attention to the reason for the emphasis which was put upon the entry of foreign banks into Canada.

From the early 1960s, foreign banks from the United States, Europe, the United Kingdom and Japan came into Canada in connection with the development in the leasing of equipment, something which became quite an important factor in business. It started out with such large items as airplanes and railway cars, and things of that nature, and finally moved into the area of automobiles. These foreign banks incorporated financial corporations in Canada, and these financial corporations, or most of them, were incorporated provincially. Some were incorporated federally. The net result was that the Canadian banks were in competition with the foreign banks through these financial corporations, with the Canadian chartered banks being required to make their contributions to the cash reserves and to the secondary reserves.

I have not yet mentioned the matter of secondary reserves. The secondary reserves, which are provided for under the Bank Act, are interest-bearing reserves. In relation to the secondary reserves, the banks have the option of either contributing cash or interest-bearing securities, as specified in the Bank Act itself.

If you are looking for this information, you will find it in section 72 of the existing Bank Act and in clause 208(7) of Bill C-6.

This secondary reserve, for some years, has been 5 per cent, and it can be satisfied by the contribution of Treasury bills or day loans to investment houses. The interest rates, of course, are not as high as might otherwise be earned. But this is the burden which the Canadian banks had to carry while in competition with the foreign banks that were carrying on their business through financial corporations. So, it isn't any wonder that the white paper stated that this was a very substantial advance and of great benefit to Canada. What the white paper said was that it would provide for more equitable and effective competition between Canadian and foreign-owned institutions; provide opportunities for Canadian affiliates of foreign banks to operate under Canadian legislation; and provide economic and financial surveillance by Canadian authorities.

Those were two very important factors. In other words, the foreign banks were to be given the right to come into Canada on terms and conditions, but they would be subject to all of the provisions of the Bank Act, which means they would have to provide the same kinds and the same amounts of reserves that the chartered banks were obligated to provide.

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The net result of that was that the conditions established for foreign banks to operate in Canada were that they would have to operate through foreign bank subsidiaries in Canada, and the foreign bank itself would not be able to carry on business in Canada. Of course, there were considerations involved as to how you deal with the financial corporations that the foreign banks had in existence for quite a number of years, and there were certain grandfathering provisions put in the various bills—and they are in Bill C-6—under which the shares of the financial corporation might be transferred to the foreign bank subsidiary, or under which the financial corporation might be converted or amalgamated into the foreign bank subsidiary in Canada. The result of that was a grandfathering of the requirement since, under the Bank Bill, these shares would be ineligible assets. But an exemption, with the leave of the Governor in Council, was provided for two years. Subsequently, it was further provided that, from time to time as the situation developed, extensions might be obtained, in the discretion of the minister and the Governor in Council, of up to ten years.

Of course, that takes you to the next decennial revision in 1991. I am afraid that the end of the road with respect to my interest in the next revision will come before that date.

Senator Marshall: Oh, no, you will be here.

Senator Hayden: I should point out that the foreign bank is not completely ignored, in the sense that it may, under the bill, have a representative office in Canada. It may directly engage employees, but in the representative office it can only deal with operations outside of Canada. It cannot have any dealings in Canada.

One other point I should indicate to you is that a foreign bank may establish through the foreign bank subsidiary only one branch in Canada. It may make application thereafter to the Inspector General of Banks, and then to the Governor in Council as the last authority, to extend the number of branches which it may maintain in Canada. But there, too, there is a grandfathering provision that, to the extent that the foreign banks through their financial corporations had branches of their operations in Canada at the time the application for a charter or letters patent was made, they could validate additional branches on application to the Governor in Council. If they had not validated all the branches at once, they could come back from time to time, but in the discretion of the minister and the Governor in Council they could validate more of those branches. Therefore, when the foreign bank subsidiary is incorporated, the authority to maintain one branch is such an authority that, if they meet the requirements, there is available the opportunity to establish more branches.

I should tell you, too, that the conditions that are imposed are the following: A foreign bank subsidiary requires a licence to commence operations, and that is in the discretion of the minister; but at that time the foreign bank also has to procure a licence, and the requirement of the procuring of the licence will enable the minister and the Governor in Council to decide whether the foreign bank subsidiary has been conforming to the time factors and the growth factors and all of the other conditions of their operation. If it is decided that it has not been, then its licence will be cancelled and it will have to stop operating. But the bill—even Bill C-6, the one I am discussing—provided that the licence should be a three-year licence. That was a recommendation of the Senate committee, but the Commons committee, which was studying Bill C-6 this year, decided that there should be some change, and the government accepted that committee's recommendation that the licence be