



## SENATE OF CANADA

First Session, Thirty-third Parliament, 1984-85

# DEPOSIT INSURANCE

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**Tenth Report**  
**Standing Senate Committee on**  
**Banking, Trade and Commerce**

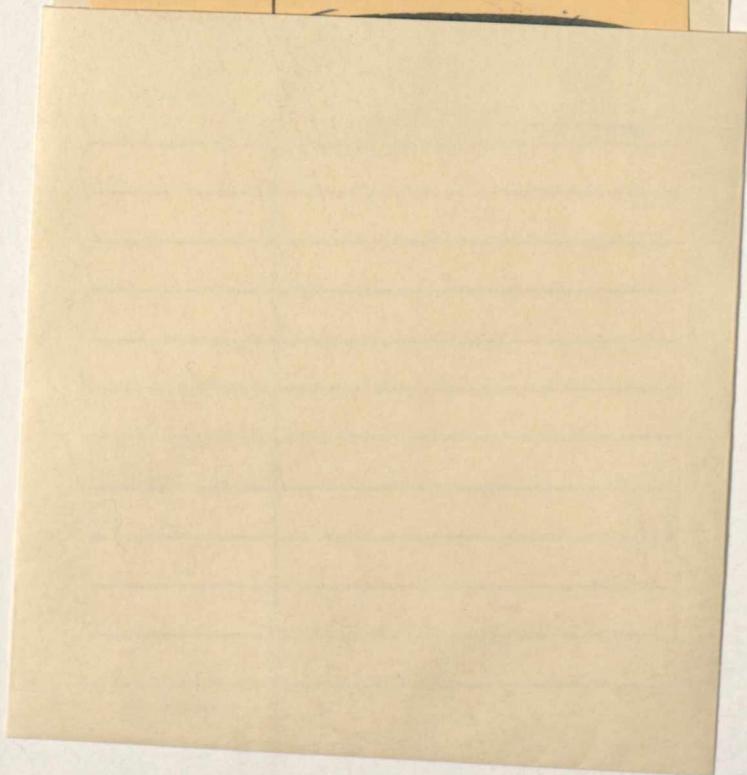
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First Session  
Thirty-Third Parliament, 1984-85

Première session de la  
trente-troisième législature, 1984-1985

SENATE OF CANADA

SÉNAT DU CANADA

*Proceedings of the Standing  
Senate Committee on*

*Délibérations du Comité  
sénatorial permanent des*

# Banking, Trade and Commerce

# Banques et du commerce

*Chairman:*  
The Honourable LOWELL MURRAY

*Président:*  
L'honorable LOWELL MURRAY



Wednesday, December 11, 1985

Le mercredi 11 décembre 1985

Issue No. 37

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**Fourteenth Proceedings on:**

**Quatorzième fascicule concernant:**

“The Regulation of Canadian Financial Institutions:  
Proposals for Discussion” and the “Final Report of the  
Working Committee on the Canada Deposit Insurance  
Corporation (CDIC)”

«La réglementation des institutions financières du  
Canada: propositions à considérer» et le «Rapport final  
du Comité d'étude sur la Société d'assurance-dépôts du  
Canada (SADC)»

TENTH REPORT OF THE COMMITTEE

DIXIÈME RAPPORT DU COMITÉ

## MEMBERSHIP OF THE COMMITTEE

The Honourable Lowell Murray, Chairman

and

The Honourable Senators:

Anderson, Margaret	MacDonald, Finlay (Halifax)
Barrow, A. Irvine	*MacEachen, Allan J., P.C.
*Doody, C. William	Olson, H.A., P.C.
Flynn, Jacques, Q.C.	Perrault, Raymond J., P.C.
*Frith, Royce, Q.C.	*Roblin, Duff, P.C.
Godfrey, John Morrow, Q.C.	Simard, Jean-Maurice
Kelly, William M.	Steuart, D.G. (Prince Albert - Duck Lake)
Kirby, Michael	

*\*Ex officio Members*

*Note:* The Honourable Senators Buckwold and Phillips also served on the Committee at various stages.

*Research Staff:*

Professor Thomas J. Courchene, Advisor, Department of Economics, University of Western Ontario;  
Mr. Gérald A. Lacoste, Counsel, Martineau Walker, Montreal;  
Mr. Basil Zafiriou, Chief, Economics Division, Research Branch, Library of Parliament.

Timothy Ross Wilson

*Clerk of the Committee*

## ORDERS OF REFERENCE

Extract from the *Minutes of the Proceedings of the Senate*, Wednesday, February 6, 1985:

“With leave of the Senate,

The Honourable Senator Doody moved, seconded by the Honourable Senator Flynn, P.C.:

That the Standing Senate Committee on Banking, Trade and Commerce have power to engage the services of such counsel and technical, clerical and other personnel as may be necessary for the purposes of its examination and consideration of such legislation and other matters as may be referred to it.

After debate, and—

The question being put on the motion, it was—  
Resolved in the affirmative.”

Extract from the *Minutes of the Proceedings of the Senate*, Tuesday, June 25, 1985:

“Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Doody, seconded by the Honourable Senator Phillips:

That the Standing Senate Committee on Banking, Trade and Commerce be authorized to study and report upon the document entitled: “The Regulation of Canadian Financial Institutions: Proposals for Discussion”, tabled in the Senate on 23rd April 1985; and

That the Committee be empowered to engage the services of such professional, clerical and technical personnel as may be required for the purpose of the said examination.

After debate,

With leave of the Senate and pursuant to Rule 23, the motion was modified to read as follows:—

That the Standing Senate Committee on Banking, Trade and Commerce be authorized to study and report upon the following:

- (i) the document entitled: “The Regulation of Canadian Financial Institutions: Proposals for Discussion”, tabled in the Senate on 23rd April, 1985;
- (ii) the document entitled: “Final Report of the Working Committee on the Canada Deposit Insurance Corporation (CDIC)”, tabled in the Senate on 18th June, 1985; and
- (iii) the subject-matter of bills, in advance of their coming before the Senate, and other matters relating to these documents.

After debate, and—  
The question being put on the motion, as modified, it was—  
Resolved in the affirmative.”

Charles A. Lussier

*Clerk of the Senate*

## REPORT OF THE COMMITTEE

The Standing Senate Committee on Banking, Trade and Commerce has the honour to present its

### TENTH REPORT

In obedience to the Order of Reference of June 25, 1985, your Committee has proceeded to inquire into matters relating to the regulation of Canadian financial institutions and the Canada Deposit Insurance Corporation and now presents an interim report.



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## PREFACE AND OVERVIEW

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On June 25, 1985, the Senate of Canada authorized the Standing Senate Committee on Banking, Trade and Commerce (the "Committee") to study and report on the documents entitled: *The Regulation of Canadian Financial Institutions: Proposals for Discussion* (the "Green Paper") tabled in the Senate on 23rd April 1985; and *Final Report of the Working Committee on the Canada Deposit Insurance Corporation (CDIC)* (the "Wyman Report"), tabled in the Senate on 18th June 1985.

The Committee's public hearings began on September 25th, 1985 and are now nearing completion. A list of submissions and witnesses to date appears as an Appendix to this Report.

Since it is the stated intention of the government to deal with deposit insurance matters prior to bringing in legislation with respect to the subjects coming under the purview of the Green Paper, the Committee has decided to introduce this report on deposit insurance. The Committee intends to issue a final report, covering all aspects of the June 25, 1985 reference, as soon as possible after the hearings are completed.

As a point of departure on deposit insurance, the Committee accepts and endorses the first two recommendations of the Wyman Report. Specifically, the primary objects of CDIC should be to insure small depositors against loss and to administer and protect the assets of the deposit-insurance fund. However, deposit insurance affects the financial system in other ways as well. When public confidence in the system is beset by problems associated with individual institutions or by other occurrences, the presence of deposit insurance can serve to minimize the effects of disruptive and costly runs on deposit-taking institutions. Deposit insurance may also facilitate new entry and innovation in the financial sector. On the other hand, it is argued that deposit insurance can lead to inappropriate risk-taking on the part of member institutions. Finally, any restructuring of deposit insurance will of necessity have some implications for the federal-provincial allocation of responsibilities in the financial sector.

With these factors and concerns in mind, the Committee is pleased to be able to recommend a set of arrangements for deposit insurance that we believe will be effective. Moreover, although this report focuses only on deposit insurance, the recommendations set forth below will provide the appropriate context for the Committee's later recommendations relating to the Green Paper.

A summary of the Committee's recommendations appears immediately below.

The Committee is grateful to the many individuals and organizations who were represented at our hearings, submitted briefs or replied to our enquiries. We acknowledge

with thanks the excellent work of two outside advisors, Prof. Thomas J. Courchene, Professor of Economics at the University of Western Ontario, London, Ontario and Mr. Gérald A. Lacoste, former Chairman of the Québec Securities Commission who is now a partner with Martineau Walker of Montréal; and of Mr. Basil Zafiriou, Chief of the Economics Division of the Parliamentary Library's Research Branch.

Finally, we express appreciation to our Senate staff.

This study was conducted in parallel with hearings on the subject-matter of Bill C-79, "Financial Institutions Depositors Compensation Act". Altogether, the Committee met 35 times during this period for a total of over 80 hours and heard testimony from more than 40 groups and individuals. Arranging such a schedule of meetings and providing for staff support including interpretation, Hansard Reporting, translation and publication of verbatim transcripts created a heavy burden on Senate personnel and the Committee is most grateful for their co-operation.

## RECOMMENDATIONS

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### PART I

### SITUATING THE CDIC IN THE CANADIAN FINANCIAL ENVIRONMENT

#### A. THE ROLE OF THE CDIC IN THE REGULATORY PROCESS

1. The CDIC shall be constituted as a separate institution with its own board of directors drawn from governments, member institutions and the private sector.
2. The CDIC will function as an insurer. Its role shall be one of administering the deposit insurance funds. Since these funds are financed through premiums from insured institutions, the CDIC shall have the responsibility of acting as agent for these member institutions in managing and protecting the assets of these funds, for the ultimate benefit of insured depositors.
3. Membership in the CDIC shall be a privilege in the sense that the CDIC shall have the right to set standards for admission to and maintenance of insurance.

#### B. REGULATORY OVERLAP

4. While the powers associated with an insurer with respect to concerns such as solvency are typically very broad, the Committee recommends that these powers be delegated to and exercised by the primary regulators.
5. The primary regulators in conjunction with the CDIC will be required to establish a set of arrangements that will operate as an early warning system to signal those institutions that may be experiencing problems. Among the features that might be expected to be included in this early warning system would be the following:
  - a substantial increase in the flow of information from the primary regulators to the CDIC, including full and timely release of all reports and material information;
  - initiatives leading eventually to a national computerized data base relating to member institutions;
  - development of rating systems by type of institution where the primary regulators would inform the CDIC as soon as institutions fall below some agreed-upon thresholds;

- arrangements whereby institutions for which brokered deposits exceeded some threshold of total deposits (e.g., 5 or 10%) would be reported immediately to CDIC.
6. For those institutions that the early warning system identifies as potential problem institutions, the CDIC would then become directly involved in their supervision and regulation in a manner consistent with the range of CDIC powers, as described below.

## **PART II**

### **INTRODUCING DISCIPLINE IN THE FINANCIAL SECTOR**

#### **A. A PERSPECTIVE ON DISCIPLINE**

#### **B. MARKET DISCIPLINE: CO-INSURANCE**

7. The current \$60,000 of full insurance coverage should remain intact until a redesigned CDIC has been in place and operating for at least one full year.
8. After this period, a majority of the Committee is in favour of moving to a system that incorporates an element of co-insurance. The Committee suggests full insurance for the first \$25,000 with 80% insurance for the next \$50,000 for a global coverage of \$65,000 on a deposit of \$75,000 (86%). Both these amounts should be adjusted periodically for inflation.

#### **C. INSTITUTIONAL DISCIPLINE**

9. Consistent with its right to set standards for insurance, the CDIC shall have the power to specify minimum requirements with respect to issues such as self-dealing for member institutions if their governing legislation, regulations or bylaws are not adequate in these respects.

#### **D. PRIMARY REGULATOR DISCIPLINE**

10. The CDIC, primary regulators, industry representatives and the Canadian Institute of Chartered Accountants should work together in developing reporting and assessment standards that will reflect more accurately an institution's exposure to risk.
11. With respect to the supervision of CDIC member institutions licensed by virtue of provincial authority, the federal Superintendent of Insurance shall, upon request from that provincial authority, assume the regulatory and supervisory responsibilities.

## **PART III**

### **CDIC STRUCTURE**

#### **A. BOARD OF DIRECTORS**

12. The composition of the Board of Directors of the CDIC shall be as follows:

- a part-time, private-sector chairman;
- a president and chief executive officer;
- three board members from the federal government
  - the Inspector General of Banks,
  - the Superintendent of Insurance,
  - the Governor of the Bank of Canada;
- three board members designated by the provinces
  - one from Ontario,
  - one from the western provinces;
  - one from the Atlantic provinces;
- industry representatives
  - one designated by the Canadian Bankers Association,
  - one designated by the Trust Company Association,
  - one designated by the credit union associations;
- two other independent directors.

Unless otherwise indicated, the directors will be appointed by the Governor General in Council.

## **B. RELATION TO GOVERNMENT**

13. The CDIC should report to the Minister of Finance, but the relationship of the CDIC to the Minister would be modelled after that of the Bank of Canada. This structure should ensure that the CDIC has substantial independence.

## **PART IV CDIC POWERS**

### **A. DEALING WITH PROBLEM INSTITUTIONS**

14. For member institutions that are experiencing problems, the CDIC must have a range of powers designed to restore the institutions back to financial health. These powers would include:
  - the authority to alter leverage ratios of member institutions;
  - the authority to issue cease and desist orders with respect to selected activities or practices of member institutions;
  - the authority to lend its support to initiatives such as mergers or takeovers;
  - the authority to advance liquidity to a member institution on assignment of assets, if such action is deemed consistent with protecting the integrity of the deposit-insurance fund.
15. When the need arises the CDIC must have the authority to assemble its own team of examiners drawn from either or both the government and the private sector.

## **B. LIMITING THE CDIC'S EXPOSURE**

- 16. The CDIC should not have the power to close down an institution. This has to be a ministerial or a judicial decision. However, the CDIC should have the right to limit its exposure to losses as of the time it decides that an institution is no longer insurable.**
- 17. When the CDIC decides that an institution is no longer insurable and that maintaining insurance coverage would only result in exposing the deposit-insurance fund to further losses:**
  - the CDIC will send notice to the relevant primary regulator and the minister responsible for that institution;
  - immediately, the CDIC will send in a special team of assessors who will report back to the CDIC within seven days;
  - the CDIC will then determine, based on this assessment, the limit of its exposure in relation to the amount of insured deposits, to the expected realization value of the assets of the institution and the CDIC position in relation to the other creditors.
- 18. In terms of the options that might be open to the primary regulator and the responsible minister upon receipt of notice from the CDIC, the minister may either accept the withdrawal of insurance coverage with the consequential closing down or maintain the operations of the institution by accepting to guarantee any additional liabilities of the CDIC:**

### ***1. Withdrawing Insurance Coverage***

- Upon receipt of notice, the responsible minister shall have up to 14 days to respond. After seven days, the minister will receive the determination of the CDIC as to the limit of its exposure.
- If there is no response from the minister after 14 days, the assumption will be that the minister does not object to the withdrawal of insurance coverage and the consequential closing down of the institution.
- The withdrawal of insurance coverage is made public by the CDIC.
- In the case of withdrawal of insurance, the CDIC's liability will be established by the actual liquidation process rather than by the determination by the CDIC.

### ***2. Maintaining the Operations***

The responsible minister may wish to keep the institution as a going concern, either as a "stand alone" operation or with a view toward a merger, a takeover or even nationalization. In such a case:

- the CDIC will not withdraw insurance coverage;
- the CDIC's exposure will be limited by the determination;

- any additional liabilities incurred from the day of the notice will be the responsibility of the government in question which, in effect, will become the ultimate insurer.

## **C. THE LIQUIDATION PROCESS**

19. The CDIC should not act as liquidator of financial institutions.
20. Because of its responsibility to maintain the integrity of the deposit- insurance fund, the CDIC should be granted a special status to make direct representation to the authority overseeing the liquidation process.
21. By virtue of its subrogation to the rights and interests of insured depositors, the CDIC shall rank with uninsured depositors, as claimant to the proceeds of a liquidation.

## **PART V**

### **CDIC OPERATIONS**

#### **A. POOLS, COVERAGE AND PREMIUMS**

22. The CDIC shall operate on the basis of a series of independent "pools" or segregated funds. Initially, there will be a separate pool for banks, for trust companies and for credit unions. The target size of each deposit insurance fund shall be .75% of insured deposits, unless the institutions desire a larger fund. Premium rates will be identical across pools with allowable pool-specific rebates based on the size of the pool in relation to the "target" size. Losses by a member institution will be made up by a series of surcharges levied on other member institutions in the same pool.
23. In order that surcharges on institutions for any loss can be spread over a period of years, the CDIC should have the ability to borrow from both the Consolidated Revenue Fund and the provincial equivalents and the ability to float debt issues guaranteed by the governments involved.
24. New institutions will be required to contribute to the pool at the "original" premium rates until their contributions represent .75% of their deposits. This will be the case even if existing institutions are in receipt of rebates.
25. The Committee acknowledges the significant self-regulatory measures that have been taken by the Securities Industry and recognizes the wishes of that industry to retain control over the operation of its contingency fund. Likewise, the Committee encourages the Canadian Health and Life Insurance Association to develop its own consumer protection plan. However, should these industries wish at some point in the future to become associated with the CDIC they should have the opportunity. In such a case they would enter with a separate pool and would be allowed to appoint a representative to the CDIC's Board of Directors.

## B. FINANCING THE CURRENT CDIC DEFICIT

26. The existing CDIC deficit should be financed by a series of surcharges on existing member institutions with a view toward eliminating the deficit over a ten-year period. This financial responsibility on member institutions is to be independent of the financing arrangements for the reconstituted CDIC as elaborated in previous recommendations. For purposes of this recommendation, the existing deficit excludes that portion arising from the retroactive increase in coverage. This retroactive increase was authorized by Parliament on the initiative of the Government and should be paid out of the Consolidated Revenue Fund.

## C. REPORTING

27. The CDIC shall issue an annual report.

## PART VI CONCLUSIONS

## PART I

# SITUATING THE CDIC IN THE CANADIAN FINANCIAL ENVIRONMENT

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### A. THE ROLE OF THE CDIC IN THE REGULATORY PROCESS

The relationship among governments, regulatory bodies and financial intermediaries is both complex and multidimensional. In its deliberations, the Committee found it instructive to view this relationship as comprising three conceptually distinct functions: policy, regulation and insurance. The policy-making function with respect to financial intermediaries encompasses legislation and regulations on a very broad range of issues such as competition, ownership, efficiency, confidence and solvency. Normally the policy-making responsibility rests with the appropriate minister, although there are some important exceptions. For example, on a day-to-day basis the Bank of Canada is responsible for the conduct and implementation of monetary policy. Delegation of some aspects of policy-making to administrative boards or commissions also occurs in the securities markets.

The regulatory function generally includes a range of activities related to the supervision, policing, inspecting and auditing of financial intermediaries. Frequently, however, regulators do more than this: they are the front line in transmitting and implementing government policy to the financial sector. While regulators do have a measure of independence, typically they report and are directly accountable to the appropriate minister.

In one sense the insurance function straddles both policy and regulation. The decision to insure small depositors against loss is clearly a policy decision. And the management of exposure to risk of the deposit-insurance fund has obvious overlaps with the regulatory function. Nonetheless, the role of an insurer is quite distinct from that of a regulator or a policy maker. The ultimate objective of the CDIC is to protect insured depositors. However, since the deposit insurance premiums are paid by member institutions, the CDIC also has a role to act as agent for member institutions in preserving the integrity of the deposit-insurance fund or funds. Thus the role and the responsibilities of the CDIC are markedly different from those of a primary regulator.

The Committee has looked into various alternatives with respect to situating the CDIC within the Canadian financial environment. One approach is that of the Wyman Report

which would endow the CDIC with far-reaching powers not only in relation to solvency and liquidation but also in terms of regulation. Indeed, it is recommended that officers of the CDIC would include a vice-president, liquidation and a vice-president, supervision. The Wyman Report's rationale for giving the CDIC such a range of powers is that the present responsibility for supervision, divided as it is between political jurisdictions, government departments and various self-regulatory bodies, is at best difficult and in many cases ineffective. Actually, the preferred approach of the Wyman Report would be to have the control over monitoring and supervision under one agency of government. It offers its recommendations for the CDIC as a "workable stopgap" and suggests that the CDIC framework could be the nucleus within which other supervisory bodies can be incorporated later.

The Committee has several concerns with respect to the Wyman Report proposals. To the extent that the Wyman Report is right about the ineffective nature of the regulatory process, it is not obvious that the preferable solution lies in an all-powerful CDIC rather than in a more effective system of primary regulators. Moreover, the primary regulators would not disappear since their role in the system embraces concerns beyond insurance and solvency. Rather, the likely result would be yet another layer of financial regulation. Finally, the Committee is of the view that an all-powerful CDIC would create substantial tensions in the federal-provincial arena.

An alternative model is that of the House of Commons Standing Committee on Finance, Trade and Economic Affairs. The House Committee recommends a structure that would fold the CDIC into one over-arching national regulating authority, the National Financial Administration Agency (NFAA). There would be some advantages associated with the NFAA structure. Regulatory overlap and duplication would likely be kept to a minimum since it would all come under the NFAA. However, there are also some potential drawbacks as well. First, the NFAA would represent a tremendous concentration of regulatory power within one body. Eventually, this would likely lead to a very uniform and centralized approach to the financial sector, potentially blurring the important distinctions across the several types of institutions and across the regional needs served by this range of institutions. Many Canadians may welcome such an homogenization, but many will not. Second, it is not clear how such an omnibus regulatory authority would or could strike the appropriate balance among the often-conflicting functions of policy-making, regulation and insurance. Third, because the deposit-insurance function will be integrated with the regulatory functions, the NFAA might be perceived as an instrument to supersede the powers of provincial (and even federal) regulatory authorities: the proposed structure of the NFAA would have an Inspector General of Financial Institutions as its chief executive officer and presumably all primary regulators would report to this officer rather than to their respective ministers, whether federal or provincial.

After considerable deliberation, the Committee rejected both the Wyman Report and the NFAA models and, instead, opted for a third approach, one that respects the distinct role of the policy-formation, regulatory and insurance functions. Accordingly:

## RECOMMENDATIONS

- 1. The CDIC shall be constituted as a separate institution with its own board of directors drawn from governments, member institutions and the private sector.**

2. **The CDIC will function as an insurer. Its role shall be one of administering the deposit insurance funds. Since these funds are financed through premiums from insured institutions, the CDIC shall have the responsibility of acting as agent for these member institutions in managing and protecting the assets of these funds, for the ultimate benefit of insured depositors.**
3. **Membership in the CDIC shall be a privilege in the sense that the CDIC shall have the right to set standards for admission to and maintenance of insurance.**

This structure derives basically from the concept of insurance as a function separate and distinct from that of policy formulation and regulation. However, as an added advantage, this structure for the CDIC should generate minimum friction in the federal-provincial arena since it is designed to complement the existing institutional structure.

## **B. REGULATORY OVERLAP**

The potential downside of the Committee's recommendations pertaining to the role of the CDIC in the financial environment is the possibility of regulatory overlap. While the monitoring concerns of the CDIC and those of the primary regulators differ in certain respects, there are several areas such as solvency and self-dealing where both have common interests and responsibilities. The challenge is to devise a regulatory framework that is effective and efficient in minimizing duplication. At the same time, it should ensure that potential problems within institutions are identified on a timely basis.

## **RECOMMENDATIONS**

4. **While the powers associated with an insurer with respect to concerns such as solvency are typically very broad, the Committee recommends that these powers be delegated to and exercised by the primary regulators.**
5. **The primary regulators in conjunction with the CDIC will be required to establish a set of arrangements that will operate as an early warning system to signal those institutions that may be experiencing problems. Among the features that might be expected to be included in this early warning system would be the following:**
  - **a substantial increase in the flow of information from the primary regulators to the CDIC, including full and timely release of all reports and material information;**
  - **initiatives leading eventually to a national computerized data base relating to member institutions;**
  - **development of rating systems by type of institution where the primary regulators would inform the CDIC as soon as institutions fall below some agreed-upon thresholds;**
  - **arrangements whereby institutions for which brokered deposits exceeded some threshold of total deposits (e.g., 5 or 10%) would be reported immediately to CDIC.**
6. **For those institutions that the early warning system identifies as potential problem institutions, the CDIC would then become directly involved in their supervision and regulation in a manner consistent with the range of CDIC powers, as described below.**

The features enumerated as components of the early warning system are meant to be illustrative rather than exhaustive. The rating system referred to in Recommendation 5 derives from U.S.A. experience, as detailed in the Wyman Report. Known as the CAMEL system, the FDIC assigns a rating of 1 (good) to 5 (bad) for each of five areas (Capital adequacy, Asset quality, Management ability, Earnings quality and Liquidity: CAMEL) as well as an overall rating which includes the examiners' overall assessment. As part of the U.S.A. regulatory system, the Comptroller of the Currency informs the FDIC of member institutions that fall into the two lowest rating categories and turns all examining authority over these institutions to the FDIC. Canada need not follow this model precisely, but some version of it does have the appeal of alerting the CDIC to potential problems on a timely basis and of being consistent with the delegation of authority in the sense of minimizing regulatory overlap.

The reference to reporting brokered deposits also follows American regulations where, since mid-1984, federally insured banks have been required to file monthly reports and to be prepared to submit to sudden examination whenever 5 or more per cent of their deposits come from certificate-of-deposit (CD) brokers. There is nothing intrinsically wrong with brokered deposits. Indeed, they are an important source of funds for many institutions across the country. However, by increasing interest rates or by raising brokerage fees, institutions in financial difficulty can, through these brokers, attract substantial deposits over very short periods with no risk to depositors if the amounts are within the insurance coverage. In addition, such brokered deposits tend to be highly volatile: they are attracted by high interest rates and can be withdrawn rapidly because of their relatively short maturities.

Evidence before the Committee indicated that several of the financial institutions that failed recently made substantial use of brokered deposits. An efficient regulatory system should not ignore the potential early warning signals that may be associated with brokered deposits.

As a final comment, the Committee believes that the relationship between primary regulators and the CDIC should work well. There will be representatives of both primary regulators and the industry on the CDIC board. Moreover, the manner in which the fund will operate will provide substantial incentives for the CDIC and the primary regulators to work toward a common goal in the areas where their interests and responsibilities overlap.

## PART II

# INTRODUCING DISCIPLINE IN THE FINANCIAL SECTOR

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### A. A PERSPECTIVE ON DISCIPLINE

The Committee heard a great deal of evidence relating to the need to restore discipline to the financial sector. However, several witnesses also suggested that it was important not to overreact to current events in redesigning the financial system. There is no one problem that can be pointed to as the sole cause of the recent failures of financial institutions. Some of the failures were due to the severity of the recession in western Canada. Virtually all financial institutions had to write down portions of their assets in western Canada. And those that operated only in this region were bound to undergo severe problems, regardless of how well they were regulated. For other institutions, the problems were a result of self-dealing. Others may have survived under better management or more adequate capitalization. The theme that emerged from all of this was that the recent problems of the system were multidimensional. And in the view of the Committee, the proposed solutions must also be multidimensional. There is no one policy that, if pursued to an extreme, will provide a satisfactory resolution to the variety of problems that beset Canada's financial institutions. Hence, the approach of the Committee is to introduce some additional discipline across a wide range of activities as they relate to the CDIC.

### B. MARKET DISCIPLINE: CO-INSURANCE

The Wyman Report recommended that depositors bear some of the risk from the first dollar. It rejected the notion of full insurance up to some level and co-insurance thereafter up to some maximum level, arguing that under such a system a depositor with say, \$100,000 can simply spread his deposits across several institutions thereby obtaining full insurance. This is, of course, true. But any individual with \$100,000 of excess income can also get "full" insurance by investing up to the full insurance limit in one institution and the rest in Treasury Bills, Canada Saving Bonds or similar instruments. In other words, if a consumer wants full insurance for \$100,000, he or she can obtain it whether or not there is co-insurance from the first dollar.

The Committee rejects co-insurance from dollar one. Given that the role of deposit insurance is to protect small depositors, dollar-one co-insurance is not appropriate. Unless the CDIC is willing to risk-relate premiums for the institutions and require that these premiums be communicated to depositors, there is no way that small depositors can obtain adequate information in order to make intelligent depositing decisions. Since none of the witnesses who appeared before us was willing to argue for risk-related premiums, it is unacceptable to expect that such a risk assessment be transferred to the small depositors.

A second role of deposit insurance is to instill confidence in the financial system regardless of the size of the institutions. Co-insurance from dollar one would tip the scales in favour of the large institutions. For this reason as well, the Committee is in favour of full insurance up to some threshold.

However, a majority of the Committee is in favour of co-insurance beyond some initial full-insurance threshold. Evidence before the Committee indicated that 96 per cent of depositors in the chartered banks have deposits in amounts less than \$20,000. Hence, full insurance for the first \$25,000 of deposits would be equivalent to absolute confidence in the financial system for the overwhelming majority of depositors.

Full insurance up to \$25,000 and 20% co-insurance thereafter (i.e., 80% CDIC insurance) up to a total of \$75,000 may generate some very positive incentives for the system. This is so because financial institutions would have to go out of their way in order to convince consumers of their capacity to hold deposits in excess of \$25,000. These initiatives will take the form of enhanced disclosure, publicizing credit ratings, etc.

While a majority of the Committee is in favour of co-insurance, it is the unanimous view of the Committee that the existing coverage arrangements should remain in place until the reform package relating to the CDIC has been legislated and has been in place for a full year. The current financial environment is not conducive to the immediate introduction of co-insurance. Accordingly:

## RECOMMENDATIONS

7. **The current \$60,000 of full insurance coverage should remain intact until a redesigned CDIC has been in place and operating for at least one full year.**
8. **After this period, a majority of the Committee is in favour of moving to a system that incorporates an element of co-insurance. The Committee suggests full insurance for the first \$25,000 with 80% insurance for the next \$50,000 for a global coverage of \$65,000 on a deposit of \$75,000 (86%). Both these amounts should be adjusted periodically for inflation.**

The Committee agrees with the Wyman Report that the introduction of co-insurance should not affect term or time deposits that are in place at the time the program is implemented.

## C. INSTITUTIONAL DISCIPLINE

In Recommendation 5 above, the Committee has already introduced some discipline on institutions, requiring them to report brokered deposits whenever these account for more than 5 or 10 per cent of total deposits. Further details will be presented in the final report.

Another aspect of institutional discipline relates to capital requirements. Virtually all witnesses representing banks, trust companies and life insurers were in favour of enhanced capital requirements. Again, this subject will be addressed in the final report.

A third aspect of institutional discipline relates to the set of arrangements that will be put in place to monitor self-dealing. Proposals to the Committee include an outright ban on some types of self-dealing, the use of outside directors to approve and review all non-arms-length transactions and provisions for a pre-clearance with regulatory authorities or the CDIC for certain types of self-dealing.

Until the Committee has heard from all witnesses, it does not wish to make recommendations on what are essentially "Green Paper" issues, even though these issues do impact in varying degrees on deposit insurance. For present purposes, the Committee signals its intention to make recommendations in its final report with respect to items such as monitoring brokered deposits and brokerage fees, enhancing capital requirements and instituting controls over self-dealing.

However, because such recommendations may not be implemented throughout the whole of the Canadian financial sector, the Committee is of the view that the CDIC should be given some authority to apply and monitor standards in these areas.

For example, both at the federal and provincial levels there could be substantial delay in implementing the new standards, even if there is agreement in principle with respect to these standards. In particular, it is unlikely that the legislation with respect to trust companies will be implemented simultaneously in all jurisdictions. The CDIC should not be expected to apply different standards during this period. However, notwithstanding the fact that legislation and regulations pertaining to member institutions may still be in the process of updating, a member institution may accept the CDIC standards by amending its own bylaws. The Committee is pleased to note that several financial institutions have already updated their bylaws with respect to general business conduct.

## RECOMMENDATION

- 9. Consistent with its right to set standards for insurance, the CDIC shall have the power to specify minimum requirements with respect to issues such as self-dealing for member institutions if their governing legislation, regulations or bylaws are not adequate in these respects.**

## D. PRIMARY REGULATOR DISCIPLINE

Evidence is overwhelming that some of the primary regulators have neither the staff nor the operating procedures to perform their tasks effectively. Even for those regulators that appear to have commendable records, witnesses frequently argued for extended regulatory powers. While these are essentially "Green Paper" issues, they do merit emphasis because of the earlier recommendation that the CDIC would, in the normal course of events, delegate its regulatory functions to the primary regulators.

Many of the ways in which discipline will be imposed on the primary regulators have already been addressed in previous recommendations: the requirement for full and immediate transfer of information to the CDIC; the need to develop a national computerized data base; the monitoring of brokered deposits beyond a threshold level; and finally the

development of a rating system where those institutions falling below an agreed-upon threshold are to be reported immediately to the CDIC.

There is, however, one other aspect that is essential for the effective operation of both the CDIC and the primary regulators. This relates to the existing accounting, reporting and assessment procedures. One of the current dilemmas is that managers of deposit institutions have much better information on the riskiness of their portfolios than do the depositors or the insurers. This will always be the case unless better techniques are put in place to assess more effectively the risk exposure and changing market value of assets and liabilities that institutions hold on their books. Thus, from the standpoint of depositors and of the CDIC, it is essential that considerable progress be made in the direction of market-value accounting.

## **RECOMMENDATION**

- 10. The CDIC, primary regulators, industry representatives and the Canadian Institute of Chartered Accountants should work together in developing reporting and assessment standards that will reflect more accurately an institution's exposure to risk.**

In this recommendation, the Committee's views do not differ significantly from those of the Wyman Report.

The Committee does not anticipate that these new requirements will be particularly onerous to the primary regulators. Nonetheless, the new system should allow, as the present one does, for provinces to request that the federal Superintendent of Insurance assume their regulatory and supervisory functions.

## **RECOMMENDATION**

- 11. With respect to the supervision of CDIC member institutions licensed by virtue of provincial authority, the federal Superintendent of Insurance shall, upon request from that provincial authority, assume the regulatory and supervisory responsibilities.**

## PART III

### CDIC STRUCTURE

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#### A. BOARD OF DIRECTORS

In line with the recommendation that the CDIC be constituted as a separate entity, the Committee proposes the following structure for the Board of Directors:

#### RECOMMENDATION

**12. The composition of the Board of Directors of the CDIC shall be as follows:**

- a part-time, private-sector chairman;
- a president and chief executive officer;
- three board members from the federal government
  - the Inspector General of Banks,
  - the Superintendent of Insurance,
  - the Governor of the Bank of Canada;
- three board members designated by the provinces
  - one from Ontario,
  - one from the western provinces;
  - one from the Atlantic provinces;
- industry representatives
  - one designated by the Canadian Bankers Association,
  - one designated by the Trust Company Association,
  - one designated by the credit union associations;
- two other independent directors.

Unless otherwise indicated, the directors will be appointed by the Governor General in Council.

The Committee expects that the provincial representatives will be chosen from the ranks of the primary regulators, although this is the prerogative of the provinces. The Committee also assumes that the representatives from the West and the Atlantic provinces will be rotated across the provinces. This composition of the Board differs from that proposed by the

Wyman Report and that proposed by the government in Bill C-86, "An Act to amend the Canada Deposit Insurance Corporation Act", in that it incorporates representatives from industry and from the provinces. The Committee believes that such a composition is important in light of the earlier recommendation relating to the delegation of regulatory power and the later recommendation that the CDIC operate on the basis of a series of segregated funds or pools.

Additional directors could join the CDIC board in the future, if circumstances warrant. For example, if Québec decided to offer deposit insurance through the CDIC rather than through the Québec Deposit Insurance Board, it would merit a director, designated by the province. Similarly, if the securities industry or the insurance industry obtained CDIC coverage for their members, they would be entitled to membership on the CDIC board of directors.

## **B. RELATION TO GOVERNMENT**

The CDIC should have substantial operating independence. The Committee recommends a structure modelled along the lines of the Bank of Canada. Specifically, in its day-to-day operations the CDIC would be independent. If the government does not approve of the policies of the CDIC, it would have to indicate this by a written directive. The head of the CDIC would then have to comply with any such written directive or resign.

## **RECOMMENDATION**

- 13. The CDIC should report to the Minister of Finance, but the relationship of the CDIC to the Minister would be modelled after that of the Bank of Canada. This structure should ensure that the CDIC has substantial independence.**

This is also the structure recommended by the Wyman Report.

## **PART IV**

### **CDIC POWERS**

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#### **A. DEALING WITH PROBLEM INSTITUTIONS**

The Committee has already outlined many of the powers of the CDIC. The purpose of this section is to focus more precisely on the CDIC powers with respect to institutions that find themselves in difficulty i.e., those that the early warning system identifies. For some of these institutions, all that may be necessary is enhanced monitoring carried out by the CDIC in conjunction with the primary regulator. For others, the situation may be more serious. Here, the CDIC must have the power to alter leverage ratios, to issue cease and desist orders with respect to certain activities or practices and, in general, to undertake a range of activities designed to restore the institutions back to financial health. Consistent with maintaining the integrity of the deposit-insurance fund, the CDIC may also lend its support to initiatives such as mergers or takeovers.

#### **RECOMMENDATIONS**

- 14. For member institutions that are experiencing problems, the CDIC must have a range of powers designed to restore the institutions back to financial health. These powers would include:**
  - the authority to alter leverage ratios of member institutions;
  - the authority to issue cease and desist orders with respect to selected activities or practices of member institutions;
  - the authority to lend its support to initiatives such as mergers or takeovers;
  - the authority to advance liquidity to a member institution on assignment of assets, if such action is deemed consistent with protecting the integrity of the deposit-insurance fund.
- 15. When the need arises the CDIC must have the authority to assemble its own team of examiners drawn from either or both the government and the private sector.**

## B. LIMITING THE CDIC'S EXPOSURE

A much more difficult issue relates to whether the CDIC has the right to withdraw insurance coverage for future deposits and, if so, how. This is, of course, the ultimate power since withdrawing insurance will lead inevitably to the closing down of the institution.

In many situations, the decision to withdraw insurance is clearly indicated by the circumstances: it will be evident to the primary regulators, to the minister responsible as well as to the CDIC if the various attempts to restore an institution to financial health have been ineffective. Moreover, there will likely be some advance warning of the institution's problems so that the route of mergers or takeovers will have already been fully explored. In such cases, there will likely be a consensus that the institution must no longer offer insured deposits to the public.

The problem arises where there is no such consensus. Should the CDIC have the right, in such cases, to withdraw insurance? Or should the minister have the right to keep the institution in operation regardless of the decision by the CDIC to withdraw insurance?

The Committee believes that the answer to this last question has to be "yes, the minister has that right". However, this ministerial prerogative does not represent a limitation on the appropriate powers of the CDIC when the issue is viewed from the correct perspective. The correct perspective is that if and when the CDIC decides that an institution is no longer insurable, it must be able to ensure that its exposure as regards that institution is limited as of that date. This follows from its role as an insurer and its responsibility as manager of the deposit-insurance fund.

Therefore, when the CDIC decides that an institution is no longer insurable and that allowing the institution to continue to offer insured deposits will result only in further losses to the deposit-insurance fund, the CDIC will send notice of its decision to the primary regulator and the minister responsible for the institution. The notice will indicate that the CDIC is sending in a special team of assessors that will evaluate the CDIC exposure with respect to the institution in question. The special team will assess the CDIC's overall exposure, taking into account the insured deposits, the expected realization value of the assets and the CDIC's position in the eventual liquidation in relation to the other creditors. The special team of assessors will report to the CDIC within seven days. Based on this assessment, the CDIC will then proceed to the determination of the limit of its exposure in relation to that institution. The CDIC will immediately communicate this determination to the minister responsible.

At this point the minister responsible has an additional seven days to accept or refuse the CDIC recommendation to withdraw insurance. If there is no response from the minister after 14 days from the day of the notice, the assumption will be that the minister does not object to the withdrawal of insurance and the consequential closing down of the institution. If the minister so desires, the withdrawal of insurance could be effective earlier than on the 14th day.

The withdrawal of insurance coverage is made public by the CDIC.

In such cases where insurance is withdrawn, the CDIC's exposure will be established by the actual liquidation process rather than in accordance with the determination by the CDIC. Any new deposits received in the period between the CDIC's notice and the date of the public notice will be insured by the CDIC.

In some situations, however, the responsible minister may wish to keep the institution as a going concern, either as a "stand alone" operation or with a view toward a merger, a takeover or even nationalization. In those situations, the CDIC will not withdraw insurance coverage. However, the CDIC exposure will be limited to the determination by the CDIC and any additional liabilities arising from the continuation of deposit insurance will be the responsibility of the government in question which, in effect, will become the ultimate insurer.

## RECOMMENDATIONS

16. The CDIC should not have the power to close down an institution. This has to be a ministerial or a judicial decision. However, the CDIC should have the right to limit its exposure to losses as of the time it decides that an institution is no longer insurable.

17. When the CDIC decides that an institution is no longer insurable and that maintaining insurance coverage would only result in exposing the deposit-insurance fund to further losses:

- the CDIC will send notice to the relevant primary regulator and the minister responsible for that institution;
- immediately, the CDIC will send in a special team of assessors who will report back to the CDIC within seven days;
- the CDIC will then determine, based on this assessment, the limit of its exposure in relation to the amount of insured deposits, to the expected realization value of the assets of the institution and the CDIC position in relation to the other creditors.

18. In terms of the options that might be open to the primary regulator and the responsible minister upon receipt of notice from the CDIC, the minister may either accept the withdrawal of insurance coverage with the consequential closing down or maintain the operations of the institution by accepting to guarantee any additional liabilities of the CDIC:

### 1. *Withdrawing Insurance Coverage*

- Upon receipt of notice, the responsible minister shall have up to 14 days to respond. After seven days, the minister will receive the determination of the CDIC as to the limit of its exposure.
- If there is no response from the minister after 14 days, the assumption will be that the minister does not object to the withdrawal of insurance coverage and the consequential closing down of the institution.
- The withdrawal of insurance coverage is made public by the CDIC.
- In the case of withdrawal of insurance, the CDIC's liability will be established by the actual liquidation process rather than by the determination by the CDIC.

### 2. *Maintaining the Operations*

The responsible minister may wish to keep the institution as a going concern, either as a "stand alone" operation or with a view toward a merger, a takeover or even nationalization. In such a case:

- **the CDIC will not withdraw insurance coverage;**
- **the CDIC's exposure will be limited by the determination;**
- **any additional liabilities incurred from the day of the notice will be the responsibility of the government in question which, in effect, will become the ultimate insurer.**

### **C. THE LIQUIDATION PROCESS**

The Committee is of the view that the CDIC, consistent with its role as insurer, should not act as liquidator, curator or trustee for financial institutions. The Wyman Report, on the contrary, recommends that the CDIC could become the liquidator of problem institutions if it so chooses. The Committee considers the granting of such powers to the CDIC to be in conflict with its status as a creditor in a liquidation where the CDIC is subrogated to all rights and interests of the insured depositors.

However, because of its responsibility to maintain the integrity of the deposit-insurance fund, the CDIC should be granted a special status before the authority, either judicial or ministerial, that oversees the liquidation process. For example, the CDIC should have the right to make recommendations to the courts to accelerate the disposal of assets if the CDIC is convinced that the liquidation is proceeding too slowly.

As regards the status of the CDIC as claimant in the liquidation, it would rank with uninsured depositors.

### **RECOMMENDATIONS**

- 19. The CDIC should not act as liquidator of financial institutions.**
- 20. Because of its responsibility to maintain the integrity of the deposit- insurance fund, the CDIC should be granted a special status to make direct representation to the authority overseeing the liquidation process.**
- 21. By virtue of its subrogation to the rights and interests of insured depositors, the CDIC shall rank with uninsured depositors, as claimant to the proceeds of a liquidation.**

## PART V

### CDIC OPERATIONS

#### A. POOLS, COVERAGE AND PREMIUMS

The Committee recommends that the CDIC operate a series of pools or segregated funds, one for each set of institutions.

#### RECOMMENDATIONS

22. The CDIC shall operate on the basis of a series of independent "pools" or segregated funds. Initially, there will be a separate pool for banks, for trust companies and for credit unions. The target size of each deposit insurance fund shall be .75% of insured deposits, unless the institutions desire a larger fund. Premium rates will be identical across pools with allowable pool-specific rebates based on the size of the pool in relation to the "target" size. Losses by a member institution will be made up by a series of surcharges levied on other member institutions in the same pool.
23. In order that surcharges on institutions for any loss can be spread over a period of years, the CDIC should have the ability to borrow from both the Consolidated Revenue Fund and the provincial equivalents and the ability to float debt issues guaranteed by the governments involved.
24. New institutions will be required to contribute to the pool at the "original" premium rates until their contributions represent .75% of their deposits. This will be the case even if existing institutions are in receipt of rebates.

The Committee is of the opinion that the concept of pools will contribute substantially to the overall integrity of the regulatory system. For example, it will be in the interest of all trust companies that their primary regulators are doing an effective job because the failure of a trust company anywhere will saddle them with surcharges to cover the resulting CDIC liability. Phrased differently, the incentives associated with independent pools will be in the direction of industry self-regulation. Indeed, part of the rationale for including industry representation on the CDIC's Board of Directors is based on the concept of operating separate industry pools.

## RECOMMENDATION

25. The Committee acknowledges the significant self-regulatory measures that have been taken by the Securities Industry and recognizes the wishes of that industry to retain control over the operation of its contingency fund. Likewise, the Committee encourages the Canadian Health and Life Insurance Association to develop its own consumer protection plan. However, should these industries wish at some point in the future to become associated with the CDIC they should have the opportunity. In such a case they would enter with a separate pool and would be allowed to appoint a representative to the CDIC's Board of Directors.

## B. FINANCING THE CURRENT CDIC DEFICIT

The Committee believes that the responsibility for financing the existing CDIC deficit should be separated from the financing of the reconstituted CDIC. In defining the existing deficit, however, the Committee would exclude that portion that arose from the retroactive application of the increase in insurance coverage. The legislation containing the increase in coverage from \$20,000 to \$60,000 received Royal Assent on April 27, 1983, but was applied retroactively to the first of the year. As a result, five failing institutions came under the provisions of the legislation. Since the assets of these institutions are not as yet fully liquidated it is not possible to assign a specific figure to this retroactive portion. Rough calculations indicate a maximum of \$50 million, but the figure could be substantially lower.

## RECOMMENDATION

26. The existing CDIC deficit should be financed by a series of surcharges on existing member institutions with a view toward eliminating the deficit over a ten-year period. This financial responsibility on member institutions is to be independent of the financing arrangements for the reconstituted CDIC as elaborated in previous recommendations. For purposes of this recommendation, the existing deficit excludes that portion arising from the retroactive increase in coverage. This retroactive increase was authorized by Parliament on the initiative of the Government and should be paid out of the Consolidated Revenue Fund.

## C. REPORTING

The Committee believes that it is essential that the CDIC issue an annual report. In addition to commenting on the operations of the various funds, the CDIC should have the right to address a broad range of issues as they pertain to the operations of deposit insurance.

## RECOMMENDATION

27. The CDIC shall issue an annual report.

## PART VI

## CONCLUSIONS

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The Committee believes that the above recommendations address the challenges posed by the operation of deposit insurance for 1986 and beyond.

The Committee has determined that the insurance function is somewhat different from the policy-making and regulatory functions and, accordingly, has recommended that the CDIC be constituted as a independent authority. That this accords well with the present federal-provincial allocation of responsibilities in the area of financial intermediation is a further advantage for the proposed structure.

In order to minimize regulatory overlap, the Committee has recommended that, in the normal course of events, the CDIC will delegate its regulatory interests to the primary regulators. In conjunction with this delegation, the primary regulators will implement an effective early warning system to signal to the CDIC those institutions that may be in financial trouble or at least require special monitoring.

In terms of introducing greater discipline into the overall regulatory process, the Committee's position has been to ensure that the recommendations do not emphasize any one proposed solution to the extreme. Rather, the Committee has opted to introduce an enhanced degree of discipline virtually everywhere in the system.

As far as the operations of the CDIC are concerned, the Committee has recommended a series of segregated funds or pools. This introduces a degree of industry self-concern or self-regulation that should contribute to the effectiveness of the proposal.

The Committee has determined that it is not the role of the CDIC to take the final decision to close the doors of member institutions. This is the role of the appropriate minister. And it is consistent with the conception of the CDIC as an insurer. What is important to the operations of the CDIC is that at the time it decides that an institution is no longer insurable, the CDIC's exposure can be limited. This allows the CDIC to fulfill its agency responsibility to insured members and also allows the political process to pursue its own course with respect to the institution, with the proviso that any additional liabilities incurred will be borne by the government making the decision.

The Committee is confident that these recommendations for the CDIC will lessen substantially the likelihood of financial institutions failing in the future. However, the march of technology has dramatically changed the financial- institution environment in Canada and elsewhere in the world. Innovation and creativity in the financial sector are critical if Canada wishes to maintain its present world-class status in this area. To try to design a system that would be failure-proof would at the same time be to design a system that would stifle the innovation that is essential to ensure that our institutions maintain world-class status.

Finally, the Committee believes that its proposed structure for the CDIC respects fully the federal and provincial priorities in the financial arena.

## APPENDIX A

### WITNESSES

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**Issue**

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**No.      Date      Organizations and Witnesses**

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***First Session, Thirty-third Parliament***

9      Sept. 25, 1985      **From the Canadian Bankers' Association:**  
Mr. Allan R. Taylor, Chairman of the Executive Council; President and Chief Operating Officer of the Royal Bank of Canada;  
Mr. Robert M. MacIntosh, President;  
Mr. Gilles Mercure, Vice-Chairman of the Executive Council; President and Chief Operating Officer of the National Bank of Canada;  
Mr. John Altenau, Chairman of the Schedule "B" Foreign Banks Executive Committee; President and Chief Executive Officer of Manufacturers Hanover Bank of Canada.

**From the National Bank of Canada:**  
Mr. Gilles Mercure, President and Chief Operating Officer.

10      Sept. 30, 1985      **From the Toronto-Dominion Bank:**  
Mr. Richard M. Thomson, Chairman and Chief Executive Officer;  
Mr. A. Charles Baillie, Executive Vice-President, Investments;  
Mr. Robert J. McGavin, Vice-President, Public Affairs.

**From the Canadian Imperial Bank of Commerce:**  
Mr. R. Donald Fullerton, Chairman, President and Chief Executive Officer;  
Mr. G.S. Cantor, Executive Vice-President;  
Mr. Clifford J. Shirley, Executive Vice-President.

11      Oct. 2, 1985      **From the Bank of Montreal:**  
Mr. W.D. Mulholland, Chairman and Chief Executive Officer;  
Mr. Lloyd Atkinson, Senior Vice-President and Chief Economist;  
Mr. Glenn R. Rourke, Senior Vice-President, Corporate and Government Banking.

**From the Bank of Nova Scotia:**  
Mr. Cedric E. Ritchie, Chairman and Chief Executive Officer;  
Mr. J.A.G. Bell, President;  
Mr. R.L. Brookes, Executive Vice-President;  
Mr. Ramsay R. Holmes, Senior Vice-President, Planning and Legislation;  
Mr. Peter Nicholson, Executive Assistant to the Senior Executive.

**From the Royal Bank of Canada:**  
Mr. Rowland C. Frazee, Chairman and Chief Executive Officer;  
Mr. Allan R. Taylor, President and Chief Operating Officer;  
Mr. Alex Thomson, Deputy Chief Economist.

<b>Issue</b>		
<b>No.</b>	<b>Date</b>	<b>Organizations and Witnesses</b>
12	Oct. 9, 1985	<p><b>From the Securities Industry Capital Markets Committee:</b>            Mr. James B. Pitblado, Chairman; Chairman, Dominion Securities Pitfield Ltd.;            Mr. Andrew J. Kniewasser, Member; President, Investment Dealers Association of            Canada;            Mr. F. Warren Hurst, Senior Policy Advisor, Investment Dealers Association of            Canada.</p>
16	Oct. 16, 1985	<p><b>From the Trust Companies Association of Canada:</b>            Mr. William H. Somerville, Chairman; Chairman and Chief Executive Officer,            National Trust Company;            Mr. William W. Potter, President;            Mr. John A.C. Hilliker, First Vice-Chairman; Chairman, President and Chief            Executive Officer, Canada Permanent Trust Company;            Mr. Michael A. Cornelissen, Second Vice-Chairman; President and Chief            Executive Officer, Royal Trustco Limited;            Mr. Alan R. Marchmont, Immediate Past Chairman; President and Chief            Executive Officer, Guaranty Trust Company of Canada.</p> <p><b>From Royal Trustco Limited:</b>            Mr. Hartland M. McDougall, Chairman of the Board;            Mr. Michael A. Cornelissen, President and Chief Executive Officer;            Mr. William J. Inwood, General Counsel and Secretary.</p> <p><b>From First City Trust Company:</b>            Mr. V. Edward Daughney, President.</p>
19	Oct. 21, 1985	<p><b>From the Canadian Life and Health Insurance Association:</b>            Mr. John S. Acheson, Chairman; President, Dominion Life Assurance Company;            Mr. E. Sydney Jackson, Vice-Chairman of the CLHIA Task Force on Legislative            Review; Chairman and Chief Executive Officer, Manufacturers Life Insurance            Company;            Mr. Gordon N. Farquhar, Representative of the CLHIA Task Force on Consumer            Protection; Chairman and Chief Executive Officer, Aetna Canada;            Mr. David Johnston, Member; Senior Vice-President and Actuary, Crown Life            Insurance Company;            Mr. John H. Watson, Member; Senior Vice-President, Investments, Confederation            Life Insurance Company;            Mr. Gerald M. Devlin, Q.C., Executive Vice-President, Staff Head;            Mr. Jean-Pierre Bernier, Vice-President and General Counsel.</p> <p><b>From Canada Life Assurance Company:</b>            Mr. Edward H. Crawford, President;            Mr. David Nield, Vice-President;            Mr. Dan Needles, Director, Public Relations.</p> <p><b>From Metropolitan Insurance Companies:</b>            Mr. Charles Armstrong, President, Canadian Operations, Metropolitan Life            Insurance Company;            Mr. Claude Garcia, Senior Vice-President and Actuary, Standard Life Assurance            Company; Mr. James Lewis, President, Canadian Operations, Prudential            Insurance Co. of America.</p> <p><b>From Manufacturers Life Insurance Company:</b>            Mr. E. Sydney Jackson, Chairman and Chief Executive Officer;            Mr. Thomas DiGiacomo, President and Chief Operating Officer;</p>

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**Issue****No.      Date****Organizations and Witnesses**

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Mr. Yves Fortier, Director; Partner, Ogilvy Renault;  
Mr. Joseph J. Pietroski, Vice-President and Secretary;  
Ms. Jalynn Bennett, Vice-President, Corporate Development.

**From Household Trust Company:**

Mr. F.E. Silk, President;  
Mr. G.H. Archambault, Executive Vice- President;  
Mr. R.W. Stevens, General Counsel;  
Mr. N.W. MacLeod, Vice-President;  
Mr. D.J. Mickey, Controller.

21      Oct. 23, 1985

**From Mutual Life Assurance Company of Canada:**

Mr. Jack V. Masterman, President and Chief Executive Officer;  
Mr. John H. Panabaker, Chairman;  
Mr. Duncan R. Winhold, Executive Vice- President;  
Mr. Claude Gingras, Vice-President and Chief Legal Counsel.

**From Sun Life Assurance Company of Canada:**

Mr. Thomas M. Galt, Chairman and Chief Executive Officer;  
Mr. John R. Gardner, Senior Vice-President and Executive Officer;  
Mr. Steven B. Browne, Vice-President, Investments.

23      Oct. 28, 1985

**From the Canadian Co-operative Credit Society:**

Mr. Edward Grad, Chief Financial Officer, Ontario Central;  
Mr. Jonathan Guss, General Counsel and Vice-President;  
Mr. Paul Renaud, General Counsel, Cumis Insurance Company;  
Ms. Mary Lou Spence, Government Relations.

**From "La Confédération des caisses populaires et d'économie Desjardins du Québec":**

Mr. Hervé Hébert, President, "Fiducie du Québec";  
Mr. Georges-Octave Langlois, President, "Corporation de fonds de sécurité de la Confédération Desjardins";  
Mr. François Richard, Senior Vice-President and Chief Executive Officer, "Fédération des caisses populaires Desjardins de Montréal et de l'Ouest du Québec";  
Mr. Bruno Riverin, President and Chief Operating Officer, "La Caisse centrale Desjardins du Québec,";  
Mr. Yves Morency, Advisor;  
Mr. André Morin, Advisor.

25      Oct. 30, 1985

**Representatives from the Working Committee on the Canada Deposit Insurance Corporation:**

Mr. Hugh M. Brown, Director, Burns Fry Limited;  
Mr. J.L.A. Colhoun.

28      Nov. 6, 1985

**From E-L Financial Corporation Limited:**

Mr. Henry N.R. Jackman, Chairman and President.

**From Crownx Inc.:**

Mr. H. Michael Burns, President;  
Mr. R.W. Luba, President, Crown Financial Services; Chairman, Coronet Trust;  
Mr. Robert N. Granger, Vice-President and General Counsel.

<b>Issue</b>		
<b>No.</b>	<b>Date</b>	<b>Organizations and Witnesses</b>
32	Nov. 20, 1985	<p><b>From the Economic Council of Canada:</b>            Dr. David W. Slater, Former Chairman;            Mr. André Ryba, Director, 23rd Annual Review;            Mr. Keith Patterson, Economist.</p>
33	Nov. 26, 1985	<p><b>From the Canadian Institute of Actuaries:</b>            Mr. Kenneth T. Clark, President Elect;            Mr. Robin B. Leckie, Past President;            Mr. Robert C. Dowsett, Past President;            Mr. Brian Wooding, Executive Director.</p> <p><b>From the Canadian Institute of Chartered Accountants:</b>            Mr. A.M. Dilworth, FCA, Chairman, CICA Task Force to review the accounting and auditing implications of "The Regulation of Canadian Financial Institutions: Proposals for Discussion";            Mr. D.H. Atkins, FCA, Member, CICA Task Force to review the accounting and auditing implications of "The Regulation of Canadian Financial Institutions: Proposals for Discussion";            Mr. W.W. Buchanan, FCA, General Director of Research;            Mr. John A. Carchrae, CA, Senior Research Manager.</p>
34	Nov. 28, 1985	<p><b>From Trilon Financial Corporation:</b>            Mr. Allen T. Lambert, Chairman;            Mr. Melvin M. Hawkrigg, President and Chief Executive Officer;            Mr. George B. Soteroff, Consultant.</p>

List of Submissioners who were not Witnesses

- ALLENVEST GROUP LIMITED
- BELL CANADA ENTERPRISES INC.
- CANADA TRUSTCO MORTGAGE COMPANY AND THE CANADA TRUST COMPANY
- CHAMBRE DE COMMERCE DU QUÉBEC
- DEPARTMENT OF CONSUMER AND CORPORATE AFFAIRS
- INSURANCE BUREAU OF CANADA
- THE INVESTORS GROUP
- MR. HENRY J. KNOWLES, Q.C., LL.M., MBA
- LAURENTIAN GROUP
- MR. K.R. MCGREGOR
- SODARCAN INC.
- TORONTO STOCK EXCHANGE

Respectfully submitted,

Lowell Murray, Chairman



## MINUTES OF PROCEEDINGS

TUESDAY, DECEMBER 3, 1985

(39)

The Standing Senate Committee on Banking, Trade and Commerce met at 8:00 p.m. this day *in camera*, the Chairman, the Honourable Senator Lowell Murray, presiding.

*Members of the Committee present:* The Honourable Senators Barrow, Godfrey, Kelly, MacDonald (Halifax), Murray and Simard. (6)

*Other Senator present:* The Honourable Senator Sinclair.

*In attendance:* From the Department of Economics, University of Western Ontario: Professor Thomas J. Courchene, Advisor; From Martineau Walker, Montreal: Mr. Gérald A. Lacoste, Counsel; From the Library of Parliament, Research Branch, Economics Division: Mr. Basil Zafiriou, Chief.

The Committee, in compliance with the Order of Reference dated June 25, 1985, resumed consideration of:

- (i) the document entitled: "The Regulation of Canadian Financial Institutions: Proposals for Discussion", tabled in the Senate on 23rd April, 1985;
- (ii) the document entitled: "Final Report of the Working Committee on the Canada Deposit Insurance Corporation (CDIC)", tabled in the Senate on 18th June, 1985; and
- (iii) the subject-matter of bills, in advance of their coming before the Senate, and other matters relating to these documents.

It was—

Ordered, that the Committee meet *in camera*.

At 9:22 p.m., the Committee adjourned to the call of the Chair.

WEDNESDAY, DECEMBER 4, 1985

(40)

The Standing Senate Committee on Banking, Trade and Commerce met at 3:30 p.m. this day *in camera*, the Chairman, the Honourable Senator Lowell Murray, presiding.

*Members of the Committee present:* The Honourable Senators Anderson, Barrow, Godfrey, MacDonald (Halifax), Murray, Olson and Simard. (7)

*In attendance:* From the Department of Economics, University of Western Ontario: Professor Thomas J. Courchene, Advisor; From Martineau Walker, Montreal: Mr. Gérald A. Lacoste, Counsel; From the Library of Parliament, Research Branch, Economics Division: Mr. Basil Zafiriou, Chief.

The Committee, in compliance with the Order of Reference dated June 25, 1985, resumed consideration of:

- (i) the document entitled: "The Regulation of Canadian Financial Institutions: Proposals for Discussion", tabled in the Senate on 23rd April, 1985;
- (ii) the document entitled: "Final Report of the Working Committee on the Canada Deposit Insurance Corporation (CDIC)", tabled in the Senate on 18th June, 1985; and
- (iii) the subject-matter of bills, in advance of their coming before the Senate, and other matters relating to these documents.

It was—  
Ordered, that the Committee meet *in camera*.

The Honourable Senator Anderson moved that the title of the Draft Interim Report be: "Deposit Insurance".

The question being put on the motion, it was—  
Resolved in the affirmative.

The Honourable Senator Barrow moved that the Draft Interim Report as amended be adopted as the Tenth Report of the Committee and that pursuant to Rule 78(1), the Report be tabled in the Senate.

The question being put on the motion, it was—  
Resolved in the affirmative.

The Honourable Senator Godfrey moved that the Committee print 2,500 copies in both official languages of the Tenth Report as a regular issue of proceedings with a special cover.

The question being put on the motion, it was—  
Resolved in the affirmative.

At 4:46 p.m., the Committee adjourned to the call of the Chair.

ATTEST:

Timothy Ross Wilson

Clerk of the Committee

