice to the borrowers or the depositors; allow the banks to lend on ordinary mortgages; eliminate the ceiling on the interest rates; disclosure of the actual total costs of loans or advances; greater disclosure of the accumulated reserves for losses on loans and investments; allow the banks to raise capital through sale of non-guaranteed bonds; opening in Canada of agencies such as Canadian banks have in New York and in San Francisco, U.S.A.

Mr. Chairman, as for greater competition, the commission recommends that the Minister of Finance and Receiver General be given the powers to prevent agreements between banking institutions on loans and borrowing. Clause 138 provides for the prohibition of such agreements.

As for the right of banking institutions to have common directors, subclauses 6 (b) and 7 (c) of clause 18 govern their number and eligibility.

Furthermore, the commission recommends a limitation of the powers of banking institutions to invest in non-banking and non-financial institutions. Subject to certain provisions, clause 76 of the bill respecting banks and banking restricts such participation to 10 per cent.

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Bank Act

The introduction of banks into the field of ordinary mortgages should increase the supply of mortgage money and relieve the need for borrowers to apply to a more onerous market for second mortgage loans.

Mr. Chairman, here are some comments from the report of the Royal Commission on Banking and Finance.

The commission says, on page 364 of its report:

At the same time, the entry of the chartered banks into conventional residential lending would do much to improve this part of the capital market: access to mortgage security would enable the banks to improve their service to business borrowers, particularly smaller enterprises.

On page 367 the commission adds:

If it is demonstrated, however, that bank lending in this area would have so sudden an impact on other lenders as to hinder the long-run objective of developing a larger group of well-established banking institutions, some temporary limit might be placed on the annual rate of conventional residential lending by the present chartered banks.

Clause 75 of this bill gives to the banks the power to make conventional mortgage lending subject to the limitations of subclauses (3) and (4) of that clause.

Mr. Chairman, with regard to the removal of the interest rate ceiling, clause 91 of this bill for the time being, brings only a certain relaxation of the ceiling; it provides for its removal when the general level of interest rates has appreciably decreased.

I think that it is better to have a transitional period in order to avoid doubts, apprehensions which might result from the removal of the ceiling at the height of a period of tension.

The Porter commission brought forward some arguments in that respect, and I now take the liberty of quoting a few. On page 364, the commission said:

The prohibition on conventional mortgage lending by chartered banks and the interest rate ceiling are the most serious barriers to free market forces in the present chartered banking legislation.

Again on page 364, the commission said:

We recommend that it be removed regardless of other changes in the legislation. The ceiling stands in the way of flexible lending by the banks in that it frequently prevents them from making loans on which higher rates must be charged to cover administrative costs and risks.

Obviously, this is to the banks' disadvantage; more importantly, however, it discriminates against borrowers such as small businesses which, if they are to obtain funds at all, must turn to other lenders which charge rates well above those the banks would ask if free to do so.