

I have considered the Senate committee's recommendation most carefully but have decided not to accept it for the following reasons. The letters patent approach has been added to the special act approach to facilitate the incorporation of new banks and I do not want to introduce measures which could conceivably frustrate this objective. Such procedures might also hinder our reciprocity negotiations and the access of Canadian banks to other countries.

In addition, adequate safeguards have, I think, been built into the legislation. First, an intention by a potential applicant to apply for letters patent along with the proposed content of such letters patent would have to be published in *The Canada Gazette* and a Canadian newspaper once each week for a period of four consecutive weeks, thereby giving the Canadian public the opportunity to make representation on a potential application. I shall welcome such representations and give them careful consideration. Second, the assessment of the application and the applicants by the Inspector General of Banks would be no less rigorous than the current assessment by Parliament. Banking standards would not be lowered. Third, the Minister of Finance would be given the authority to issue letters patent at his sole discretion once approval was granted by governor in council, thereby avoiding the complicated administrative function with inherent delays. For those applicants who were unsuccessful in getting incorporation by letters patent, there would be the possibility of seeking incorporation by special act.

One of the most important provisions in this bill would allow foreign banks to establish banking subsidiaries in Canada. Foreign banks have greatly intensified their activities in Canada since the last revision of the Bank Act. The bulk of this activity has been conducted through financial affiliates incorporated under provincial charters. About 100 Canadian corporations in which foreign banks have an equity interest and which appear to be engaged in financial activities have been identified. About 50 foreign banks have an equity interest in these corporations.

Approximately half are U.S. banks and the balance, except for seven, are from countries of the European Economic Community. In addition, 50 foreign bank representative offices have been identified, of which about 30 represent banks which do not appear to have any investments in Canadian financial corporations. Total assets of Canadian affiliates of foreign banks reporting to the Bank of Canada currently exceed \$6.4 billion. Clearly, the time has come to provide a way for foreign banks to operate in Canada within the framework of our federal banking legislation. This will provide for more competition in the financial markets for the benefit of Canadians. At the same time, the measures contained in the bill will ensure the preservation of a predominantly Canadian-owned and controlled banking system. It is proposed that foreign banks be allowed to establish banking subsidiaries in Canada, and be disallowed from undertaking banking business

Bank Act

in this country except through these subsidiaries. It is also proposed that there be no limit on the number of branches which a foreign banking subsidiary may establish in Canada, but ministerial approval be required for other than the first. It is also proposed that at least half the directors of a foreign bank subsidiary be required to be Canadian citizens ordinarily resident in Canada. Further, in accordance with the House committee's recommendation, all committees established by a bank board would be required to have at least one-half of their membership Canadian. It is also proposed that foreign bank non-bank affiliates be required to provide information and, in the case of financial affiliates, unless expressly authorized, be disallowed from borrowing in Canada with the guarantee of their parent.

● (1640)

It is also proposed that foreign banks be allowed to maintain representative offices in Canada but with regulation. Foreign bank-owned subsidiaries will have broadly the same powers as Canadian banks; the Bank Act will be their charter. The new bill provides for licensing of such subsidiaries, with initial and renewal licences for periods of up to three years. As will be the case with other schedule B banks, banks whose capital stock is closely-held, their growth and branching will be closely controlled by governor in council. For example, governor in council will approve the initial authorized capital and all future increases. The bill provides a maximum-size control for domestic assets of 20 times the authorized capital. In addition, the domestic assets of all foreign bank subsidiaries will be restricted in aggregate to 8 per cent of Canadian dollar and foreign assets booked in Canada with Canadian residents. This formula is different from that in Bill C-15 and reflects the recommendation of the House committee on this issue. However, it has not been found necessary to adopt the 10 per cent figure recommended by the committee. Our calculations show that, with the new base, 8 per cent provides adequate scope for the establishment and growth of the foreign bank sector. Using year-end 1979 figures, it is estimated that the maximum permitted size of all domestic assets for all foreign bank subsidiaries would have been about \$12.5 billion at that time. This limit would also grow with the banking system.

Bill C-15 required that foreign banks operate in Canada only through subsidiaries. I should note that the House committee recommended that foreign banks should be allowed to establish either branches or subsidiaries in Canada, provided that proper regulatory provisions could be enforced. It is the government's view that the subsidiary alternative, requiring capital in Canada, a board of directors at least 50 per cent of whom must be Canadians, and subject only to Canadian law, is the preferred route.

It was also proposed earlier that a foreign bank subsidiary be limited to five branches. Both committees recommended the elimination of this limit and the House committee further recommended that ministerial approval not be required. Re-