The next report of the committee on the subject matter of Bill C-14 was tabled on December 5, 1979. This contained 13 recommendations. The last report was an interim report of the Senate committee, tabled on July 16, 1980, and that contained five principal recommendations.

You can see that throughout the course of its study the committee has been gradually reducing the necessity of dealing with items which it felt should not be in this type of legislation, and the bill has been conforming more and more to the approaches, views and considerations of the members of the committee.

A great advantage was that generally the membership of the committee during that time remained constant. We had some very welcome additions, including the Deputy Leader of the Opposition, whose comments were always worthwhile.

Having indicated the historical aspect, I think I should point out what are the main changes proposed in Bill C-6. Of course, I would regard the main change, if I had to select one, as the entry, control and conditions for the operation in Canada of foreign banks. The other items I would list as follows: The method of incorporation of new banks into the banking system in Canada, either by special act of Parliament or letters patent. Heretofore and under the present law, such incorporation could only take place by a special act of Parliament. Then I would list changes to the primary reserves required to be provided by Canadian chartered banks.

On that point, I should indicate that one of our original criticisms in relation to the white paper, and again in relation to Bill C-57 and Bill C-15, was that the rates for cash reserves were too high. Those cash reserves provided by the chartered banks are intended as a safeguard for purposes of liquidity, for purposes of monetary control, and they continued in the 1976 white paper, and in Bill C-15, with the original rates, which were 12 per cent on demand deposits and 4 per cent on notice deposits. Those cash reserves were non-interest bearing, yet we discovered in our examination of the Governor of the Bank of Canada that these cash reserves were used by the Bank of Canada to provide a market for government bonds. When we pressed as to the need for the cash reserves in Bill C-15, we were told by the Governor of the Bank of Canada, and by the Inspector General of Banks, that the government's market needs were such that they required these funds in order to be able to assist in the market needs for government bonds.

● (2110)

In studying the statements of the Bank of Canada, we found that the net income from the holding of government bonds, plus other income which the Bank of Canada earned, was paid into the Consolidated Revenue Fund of Canada in each year. While it was never carried into effect in any subsequent bill, we suggested that there should be interest paid on these cash reserves. But, of course, the answer to that was that the money was required for market purposes, for fiscal purposes and, therefore, we must get it at no cost.

The Governor of the Bank of Canada and the Inspector General of Banks both said at that time, in their evidence before us on Bill C-15, that liquidity did not require reserves of 12 per cent and 4 per cent—that monetary control did not require that amount, but the market needs require a substantial amount. Therefore, in the subsequent bills which were introduced, the 12 per cent, as we had recommended in our original report on the white paper, was reduced to 10 per cent, and the 4 per cent to 3 per cent. But provision was made for the phasing-in of these lower rates over a period of four and one-half years. We complained about that being an extraordinary period of time, and the explanation was that the market needs of the government over the period of the next three or four years were such that they had to ease the reduction in the amount coming to the Bank of Canada by way of cash reserves very slowly.

Subsequently, I should tell you, that period of four and one-half years was reduced to three and one-half years. Once the bill has become law and has been in operation for a month, the demand deposit rate of 12 per cent, under that three and one-half year period, will be reduced by one-quarter of one per cent every six months, and the notice deposit rate will be reduced by one-eighth of one per cent every six months. So, the net result is that our objections and our recommendations were heeded to that extent.

Perhaps I might indicate, without developing them, some of the other changes which might be regarded as important but which, I am sure by this time, are well known to members of the Senate. For instance, there are the provisions permitting banks to conduct certain types of undertakings, such as financial leasing, factoring, and mortgage lending through subsidiaries; and the provision concerning ownership of bank shares by provincial governments, which has carried from the white paper through each of the succeeding bills. In respect of that provision, notwithstanding the objections that we have made and the recommendations that we have made, there has been no statement as to why this provision should be put in this form, because this marked the beginning of the introduction of such a provision in any Bank Act.

Next, there is the establishment by act of Parliament of the Canadian Payments Association, which would include banks and near-banks in an evolving national electronic payments system for clearing and settlement purposes. This Canadian Payments Association is to replace the existing clearing house which, from the early years of this century, the Canadian Bankers Association has carried on.

Then the other provision which I would regard as important relates to the amendments proposed to the Quebec Savings Banks Act and the Bank of Canada Act, and other related legislation. The amendments to the Bank of Canada Act are technical and procedural. One comes instantly to mind, and that is that the Bank of Canada, in appointing auditors, should appoint firms as opposed to individuals, the reason being that it makes for greater flexibility. You are then not frozen to the attention of two individual chartered accountants.

Having indicated that, and having indicated the method of incorporation of banks under Bill C-6, I should call your