

*Bank of Canada Act*

respecting banks and banking, should be referred to the committee for the same purpose and in the same way.

The portions I have in mind deal with the fixing of the cash reserves which the chartered banks are required to maintain with the Bank of Canada. Therefore the portion of Bill No. C-190 which I suggest should be referred back to the committee is subclause 5 of clause 9. This subclause is found starting at page 5 of the bill. This is a subclause which gives the Bank of Canada power to fix the percentage of the deposit liabilities in the chartered banks payable in Canadian currency which the banks are required by subsection 3 of section 72 of the Bank Act to maintain as average secondary reserve during any month.

The reason I suggest that this portion of Bill No. C-190, together with the subject matter of clause 72 of Bill No. C-222, be referred back to the committee is that an important misunderstanding has arisen in the course of the committee's consideration of these related provisions. This important misunderstanding can be summarized as follows. The proposed new law—I am speaking now of both bills read together—as initially introduced in this house and then referred to the standing committee provides for a new method of maintaining or controlling the reserves which the chartered banks are required to maintain with the Bank of Canada. Hitherto those reserves had to be maintained at a certain percentage of the deposits with the chartered banks.

Previously the percentage required to be maintained with the Bank of Canada had to be calculated monthly. Under the new legislation it is proposed that the percentage of the actual amount to be maintained as cash reserves be calculated twice monthly, and that a severe penalty be imposed upon the chartered banks if they do not maintain the correct percentage with the Bank of Canada. If these things must be calculated twice monthly and an adjustment made on that basis, it will be appreciated that this involves a more delicate and perhaps more difficult operation than if the requirements were a monthly event. In other words, it imposes a greater burden and an appreciably greater difficulty than the monthly averaging system.

• (4:10 p.m.)

We had considerable discussion about this matter in the standing committee and I urged upon the minister and the governor of the

[Mr. Fulton.]

Bank of Canada that, first, they should consider maintaining the monthly averaging system and, second, if they did not accept that point of view or submission, instead of putting the bank in the position where an error in calculation in the twice monthly averaging system would subject them to severe penalty, they should allow the banks to adjust for the second period or each subsequent period for any deficiency of a previous period. That provision in operation would have the effect of keeping the averaging correct in the overall situation for each month, which is highly desirable, without subjecting the banks to penalties.

I do not know whether the officials or the minister would accept either of those points of view, because before the matter was concluded and before it was necessary to bring it to a head and obtain a decision the minister had an amendment introduced to the committee affecting the whole of clause 72 of Bill C-222, and the new clause was accepted at the time of its introduction.

It was explained by Mr. Elderkin, who had just retired as inspector general of banks and had undertaken to appear before the committee to explain the results of the amendments as they were introduced. I will read his evidence as given to the committee in a moment, but I want to summarize it now because I want the committee to appreciate its importance.

He said that the Bank of Canada had decided it was not necessary to put the banks on a twice monthly averaging system and that they should maintain a monthly averaging system. He also suggested that the Bank of Canada would be given the power to move to a twice monthly averaging system if the exigencies of monetary conditions demanded that, and that the twice monthly averaging requirements laid down by the Bank of Canada could be abandoned and the banks could be allowed to revert to the monthly averaging system without the necessity of further legislation.

**Mr. Clermont:** Would the hon. member permit a question?

**Mr. Fulton:** Perhaps I may be allowed to conclude my observations, at which time I will be pleased to deal with the questions.

At this point I think I should read the evidence given by Mr. Elderkin as found in the Minutes of Proceedings and Evidence of the standing committee on finance, trade and economic affairs, volume 48 at page 3323. The