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New chequing system, admission of foreign banks proposed for new Bank Act

The Federal Government's white paper on banking, issued on August 23, proposes significant changes to encourage more competition in Canada's financial system. The present Bank Act, which must be renewed every ten years, expires on June 30, 1977. The paper provides further opportunity for public discussion before conclusion of the current review, for which comments are invited before October 15.

The white paper proposes the establishment of a new national framework for the Canadian chequing system. It would permit subsidiaries of foreign banks to operate in Canada. The establishment of new Canadian domestic banks will be made easier, and some changes are also proposed in the powers of chartered banks to promote stronger competition within Canadian control and predominantly Canadian ownership. Some of the highlights of the white paper follow:

The white paper points to growing inequities and fragmentation within the payments function, which lies at the heart of the financial system. This function is exercised principally by the chequing system, under which deposits are transferred by cheque or similar orders to settle financial obligations. Trust and mortgage loan companies, *caisses populaires* and credit unions largely outside federal regulation, play an important role in effecting payments. However, they have only indirect access to the clearing system for cheques, and do not enjoy a full voice or full rights in its operations, with the result that they are not fully subject to all its obligations.

The white paper proposes to bring all institutions offering chequing facilities into a new Canadian payments association to replace the present clearing system operated by the chartered banks. Members will share the same rights and obligations. They will obtain credit facilities from the Bank of Canada and will be required to maintain minimum reserves with the central bank. The reserve requirements are:

(On Canadian dollar notice deposits, and term deposits with an original term to maturity of one year or less, or longer if encashable – includes most reservable deposits of near-banks) – 2 per cent on the first \$500 million; 4 per cent on the remainder.

(On Canadian dollar demand deposits – mainly banks) – 12 per cent as at present.

(On foreign currency deposits used domestically) – 4 per cent.

Foreign banks

Although Canadian law does not permit foreign banks to operate as banks in Canada, they have established many affiliated corporations here as active lenders to business and as borrowers in the money market. Many of their operations are not subject to regulation. They enjoy some special advantages and have captured a significant share of commercial lending activities, including some areas where direct participation by Canadian banks is prohibited under the Bank Act.

Foreign banks can bring additional competition and innovation to bear in Canadian banking. With their worldwide connections, they can help develop Canadian resources, industries and trade.

The paper therefore proposes to allow foreign bank subsidiaries to operate in Canada as banks, incorporated with full powers under the Bank Act. However, Government policy will be to limit their growth and size individually and their combined operations to 15 per cent of commercial lending in Canada, these limits being subject to review. They will be permitted a maximum of five branches; a minimum of one-half of their directors will have to be Canadian citizens. Limits on the size of any foreign bank subsidiary will be removed if it opts to "Can-

