(iii) Capital and inner reserves

The law should not contain minimum capital to asset ratios such as those in present loan and trust company legislation since a formula adequate for some institutions will be inadequate for others. Rather, the authorities must ensure that each institution maintains adequate capital for its particular circumstances (pp. 176, 383-6).

The Commission believes that there is a case for allowing banking institutions to accumulate tax-free inner reserves, but recommends that the present variable ratio be replaced by a fixed maximum percentage and that specific and general contingency reserves be separated. It does not see any compelling argument against disclosure of these amounts, and recommends that at least the combined reserves and annual loss figures for all banks be disclosed (pp. 386-9).

It is recommended that the present restrictions on the par value and issue price of bank shares be removed but the present provisions relating to issuing shares by rights to existing shareholders should be retained (pp. 143-4). The effect would be to leave each bank free to split its stock and set the rights price of its shares closer to the market; this would reduce the dilution of bank capital and would not affect the share-holders' equity in the long run.

The present prohibition on banks lending against bank shares is sound, but exceptions might be made for smaller loans to individuals (p. 383).

(iv) Cash reserves and the clearing system

Since all banking institutions will have similar powers, the Commission recommends that in equity they should all be subject to the same cash reserves and that these reserves be held at the Bank of Canada (pp. 390-4). The proposed rules call for 8% cash reserves against demand liabilities and those redeemable on short notice, 4% reserves against all genuine notice liabilities with original terms up to one year and no reserves against longer-term liabilities. These requirements would enable